Twenty-Five Ways to Improve the Derbez Draft on Agriculture

February 10, 2004

It appears that the agricultural text drafted by Mexican Foreign Minister Luis Ernesto Derbez at the Cancun Ministerial Meeting will be the basis for further negotiations. This is a positive development – starting over would cause considerable delay. However, if the Derbez text is to be the basis for further negotiations it must be improved considerably to make sure that reforms are real and meaningful for both developed and developing countries.

The International Food & Agricultural Trade Policy Council (IPC) has assessed the Derbez proposal against the dual goals of furthering agricultural trade reform and achieving the development objectives of the Doha Round. The analysis is based on the IPC's original recommendations (International Food & Agricultural Trade Policy Council, *Recommendations for the Doha Agricultural Negotiations.* Washington, DC: 2003) and the evolution of consensus in the WTO negotiations that led to the Derbez text. A side by side comparison of the major proposals issued since March 2003 can be found beginning on page twelve. The IPC hopes that these suggestions may provide food for thought as countries come back to the bargaining table.

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-six 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.

IPC Members Dale Hathaway and Timothy Josling will be publishing their own recommendations separately in a forthcoming publication from the Institue for International Economics.

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MARKET ACCESS

1. Tariff Reduction Formulas – Developed Countries

Subject a percentage of tariff lines to an average and minimum tariff cut and increase market access through a combination of tariff reductions and quota expansion. Subject a percentage of tariff lines to a Swiss formula. Remaining tariff lines would be duty free. Total average tariff cut should be at least X%.

Analysis: Reducing higher tariffs by a greater percentage than lower tariffs should be a primary goal of the Doha Round. The blended formula approach proposed by the Derbez text could result in higher tariffs being reduced proportionately more than lower tariffs, but it does not guarantee such an outcome for several reasons. First, countries that want to maintain high tariffs on sensitive products could avoid deep tariff reductions in those products by placing them in the Uruguay Round formula basket. Countries could subject their least sensitive products with the lowest tariffs to larger cuts by putting those products in the Swiss formula basket (See Box One). As a result, the distortions between tariff levels would become greater, and perversely, lower tariffs would be reduced more than higher tariffs.

Box One: Lowest tariffs could be subject to the most ambitious tariff reduction formula. If countries are simply required to subject a certain percentage of tariffs to the less ambitious, Uruguay Round formula and a certain percentage to the more ambitious, Swiss Formula, they could choose to subject those in the >0-10% range to the more ambitious formula, thereby avoiding real reductions in some of the most highly protected commodities.

Percent of Tariff Lines Bound at various rates for the US, EU and Japan

Tariff Range	United States	European Union	Japan
>0-10	76	44	51
>10-40	17	34	34
>40-100	5	15	4
>100	2	8	11

Source: Economic Research Service (ERS) calculations from WTO notifications. http://www.ers.usda.gov/db/wto

Second, trade flows are unevenly distributed across tariff lines (depending on existing trade barriers, but also on individual countries consumption patterns). A country could put a large number of unused tariff lines in the Swiss formula basket, and have little effect on actual trade flows. Finally, many countries already provide duty free or very low duties for a number of tariff lines – normally those in which they have no competitive products. Allowing these countries "credit" for zero duties they already provide or for reducing "nuisance duties" would not substantially improve market access.

Third, tariff rates for different commodities vary widely across countries. Simply requiring a percentage tariff cut across tariff lines will not necessarily result in significant tariff reductions in the most highly protected commodities (See Box Two). To address concerns that countries will subject their most sensitive commodities to the Uruguay Round formula, a minimum reduction per commodity sector (or tariff chapter) should be required, not just an average tariff reduction across all agricultural products. The percentage of tariff lines required to use the Swiss formula should be as high as possible, the percentage allowed to use the URAA formula should be minimal, and countries choosing to apply the Uruguay Round formula to certain products should be required to establish, or expand their duty-free quotas, above and beyond what is already provided.

