



Draft Agriculture Modalities: Trade and Development Implications

Revised modalities for the Doha agricultural negotiations, released in February 2008, were widely welcomed as a considerable improvement on the July 2007 modalities and as constituting an excellent basis for further negotiations. While the broad formulas in domestic support, market access and export competition remain unchanged, the February modalities importantly provide more detail in each of the three pillars, including special and differential treatment for developing countries. Although a number of questions remain, the options presented in the latest text provide the clearest path yet to a final deal in the Doha Round.

With WTO Members endeavoring to reach an agreement on modalities this spring so as to conclude the Doha Round by the end of 2008, the International Food & Agricultural Trade Policy Council (IPC), the International Center for Trade and Sustainable Development (ICTSD) and the International Food Policy Research Institute (IFPRI) hosted a seminar on March 12 in Geneva, Switzerland, to examine the anticipated impact of the February modalities on national policies and trade flows. Presentations included an overview of the modalities and an analysis of the framework's implications for individual countries in all three pillars.

In the overview assessment, speakers emphasized the draft text's considerable improvements over the Uruguay Round agreement. The elimination of export subsidies is, in the words of IPC member **Mike Gifford**, former UR negotiator for Canada, an "achievement that should not be underestimated." The introduction of

IPC Stresses Importance of Open Trade in Environment of High Prices

*At the March 12 seminar, participants stressed that the rise in commodity prices should facilitate the conclusion of the negotiations, as reforms can be carried out more easily in an environment of high prices. The importance of trade and a sound trade regime for stable markets and food security in this period of high food prices was also stressed. At the same time, however, IPC member **Raul Montemayor**, President of the Federation of Free Farmers Cooperatives, Inc., pointed out that concerns about high food prices and food security can trigger increased protectionism, emphasizing that "trade liberalization now is important to counter these tendencies."*

*A number of participants also expressed their concern about the tight timeline and the number of technical questions still to be answered. IPC member **Carlo Trojan**, former ambassador of the European Commission to the WTO, warned against a "failure by default," and urged WTO member governments to contemplate the likely costs. "Not only would such a failure have systemic consequences," Mr. Trojan warned, "but also we should not imagine that we could simply pick up the negotiations in a few years time."*

product-specific domestic support limits and the use of tiered formulas for reducing both domestic support and tariffs were particularly welcomed. The present environment of high prices provides an opportunity to set a cap on domestic support in developed countries that would prevent increased outlays in the event of a market downturn.

The proposed modalities have the potential to shift the structure of domestic support disciplines on a global scale so that two-thirds of the outlays would be by developing countries—a reversal of the current situation. Since domestic support outlays in developing countries are relatively low, the ceilings imposed by the draft modalities are not projected to become binding. However, as some emerging countries may be in a position to provide greater outlays in the future, they may need to undertake some reforms to comply with the new disciplines.

The domestic support discussion examined the potential impact of the modalities for major players, including the U.S. and the EU. Many countries are demanding a more definitive commitment to domestic support reduction from the U.S. before making any further concessions in other areas. The presentations demonstrated that, if the current environment of high prices is sustained, the overall limits proposed by Falconer would not actually constrain U.S. policies. However, product-specific limits for dairy, sugar and cotton—some of the most heavily protected sectors—would become binding, and the U.S. will lose a significant amount of flexibility to provide support that is closely linked to prices. Moreover, should commodity prices fall, the disciplines would have an important impact on U.S. domestic support programs.

The market access pillar is the least settled
(Column continued on page 2)

(Continued from page 1)

of the three; wide gaps remain between Member positions on a number of key issues. The February modalities do, however, provide enough information to begin to analyze the likely impact at the country-specific level. On a worldwide scale, tariffs would be reduced 21 percent if the February modalities were implemented, and in developed countries specifically, the reduction increases to 33 percent. Presenters noted that this is an unmatched result compared to tariff reductions achieved in the Uruguay Round.

The number of flexibilities in the market access text emerged as a primary issue in the discussion. Developing countries with exporting interests worry that provisions for sensitive and special products and the special safeguard mechanism will erode the market access gains created by the tariff cuts. Despite these concerns, David Laborde of IFPRI noted that even with



IPC Member Raul Montemayor and Fonterra representative Sarah Paterson participate in the Doha Round stocktaking forum.

the flexibilities, tariffs would be reduced 50 percent in the EU and 48 percent in the U.S., to the benefit of developing country exporters.

Regarding the export competition pillar, export subsidies and food aid were the primary points of discussion. Presenters

noted that the EU would likely need to make reforms in dairy policy to avoid the continued use of export subsidies in that sector. The draft text should appease the EU demands for parallelism in reduction of all forms of export assistance, but the U.S. will need to reduce in-kind food aid in order to comply with the modalities.

