International

Food & Agricultural Trade

Policy Council

MINISTERS MUST AGREE ON A COMMON FRAMEWORK FOR AGRIULTURAL TRADE TALKS IN CANCUN

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After failing to launch a new round of global trade negotiations in Seattle, political leaders invested tremendous capital to ensure a successful launch of the Doha Development Agenda. Since the successful launch of the Doha Round, negotiators have missed several key deadlines for agriculture as well as for other issues of critical importance to developing countries. **If the Doha Round is to avoid a serious and potentially fatal impasse at the September Ministerial meetings in Cancun, political leaders from developed countries, as well as from developing countries must make trade a top political priority.** In the remaining weeks before the Cancun Ministerial Meeting in September, they need to mobilize substantial political capital to make meaningful progress on agriculture as well as on other issues.

The global economic climate is precarious. Unresolved trade disputes could easily spin out of control. As the global economy teeters on the edge of recession, a positive result in Cancun can play a vital role in rebuilding confidence and regenerating economic growth.

Political leaders launched the Doha Development Round to reduce the trade barriers and distortions that inhibit economic growth, especially in the developing countries. This is particularly true in agriculture. Trade-distorting agricultural subsidies depress commodity prices, distort global production and trade, and impose hardship on farmers in developing countries who must rely on world market prices to compete and survive.

Many developing countries did not benefit from the Uruguay Round Agreement. While the Uruguay Round brought agriculture under effective international rules for the first time, it did little to address the overall level of trade-distorting subsidies to farmers in developed countries, and did little to increase market access in products of interest to developing countries. While the food and agricultural sector is important to all countries, agriculture is critical to the development of low-income countries.

Reducing the trade distortions in agriculture is the single most important step the WTO can take to help developing countries. To achieve real progress, reforms must be meaningful in all countries and for all products. Trade-distorting agricultural subsidies must be substantially reduced; market access, particularly on the most distorted products, must be significantly increased; export subsidies, including all forms of government sponsored export competition, must be eliminated; and export embargoes and restrictions must be prohibited.

Developing countries face special challenges in rapidly adjusting to a more open agricultural trade system. The agricultural negotiations should focus on easing this adjustment to full participation in global markets. **But, it is not in developing countries' interest to establish separate trade rules that permanently exempt them from participating in world trade.** A system where all countries are obliged to play by the same rules is vital when developing countries want to challenge more powerful trading partners. Moreover, special rules for developing countries also risk becoming an excuse for rich countries to avoid making significant reforms in their own agricultural and trade policies.

Negotiators' failure to agree on modalities for agricultural trade reforms in March was disappointing. For three years, agricultural trade negotiators have aired their ambitions, but their governments have not granted them the flexibility they need to negotiate. **If the Doha Round is to succeed and if Cancun is to make meaningful progress, political leaders must give their negotiators the flexibility to begin serious consultations and aggressively look for common ground.** While it is probably unrealistic to expect ministers to agree on detailed modalities at Cancun, ministers should be able to agree on a comprehensive common framework for the agricultural negotiations by the conclusion of the Cancun Ministerial.

The common framework must eliminate the exemptions and loopholes that weakened the impact of the Uruguay Round Agreement, and in particular diluted the benefits for developing countries. And, it must not create new exemptions that could weaken the impact of an eventual Doha Round Agreement. That framework must lay the basis to conclude the negotiations. It must lay the basis for concrete commitments, backed up by workable and enforceable rules for all countries.

The framework also needs to recognize the critical links and trade-offs between the three pillars of market access, export competition and domestic support. One of the main accomplishments of the Uruguay Round was the recognition that domestic agricultural policies were intimately linked with market access barriers and export subsidies. Border measures could not be addressed in isolation. Do-

About the IPC

The International Food & Agricultural Trade Policy Council (IPC) convenes high-ranking government officials, farm leaders, agribusiness executives and agricultural trade experts from around the world and throughout the food chain to build consensus on practical solutions to food and agricultural trade problems.

An independent group of leaders in food and agriculture from industrialized, developing and least developed countries, the IPC's thirty-eight members are chosen to ensure the Council's credible and impartial approach. Members are influential leaders with extensive experience in farming, agribusiness, government and academia.