Box Two: Tariff Rates Vary Widely Across Commodities: If countries are simply required to average tariff cuts across all tariff lines, they can maintain high tariffs in their more heavily protected commodities.

Bound Tariff Averages by Commodity Group: US, EU and Japan (in percentage %)

Commodity Group	United States	European Union	Japan
Grains	2	53	191
Oilseeds	17	0	72
Dairy	42	87	308
Sweeteners	46	59	82

Source: Economic Research Service (ERS) calculations from WTO notifications. http://www.ers.usda.gov/db/wto/.

2. Tariff Reduction Formula – Developing Countries

Subject all developing country tariff lines to an average and minimum tariff cut. Increase market access in this group through a combination of tariff reductions and quota increases. Subject some percent of tariff lines to a Swiss formula. Bind remaining tariff lines between 0 and 5%.

Analysis: Another goal of the Doha Development Agenda should be to facilitate trade between and among developing countries. However, the issue of developing country tariff reductions was very contentious in the run-up to the Cancun Ministerial. Some of the proposals advocated minimal increased market access commitments for developing countries. Others created a two-track approach, whereby the structure of market access commitments by developing countries would be very different from the commitments agreed by developed countries.

The structure of commitments by both developed and developing countries should be equivalent. If the blended approach (part Swiss, part Uruguay Round) proposed by Derbez is adopted, for example, then developed and developing countries should each agree to subject some share of their tariff lines to Swiss formula, some to the Uruguay Round formula, and others to zero duties. To accommodate Special and Differential Treatment, developing countries could be given scope to cover a higher percentage of their tariff lines with the less ambitious Uruguay Round formula, coupled with the already longer implementation period that is a standard element of Special and Differential Treatment.

3. Tariff Ceiling

Reduce all tariffs to a ceiling or open markets through negotiated increases in minimum market access. [Allow countries to exempt a limited number of products – based on non-trade concerns – from a tariff ceiling.] Negotiate whether a tariff ceiling applies to developing countries, taking into account their development needs.

Analysis: Establishing a tariff ceiling is an extremely positive and effective approach to dealing with high tariff peaks that would not be affected even by a large percentage reduction. For example, on any given tariff line as many as thirty-four different countries apply tariffs over 60% (Economic Research Service/USDA, *Profiles of Tariffs in Global Agricultural Markets.* Washington, DC: 2001). Therefore, even large percentage tariff reductions will not necessarily result in market opening.

However, several countries strenuously object to setting a tariff ceiling on some of their most sensitive products. This has resulted in a proposal to exempt Special Products based on non-trade concerns. Some developing countries have asked to be exempt from setting a tariff ceiling altogether.

There is a precedent in the Uruguay Round for a flexible approach to sensitive products. Requiring countries to reduce peak tariffs to the tariff ceiling immediately on most products, but allowing a phased in reduction to the ceiling over the course of the implementation period for a limited list of sensitive products, would be one way to address these concerns. Expanded tariff rate quotas (TRQs) to ensure increased market access during the implementation period could be adopted. It would be consistent to allow such flexibility on a limited basis in the Doha Round – it is certainly preferable to exempting some products from establishing a tariff ceiling altogether.

Developing countries' tariffs are among the highest in the world. In many instances, these tariffs were bound at high levels to provide a degree of protection from import surges, but applied tariff rates are much lower (See Box Three). If Special Safeguard Measures for developing countries are adopted, the need to maintain exceedingly high tariffs as an insurance policy against import surges will abate. It seems reasonable to require developing countries to adopt a tariff ceiling, but the ceiling could be set higher for developing countries or tariff peaks could be reduced to the ceiling over a longer period, as has been the standard method of special and differential treatment since the Uruguay Round.