2007 Farm Bill Debate Carries Into 2008

In its examination of the Farm Bill last fall, IPC urged the U.S. Congress to adopt legislation that provides for the long-term interests of U.S. producers, developing country producers and the environment. A farm bill that reduces domestic support will not only create opportunities for efficient farmers around the world, but will also improve the chances for a successful conclusion to the Doha Round.

The protracted negotiations over the next Farm Bill continue to send negative messages to proponents of liberalized trade. More than six months after the original expiration of the 2002 Farm Bill, U.S. legislators are still trying to pass a bill that will provide more funding for conservation, energy and nutrition without reducing support to traditional commodity payment programs.

The House passed its version of the Farm Bill on July 27, 2007, and the Senate followed suit five months later. However, funding disagreements have ground negotiations over the final bill to a halt. To

meet demands for more nutrition, conservation, and energy funding while also increasing target prices and loan rates for some commodities, the House exceeded baseline budget spending by \$14 billion; the Senate version, which included \$5.1 billion for a permanent disaster assistance program, was \$20 billion over budget. Both houses offered tax offsets for the funding increases, but the Bush Administration rejected these proposals as budget gimmickry and tax increases and promised to veto either version of the bill.

In February, the Administration relented from its stonewall stance and indicated it would consider a farm bill that increased baseline spending by \$10 billion over ten years, in return for significant reform to commodity programs. This proposal would raise the ten-year budget for the Farm Bill to \$607 billion. Over two-thirds of this funding would go to food stamps and other nutrition programs.

Legislators and USDA officials are now left to agree on these reforms and find \$10

billion in the federal budget. Among the Administration's demands are no increases to marketing-loan rates, counter-cyclical target prices, or the Milk Income Loss Contract program. It asks that farmers be required to give up beneficial ownership interest in their crops when they opt for a loan deficiency payment. It also recommends that the marketing loan program become a recourse loan that is part of a revenue-based counter-cyclical program. Planting restrictions should be removed, while cash for local and regional purchases of food aid should be added. The Administration has indicated that it could relent from its demand that only farmers with adjusted gross incomes of under \$200,000 receive farm payments; the House limit of \$500,000 would be acceptable. House Agriculture Committee Chairman Collin Peterson, however, has rejected many of the Administration's demands and insisted that loan rates and target prices of some commodities need to be increased to "re-balance" the distribution of support to commodity crops.

(Column continued on page 3)

IPC Examines Animal Cloning and Nanotechnology

On March 4, IPC continued its series of roundtables on standards issues. Along with co-hosts, the American Society of International Law and the World Food Law Institute, IPC welcomed speakers and guests to participate in a discussion on regulating animal cloning and nanotechnology in food production.

The roundtable featured perspectives from industry, government and the legal sector. Sharon Bomer Lauritsen, Executive VP for Food and Agriculture, Biotechnology Industry Organisation (BIO), provided an explanation of the cloning process and emphasized its similarity to other assisted reproductive technologies. She emphasized that there are no unique health risks associated with food derived from clones and their offspring. Since the FDA does not require labeling of food derived from cloned animals, some in the industry are developing a supply chain management program to track and ID cloned animals and food products derived from them.

Participants also heard from Mark Mansour, Foley & Lardner, LLP, who explained that regulation on nanotechnology used in food production does not exist. Mansour spoke of the necessity of U.S. and EU collaboration on nanotechnology, so as not to repeat previous conflicts over biotechnology. This is particularly important, he stressed, since technological innovation is outpacing government regulation as well as public understanding.

Wolf-Martin Maier, Counselor for Food Safety, Health and Consumer Affairs, European Commission Delegation, noted that EU legislation does not expressly forbid cloning. Regulation for cloning and foods derived from nanotechnology would likely fall under the Novel Foods Regulation, which would also provide a legal basis for mandatory ethically motivated labeling. Mr. Maier also expressed concerns about potential health risks arising from the unpredictable performance of nano-particles. When nanotechnology is employed in food additives, in his view, such products should obtain a new approval even if the regular food additive has already been approved.

The roundtable's final presenter, Michael Roberts, Former Director of the National Agricultural Law Center, raised the issue of whether the WTO and SPS/TBT Committees can or should respond to political, ethical, and moral nuances raised by animal cloning. What should be the role of consumer concerns in connection with emerging technologies in a world where consumers increasingly view themselves as purchasing not only products, but also "shares of responsibility in the moral and ecological economy that produces them?" Although private standards can address non-science based labeling issues, Roberts pointed to the risk of "legal pluralism" in the global food sector.

Further information and presentations from the Roundtable are available at: <http://www.agritrade.org/events/Animalcloningandnanotechnology.html>



Sharon Bomer Lauritsen, Biotechnology Industry Organization and Charles Hunicutt, Troutman Sanders LLP at the Animal Cloning and Nanotechnology roundtable.

