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UPDATE ON THE WTO NEGOTIATIONS
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INTRODUCTION

Agriculture was brought under the rules and disciplines of WTO in 1995. A new Round of trade negotiations, including agriculture, was launched in Doha in November 2001.

This Round is proving to be a very difficult exercise, with a history of missed deadlines and modest outcomes. It took three years from the launch of the Round for the WTO General Council to agree on a framework for negotiating the 'modalities' for making commitments – the so-called "July 2004 framework package".

Over the last year, negotiators have been working to try to put some content into that framework. However, they missed the deadline of 29 July 2005, when the WTO General Council was supposed to receive a 'first approximation' (draft) of the modalities to conclude the negotiations. It now seems very unlikely that the Round can be concluded as planned in December this year at the WTO Ministerial Conference in Hong Kong, unless the new WTO Director General Pascal Lamy achieves a breakthrough in the next six weeks.

2006 will therefore be a critical time. Negotiators are up against the expiration of the US trade negotiating authority in 2007, which means that country schedules should be submitted by April 2006 to give time for their approval in national legislatures.

In this situation, where agreements are likely to be struck at the last minute, farmers' organisations need to be particularly vigilant. Even though progress seems slow, the issues are becoming much clearer as a result of the monthly technical discussions being held in the WTO Committee on Agriculture.

OVERVIEW OF HOW THE ROUND IS PROGRESSING

A summary can be made in five points on how the Doha Round is progressing, as follows.

1. **The negotiating process is intense.** The Agricultural Negotiations Committee has been meeting every month since October 2004. In addition, there have been four Mini-

Ministerial Conferences since the beginning of the year. Reaching consensus among 148 countries is not easy. However progress is being made towards “building convergence for a future consensus”. The atmosphere in the Committee as it tries to develop a consensus on modalities is different to the atmosphere in the run up to the first draft of the modalities in 2003. In 2003, trade negotiators were happy to leave the ‘heavy lifting’ to the Committee Chair, Stuart Harbinson; this time it is the WTO members, working with the new Committee Chair, who will produce the modalities paper.

2. **Negotiations are technical in nature.** The focus of the work in the Agricultural Negotiations Committee is to develop agreed formulas and rules to address each of the issues in the negotiations. For example, the June meeting of the Committee looked at the following issues: State Trading Enterprises, Food Aid, Amber Box, Green Box, General reduction formula, Sensitive products, Special Products and the Special Safeguard Mechanism for Developing Countries, Blue Box, Export credits, Tropical products and trade preferences.
3. **Agriculture is the key to the success for the whole Round.** There are five main parts to the Doha trade round. Negotiations over all areas are inter-related, and “nothing is agreed until everything is agreed”. In practise, overall progress depends on progress in agriculture. The main areas of negotiation are: Agriculture, Non-Agricultural Market Assess (NAMA), Services, Special and Differential Treatment for Developing Countries, and Rules (including for Trade Facilitation).
4. **Balance is a constant consideration.** At each stage in the negotiations, a balance is being sought: balance between the commitments in the three pillars of the agricultural negotiations; balance between ‘export interests’ and ‘import sensitivities’; balance between development needs and trade ambitions; balance between agriculture and the other sectors of the negotiations.
5. **Other trade issues are causing distractions.** As well as negotiating the Doha agenda, trade ministers were also involved in: replacing the WTO Director General (Pascal Lamy took over from Supachai Panitchpakdi on 1st September 2005); the resignation of Tim Groser as New Zealand Ambassador to WTO on 23 May to run as an opposition candidate in the next general election in New Zealand, and his replacement as Chair of the Agricultural Negotiations Committee by the new New Zealand Ambassador, Crawford Falconer; a panel dispute brought by Brazil against US cotton subsidies (which Brazil won on 3 March when the WTO Appellate Body upheld the panel decision against the USA); a panel dispute brought by Australia, Brazil and Thailand against EU sugar subsidies (which Australia, Brazil and Thailand won on 28 April when the WTO Appellate Body upheld the panel decision against the EU).

