Implications of the Doha Round Outcomes for Brazil

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Draft

ICTSD
INTERNATIONAL CENTRE FOR TRADE AND SUSTAINABLE DEVELOPMENT

International Food & Agricultural Trade Policy Council

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Supported by the CGIAR

Draft Agriculture Modalities for the Doha Round: Taking Stock of the Trade and Development Implications. WMO, Geneva, Switzerland, 12 March 2008.

1. Introduction

Brazil is recognized today as one of the most eminent countries in the scenario of the Doha Round negotiations. Not merely is it one of the leaders of the G-20, one of the most important country coalitions, it has also been present in all spheres of the Doha Round negotiations, the formal and informal ones. The Brazilian position in the agricultural negotiations is aggressive. That is, Brazil aims at reducing levels of protection in order to be able to expand its agricultural export potential. This position is based on the three pillars of the agricultural negotiation of the Doha Round: domestic support, market access and export competition.

With the end of the bottom-up approach, in which the WTO member States defined the parameters for agricultural modalities, the top-down approach, based on documents made by the Agriculture Committee, has prevailed in the negotiations. Based on the last version of the document on the agricultural modalities of Feb 8th of February of 2008 (referred in this document as Modalities Draft), this paper seeks to:

(i) Evaluate how the new commitments on domestic support and market access originated at the Doha Round will affect Brazilian policies related to the agricultural sector. Based on the Modalities Draft, scenarios to coming Brazilian commitments were developed and then compared to the Brazilian historical level of use of domestic subsidies and to outlines of the tariffs applied in Brazil.

(ii) Discuss if the results to be obtained in this Round related to market access will be meaningful in terms of creating trade to the Brazilian agribusiness. Once the parameters of the market access pillar are already known, this paper brings a critical analysis of the level of ambition within the document on modalities.

This paper is focused on two pillars of the agricultural negotiation: domestic support and market access. Firstly, with regard to domestic support pillar, the possible changes in the Brazilian agricultural policy were described. Secondly, an analysis of the results of the tariff reduction formula on Brazilian bound and applied tariffs is developed. Because the actual result may entail political choices of which products will be left out of the general rules – via special products or SSM (special safeguard mechanism) –, we have opted for a simulation of these choices.

We have decided not to approach the pillar of export competition because even though the definition of a deadline for export subsidies elimination is not an unimportant result, the use of this type of subvention is still very much concentrated in the European Union. However, it is essential to note that the definition of a deadline will be employed in developing countries – also users of export subsidies for specific products and occasions – as well as in developed countries.

Nevertheless it is evident that the results Brazil seeks in the Round are the impacts of the proposals in the other countries so that they will increase their imports. Therefore we have explored the relation between the proposals of reduction within the current levels of protection and the possibility of the increase of agricultural trade. This analysis is especially important for the Brazilian case once it is one of the greatest exporters of agricultural products and a developing country; that is, Brazil may reach significant economical benefits, in this context. It is worth mentioning that one of Doha Round's main objectives is precisely to support the development of the poorest countries by means of increasing their agricultural trade.

Still in relation to the possible gains provided by the Doha Round – creation of trade and reduction of distortions – this paper concludes that:

- The Doha Round has proven that market access is the most sensitive topic across countries and the achievement of meaningful advances are likely to be obtained on disciplines and rules (domestic support and export subsidies) rather than in tariff reduction and marketing opening. Results in market access will be strict to some products and specific situations, such as TRQ expansion.
- The notion of "Development Agenda" is controversial. Developing countries with competitive advantages in agriculture advocate the development agenda as a synonym of trade liberalization. This concept is coherent with the idea that WTO rounds should improve trade reducing distortions and promoting liberalization. However, other developing countries argue that the development agenda means the creation of new mechanisms to prevent negative impacts of trade. Their main assumption is that domestic farmers cannot be exposed to external competition if food security, livelihood security and rural development are threatened by the trade. Those countries are seeking to reshape the WTO, creating new mechanisms that are not coherent with the idea of liberalization.
- Although the Doha Round is a multilateral process, only a few countries will make efforts. With the full exclusion of least developing countries and small and vulnerable economies, and a set of exceptions to recently acceded members, this negotiation is concentrated in 9 developed countries (USA, EU, Japan, Switzerland, Norway, Australia, New Zealand, Canada, Island) and 14 developing countries (Mercosur, India, Indonesia, Malaysia, Thailand, South Africa, Mexico, Colombia, Chile, Korea, The Philippines).

