



International  
Federation of  
Agricultural  
Producers

# Trade and Development LETTER

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## **IFAP's 4th World Dairy Producers Round Table on Trade, New Delhi, India, 25-28 October**

Over 100 representatives of farmers' organisations from 22 countries attended IFAP's 4<sup>th</sup> World Dairy Producers Round, hosted by the National Institute of Agriculture of India (NIA) and with the support of the National Dairy Development Board (NDDB).

During that meeting, the situation of the dairy industry in India was presented. Following the so called "*white revolution*" launched in the 1970's through Operation Flood<sup>1</sup>, dairy cooperatives have emerged and expanded and India has become the world largest milk producer with more than 90 millions of tonnes of dairy products per year and 12 million people involved. Dairy production has been multiply by four within 15 years with a growth rate of 4% per year. However, despite this spectacular expansion, there is still a lot to achieve. Indeed, dairy productivity in India is 50% less than the average world productivity. This is mainly due to lack of genetic quality, and low quality feed. The objectives of the Indian dairy sector are to increase the productivity, to preserve the indigenous breeds, to increase the share of hybrid animal population and to eliminate the diseases.

The main challenges of the Indian dairy industry are: how to increase the quantity of milk in the market and how to increase the domestic consumption of milk/per habitant. One way has been to promote milk consumption within the schools. Only 4% of dairy production is exported and the main obstacles to the exports are the difficulty to control the diseases, the lack of hygiene and low quality products that do not meet the international standards. While, many efforts have been made by the private sector to improve the quality and to develop other dairy products, efforts should also be done by cooperatives in these areas. Many participants noted that dairy in India is produced by small poor farmers and landless workers who do not receive any subsidy from the government and encounter difficulties to compete with products from the international market where many milk products are subsidised. One clear conclusion was that milk production is a strategic product for development, and should be considered as such in the WTO. In India, dairy development has been identified as a key sector to help reduce poverty.

Regarding the possible outcomes of the WTO negotiations and its consequences for the Dairy industry in India, it was noted that tariffs for milk products are between 40% to 60% and most of them are under Tariff Rate Quotas (TRQs) systems. The use of support is important in US and EC and in addition, the EC uses export subsidies on dairy products. As far as the major exporters are concerned (e.g. Australia and New Zealand), the main objective is to expand their markets, and this is already made possible through regional agreements.

The Doha negotiations on Agriculture would lead to tariff reductions in the dairy sector as well as TRQs expansion with reduction of in-quota tariffs and more transparency in TRQ administration. In future, it was noted that India's dairy industry may suffer more from SPS measures than non-tariff barriers. One alternative for India is to undertake bilateral discussions with countries introducing new standards.

Participants also shared experiences on ways of empowering producers in the market faced with the power of the large multinational companies that dominate the agri-food chain, e.g. collective marketing schemes, cooperatives, contracts with industry, inter-professional agreements. Participants met the President of India, Dr. A.P.J. Abdul Kalam for a discussion on the challenges facing Indian agriculture. The round table was followed by a field visit in ANAND.

<sup>1</sup>Operation Flood was implemented in three phases. In the first phase, with the sale of skimmed milk powder and butter oil received from EU through the World Food Program, NDDB created milk sheds for direct distribution of milk to consumers and cooperatives at village-level were created in order to collect milk from small producers. The objectives of this operation were to increase milk production and rural incomes.

# INTERNATIONAL

## WTO Agriculture Negotiations Finally Take Off

Agriculture negotiations at the WTO entered a new, decisive stage in October. All the key negotiating groups have tabled detailed, numeric proposals on market access, the most contentious of the three pillars of the farm trade talks. Their positions remain far apart, however. Although members are closer to agreement on the other two pillars (domestic support and export competition), any final deal must necessarily encompass all three pillars, as well as the full set of negotiating areas in the Doha Round.

Prior to this active phase of negotiation – in which ministers and high-level officials played a crucial role – delegates made only limited progress since agriculture talks restarted in 2000 through the so called “built-in” agenda, and even after they were folded into the comprehensive Doha Round in 2001. In 2003, negotiators missed their original target for agreeing on negotiating modalities (the formulas for the subsidy and tariff cuts, and phase-in schedules). They are now aiming for the sixth WTO ministerial meeting in Hong Kong in December this year instead. Because of the extremely short time left before Hong Kong, some commentators have questioned whether this aim realistically can be achieved. However, if it is not, the whole round is in peril, as US Trade Promotion Authority (TPA) expires in mid-2007. The US TPA allows the president to fast track trade agreements into law and without this option available, any final Doha agreement would be unlikely to pass through Congress in the US.