MARKET ACCESS NEGOTIATIONS

– Doha mandate: “Substantial improvements in market access”

Market access is the key part of the agricultural negotiations, and the most difficult. The World Bank estimates that 93 per cent of the benefits of the Doha Round are to be captured in market the access negotiations, compared with only 5 per cent in the domestic support negotiations and 2 per cent in export competition.

For four months of 2005, February-May, the market access negotiations were stuck in discussions on how to convert fixed tariffs (tariffs in money terms) into ad valorem equivalents (tariffs as a percentage of the value of the product). Placing all tariffs on a percentage basis is essential for comparing tariff levels and placing them in different bands to be subject to different cuts, as decided in the July package. Eventually a breakthrough was made at the Mini-Ministerial held in Paris on 4 May and later adopted by all participants. Countries have now submitted calculations on ad valorem tariff equivalents (AVEs).

There are three key issues that are under discussion in this area. These are:

- Agreeing on the tiered formula for tariff reductions
- Agreeing on how to handle sensitive products
- Agreeing on measures for Special and Differential Treatment for Developing Countries, since the Doha Round is a “development round”.

There are also other market access issues on the table, such as erosion of preferences for certain developing countries like the ACP countries, liberalisation of trade in tropical products and tariff escalation, maintaining the special safeguards for developed countries, and special treatment for least-developed countries, but realistically these cannot be progressed until a basic market access formula is in place. Cotton issues remain high in the minds of negotiators, but again these will be progressed when the basic structure for modalities is agreed.

Market access negotiations are being conducted on a product-by-product basis. Improvements in market access are to be achieved by a combination of tariff reductions and tariff quota expansion.

Tariff reduction formula

The guidelines in the July package say that a ‘harmonising approach’ is to be adopted with higher tariffs receiving the largest cuts. In order to achieve this, there seems to be convergence around a formula proposed by the G-20 Group of developing countries led by Brazil¹. According to this proposal, tariffs would be divided into five bands or tiers for developed countries and four bands for developing countries. Each tariff line would be placed in a certain band depending on how large it is. This proposal is shown below:

Developed countries		Developing countries	
Tariff level (%)	Linear cut (%) ²	Tariff level (%)	Linear cut (%)
0-20	Lowest cut	0-30	Lowest cut
20-40	Higher cut	30-80	Higher cut
40-60	Even higher cut	80-130	Even higher cut
60-80	Higher still cut	Over 130	Higher still cut
Over 80	Highest cut		

¹ The EU made an alternative proposal in July with three bands (0-20, 20-100, over 100% and no cap) but initial reactions were not very positive.

² The levels of cuts are to be negotiated. They would be higher for the higher tariff bands.

Once the tariff bands have been agreed, members have to agree on a system for reducing tariffs in each band, with higher cuts to the higher bands. There are two systems currently under discussion, and the G-20 proposal is a compromise between them.

The main importing countries want to use the same formula for tariff reductions that was used in the Uruguay Round, i.e. an average overall percentage cut decided for each band with a minimum percentage cut for each tariff line. The main exporting countries want to use the ‘Swiss formula’³ approach, i.e. using a single coefficient which would be the maximum tariff around which the higher tariffs would be harmonised. The Swiss formula gives higher cuts to higher tariffs. Both groups agreed to use the G-20 proposal as a basis for negotiations. Under the G-20 proposal, the developing countries would have their tariffs cut by only one third of the level of cuts of developed countries, as part of special and differential treatment for developing countries.

There is another important aspect to this discussion of tariff reductions, namely whether or not to impose a tariff cap, or maximum allowed tariff. This is obviously irrelevant where the Swiss formula is applied, since the coefficient is in effect a maximum final tariff rate. However, where the Uruguay Round linear type of formula applies countries including the USA and G-20 are proposing a tariff cap. Several major importing countries are strongly opposed to this. The tariff cap under the G-20 proposal is 100% for developed countries and 150% for developing countries.

