

## Some Thoughts on the Possible Results of the Agriculture Negotiations in WTO

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This note provides a summary assessment of what, in our view, could be possible results of the WTO agricultural negotiations. The basis of the analysis is the revised draft modalities text submitted by the Chair of the agricultural negotiations, Crawford Falconer, on 8 February 2008. Although there are still a large number of issues which remain open and divergences of views persist in some key areas of the negotiations, we feel that the text is an acceptable basis, for all parties concerned, for the continuation and conclusion of these negotiations.

In order to assess the value of the results of this possible agricultural Doha Round Agreement, and to what an extent it will fulfil their expectations, Members should use as a benchmark the following three elements: firstly, a comparison with the level of ambition of the Doha mandate with regards to Agriculture; secondly, the Uruguay Round results in this field, and thirdly, its contribution to the long term objective of worldwide agricultural reform process aimed at the “establishment of a fair and market oriented agricultural trading system” envisaged in the Agreement of Agriculture. It is in this light that we make the following assessment:

With regards to **Export Competition** the Doha Round modalities proposed by Falconer, which have already been approved by Ministers at the WTO Conference in Hong Kong in 2005, point to the elimination of all export subsidies by developed countries by the year 2013 (2016 for most developing country export subsidies). This is a significant improvement to the reduction of export subsidy volumes by 20% and export subsidy expenditures by 36% agreed in the Uruguay Round for developed countries. Moreover, the proposed modalities also envisage the elimination of government finance for State Trading Enterprises in order to guarantee that they will not circumvent export subsidy commitments; the introduction of disciplines to export credits, guarantees and insurance programmes for agricultural products, in order to insure that they reflect market practices thereby avoiding any type of subsidy, and the strengthening of disciplines related to food aid in order to ensure that this instrument is used, for emergency or humanitarian needs only, and not to offload agricultural surpluses or to develop new markets.

Our view with regards to this pillar of export competition is that the modalities proposed represent an extremely important result, since their use, mostly by a small number of developed countries, had significant destabilizing effects in world agricultural markets, depressing prices and displacing efficient producers from their traditional markets. These measures have also discouraged production in many developing countries that are now net food importers, but have a clear potential as agricultural producers. Our conclusion is that the text proposed is satisfactory, it fulfils the agriculture mandate agreed by Ministers in Doha, it finally puts agriculture in an equal footing with other goods in the WTO with regards to export subsidies, and is an important step forward in the process of long term agricultural reform at the world level.

The disciplines that regulate **Domestic Support**, agreed upon in the Uruguay Round, distinguish between forms of domestic support with production and trade distorting effects (Amber and Blue Boxes) and those that supposedly have zero or minimal distorting effects (Green Box). The Amber Box, quantified in the Total Aggregate Measurement of support (AMS), was the only one in which reductions (20% in 5 years), were agreed during that Round.

The modalities proposed by Falconer regarding this pillar of the negotiations, can be considered a step in the right direction, if we judge that they envisage reductions of the order of 50% to 85% in five years, for what is now identified as Overall Trade Distorting Support (OTDS), which encompasses the sum of the amber and blue boxes and de minimis support. This is achieved through a tiered reduction formula, where those who subsidize most, suffer the largest cuts in their domestic support programmes. There is also provision for product-specific limits on the amber and blue boxes, as well as reductions over five years in those boxes, through a stratified formula. The levels of de minimis support are also reduced, and some very modest clarifications are introduced in the Agreement with regards to the green box. However, as in the Uruguay Round, the green box continues to be exempted from reductions, and the modalities allow an unlimited use of this box to support producers.

As mentioned before, these reductions may, at first sight, appear significant. They are not so, if one compares them with the levels of agriculture support that the countries are currently resorting to in a world situation characterized by high commodity prices. In this respect, it can be asserted that the United States or the European Communities will have no major difficulties in integrating the reductions envisaged in these modalities, in their domestic agricultural policies. It may well be, that in the case of the USA, the obligations foreseen in the modalities will be above the current levels of domestic support expenditure. These reductions may be more difficult to embrace by countries such as Japan, Switzerland and Norway.