### *Five Interested Parties at the centre of the negotiations*

Following bilateral talks between the EU and US, the Five Interested Parties (FIPs), which includes the US, EU, Brazil, India and Australia, met at the ministerial level in Paris from 23-24 September. Several other key trading partners later joined the talks. The participants discussed scenarios for tariff cut formulas. Each scenario would divide countries’ tariffs into four bands, and allow developing countries to make cuts two-thirds the size of those made by developed countries. Proposals from the EU showed average reductions ranging from 24.5 to 36.4 percent. The US proposed much more ambitious cuts, but failed to move on domestic support, an area others were looking for US concessions. The effect of such cuts is difficult to estimate, however, given that countries already apply

tariffs that are lower than their maximum allowed ‘bound’ tariffs.

Intense discussions continued in Geneva, where delegates are in continuous dialogue with one another. The Chair of the agriculture talks, Crawford Falconer of New Zealand, is convening regular meetings among different groupings and transparency ‘clinics’ for all delegates.

From 10-12 October, the FIPs met again, first at a “mini-ministerial” convened by the US in Zurich, and later in Geneva. At these meetings, the US tabled new proposals on both domestic support and on market access. The EU and G-20 made counterproposals on market access, with the G-20 calling for deeper cuts than the EU but remaining less ambitious than the US. The EU agreed to make – 70 percent cuts to its trade distorting subsidies. The US cut would be 60 percent.

A new set of ministerial-level talks in Geneva among the FIPs fell apart on 19 October because the EU was unable to table a revised market access offer due to internal tensions, namely, the French blocking movement.

However, while the US, Australia and G-20 were putting immense pressure on the EU to agree to deeper tariff cuts, the African, Caribbean and Pacific (ACP) group expressed grave concern that the emerging concept of a “middle ground” was migrating towards the US and Cairns group positions, rather than taking G-10 and ACP positions into account. The group noted that a large number of developing countries – including its 79 WTO Members – favour a more cautious approach to farm tariff reduction. The group also called for a more transparent and inclusive negotiating process.

On 28 October, the EU was able to share a “new and improved” proposal with the FIPs, stressing that this was a final offer, contingent on movement on other issues such as: stronger disciplines on export competition tools other than direct export subsidies; partially decoupled Blue Box domestic support; Geographic Indications (a type of “trademarks” to globally protect typical European products, such as Parma ham); as well as industrial market access and services.

WTO Members now have seven weeks left before the Hong Kong meeting to reach agreement.

# INTERNATIONAL

## Agricultural Market Access Pits Exporters Against Importers at the WTO

The fate of the agriculture negotiations, and of the Doha Round as a whole, depends on a deal on market access, and time is running short. WTO members agreed in the 2004 “July Package” to base their tariff reductions on a tiered formula – under which tariffs of similar magnitudes would be similarly treated – and that higher tariffs would be cut relatively more than lower ones.

**US called for significant new market access on 10 October** with a formula that established four identical tiers for developing and developed countries – tariffs below 20 percent, 20-40 percent, 40-60 percent, and above 60 percent, with developed countries making reductions of 55-65, 65-75, 75-85, and 85-90 percent respectively within the four tiers and developing countries making lower tariff cuts. There would be a 75 percent cap in developed country tariffs and the number of ‘sensitive products’<sup>1</sup> limited to one percent of tariff lines.

**G-20 set out different tariff bands for developed and developing countries** in its market access proposal, made on 12 October, calling for an average minimum tariff reduction of 54 percent in developed countries and an average maximum tariff cut of 36 percent in developing countries. The G-20 proposed different sets of tiers for developing and developed countries, coupled with higher tariff cuts for the latter. It would have developing countries make cuts of 25, 30, 35, and 40 percent in respective bands of under 30 percent, 30-80 percent, 80-130 percent, and over 130 percent. In their tiers of under 20 percent, 20-50 percent, 50-75 percent, and over 75 percent, developed countries would be required to make higher cuts of 45, 55, 65, and 75 percent respectively. In this proposal, the number of sensitive products would be limited to one percent of tariff lines, and a 100 percent cap in developed country tariffs and 150 percent for developing country tariffs.

**G-10 proposal dated 10 October, calls for significant flexibility** and outlined two options for market access, and required countries to choose between a more flexible formula and designating more products as sensitive. The four tiers for developed countries would be of 0-20, 20-50, 50-70, and over 70 percent and for developing countries 0-30, 30-70, 70-100, and over 100 percent. There would be a linear cut in each of the

tier of respectively 27%, 31%, 37% and 45%. Countries opting for the flexible formula would be allowed to make constrained deviations from the average cut for products within each tier, but would be allowed fewer sensitive products than countries that choose the less flexible formula. In the former case, countries could designate ten percent of their tariff lines as sensitive, in the latter, fifteen percent. The group rejects the notion of tariff caps.