2. Analysis of the Brazilian Case

2.1. Domestic Support

Like other developing countries, Brazil does not count on significant monetary volumes of domestic support in the agricultural sector. The reason is not only the scarce funds available when compared to developed countries but the high level of competitiveness of the country. The great availability of natural resources is one of the most important factors, but other characteristics also contribute to this situation, such as a poor transportation infrastructure and high interest rates charged by rural credit programs.

Because the Brazilian agricultural sector faces problems that are common to a variety of other sectors and because there are not financial funds that would privilege certain groups of commodities, domestic support programs are mainly non-specific being, thus, reported in the Green Box, or as non-product-specific in the Amber Box. Because there are programs that focus on small farmers and rural development, Brazil has also used the so-called "development box" in Article 6.2. Figure 1 shows the participation of domestic support programs in Brazil and other important countries.

However, as the Green Box has no commitment in terms of expanding, the changes proposed by the Doha Round are about the conditions in which this subsidy is employed. Because of this, a description of the impacts in the Amber Box and OTDS (Overall Total Domestic Support) limits follows.

2.1.1. The analyzed scenario

The Modalities Draft document proposes the formula and the basis for the new commitments related to the following domestic support elements: overall trade-distorting support (OTDS); total AMS (Aggregate Measure Support); AMS product-specific caps; *de minimis* product-specific and non product-specific, and Blue Box. In the Brazilian case, there is no report on the use of the subsidy program "Blue Box", therefore the analyses focus on Amber Box programs.

The limit of the new OTDS is the result of a 40% (2/3 of 60%) reduction of the estimated OTDS. The estimate was calculated by summing the AMS of the Uruguay Round, 20% of the Value of Production (VOP) average in the period between 1995 and 2000 as the base value of *de minimis* and 5% of the value of production in the same period as the base value of the Blue Box. The new limit of the total AMS was reduced in 30% (2/3 of 45%) from the Uruguay Round's commitment.

Regarding AMS product-specific caps, the document points to three different alternatives to developing countries: average of the AMS product-specific applied in the period between 1994 and 2000 or 1994-2005; 20% (twice the value of the Brazilian *de minimis* predicted in the Uruguay Round) of the value of production in the period between 1994 and 2000 or 1994-2005 and, as a third alternative, 20% of the Annual Bound Total MAS.

For the *de minimis*, the proposal is a reduction between 33% and 40% in the current level (10% of the production level) to the product-specific as well as to the non-product-specific.

2.1.2. Obtained result

Table 1 shows the OTDS, total AMS, *de minimis* product-specific and non product-specific limits to Brazil. Once the *de minimis* and AMS product-specific limits are determined in relation to a percentage of the value of production, the values of domestic support were calculated taking into consideration an average value of the value of production in the period between 1994 and 2004. The post-Doha commitment was also estimated considering this value of production. The results show that the reductions of 40% and 30% proposed to the OTDS limit and to the total AMS limit, respectively, do not reach the average of these subsidies employed in Brazil in the period from 1994 and 2004.

Besides, as observable in Figure 1, part of the Brazilian subsidies is included in the S&D (Special and Differential Treatment) described in Article 6.2 of the Agreement on Agriculture and will not be changed in the Doha Round.

In respect to *de minimis* non-product-specific, the proposed reduction – from 10% to 6% - will be even more imperceptible once the average of the subsidies applied for the period 1994-2004 was only 1.4%. Even considering the year 2003, when the subsidies amounted to 1,069,079 thousand dollars – approximately 90% above the average for that period – they represented only 2.4% of the total value of production in that year. Although the *de minimis* product-specific value used in the period was much bellow the limit, a specific analysis related to the main products subsided by Brazil is justifiable once its limit is given by product and not by the total value of production. Thus, the reduction of the *de minimis* product-specific commitment (Figure 2) would not cause great impact over the main Brazilian agricultural products.

