



WTO negotiators must create a solid and specific agricultural framework that builds on the valuable commitments made by key countries

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After the collapse of the multilateral trade talks in Cancun last year, conventional wisdom said that negotiations would be stalled until 2005, well after the US elections and the change in the European Commission. Defying conventional wisdom, political leaders have breathed new life into the trade talks, most notably in agriculture. Their level of engagement and commitment is heartening in what was expected to be a lost year for the negotiations.

There is now an excellent chance for negotiators to agree on a framework for agriculture that goes beyond the framework on the table in Cancun. Without a significant agreement in agriculture, there will be no progress on services, manufactures, intellectual property, or any of the other topics under discussion at the WTO. Progress in agriculture is vital because it drives domestic policy reform in many developed countries and is central to the development strategies of many developing countries.

In the past few weeks, countries have made proposals that could strengthen the framework they were discussing last year in Cancun. Brought together, these proposals could go a long way toward achieving the goals originally established under the Doha Mandate. Countries are negotiating, and they are negotiating in good faith. **Negotiators must now nail these elements onto a solid and specific framework to consecrate the good faith that countries have exhibited.**

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MARKET ACCESS

Of the three pillars, market access remains the most difficult. Both developed and developing countries have sensitive products that require some degree of flexibility. Developed and developing countries also have very different tariff structures, making it difficult for a single approach to produce equitable results. The blended formula, first proposed by the United States and the European Union in their joint paper in August 2003 does not account for different tariff structures, allows too much opportunity for sensitive products to escape tariff reductions and offers too much uncertainty in how it might be applied.

The G-20's recent market access proposal contains some very constructive elements. It calls for higher tariffs to be reduced more than lower tariffs. It calls for a tariff reduction formula with guaranteed "flexibility" for sensitive and special products. Countries would have to offer improved access on these products through a combination of tariffs cuts and/or increased TRQ commitments.

While many of these elements are positive and go beyond the market access proposal on the table in Cancun, the framework paper must clarify the market access commitments expected from developing countries.

The proposal also calls for tariff caps on most products and formula-based improvements in existing TRQs. It would create a Special Safeguard Measure for developing countries and developed countries would be required to provide duty and quota free access to all Least Developed Countries.

While many of these elements are positive and go beyond the market access proposal on the table in Cancun, the framework paper must clarify the market access commitments expected from developing countries. Clearly, developing countries should remain eligible for special and differential treatment and should not be required to make tariff cuts as deep as developed countries.

However, all countries – developed and developing alike – stand to gain from reducing agricultural tariffs. Agricultural tariffs are essentially taxes on food, and developing country consumers, who often spend half their income on food, stand to gain from lower tariffs and lower food prices. Developing countries also stand to benefit a great deal from improved market access to other developing countries. In this regard, the European Commission's proposal to give the G-90 the round for free is particularly troubling.

The framework paper should be clear that lower tariffs are positive for both developed and developing countries, and that all countries (with the exception of the Least Developed Countries) must reduce tariffs and expand market access. The framework paper should be clear that increased market access should be provided on *all products without exceptions or exclusions* through a combination of tariff cuts and TRQs, even if a few products might require additional flexibility or reduced commitments due to political or economic sensitivities.

Finally, the framework paper should establish a goal of reducing the average level of tariffs in agriculture, but also reducing the wide differences in tariffs on competing agricultural products. Tariffs that protect one commodity significantly more than competing commodities distort production, consumption and trade in the same way that subsidies that support one commodity out of proportion to competing commodities create distortions. In the Uruguay Round, countries' ability to achieve an average cut across all commodity sectors, with a minimum cut per tariff line substantially limited the overall increase in market access and actually increased the distortions among commodities.

DOMESTIC SUPPORT

In January, US Trade Ambassador Zoellick committed the United States to substantial reductions in trade-distorting support, with those countries with the highest subsidies making the most effort to reduce them. He called for a cap on the Blue Box category, which is unlimited when accompanied by supply controls. In May European Commissioners Pascal Lamy and Franz Fischler proposed complete elimination of product and non-product specific *de minimis* support.

These commitments go beyond the text under consideration in Cancun, but the framework agreement must ensure that there are real reductions in trade distorting support. Right now, both the United States

and the European Union are well below their “bound” limits on trade-distorting support. (In 2000-2001, the EU spent only 65% of its allowed trade-distorting subsidy commitment, while the US spent 80% of its allowance.)

To guarantee that there are real reductions in trade-distorting support and real incentives for countries to shift support into less trade-distorting measures, the Framework Agreement should call on countries to reduce all their trade-distorting subsidies to an agreed percentage of the total value of their agricultural production.

Therefore, even a “substantial” reduction in trade-distorting support from bound levels might not lead to very substantial reductions in actual subsidies. In addition, neither proposal would do anything to address the substantial differences in support given to various commodities that distort farmers’ production decisions.

To guarantee that there are real reductions in trade-distorting support and real incentives for countries to shift support into less trade-distorting measures, the Framework Agreement should call on countries to reduce all their trade-distorting subsidies to an agreed percentage of the total value of their agricultural production. If this commitment could be made on a product-by-product basis, or if the current levels of support afforded to individual commodities could be capped, as proposed in Cancun, so much the better.

The Blue Box should be capped and counted toward the overall percentage cap allowed for all forms of trade-distorting support. Finally, the criteria for non-trade distorting support must be reviewed to eliminate the possibility that individual farmers can influence the size of their future payments.

EXPORT COMPETITION

In an historic gesture, EU Commissioners Pascal Lamy and Franz Fischler committed the European Union to setting a date certain for eliminating export subsidies, assuming an acceptable outcome on market access and domestic support. In return, the European Commissioners called for “full parallelism” on all forms of export competition, including food aid, export credits and state-trading entities. In his earlier letter, Ambassador Zoellick agreed to discipline the “subsidy element” of these policies. **These proposals imply a much stronger commitment on the export competition pillar than was on the table in Cancun.**

These commitments need to be further defined. If the European Union truly eliminates export subsidies – i.e., reduces them to zero – then full parallelism must ultimately mean phasing out the subsidies embodied in other export competition programs, as well.

This means that, over time government subsidies to export credit programs and state-trading entities must be eliminated. The commitments must be made on concrete metrics, such as credit tenor, credit terms, or operational subsidies, metrics that can be compared to commercial terms offered by private creditors and traders, and can be measured and validated.



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Similarly, over time all food aid should be provided without loans and with predictable, annual commitments. Criteria for the use of food aid to avoid commercial disruption should be developed. Food aid commitments could be made and notified through current channels, allowing for additional food aid in the case of bona fide emergencies.

Agriculture is the most important piece of unfinished business in the WTO. The Doha Round represents a once in a generation opportunity to build on the accomplishments of the Uruguay Round by making real progress in increasing market access, reducing trade distorting support and eliminating subsidized export competition.



A general framework that does little more than re-state the Doha Mandate risks losing the very valuable commitments that have been made by key countries. The agricultural negotiations are about more than just agriculture, and about more than the just the Doha Development Round. Failure to make progress in agriculture will delay international trade negotiations as a whole, and will delay the benefits of more open agricultural trade for developed and developing countries alike.

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The International Food & Agricultural Trade Policy Council (IPC) convenes high-ranking government officials, farm leaders, agribusiness executives and agricultural trade experts from around the world and throughout the food chain to build consensus on practical solutions to food and agricultural trade problems.

An independent group of leaders in food and agriculture from industrialized, developing and least developed countries, the IPC's thirty-eight members are chosen to ensure the Council's credible and impartial approach. Members are influential leaders with extensive experience in farming, agribusiness, government and academia.

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