Box Three: Even deep cuts in overall bound tariffs will not affect actual trade

Average Applied Tariffs for Selected Countries in 1998 (in percentage%)

Average Applied Tariff	Argentina	Brazil	Colombia	Mexico	Pakistan	Philippines
Bound Tariffs	35	37	87	43	101	34
Applied Tariffs	13	13	15	20	43	19

Source: Economic Research Service (ERS) calculations from WTO domestic support notifications. http://www.ers.usda.gov/db/wto

4. Expanding Tariff Rate Quotas (TRQs)

Issue of expanding quotas remains under negotiation.

Analysis: Expanding minimum market access by a formula, based on a rising percentage of domestic consumption, known as a tariff rate quota (TRQ), was one of the most positive contributions of the Uruguay Round

Agreement on Agriculture. On average, 23% of all tariff lines are covered by TRQs (Economic Research Service/USDA, *Profiles of Tariffs in Global Agricultural Markets.* Washington, DC: 2001). It is unsettling, therefore, that the Derbez draft did not continue this formula-based approach. If countries can subject their sensitive products to a Uruguay Round formula and can delay the imposition of a tariff ceiling for sensitive products, then ensuring real market access through guaranteed TRQ expansion becomes even more vital. Therefore, TRQs should continue to expand by an established formula in the Doha Round.

The value of TRQ expansion in the Uruguay Round was undermined because countries could aggregate TRQs across a number of tariff lines, again protecting the most sensitive commodities. To close this loophole, TRQs should be established on a product specific basis. Again, expanding quotas product-by-product is more important if tariff reduction is undertaken through the blended approach outlined above, which could result in some of the most sensitive products being subjected to lower reductions.

5. In-Quota Tariffs

Reduce in-quota tariffs by X%.

Analysis: While many in-quota tariffs are close to zero, some are high enough to inhibit trade, even within the quota, so reducing them by an established percentage will have little effect. Reducing all in-quota tariffs to zero over the implementation period would ensure that the available access was indeed utilized.

6. TRQ Administration

Not discussed in Derbez text.

Analysis: The Derbez text is silent on the critical issue of TRQ administration. Countries use a variety of methods to administer quotas including first come, first served, auctioning and historical. Depending on the administration method, average fill rates for TRQs can be as low as 46% and as high as 85% (International Agricultural Trade Research Consortium (IATRC) *Agriculture in the WTO: Market Access: Issues and Options in the Agricultural Negotiations*. St. Paul, MN: 2001). Low fill rates prevent access. These issues need to be addressed in the negotiations, and should be the subject of detailed technical negotiations.

7. Tariff Escalation

Apply a factor of X% to bring tariffs on processed products in line with tariffs on primary product.

Analysis: Reducing tariff escalation – application of higher tariffs on more highly processed products – has been a principle goal of the food industry, but also of developing countries. Developing countries often face low tariffs for raw materials but higher tariffs for processed foods, thereby limiting their ability to move up the value chain. For example, imports of live animals into North America face an average tariff of 21%, whereas imports of fresh and frozen meat face average tariffs of 65%; and fresh fruit imports into the European Union face an average tariff of 21%, but fruit juice faces an average import tariff of 37% (Economic Research Service/USDA, *Profiles of Tariffs in Global Agricultural Markets.* Washington, DC: 2001).

Tariff escalation is a difficult and complex problem to address. For single commodity processed products, such as vegetable oil or ground coffee, reducing tariff escalation can be relatively straightforward by applying a multiplier to the tariff reduction taken on the primary product, as proposed by the Derbez text. Such an approach is more difficult for more complex processed foods that contain many different raw materials. But even for those products, tariff escalation can be reduced if a multiplier is applied to the main components; if maximum tariff ceilings are established; and if products protected by higher tariffs are reduced with a Swiss formula.

8. Special Safeguard Measures (SSMs)

Negotiate on the continued use and duration of an SSM for developed countries. Create SSM for developing countries under conditions to be determined.