***Note:** As with any consensus document, not all members of the IPC agree with every recommendation in this Statement. Accordingly, specific ideas expressed in the document should not be attributed to any single IPC member.

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mestic policies also needed to be disciplined. Therefore, any agreement must move forward simultaneously and proportionally on all three pillars.

The Doha Development Round will establish the parameters for agricultural trade policy for the next fifteen to twenty years. In those years, developed and developing country governments will have ample time to ease the transition of producers accustomed to high levels of protection and of producers unaccustomed to global competition. It is important, therefore, that political leaders look beyond the short-term political considerations that inevitably face each of their governments, to the long-term health and future of their country's food and agricultural sector.

The IPC believes that in the coming weeks, negotiators should acknowledge the need to redress the imbalances in the Uruguay Round Agreement, and to ensure that the Doha negotiating framework will reduce distortions in all commodities and in all countries. Going forward, any subsequent proposals ought to be judged on two criteria: are trade distortions reduced? And, are the interests of the developing countries served?

Beyond Agriculture

Doha Must Be A Single Undertaking: The IPC is concerned that some countries want to shift agriculture to the side and focus on "easier" issues in Cancun. They fear that failure in agriculture may risk gains in other areas. But it is precisely because some countries have difficult trade-offs to make in agriculture that other issues of interest to them must be part of a Single Undertaking.

But the reasons for a Single Undertaking go beyond negotiating tactics. Developing countries need progress in a number of other sectors in addition to agriculture. While agriculture is critical to jump-starting economic development, as agriculture develops and as agricultural productivity increases, agricultural workers will need to find off-farm employment. To ease this transition, developing countries need vibrant rural food processing, textiles, light manufacturing and other value-added industries to absorb additional labor and to slow rural-urban migration. Trade barriers facing these sectors in developed countries are high and the trade negotiations must also improve market access in these products. **It is because agriculture is a central, but not the sole component of economic development, that the Doha Round must be a Single Undertaking.**

Multilateral Talks Pre-eminent: As the Doha negotiations proceed, many countries are simultaneously pursuing regional and bilateral trade agreements. Regional and bilateral agreements can go further in some areas (such as market access or trade facilitation) than multilateral agreements can. But, they must be built on the foundation of multilateral trade agreements because regional and bilateral negotiations cannot address the fundamental distortions in agricultural markets caused by domestic and export subsidies. Trade-distorting domestic and export subsidies will only be addressed in the context of multilateral trade negotiations. **Regional agreements can build on the achievements of the WTO but to reduce the agricultural trade distortions that directly harm developing countries, politicians must give priority to the multilateral negotiating process.**

A Common Framework for the Agricultural Negotiations

In January, the IPC issued its recommendations for negotiations. In February, Chairman Harbinson, on his own authority, issued his modalities text. During the negotiations, many countries and delegations also offered their own approaches. The following represents the IPC's views on how various elements of these proposals might be brought together in a common framework for Cancun.

Market access: The IPC believes that disciplines on market access must be strengthened substantially. While a hybrid approach proposed by Chairman Harbinson for reducing tariffs according to bands is a useful innovation, t**he proposed tariff reduction formulas will not reduce the highest and most prohibitive tariffs.**

Of particular concern, if countries are allowed to average their tariff cuts across all commodities, they can offset smaller reductions on the highest tariffs with larger reductions on less protected commodities. Tariffs on some of the most distorted commodities, which are of particular interest to developing countries, would thereby avoid meaningful reductions. Unless peak tariffs are substantially reduced, significant distortions will remain on the most sensitive commodities, including cotton, dairy, rice, and sugar.

One way to address these high tariffs is to integrate the tariff bands with the IPC's original recommendations by reducing all peak tariffs immediately to the level proposed for the top band, and then reduce tariffs from that level. This would make the tariff cuts on the highest tariffs more meaningful and would help reduce tariff escalation.