Moreover, because of the high agricultural value of production in Brazil, *de minimis* product-specific already is a disciplinary commitment of the Brazilian subsidies. In the case of soybeans (Figure 3), if the subsidies applied reached the limits of the *de minimis* product-specific, the values would pass the Final Bound Total AMS of Brazil. For instance the Final Bound Total AMS to Brazil is 912,105 thousand dollars and the commitment of the *de minimis* for soybeans in 2004 was 1,067,207. If the subsidies granted to soybeans that year overtook its *de minimis*, it would, consequently, overtake the total AMS. Considering the new commitment – 6% of the value of production –, in 2004 the *de minimis* product-specific limit for soybeans would have been 636,124 thousand dollars, very near the commitment proposed for the Final Bound Total AMS in the Doha Round – 638,474 thousand dollars.

As Table 2 shows, through the observation of the results of the three alternatives proposed to the AMS product-specific to Brazilian products, it is possible to affirm that the method that generates the highest limit to Brazil in the majority of its products was applying 20% (twice the value of the Brazilian *de minimis* predicted in the Uruguay Round) of the value of production in the period between 1994 and 2000 or 1994-2005. The average of the AMS product-specific applied in the period between 1994 and 2000 or 1994-2005 fails because there are null AMS values for most products. Therefore, the products that have been subsidized would count on incentives to continue. Employing the other alternative – 20% of the Annual Bound Total AMS – would provide values bellow the limits previously described for most of the products.

2.2. Market Access

This section brings the possible impacts the proposals described by the President of the Agriculture Committee in the Modalities Draft may have on Brazilian agricultural tariffs.

The item that raises more interest is the tariff reduction formula. The selection and treatment of sensitive and special products and the employment of the new safeguard (SSM) are also items that can affect the results to Brazil.

The Modalities Draft document on agricultural modalities defines thresholds and presents cut intervals for each. Proposals referring to developing countries, the ones to be incorporated by Brazil, open up the possibility of replacing the selection and treatment of sensitive products by the selection and treatment of special products. This seems to us the most likely scenario to take place for it is easy to implement. The percentage of tariff lines to be left out of the cut formula is around 5% to 8% for sensitive and 8 to 12 or 20% for special products. The treatment of special products was defined by a percentage of lines with cuts of 8 or 15% and the other half with cuts of 12 or 25%. Tariff lines without cuts are still being debated and will probably be implemented in least-developed countries. Regarding the safeguards for developing countries (SSM), the analysis is strictly descriptive in relation to possible results once the magnitude of these mechanisms depends on certain import conditions (price and volume to be import).

2.2.1. Analyzed scenario

The presented results refer to the maximum and minimum cut levels within each threshold. The proposal of cuts corresponds to the interval between a 32% and a 35% cut in tariff lines with tariffs up to 30% (first threshold); a cut between 37% and 40% in lines with tariffs between 30% and 80% (second threshold); a minimum cut of 41% and a maximum of 43% in third threshold (tariffs between 80% and 130%) and a cut between 44% and 49% in the lines with tariffs above 130% (fourth threshold).

Regarding the exceptions to the cut formula, corresponding to the selections of sensitive and special products, we have decided to assume that Brazil would replace sensitive by special products. Thus, all exceptions were treated according to the proposals for special products – a reasonable assumption once the implementation of the treatment for special products is easier. Therefore we have considered 15% of agricultural tariff lines as special products; half of these lines will have a 15% cut and the other half a 25% cut. To be left out of the cut formula, we have selected the tariff lines with the highest tariff protection level, which possess higher trade values and lower overhang for eventual tariff increase. This way, the first 7.5% agricultural lines of this selection suffered cuts of 15% and the following 7.5% lines, cuts of 25%. The others suffered the regular cuts in the formula.

In order to do this classification we have used the following criterion: tariff lines were classified taking into account decreasingly applied tariffs, followed by the import value for a specific year (in this case, 2001) and, finally, overhang[1] values were arranged increasingly.

2.2.2. Obtained results

Table 3 describes the expected results for Brazilian agricultural tariffs according to the four scenarios depicted in the previous section: scenario with minimum cut; scenario with minimum cut and 15% of tariff lines with treatment for special products; scenario with maximum cut; and scenario with maximum cut and 15% of tariff lines with treatment for special products. The results were described in terms of average tariffs and average tariff cuts. The table also shows the products that would have their bound tariffs bellow the applied tariff level, that is, products that would have their applied tariffs cut after the Round, being able to increase the import volume.