**The African, Caribbean and Pacific (ACP) countries focus on developing country issues** and made a market access proposal on 21 October that highlighted the vulnerability of many developing countries to the unrestrained opening of markets. Its formula would classify tariffs into four tiers for reduction: for developing countries, products with tariffs of 0-50 percent, 50-100 percent, 100-150 percent and over 150 percent; the corresponding tiers for developed countries would be 0-20, 20-50, 50-80 and over 80 percent. Developing countries would make tariff cuts ranging from 15 to 30 percent; those required of developed countries were not specified. The proposal mentioned that *special consideration should be provided to developing countries that bound their tariffs at a very high uniform rate* during the Uruguay Round – in order to avoid them falling into the highest tier for reduction. Finally, *on the erosion of long-standing preferences* – one of the key concerns of the ACP – the group already stated that developed countries should include preference-related products in their lists of sensitive products.

**The G-33 countries** (an alliance in support of the designation of ‘Special Products’ (SPs) slated for lower tariff cuts in developing countries and a ‘Special Safeguard Mechanism’ (SSM) to protect these countries against import surges) have not tabled a proposal on market access as such, but state that effective modalities for SPs and the SSM must be included in the market access formula in order for the group to accept it.

**The EU tabled its “new and improved” market access offer on 28 October.** Under this approach, developed country tariffs would be divided into four tiers comprising tariffs of 0-30, 30-60, 60-90 and over 90 percent, slated for cuts of 35, 45, 50 and 60 percent respectively. For developing countries, the tiers would be for products with tariffs of 0-30, 30-80, 80-130 and over 130 percent, and the related tariff cuts 25, 30, 35 and 40 percent. Additional flexibility would be allowed for tariff cuts in the lowest bands of both developed and developing countries. Eight percent of products could be designated as sensitive. The EU accepts the G-20 approach to tariff capping, except for sensitive products.

<sup>1</sup> Sensitive products are products that countries can designate for relatively low tariff reductions

# REGIONAL

## An update on the EPA negotiations for African Regions

October and November are very busy months for trade negotiators and those who want to influence them. For ACP negotiators there are not only the preparations for the WTO ministerial meeting in Hong Kong in early December, but they have to gear up for more intense negotiations on Economic Partnership Agreements (EPA). ACP negotiators have to, beyond dealing with the technical difficulties of the trade negotiations, ensure a strong coherence among the two processes. Over and above the bargaining on tariff reductions in Hong Kong, the WTO rules need to be negotiated in such a way that enough policy flexibility is ensured to allow EPAs to be real development instruments. Also the aid for trade envelope, that will be part and parcel of a deal in Hong Kong - if agreement is reached, needs to be coherent and complementary with what will be negotiated within the EPA context. This requires a continuous dialogue and coordination at national level, as well as at regional and African or ACP level.

An informal meeting of chief negotiators from ACP countries took place in London in early October. The meeting aimed to take stock of the progress made in the different regions and to consider measures to improve the negotiating leverage of the ACP group and to agree on concrete ways of enhancing the coordination among ACP regions. A clear message was sent by the chief negotiators to the EC President Barosso urging the EC to take the development aspects of EPAs more seriously and to ensure that the delivery mechanisms of the EC aid for trade were made more effective.

Since July 2005, the negotiations at regional level have gone into a higher gear. At the level of **West Africa**, there was finally an agreement with the EU to set up a negotiating group on the productive sectors, which includes agriculture. The objective of this group is to consider the effects of the EPAs in terms of challenges, stakes and opportunities on the productive sectors of West Africa. This group will present a preliminary list of sectors and priority products for the region by December 2005, while concrete suggestions and proposals for actions to improve the competitiveness should be finalised by end of 2006, and then be submitted to the Regional Preparatory Task Force (RPTF). Considerable progress was made in the negotiating group on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). In particular policies and objectives to be included in the

overall EPA framework were identified and recommendations were made on evaluating the needs for reinforcing laboratories for quality control and strengthening the legislative framework.

For the **Central African region**, negotiations have also become more intense. The focus has been on the technical negotiating groups on Customs Procedures, Trade Facilitation and Customs Procedures and on TBT and SPS. Discussions aimed to define the policies, instruments and capacity building support needed to help overcome the TBTs and enhance the communities' regional integration process. Late October two technical negotiating sessions were held with the EC and the RPTF met as well. The Democratic Republic of Congo has shown interest in leaving the **East Southern African (ESA)** negotiating group to join the CEMAC (Communauté Economique et Monétaire de l'Afrique Centrale) region for the EPA negotiations, but no official confirmation has been received yet.