This framework should also redress distortions across commodities that enable some products to escape meaningful tariff reductions. **The IPC continues to believe that tariff cuts should be averaged over individual commodity sectors, rather than across all agricultural commodities as was done in the Uruguay Round**. Again, the IPC is particularly concerned that continuing the Uruguay Round modalities would create greater distortions among commodities, as the most sensitive commodities would continue to be protected from deeper cuts.

The IPC agrees that tariff quotas should be based on a recent level of consumption and should continue to be based on a rising percentage of national consumption. Allowing countries the flexibility to adjust TRQs to lower consumption levels if balanced by higher TRQs in other products or to expand tariff rate quotas in exchange for lower commitments on over-quota tariffs is acceptable only as long as the result is increased market access. However, the IPC believes several revisions on tariff rate quotas are needed to provide more meaningful market access.

First, developed countries should reduce in-quota tariff rates to zero, as originally recommended by the IPC. Second, **countries should be required to set tariff rate quotas on a product by product basis, rather than allowing countries to aggregate consumption of a wide range of products.** Aggregation allows countries to protect sensitive products from competition. Disaggregation is even more important if some flexibility is given to allow countries to set lower TRQs on some products. Improving tariff rate quota administration, particularly by addressing the low fill rates of many quotas, is important for increasing real market access, especially for developing countries.

Export Competition: Export subsidies are not only the most trade distorting of all subsidies, but they also cause the greatest harm to producers who must compete on the basis of world market prices. **The IPC is pleased that most countries have proposed eliminating such subsidies. However, eliminating subsidies in two tranches, as suggested by some, not only risks exacerbating distortions between commodities, it increases the opportunities for circumvention and complicates compliance.** In addition, the IPC believes that the proposed export subsidy reduction formula seems to be more complicated than necessary, and in fact is more complicated than could be implemented and monitored by most countries. **In its original recommendations, the IPC called for across-the-board elimination for export subsidies, even if the timeframe has to be longer.**

The IPC agrees that food aid and export credits can also distort export competition and need to be disciplined. While legitimate food aid must always be available, the IPC is concerned that legitimate food aid needs to be distinguished from export credits. In particular, **the IPC recommends that there be no general exceptions to the general disciplines on export credits for "unilateral" assertions of a food aid emergency.** The IPC believes that legitimate, emergency food aid needs should be met with food aid and not with export credits. If such declarations are made unilaterally by donor countries, room exists for abuse of food aid.

The proposed disciplines for state trading entities do not address fundamental concerns about these entities' operational transparency and competitive practices. The IPC continues to believe that reducing and finally eliminating taxpayer funding of these entities, and increasing the role of private exporters (and importers) is a more effective way to discipline STEs. The IPC supports the proposed ban on export embargoes and restrictions that can reassure food importers of secure supplies. Ending export embargoes and restrictions is needed to assure food importers of the dependability of the world trade system.

Domestic Supports: the hybrid approach proposed for tariffs could be applied to domestic support, with relatively larger cuts for the more trade-distorting policies. This would recognize the difference in the trade-distorting effect of Amber and Blue Box policies. This would also go some distance toward the goal of harmonizing the levels of support across countries and would reduce the level of the most trade distorting supports proportionately. This is also consistent with the IPC recommendation of imposing disciplines on Blue Box measures.

However, the IPC believes this same logic should be applied to product specific *de minimis* support. Product specific *de minimis* support should be reduced by the same percentage and at the same rate as Amber Box support. To balance concessions on reductions of Blue Box support, similar reduction commitments could also be applied to non-commodity specific support. This would also close a loophole and address an inequity that has been criticized by developing countries and by other countries that do not subsidize their farmers.

The IPC continues to recommend that domestic support cuts be made on a commodity-by-commodity basis, to ensure that all commodities are subject to disciplines and that countries are not able to increase distortions across commodities by reducing support for some commodities while leaving support for sensitive commodities in place. Prohibiting countries from providing support higher than historical levels would address this problem to some extent, but the IPC believes that tighter disciplines on trade-distorting domestic supports by commodity are required.