A fact that calls our attention in these results is the limited number of products that would have their applied tariffs cut. Moreover, the products that would have reduced tariffs are little expressive for the Brazilian import, as happens with the coconut, which represents 0.01% of the total value import and over which there is a reduction of 22% or 20.3% in the applied tariff. In the case of important imported products, such as the wheat that in 2006 represented 24% of the total imported by Brazil, the tariff reduction turns out to be superior to the applied. Hence, significant products in terms of import would not have effective tariff reductions, especially when the exceptions to the cut formula are incorporated.

In the case of the maximum and minimum level cut, not considering the exceptions, even though the cut over the applied tariff of certain products is a bit higher, it keeps being inexpressive considering the importance of these products in Brazilian imports.

Therefore, in both scenarios (minimum and maximum cuts) the average cut proposed by the Doha Round (35.6% - 38.5%) is very much inferior to the average needed in order to reach the applied tariff in Brazil (62.1%); that is, new tariff standards would cause very little impact on Brazilian agricultural import. Moreover, only 10.3% of the 946 total tariff lines would really suffer a cut in relation to the applied tariff in both scenarios.

Furthermore, taking into consideration the most likely scenario to happen, that is, the incorporation of the exceptions to the tariff cut formula, the reduction in relation to the actual tariffs would happen in only 2.9% of the tariff lines. This represents 27 tariff lines against 97 of the other, less realist, scenario. Products as coconut and fruit-based preparations were the ones with the highest tariff cuts, 8.3%, much more inferior than the 22% first obtained.

Finally, when including the exceptions to the tariff cut formula, an additional cut of approximately 32.5% to 30.5% would have to amount to the cut proposed in the Doha Round

[1] "Overhang" is the difference between bound tariff and applied tariff.

in order to have a reduction over the actual tariffs. In the previous case, the additional cut would be of 27.8% to 25.2%.

3. Agricultural proposal f the Doha Round and the Brazilian Export Perspective

This section aims at rapidly describing some of the main points in negotiation concerning the pillar market access that may obliterate possible gains for Brazilian exports.

Even though the proposals to developed countries are more ambitious, the exceptions to the tariff cut formula indicate that the possibility of these countries increase agricultural imports has proved little significant. For instance, in countries with great importance in the world agricultural imports, the number of tariff lines to be considered in the selection of sensitive products is enough to exclude relevant products in the international trade from the negotiated cut. This would bring the creation of trade to a low level, injuring mainly developing countries interested in expanding their agricultural exports. The cut deviations proposed for these products are very high and there is no certainty of compensation. Besides, these countries still count on safeguards (SSG) and despite the pressure to eliminate them, it is maintained as an option by the Agricultural Committee president. An example of this scenario is poultry in the European Union, where the quota represents about 0.5% of its Domestic Consumption (DC) and the total import of the product was 4% of the DC in 2005 (COMEXT, 2007). That is, 3.5% of the European imports are extra quota. The proposal of compensation of sensitive products regards the creation of tariff quotas calculated as a percentage of the DC, however, it uses a methodology to allocate this consumption in tariff lines (TL) selected as sensitive. This methodology of allocation is necessary because rarely all tariff lines that compose a sector will be selected as sensitive products. Thus, when it is assumed that a percentage of DC will be the quota for a certain product and only some the product's TLs are selected as sensitive products – the lines subjected to the highest tariff levels –, the process of allocation becomes essential in order to calculate the real access gains via quotas. For example, the selection of some poultry's TLs in the EU, which represents around 70% of the imported value in the last years, would result in a quota increase of 3.5% of the DC, not the 4% as when they are selected as sensitive products. This result would not cause an impact in the creation of poultry trade in the EU because the increase of quota only internalizes the extra quota imports that have happened. Moreover, a tariff additional occurs over some of these TLs.