The **ESA region** held a dedicated session on Agriculture and Market Access in Nairobi, 22-23<sup>rd</sup> August to refine its negotiating position. The link between trade and development was re-emphasised, as market access without capacity to supply is meaningless. In addition the market openings required from the region for EU products will require considerable adjustment and restructuring efforts of the ESA economies. A commensurate package of assistance, including support to address the supply side constraints, debt relief, and budgetary support for fiscal losses, will therefore be essential to make the EPA beneficial for the region. A call was made as well for considering the progress in the Doha Round and the impact of the CAP reform on ESA countries.

The focus of the EPA negotiations between the EC and the **Southern African** Development Community (SADC) has been to identify means of cooperation to address SPS and TBT problems affecting both intra and extra SADC trade. Technical assistance and effective information exchange on changes relating to the EU legislation affecting key SADC exports are seen as very important. SADC is also calling for longer implementation time frames to adjust and develop their capacity to meet the ever changing and complex EC regulations.

# REGIONAL

## African exports faced with SPS measures in EU market

Despite progressive global trade liberalization, including in the agricultural sector, other barriers have prevented agricultural products from developing countries penetrating the developed country markets. Over the last decade, a significant rise and/or reinforcement of non-tariff barriers such as Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT) can be noted. Various food scares have led the EU to strengthen considerably its food safety standards since 2000. While these measures are meant to protect consumer's health and safety, they can seriously restrict trade flows.

SPS measures are regulatory standards designed to protect human, animal and plant health and safety under the SPS Agreement. WTO members are encouraged to establish their SPS measures on the basis of internationally recommended standards and directives<sup>2</sup>, in order to foster harmonization. But they are also entitled to introduce or maintain stricter health and safety measures than under international standards, provided that these measures are based on a scientific justification and an appropriate assessment of risks. The rules related to food *traceability*,<sup>3</sup> limits on pesticide residues<sup>4</sup> and the new Official Food and Feed Control regulation<sup>5</sup>, which will enter into force in January 2006, impact the most ACP exporting countries. Indeed, the regulations related to traceability are based on the principle "From farm to fork" and require from EU importers that their products are traceable along the entire food chain. Since January 2005 they are directly responsible for unhealthy food imports on the European market. This has led European distributors to deal with big producers better equipped to comply with EU food safety rules and to provide the required conformity and traceability guarantees, to the detriment of smaller ACP exporters.

Regarding pesticides, the EU has put in place a

harmonized regulatory regime which sets pesticide "maximum residue levels" (MRLs) for all the active substances whose use has been approved on the European market. But the maximal limits for many substances which are traditionally used in developing countries are/will be reduced down to zero. The reason is that these substances are not sufficiently profitable for agrochemical producers to invest in scientific research and testing to maintain their approval. But without these tests, many ACP countries will be unable to provide the necessary documents that allow the export of products treated with these pesticides. Finally, the new EU regulation on *food and feed control* seeks to harmonize sanitary control along the entire food chain, from farm to customer. It generalises the obligation for European food companies to apply HACCP (Hazard Analysis Critical Control Points) principles. That regulation is above all an internal management tool designed to ensure compliance with existing food safety regulations. However, third countries willing to export will have to prove to the EU inspectors<sup>6</sup> that they have efficient food safety systems in place allowing the same level of food safety as in the EU. This represents a major challenge for ACP public authorities which lack human, financial and institutional capacities. In Africa, many countries do not have updated national sanitary legislation or food safety control programmes. Inspection organisms are often inefficient and the necessary infrastructure to carry out testing and analysis is not adapted or is simply inexistent.

The ACP sectors most at risk from these regulations are fisheries and fruits and vegetables, although all ACP food export sectors are affected. Failing to meet EU food safety requirements could lead to the complete closure of the EU market to ACP food and agricultural exports. Of course, complying with EU food safety standards could also have positive effects for ACP countries, notably by improving safety standards for domestic markets and by increasing consumer trust in ACP imported goods. Dialogue and collaboration between authorities and the private sector and farmers is essential on this issue, to develop comprehensive SPS programmes and policies at national/regional level. The WTO SPS Agreement contains Special and Differential Treatment (SDT) provisions recommending the delivery of technical assistance to developing countries. The current EPA negotiations constitute a good opportunity for ACP countries to ensure financial and technical support to build the SPS institutional capacities and infrastructures in their countries.

