

IPC Trade Negotiations Issue Brief

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A New Approach to Special and Differential Treatment

The Uruguay Round of WTO negotiations marked the first time that agriculture was substantially addressed in global trade negotiations and the first time that Special and Differential Treatment (S&D) was applied to agricultural trade. Agricultural S&D in the Uruguay Round was modeled on S&D in the industrial negotiations and consisted mainly of longer and shallower tariff and subsidy cuts and a few special provisions in WTO rules. At the time, these measures were satisfactory to the developing country members of the Cairns Group and the OECD members who were active in the negotiations. During the Uruguay Round, outside of the Cairns Group, few developing countries had significant influence over the negotiations.

In contrast, in the Doha Development Round, developing countries – now the majority of WTO members – have played a central role in the negotiations. With their newfound influence, developing countries can obtain a strong agreement that goes beyond the narrow confines of S&D to promote their integration into the world economy and provide an opportunity to compete in the marketplace. First and foremost, that means developed countries must substantially reduce trade-distorting subsidies and expand market access. Indeed, for most developing countries, an ambitious outcome that increases market access, eliminates government funded export competition, and reduces trade-distorting domestic subsidies will deliver greater benefits than traditional S&D ever could.

In the Doha Development Round, developing countries should also insist that both developed and developing countries be required to adhere to the same set of rules. Separate rules or exemptions from the rules for developing countries sets a dangerous precedent. As has been evident in 2004, when developing countries won cases against the United States and the European Union in the WTO, the rules-based trading system is particularly important for developing countries precisely *because* all countries, regardless of size or power, are bound by the same rules. If developing countries insist on a different set of rules, developed countries could more easily rationalize skirting the rules for their own benefit. It took many years to address agriculture under the GATT *because* agriculture was subject to special exemptions that kept sensitive commodities off the negotiating table. It is extremely dangerous to go back down that road.

As developing countries have become more important players in WTO negotiations, and as they have become more heterogeneous, the thinking about traditional S&D has evolved. Traditional S&D makes no distinction between developing countries at different levels of development or between developing countries' different needs and abilities to undertake commitments. It is available to any WTO Member that chooses to designate itself as a developing country. In the words of some, S&D has become too broad and too shallow. Developed countries will be reluctant to offer meaningful concessions to the lower-income developed countries if those same concessions are also available to higher-income developing countries.

**Note: This paper was discussed by the membership of the IPC at Plenary Meetings in November 2003 and May 2004. As with any consensus document, however, not all members of the IPC agree with every recommendation. Accordingly, specific statements in the text should not be attributed to any single IPC member.*

In the Uruguay Round, the focus was on reducing OECD subsidies. In the Doha Round, the focus is on market access. Developed countries want more access to developing country markets – where population and income will drive demand for food – and do not want to extend special measures to countries with highly competitive export sectors. Farmers in some developed countries have conditioned their acceptance of reduced domestic subsidies on increased access to developing country markets. Developing countries themselves also want and need greater market access to other developing countries. Higher tariffs among developing countries inhibit the development of South-South trade. South-South trade now accounts for 40% of developing country exports, and 70% of the duties paid by developing countries are paid to other developing countries. Agricultural tariffs between developing countries are often higher than agricultural tariffs between developed and developing countries. Reducing tariffs among developing countries could facilitate regional markets, which provide an excellent proving ground for developing country exporters.

As a result, how to adapt S&D to new realities has become a controversial, core issue in the Doha Round. WTO Member Countries agree that wider and more disparate interests of developing countries must be effectively addressed, and it has become apparent – even among developing countries – that countries at very different levels of economic development should not be treated equally. There is general recognition that more advanced developing countries should be subject to stronger disciplines than weaker developing countries.

The IPC believes that there are positive measures that can make S&D more precise, effective and operational as called for in the Doha Declaration. In some areas, it needs to be expanded to ensure that the Doha Agreement does not undermine the ability of developing countries to make much-needed investments in domestic agriculture. In other areas, S&D needs to be tightened to ensure that benefits accrue to those countries that are truly “developing.”

Definition and Eligibility for S&D

Under current WTO practices, there are two classifications of developing countries: Least Developed Countries (LDCs), as defined by the United Nations, and other developing countries, which are self-declared. Self-declaration has led to a situation whereby some countries with per capita incomes above \$9,385 (the World Bank’s cut-off for low-income country status) are granted S&D.

By separating countries into only two categories, as is the current practice, countries that are at very different levels of development with very different needs are essentially offered the same treatment. The inability to differentiate among developing countries has made S&D less effective. This is in large part because developed countries are reluctant to provide real concessions to developing countries if those concessions are available to developing countries that may be competitive exporters. It has also led developed countries to offer general and vague “best efforts” S&D commitments that are neither concrete nor useful.

Since the WTO is a rules-based system, it is vital that any changes to S&D not re-introduce country specific exemptions or exceptions to those rules. Proposed alternatives, such as exempting various sub-categories like small island nations, land-locked countries, or vulnerable economies, risks re-introducing country specific exemptions that would undermine the progress in developing effective rules that apply to all countries.

Recommendation: There needs to be a distinction between LDCs, which have low per capita incomes and severely underdeveloped agricultural sectors; Lower Middle Income Developing Countries, which face significant challenges in agricultural trade; and Upper Middle Income Developing Countries, which are competitive international traders in some commodities, but nevertheless have significant numbers of low-income, resource-poor farmers.