If on one hand we are pessimistic in relation to the gains to be obtained by an increase of agricultural imports by developed countries, on the other, predictions on import increase by developing countries are even worse. Despite the lower tariff cut, the reasons are the increasing number of tariff lines in the selection of sensitive products and the increasing number of products to be considered sensitive. The creation of safeguards mechanisms (SSM) for this group of countries is another factor to corroborate with this panorama. As described above, tariff lines selected as special products, a mechanism specific of developing countries, will have a maximum tariff cut of 25% (lower than the smaller threshold's cut) and a minimum cut of 15%. Besides, the percentage of tariff lines proposed for this selection is enough to include most part of the agricultural trade.

The use of SSM, which aims at protecting developing countries against import outbreaks in periods of tariff reduction, may cause no change in the current conditions of imposed tariffs on agricultural products in developing countries. Once the aim is the protection against import outbreaks, the economic logic says that the safeguard should be applied together with triggers of price and volume. However, this is not what prevails in current proposals. Furthermore, there is a chance that these tariffs actually increase instead of decrease, consequently reducing agricultural trade. This could happen at the level of applied tariff because countries would have an increase mechanism more immediate when the applied tariff is lower than the bound tariff, as well as at the level of bound tariff. This condition, as much as the maintenance of the SSG in developed countries, sounds absurd if the objective of the Rounds is the reduction and not the increase of the protection levels. In this sense, it is necessary to remember the temporary trait of the safeguard. That is, this mechanism should have a deadline. If it does not, the SSM will be used as another protection barrier, in this case by developed countries, which will be able to use it as overhang to increase their tariffs when needed.

Considering the greater flexibility offered to small vulnerable economies and recent OMC members, the proposed changes seem practically null in terms of agricultural import increase.

It is not the objective of this paper to judge the legitimacy of the proposals but their general conditions. We understand that special conditions should be provided mainly for more vulnerable countries in the agricultural context. However, the high level of applicability of the cut tariff formula has encompassed practically the totality of agricultural trade products, in developing and developed countries.

Regarding the impact of the developed countries' domestic support proposal, it is important to note that its reduction can increase agricultural production and export of more competitive countries that do not subsidize their productions. Thus, for Brazil, the best scenario to be achieved by the impact of proposals is given by higher cuts on subsidies at the product level, which have been applied to the greatest agricultural producers (The United Stated and European Union included). It is important that subsidies are limited by product because the impacts may be felt in products with higher levels of subsidy. In short, the analysis shows little effectiveness of the proposal in the documents on modalities regarding the subsidized products in the USA. In relation to the European Union, the document is not certain as to the reduction of the impact caused by the subsidies practiced by the bloc because of a non-limitation of Green Box policies.

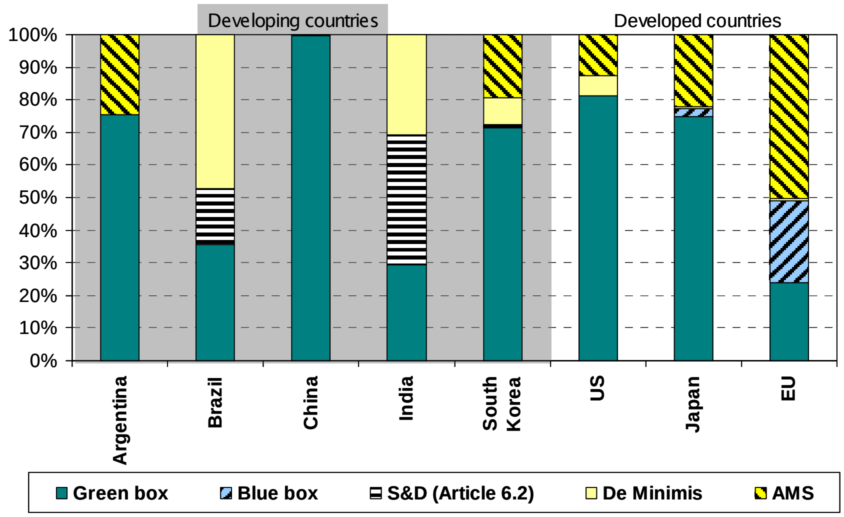
5. Conclusion (to be completed)

In the Brazilian case the new scenarios for domestic support are practically not enough to limit the values being applied. Therefore, the proposals present at the Doha Round, it may be assumed, would not generate changes in the current programs.

Because of the low level of cut of the applied tariff in Brazil and because they occur in products with little relevance in the export schedule, Brazilian agricultural import will probably not be incremented by the changes proposed by the Doha Round.