It should be noted that the tariffs that are actually applied in agriculture are in fact lower than those that countries have negotiated in the WTO. This is shown below:

	Bound tariff level in WTO (%)	Actual tariff applied (%)
Developed Countries	27	14
Developing Countries	48	21
Least Developed Countries	78	13
All countries average	37	17

Countries can therefore agree to reduce their bound tariff levels in WTO significantly without affecting the actual level of the tariff that they currently apply.

Tariff quota expansion - Sensitive Products

Sensitive products are the products that countries are protecting behind relatively high tariff walls for their own national interest. They include rice, dairy products and sugar to name but three. Imports of these products are mainly regulated through tariff quotas

The major exporters such as the USA, Cairns Group and several G-20 members want sensitive products to be treated as exceptions, or negotiated deviations from the tariff formula. Major importers, including the G-10 and the EU supported by the ACP countries, want sensitive products to be negotiated in parallel with the tariff formula. They propose a system of lesser tariff reductions for these products combined with tariff quota expansion, or creation

³ The Swiss formula is: $Z = AX/(A+X)$, where
X = initial tariff rate
A = coefficient and maximum final tariff rate
Z= resulting lower tariff rate (end of period)

of new tariff quotas. Most sensitive productions are already covered by tariff quotas, but this group does not want designation of sensitive products to be restricted to products that already have tariff quotas.

Tariff quota administration is also the subject of keen discussion. The main concern here seems to be to ensure that that import quotas are actually filled.

Under the July Framework, substantial improvements in market access are to be achieved, even for sensitive products, but this will be a difficult negotiation.

As a part of their Special and Differential Treatment (SDT), developing countries will be able to designate a certain number of “Special Products” that are essential for their food security, livelihood security and rural development needs, in addition to designating Sensitive Products. The G-33 Group of developing countries is working on criteria (indicators) for designating Special Products.

A declaration by the African Union in Cairo in June 2005 stresses that African countries want “policy space” to pursue agricultural policies to support their development goals. The Least Developed Countries will not have to make any reduction commitments in this Round. So why stay in WTO? The reason is that all WTO members benefit from any trade concession made by another WTO member – the so-called “Most Favoured Nation” principle. Thus, unless you are very good at negotiating bilateral agreements, being outside WTO can virtually exclude you from world trade.

A Special Safeguard Mechanism will also be brought in to protect the economies of developing countries from temporary surges in agricultural imports. Progress in the negotiations in these areas is not so clear since there are many different situations among the developing countries. In any case, negotiators are first working to put in place a basic structure for tariff reduction and quota expansion.

From the point of view of farmers in Africa, another key market issue for many is the erosion of preferential access in protected markets, like the ACP countries in the EU banana and sugar markets. The Least Developed Countries are pushing for total duty-free and quota free access for their exports, similar to the action of the EU under the “Anything but Arms Agreement”. Producers of tropical products expect full liberalisation of trade in tropical products in this Round.

One issue that has come out clearly in the market access negotiations is the importance of South-South trade. Trade among developing countries represents 40 per cent of total world agricultural trade and the most advanced developing countries like Brazil, India, China and South Africa want to keep this open. These are the countries that are driving negotiations in the Doha Round.

DOMESTIC SUPPORT NEGOTIATIONS

- Doha mandate: “Substantial reductions in trade-distorting domestic support.

The July Framework requires cuts to be made in trade-distorting domestic support in four areas: Amber Box, Blue Box, *de minimis*, and an overall cut in the sum of these three. It has been agreed that in the first year of the implementation period, the overall cut would be a “minimum down payment” of 20 per cent.

Amber box

As for market access, negotiators are looking at a tiered formula approach to cut trade-distorting domestic support so as to deliver some ‘harmonisation’ in support levels, i.e. larger cuts to higher levels of support. A decision needs to be made on the number of bands in which to divide up different levels of domestic support, and the base period to use for the cuts.