(Continued from page 2)

More difficult than agreeing on reforms is finding the \$10 billion. Legislators and the Bush Administration have agreed on about \$6 billion of offsets, some of which will come from non-agricultural programs. However, the remaining \$4 billion is still elusive. Peterson has proposed changing the Census of Agriculture definition of a farmer from \$1,000 of sales a year to \$50,000 and ending crop subsidies to landowners and farmers with fewer than twenty base acres. These ideas have encountered strong resistance from small farm advocates. Meanwhile, Senator Agriculture Committee Chairman Tom Harkin, a long time skeptic of direct payments, has continued to entertain the thought of cuts to this program.

Jurisdictional battles in the Senate Finance Committee are also delaying the process. The Senate Finance Committee, which provided the offsets for the disaster assistance program and which is charged with finding offsets for the remaining \$4 billion, wants to retain control over any program that is funded with offsets it identifies. Chairmen Harkin and Peterson have rejected the idea that other committees should have jurisdiction over agricultural programs.

On March 13, President Bush reiterated his promise that he will veto a bill that raises taxes or fails to reform subsidies. After two extensions, the Farm Bill is currently slated to expire on April 18. If no deal is reached by that date, Bush called for a one-year extension of the current Farm Bill. Such a decision would eliminate new programs for specialty crops, nutrition, conservation, and energy that were included in the Senate and House versions of the future Farm Bill.

UPCOMING EVENTS

Climate Change and Trade: WTO Rules and Jurisprudence on Process and Production Methods
 Washington, DC - April 9, 2008, 1:00-3:30 pm
 The Cosmos Club, 2121 Massachusetts Ave NW

IPC, the World Food Law Institute and the American Society of International Law will host a discussion with experts about the WTO rules and jurisprudence on PPMs and about how the PPMs debate may unfold in the context of future climate change regulation.

Panelists will include **John Jackson**, Georgetown University Law Center; **Gabrielle Marceau**, World Trade Organization and the University of Geneva; **Warren Maruyama**, Office of the United States Trade Representative; **Lorenz Franken** (Invited), German Ministry of Agriculture; and **Jane Earley**, Earley & White Consulting Group and former adviser to the World Wildlife Fund.

For more information, please visit <http://www.agritrade.org/events/#upcoming>

The Future of Agriculture: A Global Dialogue Among Stakeholders
 Barcelona, Spain - May 30-31, 2008

Organized by International Chair WTO/Regional Integration (University of Barcelona), the International Center for Trade and Sustainable Development (ICTSD) and IPC, this dialogue aims to bridge the gap among agricultural stakeholders in order to promote a debate on the main issues related to the future of the industry and enrich the capacity to take practical decisions, both in the private and the public sectors.

UPCOMING PUBLICATIONS

Draft Agriculture Modalities for the Doha Round: Taking Stock of the Trade and Development Implications

Final versions of the papers discussed at the IPC/ICTSD/IFPRI March 12 seminar in Geneva are forthcoming. The series includes an overview assessment of the February agriculture modalities and individual papers detailing the implications for the U.S., EU, Brazil and India. Draft versions are currently available at http://www.agritrade.org/events/Draft_Agricultural Modalities.html.

An Examination of U.S. and EU Food Import Regulations

By **Linda Horton and Elisabethann Wright**

The paper will explain EU and U.S. import requirements for horticultural and seafood products and identify how the EU and U.S. could potentially streamline their procedures, both with a view to facilitating imports from developing countries. Results of the study will be presented at a workshop in Geneva on June 26, 2008, at the margin of the WTO SPS Committee meeting.

“FOOD, FUEL AND FORESTS”

IPC Seminar on Climate Change, Agriculture and Trade
 Bogor, Indonesia - May 12, 2008

With global food demand expected to double by the year 2050 due to population and income growth, rising use of biofuels by countries around the world and growing concern about environmental degradation, IPC will host a timely discussion in Bogor, Indonesia on food-fuel-forest linkages. The seminar will convene government officials, agribusiness representatives, and experts in agricultural trade, forestry and biofuels to consider how best to promote income and food security and mitigate against climate change. Dr. Mari Pangestu, Indonesian Minister of Trade, will give the keynote address.

The seminar will examine pertinent issues including biofuel trends, deforestation, production practices, and poverty. Participants will then issue recommendations on how the agricultural sector can meet the enormous demands it is facing with decreasing arable land and water availability and on how to best promote economic, environmental and social sustainability.

IPC is pleased to have the participation of the Center for International Forestry Research (CIFOR) and the Asia-Latin American Research Network (ALARN) in this seminar. For more information, please visit <http://www.agritrade.org/events/InternationalFoodAgriculturalTradePolicyCouncilEvents.html>

IPC MISSION

The International Food & Agricultural Trade Policy Council (IPC) promotes a more open and equitable global food system by pursuing pragmatic trade and development policies in food and agriculture to meet the world's growing needs. IPC convenes influential policymakers, agribusiness executives, farm leaders, and academics from developed and developing countries to clarify complex issues, build consensus, and advocate policies to decision-makers.

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