The current proposals, summarized in the Agriculture Committee president's document are important in order to reduce the current levels of protection of agricultural products. However, because these levels are extremely high this reduction is not enough to considerably increase the world trade. This is clearly shown through the Brazilian case and was briefly discussed by this paper in terms of the features of the instruments to be implemented.

Figure 1 – Composition of domestic support as percentage of total



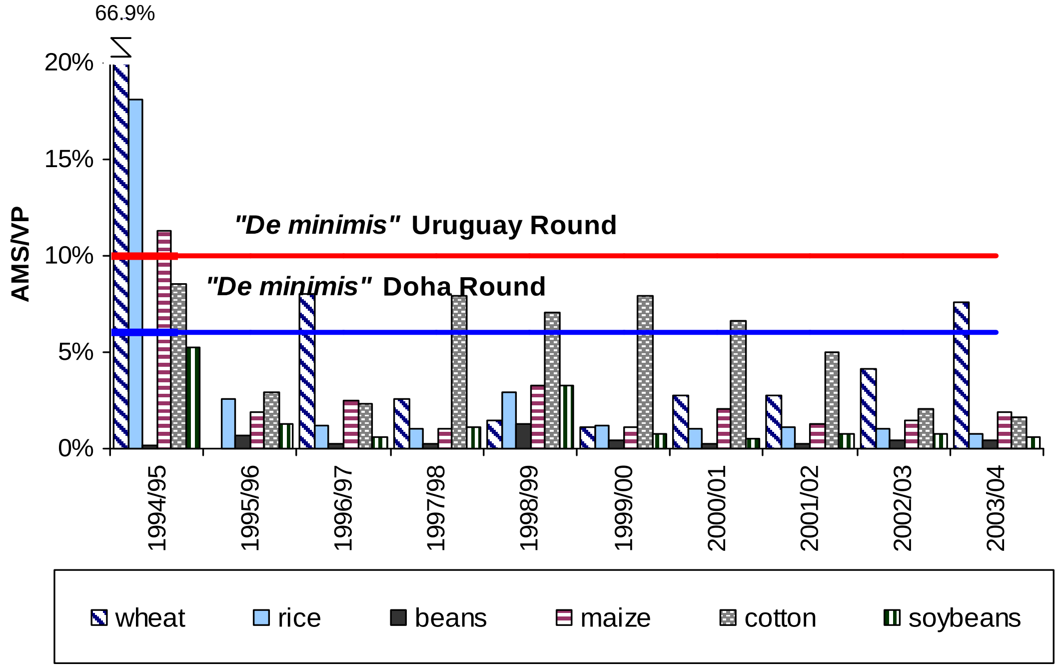
Source: WTO (2007d).
Note: Average data of the three last notifications in the WTO to each country. Argentina – 1999 to 2001; Brazil – 2001 to 2003; China – 1999 to 2001; India – 1995 to 1997; South Korea – 2002 to 2004; US – 2003 to 2005; Japan – 2001 to 2003 and EU – 1999 to 2001.

Table 1 – Bound domestic support negotiated at the Uruguay Round, the Doha Round Proposal and the average values applied by Brazil in the period between 1994 and 2004.

	Bound Uruguay Round		Doha Round Proposal			Value applied (1994-2004)	Value applied (2003)
	Percentage of value of production (VOP)	Final Bound by Avg of VOP (1994-2004)	Reduction proposed (%)	Percentage of value of production (VOP)	Final Bound by Avg of VOP (1994-2004)		
AMS (US$ 1000)	-	912,105	30%	-	638,474	104,332	0
De minimis non-product-specific (% VP)	10%	5,201,898	40%	6%	3,121,139	539,722	1,069,079
De minimis product-specific (% VP)	10%	5,201,898	40%	6%	3,121,139	251,289	249,548
Blue Box (% VP)	5%	2,600,949	0%	5%	2,600,949	n.a.*	n.a.*
OTDS Commitments	-	13,916,852	40%	-	8,350,111	895,343	1,318,627

* subsidies not used by Brasil

Figure 2 - Aggregate Measure Support (AMS) values in relation to the value of production of the product, in the respective year, and the limits of the *de minimis* product-specific of the Uruguay Round and the new limits proposed by the Doha Round



Source: elaborated by authors.