There is convergence around the idea of reducing the absolute size of domestic support in total money terms rather than in terms of support relative to the size of the agricultural sector. This is to address the scale of the distortions caused support to world markets by domestic support.

Concerning the structure of the reduction commitments, countries are converging around a Canadian proposal, as follows. There would be four bands. The user with the biggest amount of domestic support, in total money terms – the EU with 41% of the global total- would go into Band 1; the next two largest users – Japan (19%) and USA (18%) - would go into Band 2. There would be a third band for the other developed countries that declared domestic support (AMS⁴) in their WTO schedules, and the developing countries that use AMS (there are 17) would be in the fourth band. The USA is opposing being in band number two with Japan, and wants another band inserted for itself, at a lower level than Japan (a new band 3).

Once the structure for making the reduction commitments in domestic support is fixed, negotiators will have to decide on a cap or ceiling on the trade-distorting domestic support (AMS) of each product. This is to make sure that there are no transfers of domestic support between different products, as required by the July Framework.

It should not be difficult for most developed countries to negotiate a substantial cut in Amber Box support. Most of this “trade-distorting support has already been converted into Blue Box or Green Box support which is less trade distorting and subject to lesser or no cuts. For example, under the new Common Agricultural Policy the EU could reduce amber box support by as much as 70 per cent without requiring further policy reform.

Blue box

Certain types of domestic support are deemed to be less trade-distorting than support in the Amber Box (AMS measures), and these go into the Blue Box, where they are subject to lesser reductions. The heart of this discussion is therefore to strengthen rules and disciplines on the Blue Box to ensure that it does in fact distort less than the Amber Box. The G-20 and some Cairns Group countries are therefore proposing that there be limits on payments for each product and that the Blue Box does not entirely shield farmers from price fluctuations. The G-10 and EU will not accept caps on payments per product in the Blue Box, nor will they accept links between the Amber Box and the Blue Box.

In the past, Blue Box support was reserved for direct payments linked to production-limiting programs. In this Round, a new Blue Box is being negotiated that is enlarged to include the counter-cyclical payments of the USA, which are not linked to production but which are linked to price. The US argues that the new Blue Box is less trade-distorting than the old Blue Box.

⁴ AMS – Aggregate Measure of Support

Total Blue Box support is to be capped at 5 per cent of the total value of agricultural production of a country. This would be done in one step at the start of the implementation period⁵.

The new Blue Box would be open to any country to use since it is a rules-based commitment not a schedule commitment.

De minimis

All countries are presently exempted from cutting trade-distorting support on any product if that support is less than 5 percent of the total value of that product, or 10 per cent in the case of developing countries. This is called *de minimis*. The July Framework says that the *de minimis* is to be cut, except for developing countries that allocate almost all *de minimis* support for subsistence and resource-poor farmers. Negotiators have to decide on a figure for cutting *de minimis*, and this will take place at a later stage in the negotiations. Developing countries want only token cuts to their *de minimis* allowance, since this is usually the only form of support they use.

Green box

Green-Box support covers support to farmers that is paid in ways that do not distort production or trade (or is minimally trade-distorting). It is not subject to reduction commitments in the WTO. This includes measures like direct income payments that are not linked to production or price. As more and more of the support paid to farmers is being converted to green-box support, negotiators are reviewing and clarifying the criteria for green-box payments to make sure that they really do not distort production or trade. At the same time, there is a discussion about introducing into the Green Box new, development-friendly support measures that are more suited to the situation of the developing countries.

EXPORT COMPETITION NEGOTIATIONS

- Doha mandate: “Reductions of, with a view to phasing out, all forms of export subsidies”

The July Package already included a decision to phase out all forms of export support in a parallel and equivalent manner by a certain end date. For measures such as export subsidies, the modalities are straightforward; a credible end date has simply to be decided. The G-20 has proposed a 5-year timeframe for the phasing out of export support.