The IPC agrees that countries should make Green Box payments on a fixed and unchanging base period, with a limited time period for structural adjustment payments. **The IPC believes the negotiators should consider distinguishing between direct income supports, which should be used as transitional measures and be limited in time and value, and investments in public goods, which should not be limited and should be encouraged in developing countries.**

Non-trade concerns: As the IPC indicated in its original recommendations, all governments have used and will continue to use agricultural policy measures to address certain social, developmental and environmental concerns related to agriculture. These are legitimate concerns of society and of policy-makers. Time has demonstrated that, in general, trade barriers, export subsidies and price supports are not effective tools to address these concerns. Direct decoupled payments and public goods investments are not only less trade distorting, but are more efficient ways of meeting non-trade concerns in most circumstances**. While the WTO is not tasked with approving the rationale for government policies, it is appropriate that the WTO ensure these measures are as minimally trade distorting, regardless of their social or environmental justification.**

While developed countries have generally raised the issue of non-trade concerns in the WTO negotiations, developing countries also have non-trade objectives for their agricultural policies. These include enhancing rural development and stemming rural-urban migration. In the case of developing countries, the financial resources to address their concerns are not readily available and may be provided through international development assistance. In either case, the WTO rules must ensure that policies and programs to address non-trade concerns do not artificially distort trade.

Special and Differential Treatment

The GATT and later the WTO both acknowledged that developing countries need more time to adjust to open markets. Special and Differential Treatment has generally given developing countries more time to implement reduced commitments. **But, the proposals under discussion for Special and Differential Treatment go beyond establishing a longer timeframe with reduced commitments, and run the risk of creating two sets of rules, one for developed countries and another for developing countries.**

The WTO is an agreement based on rules. This rules-based system is particularly important for developing countries because all countries, regardless of size or power, must play by the same rules. If developing countries are allowed a different set of rules, developed countries could more easily rationalize skirting the rules for their own benefit. (In a rules based system, it is important to emphasize that all participants, including developing countries, must be able to make use of the rules to protect their interests.) **It took many years to address agriculture under the GATT precisely because agriculture was subject to special exemptions that kept sensitive commodities off the negotiating table. It is extremely dangerous to go back down that road.**

Some of the provisions under discussion amount to "open-ended" exemptions to the general rules. In particular, the proposed designation for "special products" offers no criteria or time limits on eligibility. Without criteria, producers of any commodity, regardless of how important it might be to a country's actual food security could petition their government for protection. Protection would go to the most politically powerful, not necessarily the most vulnerable. Also, because developing countries trade in relatively few tariff lines, even a short list of "Special Products" could essentially eliminate all agricultural trade.

Moreover, the danger is that once declared, it would be impossible to remove a Special Product from the list. One need only look at entrenched protection across many commodities in developed countries to appreciate the difficulties associated with revoking such a declaration. Finally, such protection actually disadvantages those it is supposed to advantage: farmers in developing countries. Retaining high tariffs on critical foodstuffs raises food prices for all consumers, but most critically the poorest consumers. In developing countries, most consumers are subsistence farmers who do not grow enough food to be self-sufficient. Raising the price of food does them more harm than good. Providing such protection also keeps resources employed in uneconomic sectors in the economy and ultimately raises transition costs for uncompetitive farmers.

Instead, in its recommendations for the modalities, the IPC suggested that developing countries have access to a Special Safeguard, on a pre-determined list of products, with strict triggers and time limits. (In answer to developing country criticisms that developed countries have made ample use of special safeguards, the IPC recommends that predetermined lists, more stringent triggers and time limits be placed on the use of special safeguards by developed countries.) Such a special safeguard would enable developing countries to make commitments to reduce tariffs, without forgoing the protection afforded by the ability to temporarily increase tariffs.

The IPC believes that proposals to allow developed countries to maintain "margins of preference" will enable countries to avoid tariff cuts in their most sensitive products**. Allowing developed countries to maintain "margins of preference" for certain countries discriminates against other developing countries who do not benefit from preferences, but who nevertheless wish to compete in export market.** Nothing should be allowed to prevent the full formula reductions of MFN tariffs. The IPC believes that providers of preferential access should provide direct compensation to countries at risk of losing that access, through foreign aid, rather than continue trade- and market-distorting preferences.