<sup>2</sup> Three international standard-setting bodies are expressly mentioned in the SPS Agreement: the Codex Alimentarius Commission, the International Office of Epizootics and the International Plant Protection Convention.

<sup>3</sup> See notably: EC Regulation No 178/2002 laying down the general principles and requirements of food law, establishing the European Food Safety Authority and laying down procedures in matters of food safety, 28 January 2002, [http://www.europa.eu.int/comm/food/food/foodlaw/traceability/index\\_en.htm](http://www.europa.eu.int/comm/food/food/foodlaw/traceability/index_en.htm)

<sup>4</sup> See notably: EC Regulation No 396/2005 on maximum residue levels of pesticides in or on food and feed of plant and animal origin and amending Council Directive 91/414/EEC, 23 February 2005, [http://www.europa.eu.int/comm/food/plant/protection/pesticides/legislation\\_en.htm](http://www.europa.eu.int/comm/food/plant/protection/pesticides/legislation_en.htm)

<sup>5</sup> See notably: EC Regulation No 882/2004 on official controls to be performed to ensure the verification of compliance with feed and food law, animal health and animal welfare rules, 29 April 2004.

<sup>6</sup> The EC Food and Veterinary Office (FVO) is in charge of ensuring that national food-safety systems in countries exporting to the EU guarantee that the exported product meets EU standards (or their equivalent). That organism resorts to two main methods: the analysis of routine reports received on the application of EU legislation and, on-the-spot inspections of facilities and national food safety control systems.

# *IN BRIEF*

## **EU's proposal for a new tariff on bananas was rejected**

Following its enlargement to include ten more countries in May 2004, the European Union (EU) has now become the largest banana market in the world, with almost a third of world banana imports. On 13 February 1993 the European Communities passed a Regulation creating a Common Organisation of the banana under a tariff quota system. Three kinds of bananas receive thereby a different treatment: traditional ACP bananas receive national treatment (0% tariff quota) up to a certain quota, while third country bananas (mainly dollar bananas and also those exceeding the quota for traditional ACP bananas (called non-traditional ACP bananas)) are subject to import duties and to a system of import licenses. But this system of quotas was challenged by Latin American countries at the WTO (Ecuador, Costa-Rica, Colombia, Guatemala, Honduras, Panama and Nicaragua) supported by the US and in April 2001, the European Commission agreed to change its import quota to a tariff-only system by January 2006. A waiver granted to the EU in the Doha Ministerial of November 2001 allows it to grant preferential access to ACP suppliers, but on condition that the tariff quota system involving a base tariff of €75 per tonne (but €680 per tonne out of quota) was to be replaced by a tariff-only system. The establishment of the new tariff for bananas that will be put in place in January 2006 is under discussion. In August 2005, the EU proposed a tariff of 230Euros/tonne that was rejected by the WTO panel and a new proposal of 187 Euros/tonne was again rejected last October 27<sup>th</sup>.

## **G33's submissions on a special safeguard mechanism and special products**

The G33 (group of 40 countries and in favour of special products and a special safeguard mechanism (SSM) for developing countries, submitted two proposals to the Committee on Agriculture. The first proposal was on a special safeguard mechanism for all developing countries as provided for in the 2004 July Package. This mechanism would allow developing countries to impose additional duties in case import volumes rise above their three-year average, or if import prices fall below their average level for the three years preceding the year in which the duty is being imposed. The methodology proposes four tiers of increased import levels that should be negotiated with different additional duties.

The second proposal on the designation of products as "special products" based on the already agreed criteria (food security, livelihood security and rural development). For each of the criteria, the G33 provides a tentative list of indicators for guidance by the developing countries. Thus, for food security, consumption needs of the product and the limited number of sources of product may be considered. The importance of the livelihood security could be assessed by the whether the majority of producers of a particular product are low income producers. In addition, the disadvantaged geographical regions face many constraints (lack of infrastructure technology and irrigation facilities etc...) that may limit their capacity to diversify.

[http://www.ictsd.org/ministerial/hongkong/docs/G33\\_Proposal\\_on\\_SSM\\_final1.pdf](http://www.ictsd.org/ministerial/hongkong/docs/G33_Proposal_on_SSM_final1.pdf)

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For comments:

Isabelle Mamaty, Commodities Analyst

[isabelle.mamaty@ifap.org](mailto:isabelle.mamaty@ifap.org)

Julie Emond, Communications Coordinator

[julie.emond@ifap.org](mailto:julie.emond@ifap.org)

60, rue Saint-Lazare, 75009 Paris – France

Tel.: +33 1 45 26 05 53 Fax: +33 1 48 74 72 12

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