On a positive side, it is worth highlighting that the implementation of those modalities will bound in the WTO, the current levels of expenditures on domestic support in developed countries (which are relatively low if compared with the past). This is not a minor point, if we consider that the prevailing high commodity price situation could vary in the future and that in 2008, both the USA and the EU, are engaged in approving new legislation with regards to their agricultural policies (New Farm Bill and new phase of PAC Reform), which, so far, does not seem to give great attention to what is being negotiated in the WTO.

An objective evaluation of the possible outcome of the negotiations with regards to domestic support, would suggest that there will certainly be an improvement with regard to the results of the Uruguay Round. As compared to the current levels of expenditure on domestic support, the modalities proposed will not ensure a “substantial reduction in trade distorting domestic support” as agreed in the Doha mandate, in particular if members finally accept something less than the higher end of the range of the proposed cuts in OTDS. The binding of all distorting measures under one OTDS commitment, may encourage a progressive move to less distorting domestic agricultural policies. However, what needs to be emphasized is that developed countries have the financial resources (contrary to developing countries) to continue to support agricultural production through the green box, and this box contains certain programmes whose non-distorting effects are certainly questionable. As a result, developing countries will continue to be subject to unfair competition.

With regards to the third pillar : **Market Access**, this is the area in which trade liberalization would provide the greatest benefits to all parties both in developed as well as developing countries. However it has proven to be the pillar of the negotiations that has generated the greatest difficulties and sensibilities.

In the Uruguay Round, a linear average reduction formula of 36% with a minimum cut of 15% was agreed for developed countries over a period of six years, (24% and 10% respectively for developing countries over ten years).

The modalities proposed by Falconer consists of a tiered tariff formula with cuts ranging from 48% to 73%, which determines that the higher the level of the tariff, the deeper the cut. It also stipulates that there will be a **minimum** average tariff reduction of 54% for developed countries and a **maximum** average tariff reduction of 36% for developing countries.

What is of concern with regards to the negotiations on this pillar, and which points already to less than satisfactory results in a possible outcome, are the multiple flexibilities that have been introduced in the text ( sensitive products, special products, special agricultural safeguard (SSG), special safeguard mechanism for developing countries (SSM), and a number of provisions for exemptions), that will allow substantial deviations from the full application of the tariff reduction formula ( up to two thirds) as well as the possibility to take actions to limit imports. These flexibilities which respond to the interests and political sensitivities of individual countries or group of counties, both developed and developing, significantly reduce and in many cases prevent the possibilities of real market access.

The proposed modalities establish that the recourse by Members to flexibilities to deviate from the general application of the agreed tariff formula, be compensated by the granting of higher opportunities of market access via tariff quotas .In other words, the greater the deviation from the formula, the greater the obligation to provide additional in-quota access. For many efficient agricultural producers this is likely to be the only way to achieve improvements in market access in these negotiations.

A number of very delicate issues remain open (maximum number of sensitive or special products; percentages of consumption to be used for tariff quota determination; 6 or 8 digit basis for quota expansion; the treatment of in-quota tariffs; criteria for triggering SSG; thresholds to trigger SSM, etc, to mention just a few) and they will not be easy to settle, so it is difficult to foresee, at this stage, what the definitive outcome will be in the market access negotiations. However, bearing in mind, the scale of defensive interests that are at stake in these negotiations from both developed as well as a large number of developing countries, the results are not likely to be in line with the level of ambition of “substantial improvements in market access” contained in the Doha mandate. Moreover, what is also a matter of concern, are the long term implications for agricultural market access embodied in the multiple flexibilities that have been introduced in the agreement in order to protect or safeguard the political sensitivities or negotiating positions of members. They are likely to become permanent features of the Agriculture Agreement, and are not in line with the long term interests of trade liberalization and agricultural reform.

One final point that clearly emerges from this analysis, is that the long term objective referred to in the Agreement of Agriculture, to establish a fair and market oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets, will not

be concluded with the Doha Round of negotiations. In the best case scenario , we will still face at the end of the implementation phase of the results of this Round, levels of agricultural domestic support in developed countries of the order of US\$ 180 billion (including green box), and market access conditions which are far from satisfactory. It would be reasonable therefore, to foresee, as was already done, as part of the results of the Uruguay Round (mandated negotiations) the continuation in the WTO of the agricultural reform programme, after the implementation phase of the obligations agreed in this Round.