Figure 3 – Relationship between Final Bound Total AMS Rodada Uruguai and 10% VOP
Source: elaborated by authors.

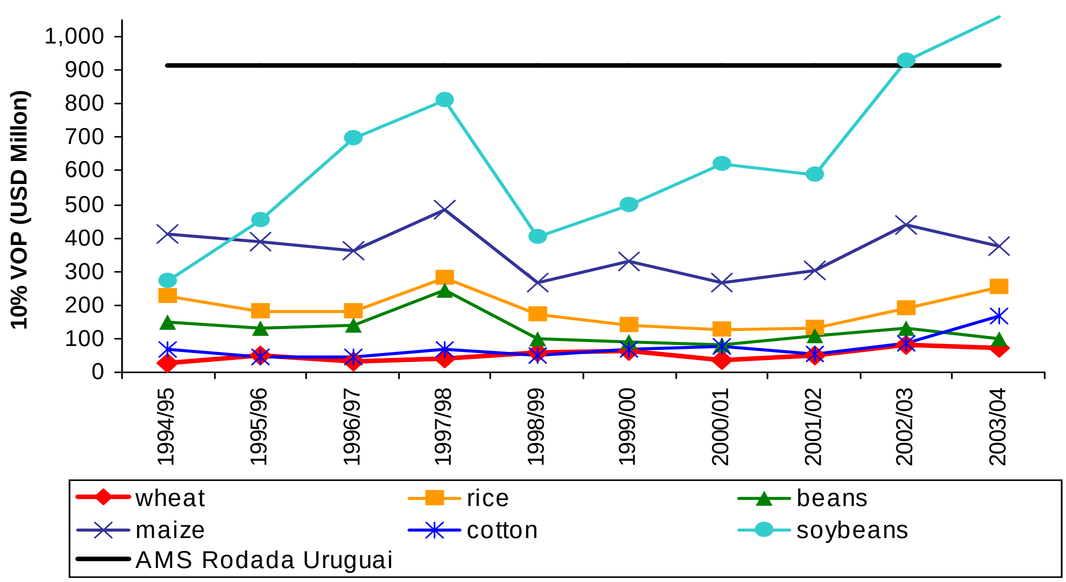


Table 2 - Aggregate Measure Support (AMS) product-specific values according to the three alternatives proposed by the Doha Round

Products	Avg applied [1995 - 2000] or [1995 - 2004]	20% VOP	20% AMS total
soybeans	0	1,266,081	127,695
cotton	0	146,801	127,695
maize	46,756*	726,711	127,695
rice	40,659*	376,483	127,695
wheat	16,916*	101,064	127,695
beans	0	255,099	127,695

* The average of the 1995-2004 period was used.

Source: elaborated by authors.

Table 3 – Average cut and average tariff in the scenarios: minimum cut and maximum cut proposed in the Draft Modalities document to Brazil and main products affected

		Minimum Cut	Maximum Cut	Minimum Cut	Maximum Cut
		no exception		**with exception**	
Considering cuts in tariff lines(TLs)	% of TLs which were cut in the applied tariff	10,3%	10,3%	2,9%	2,9%
	Average tariff cuts that were reduced	15%	19%	9%	9%
Total of agricultural tariff lines	Average cuts in the applied tariff	1,55%	1,94%	0,25%	0,27%
	Average cuts at Doha	35,6%	38,5%	29,8%	32,0%
	Average cuts necessary to achieve the applied tariff	62,1%	62,1%	62,1%	62,1%
	Average of proposed additional cuts to achieve the applied tariff	27,8%	25,2%	32,5%	30,3%
Products with reduction in the applied tariff > than 5% in the less aggressive scenario		Tariff cuts (%)			
Coconuts, cashew-nuts and nuts		20,35	22,0	8,3	8,3
Fruit-based preparations		20,35	22,0	8,3	8,3
Dye		12,95	14,0	5,3	5,3
Condiments and spices		5,54	6,2	1,8	1,8
Soups and broths		5,5	6,2	0,0	1,8
Candies		5,5	6,3	1,3	1,3
Chocolate		5,5	6,3	1,3	1,3

Source: elaborated by authors