Finally, allowing developing countries to retain high barriers on "strategic" products coupled with lower reduction commitments on tariffs overall dampens prospects for South-South trade. Many developing country exporters already understand and share this concern. While it is imperative that OECD countries increase their market access and reduce overall subsidies to agriculture, it is equally important that developing countries begin to liberalize their own markets and to expand trade with each other.

The IPC believes the goal of Special and Differential Treatment is ultimately more robust economic development, not a separate set of rules for developing countries. Special and Differential Treatment needs, therefore, to focus on easing the transition of developing countries into the world trading system. **The shallower commitments and longer implementation periods that have characterized Special and Differential Treatment have done little by themselves to actually help countries prepare to participate in global trading system.** In some cases, longer implementation periods for domestic subsidy reforms have been meaningless, as few developing countries have the necessary resources to invest in their agricultural sectors. In others, delayed tariff cuts have left in place protection that has inhibited South-South trade and raised food prices to poor consumers. Ensuring that developing countries are able to invest in needed infrastructure and use the additional time to upgrade their competitive standing is a more effective use of Special and Differential Treatment.

Criteria for Developing Country Designation: It is becoming increasingly clear that developing countries will not be able to negotiate meaningful Special and Differential Treatment in agricultural trade as long as any country, regardless of economic situation, can self-elect developing country status. The issue of establishing criteria for developing country status has not been raised directly in any formal proposal because it is exceedingly political. But, it is an issue that must be addressed in the Doha Development Round.

The broader the definition of developing countries, the weaker will be developed countries' concessions on agricultural trade reform. Allowing countries to self-select "developing country" status weakens the value of Special and Differential Treatment for all developing countries. The World Bank/International Monetary Fund's definitions of Least Developed Countries and Developing Countries are well accepted and based on concrete criteria. The IPC suggests that at a minimum, only those countries classified by the IBRD/IMF as Least Developed or Developing should be eligible for Special and Differential Treatment.

The IPC also recognizes that some countries listed by the IBRD/IMF as "developing" have commodity sectors that are internationally competitive, side-by-side with subsistence agriculture. Countries that have a significant global market share in a particular commodity could be subject to normal WTO disciplines on that commodity, but could avail themselves of Special and Differential Treatment on commodities where they are not internationally competitive.

Trade and Development

Economic development is first and foremost about reducing poverty. Trade is a necessary, but not a sufficient condition for economic development. Increased market access can do little, in the short term, for poor subsistence farmers. While it is important to make progress in the Doha negotiations, **it is also important that political leaders recognize that neither trade nor the WTO can solve all the problems facing poor farmers in developing countries.** Developing countries themselves are investing fewer resources into rural areas, and often discriminate against agriculture in their macroeconomic and investment policies. Many countries continue to penalize their farmers through cheap food policies and urban-oriented infrastructure investments. To alleviate poverty, many developing countries need to address deep structural problems in their own agricultural sectors. They must place a priority on preparing their agricultural sector to participate in global markets.

Developed countries must also do their part. Foreign aid to agriculture in developing countries has been falling at a time when developing countries are being asked to open their markets and to compete on the world market with ever higher food safety standards. **In addition to reducing the trade-distorting agricultural subsidies and barriers that impose hardships on farmers in developing countries who rely on world market prices, developed countries must increase their agricultural assistance, investment and lending to developing countries.**

The heads of the WTO, the IBRD and the IMF recently met to discuss policy convergence among international trade, aid and finance. The IPC applauds this initiative. Balance of payments problems and debt have made it difficult for some developing countries to make necessary investments in public goods and to import needed foodstuffs. Structural adjustment policies have often ignored the critical role public goods play in economic development, particularly in agriculture. International standard setting bodies have ignored the challenges facing developing countries. Improved policy "convergence" between aid, trade and macroeconomic policy will make it easier to extend the benefits of economic growth across society. And, if developing countries, developed countries and international institutions start now, when the Doha Agreement is fully implemented developing countries will be in a stronger position to participate in and benefit from the international trade system.

Politicians and negotiators should remember the limits of the WTO's mandate. The success of the developing countries will depend not only on a level playing field in international trade; it will also depend on a new level of coordination with the many other bodies involved in agricultural development.