The World Bank and the International Monetary Fund already distinguish between developing countries based on their per capita income in determining eligibility for loans, soft loans and other forms of financial assistance. This principle of differentiation in international finance should be accepted for international trade rules as well. Only countries defined as low-income by the World Bank (i.e. countries with a per capita income of less than \$9,385) should be eligible for S&D under the WTO. Furthermore, there should be three groups of countries, each eligible for different aspects of S&D:

Least Developed Countries (LDCs): Countries with per capita incomes below \$900, weak human resources and vulnerable economies (Note: This UN definition considers institutional constraints as well as per capita GDP. The IPC proposes that all countries with per capita incomes below \$900 be included in this category, even if they do not now qualify for LDC status under the UN definition.);

Lower Middle Income Developing Countries (LMIDCs): Countries with gross national income per capita between \$901 and \$3,035 (Note: The World Bank defines Lower Middle Income Developing Countries as those with gross national income per capita between \$765 and \$3,035.); and

Upper Middle Income Developing Countries (UMIDCs): Countries with gross national income per capita between \$3,035 and \$9,385 (Note: This is a World Bank definition.).

As is current practice, LDCs should not be required to implement WTO tariff and subsidy reduction commitments, although they should be encouraged and supported to reform their trade policies as part of their overall economic development strategy. S&D for those countries that currently declare themselves “developing,” but no longer meet the new criteria, could be phased out over several years. To avoid having countries move on and off the list from year to year because of fluctuations in GDP, eligibility could be based on a country’s average level of per capita GDP over a moving three-year period.

Countries should be able to petition for classification into the next lower income category, if their per capita income does not reflect unique vulnerabilities. For example, there are several LMIDCs, with 26% - 50% of their populations undernourished, according to the FAO, which might better fit in the group of LDC’s. Other LMIDCs are single commodity exporters vulnerable to food insecurity. Table One lists countries and their classifications under the IPC’s proposal, and indicates whether they have other vulnerabilities that might require special consideration. These countries should be able to petition the WTO for a re-classification based on their unique vulnerabilities.

Market Access

Market access is the most difficult of the three pillars in the URAA because it affects all countries and products. Developing countries have argued that previous trade negotiations as well as IMF structural adjustment policies have required them to reduce tariffs, leaving few policy alternatives to protect their farmers and consumers from the international marketplace. Meanwhile, developed countries have not reduced domestic subsidies substantially. To address their concerns, developing countries made several proposals, including special safeguard measures and a Special Products designation. Developed country farmers, on the other hand, recognize that most of the future market growth lies in developing countries. In exchange for reducing domestic subsidies, these farmers want more access into developing country markets.

Tariffs

Under the Uruguay Round Agreement on Agriculture (URAA), developing countries that converted quotas and other non-tariff barriers into tariffs were required to then reduce tariffs by two-thirds of the amount required of developed countries (28% average reduction, with a 10% minimum reduction per tariff line). Developing countries were permitted to implement these reductions over a ten-year timeframe as opposed to the six years given to developed countries.

Other developing countries that relied on high, unbound tariffs to protect their agricultural sectors prior to the Uruguay Round, agreed to bind these tariffs at high ceiling binding levels, but not to reduce them. Most of these countries maintain high ceiling tariff bindings but apply rates far below their bound levels. (According to the FAO, applied rates averaged 20% while bound rates averaged 84%.)

Tariffs tend to be higher for basic food products than other imports. In part, this is a strategy to protect producers of staple crops. Many developing countries argue that tariffs are the only feasible trade instrument to stabilize domestic markets in the face of external shocks. These countries often apply lower rates on imported food to maintain low prices for the urban population. With proper notification, these countries can raise applied tariffs up to the high ceiling bindings if imports increase and threaten local production.

Recommendation: The tariff band approach called for in the July Framework could easily be adapted for a more graduated approach to S&D with each of the three groups having graduated commitments. Assuming there are meaningful commitments in reducing trade distorting domestic support, increasing market access, and phasing out export subsidies, all UMIDCs should accept the general WTO commitments on agricultural market access, including tariff reductions, minimum access and ceiling bindings. UMIDCs could be accorded a longer implementation period than developed countries, but the same reduction commitments. LMIDCs could have both reduced commitments *and* longer implementation periods. LDCs would not be required to make reduction commitments. Recognizing that many developing countries rely on tariffs as a source of government revenue, it might be prudent to accommodate very low, uniform tariffs for that purpose until alternative sources of government revenue are developed.

Minimum Access Commitments

In the Uruguay Round, countries that converted non-tariff barriers into tariffs were required to offer minimum access commitments. Only fourteen (mostly LMIDCs and UMIDCs) countries did so.

Recommendation: Current market access commitments do not seem to have caused significant problems for the management of domestic markets in developing countries. LMIDCs and UMIDCs should not be exempt from expanding minimum market access commitments in line with any expansions of these commitments by developed countries. UMIDCs could have the same commitment to expand market access, but over a longer implementation period. Again, the reduction commitments for LMIDCs could be lower than those required for UMIDCs, and the implementation period longer.

A New Approach to Special and Differential Treatment

The original purpose of Special and Differential Treatment (S&D) was to level the playing field and give developing countries more time to adapt to international competition. Currently, S&D provides few benefits to developing countries, and serves as a rationale for limited concessions on the part of developed countries. The IPC believes that there are positive measures that can make S&D more precise, effective, and operational as called for in the Doha Declaration.

A New Approach to Special and Differential Treatment advocates differentiating developing countries into three categories: Least Developed, Lower Middle Income Developing and Upper Middle Income Developing Countries for international trade. Each group of countries should undertake commitments in market access, domestic support and export competition according to their capability.

About the IPC

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-six 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.

The IPC's Members

IPC members represent the geographic diversity of the global food system, and the entire food chain from producer to consumer. IPC members are influential and experienced leaders in agricultural trade policy who are committed to finding solutions to global food and agricultural trade challenges.

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