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Global Agricultural Leaders Issue Advice, Warnings on Next Steps for Agricultural Trade Talks

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The International Food & Agricultural Trade Policy Council (IPC) presented its advice on the Doha Round of agricultural trade negotiations in Geneva on June 16, 2005, in attendance of Tim Groser, chairman of the agricultural negotiating committee of the World Trade Organization (WTO), and several members of delegations from developed and developing countries. Based on three papers prepared by the International Agricultural Trade Research Consortium, the IPC provided WTO negotiators and other interested stakeholders with an independent analysis of options for elaborating the July Framework Agreement as the trade talks move towards the development of concrete negotiating modalities at the Hong Kong Ministerial in December 2005.

“With impending debates on farm policy and the expiration of trade negotiating authority in the United States and with worrisome disputes emerging over textiles and industrial products, it is vitally important negotiators regain momentum established last year that lead to the 2004 July Framework Agreement so negotiations can continue to make real progress in the last half of 2005,” said Dr. Robert L. Thompson, IPC Chairman. “We hope to move the discussions ahead in a constructive way with the publication of these papers.”

Looking forward to the Hong Kong Ministerial, Piet Bukman, IPC Vice Chairman and former Minister of Trade, Development Cooperation and Agriculture in the Netherlands, said: “Negotiators have six months to deliver the first approximation and incorporate it into the modalities text that will form the basis for a final Doha Development Round Agreement. Countries will have only three or four months after the Hong Kong Ministerial in December 2005 to finalize an agreement. A general statement will not be sufficient to allow negotiators to make progress in Hong Kong.”

One of the major findings of the analysis is that reductions in trade distorting domestic support and in market access barriers will have to be significant to be effective. In both cases, the July Framework Agreement incorporates more than enough flexibility to enable countries to avoid disciplines if modalities are not carefully drafted. The challenge for negotiators will be to ensure that these disciplines are binding enough to make real progress in reducing the distortions that plague agricultural trade.

Contrary to most rhetoric, the gains to rich countries come from reducing their own tariff barriers, not from gaining access to developing country markets. Similarly, the gains to poor countries also come from reducing their own barriers. Improving market access is crucial to developing countries both because of potential North-

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South and growing South-South trade. Developing countries also have an important stake in reducing trade distorting subsidies in rich countries. Other major findings and highlights of the IPC analysis include:

Options for Domestic Support

- Since the level of permitted level of Overall Trade Distorting Support will be much higher under the July Framework than current spending on trade distorting support, reductions will need to be significant to be effective. The International Policy Council's analysis indicates that cuts on the order of 60 percent or more for most developed countries will be needed to result in even minimal reductions in actual levels of trade distorting support.
- If the reductions in the various components of trade distorting support are not significant, developed countries could shift support from one category to another without reducing their overall level of spending. So, reductions in these components must be as large as, if not larger than, cuts in the overall level of trade distorting support.
- Higher-income developing countries could take advantage of the various allowances under the new definition of Overall Trade Distorting Support to provide substantial trade-distorting subsidies to their agricultural sectors over time.

Options for Market Access

- The choice of tariff reduction formulas is critical to the ambition of the Round. The tiered approach outlined in the July Framework Agreement can reduce and harmonize tariffs without recourse to steeper "Swiss Formula" cuts. However, the built-in flexibility for Special and Sensitive Products, and the introduction of Special Safeguards and Special Safeguard Measures, obviates the need to use the Uruguay Round formula, which allowed countries to protect politically sensitive products from high tariff cuts. A linear cut in every tariff line, with the cut increasing with the height of the initial tariff will produce predictable results that will reduce and harmonize tariff rates.
- A tariff cap remains the best way to deal with extremely high (or peak) tariffs. Analysis indicates that to affect a substantial number of peak tariffs, the cap would need to be set at 100% for developed countries and 150% for developing countries. If it were impossible to set a tariff cap low enough to capture most tariff peaks, it would be desirable to create an extra tier subject to steeper (Swiss formula) reductions rather than settle for an ineffective cap.
- The level of ambition on the formulas for tariff reductions will be intricately related to the designation of Sensitive and Special Products. Even exempting as little as two percent of tariff lines from formula cuts would appear substantially to reduce the expected gains from market access improvements. Sensitive and Special Products should be limited to a low percentage of overall production or consumption.

Options for Export Competition

- Because export subsidies have long been banned by the WTO on non-agricultural goods, these measures should be relatively rapid phased-out. At a minimum, there is a strong case for a down payment in export subsidy cuts, along the lines of the down payment on domestic supports contained in the July Framework Package. It seems most practical to establish one deadline for all commodities and encourage countries to phase out export subsidies more rapidly on products where this is feasible
- Food aid donations from stocks, which tend to be erratic and high at times of low prices when food aid is less needed, should be channeled through the World Food Program to reduce the impact of erratic donations to individual countries, while ensuring the beneficial use of stocks. Similarly, reducing over time the size of program (government to government) food aid donations and prohibiting program food aid from being sold (monetized) in local markets would reduce the disruption of commercial imports and local markets alike.

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Briefings on these papers will be held in Geneva (June 16), Sevilla (June 20), Brussels (June 23), Gleneagles (G8 Summit), Beijing, Wellington, Canberra, Buenos Aires and Brasilia. The papers as well as an executive summary and an accompanying presentation with tables/charts are available at the IPC website:

www.agritrade.org/

About the IPC: The IPC develops pragmatic policy recommendations addressing the critical issues facing the world's agricultural system. It conveys these recommendations directly to policy-makers and decision-makers around the world through policy papers, seminars, conferences and personal contacts. The IPC's influence and credibility are derived from its membership, all of whom serve on the Council as individuals, and not on behalf of their institutions. More information on the organization and its membership can be found on our website: www.agritrade.org