For other export support measures, negotiators are working on sets of rules to try to eliminate their subsidy component. This include rules for the use of Export Credits, rules for the operation of State-Trading Enterprises (STEs), and rules to ensure that Food Aid does not displace commercial sales. Negotiating the texts of these sets of rules is very technical and not yet completed.

Negotiations on Export Credits are the most advanced of the three parallel areas, based on an attachment to the 2003 Harbinson draft modalities paper. Rules on Export Credits cover credits with repayment terms of 180 days or less. The July Framework already says that Export Credits for more than 180 days are to be phased out. Much of the remaining discussion in this area relates to special flexibilities for developing countries, e.g. repayment periods longer than 180 days, lower interest rates, etc.

⁵ There is a provision for flexibility for countries that have a large proportion of their support in the Blue Box, like Norway, so that no country is called upon to make a “wholly disproportionate cut”.

Negotiations on STEs seem to be converging around a three-point US proposal that: i) would phase out export support going to STEs at the same time as other export subsidies, ii) would also phase out government financing or refinancing that gives enterprises preferential access to capital, and iii) would phase out underwriting of losses of STEs by government. Rules on STEs will also include ideas for improving transparency such as increased notification requirements, and special flexibilities for STEs from developing countries that serve social objectives such as combining the outputs of small-holder farmers. The more political question on “monopoly power” will be left for trade ministers to decide.

Negotiations on Food Aid have not progressed very far since July. There are lively discussions as to whether Food Aid should only be provided in grant form (not on credit) and given ‘in cash’ rather than ‘in kind’ (as commodities). In order to avoid food aid from being used as a channel for disposing of surpluses, several countries want food for aid to be purchased in the region where the aid is to be given. Another issue is whether Food Aid should be able to be sold by the receiver (monetized). The only clear areas of agreement so far are: that new WTO rules Food Aid should not in any way interfere with the provision of food aid for genuinely humanitarian purposes such as emergencies, and that re-export of food aid should be prohibited, as should tied aid which requires recipient countries to buy the food from a supplier in the donor country.

COTTON

West African cotton producers have ensured that a Sectoral Initiative on Cotton has been included as an integral part of the WTO Doha Round, including measures for diversification. A subcommittee on cotton has been set up, but no meaningful outcomes can be expected until the basic structure for making reduction commitments has been agreed.

CONCLUSION

WTO negotiators are now focused on the next WTO Ministerial Conference that will take place in Hong Kong 13-18 December 2005 for coming up with a structure for making reduction commitments (modalities). Progress is hard to measure since the negotiations are taking place on the basis of open-ended discussions at the technical level. Nevertheless, the pieces seem to be falling into place slowly but surely. The panel decisions against US cotton subsidies and EU sugar subsidies have added pressure to achieve a result, since these subsidies now have to be removed rapidly.

After the summer break, Committee on Agriculture will next meet on 22 September 2005 and the next WTO General Council meeting will be held 19-20 October 2005.

IFAP needs to be particularly vigilant at this stage of the negotiations, for even though progress seems slow, the issues are becoming much clearer for a deal to be struck early in 2006.

In closing, it should be mentioned that WTO cannot pretend to be the unique body to address the development needs of Africa, even though the Doha Round is billed as a “Development Round”. It can make a contribution by providing new export opportunities for farmers in

Africa, by allowing more support and protection of local food production, and by reducing trade-distorting subsidies of developed countries. However, real progress on development requires substantial parallel efforts of national governments, other international organisations and bilateral donors to make agriculture a priority in their actions. Efforts are needed in such areas as:

- traceability and certification requirements for agricultural exports, including private sector standards
- strengthening the place of the farmer in the food chain to mitigate the effects on small-scale family farmers of the domination of a few large retail distribution chains and their practises of global sourcing
- increasing resources for capacity-building of agriculture in developing countries.

These are issues that IFAP is also addressing; they all form part of a wider program that must be moved to the top of the international agenda if farmers in Africa are to benefit from a more open global world economy, and not become the victims of it.