Analysis: Developed countries notified many products under the Special Safeguard Provision after the Uruguay Round, but have not frequently used it because generally high world commodity prices in the years after the Uruguay Round have made it unnecessary. In pure trade theory terms, SSMs are not desirable. In commercial terms, they introduce uncertainty that can be detrimental to trade. In an ideal world, SSMs should be eliminated. However, it is unlikely that countries will agree to eliminate them, particularly if tariffs are reduced to levels that allow imports during times of unusually low prices. To prevent over-use of special safeguards, higher price and quantity thresholds could be established for developed countries, and the number of tariff lines eligible for an SSM sharply limited.

In the Uruguay Round, the ability to use the Special Safeguard Provision was predicated on a Member's agreement to convert non-trade barriers (NTBs) into tariffs – a process known as tariffication. Because many developing countries had very high, unbound tariffs prior to the Uruguay Round, they had few NTBs to convert, and therefore limited access to the Special Safeguard Provision. Instead, they established high bound tariffs, but applied tariffs at a lower rate so that they could be increased to stem an import surge if necessary. (This phenomenon also creates uncertainty for exporters.) Concerns over the impact of such surges on subsistence farmers, particularly if those imports are in part driven by trade distorting domestic or export subsidies, has driven developing country demands for a "Special Products" designation and has reduced the willingness of developing countries to undertake market access commitments.

Establishing SSMs for developing countries with practical trigger mechanisms on price and volume would provide comfort to developing country policy makers as they reduce tariffs. Special safeguard measures for developing countries should be limited to a specified number of tariff lines. Using other criteria, such as import sensitivity (as suggested in the US-EU proposal) is acceptable only if developed countries are also willing to adopt such criteria.

9. Special Products

Allow developing countries to designate Special Products, subject to minimum linear cut and no new TRQ commitments.

Analysis: The Derbez text would allow developing countries to designate certain Special Products based on their importance for food security, rural development, or livelihood security that would be subject to minimum market access disciplines. Despite its popularity, creating a category of Special Products is troubling because such designations tend to be permanent; tend to result in higher cost production; and tend to act as a tax on low income consumers and even subsistence farmers, who often spend up to half their income on food. A Special Products designation could also stymie South-South trade. The designation is not only unhelpful, but it also sends the wrong message about the role of trade in food security and economic development. It is also counterproductive to the interests of developing country exporters, who need access to neighboring country markets in addition to developed country markets.

It is difficult to understand exactly who would benefit from such a designation. Least Developed Countries – arguably those supportive of such a designation – are already exempt from making any tariff reductions or other commitments. From the point of view of public policy, the focus should be on vulnerable groups of consumers, not on vulnerable commodities.

If a Special Products designation proves to be unavoidable for political reasons, then objective criteria (such as the commodity's share of production, consumption or export, or the share of the commodity grown by low-income, resource poor farmers) should be established and such products designated in country schedules. There should also be limits on the number of products eligible for such treatment. This is particularly important if the broader group of developing countries—as opposed to only Least Developed Countries—are able to utilize such a designation.

10. Preferential Access for Developing and Least Developed Country Exports

All developed countries shall provide duty free access for X% of tropical and other specified imports from developing countries, through preferential and MFN access. Developed countries [should] [shall] provide duty and quota free access for all LDCs.

Analysis: Improving access to wealthy markets for the poorest countries is one of the most important goals of the Doha Round. There is growing consensus that developed countries should attempt, or be required to provide duty and quota free access to the Least Developed Countries for all products. The Derbez text leaves open whether duty free access should be mandated. The IPC continues to strongly believe that all Least Developed Countries should be given duty and quota free access to developed country markets, and that access should be bound in countries' schedules.

However, there is no consensus about access for developing countries. Most of the proposals limit duty free access only to "products of interest" to developing countries, such as tropical products, or to a certain percentage of trade from developing countries. Again, the difference in views is over whether countries should endeavor or be required to provide access, and whether that access should be 'paid for' with other concessions. There is also a difference in views over which countries should be considered "developing." There are concerns that if duty and quota free access were available to all developing countries, some of the more competitive exporters would dominate the market.

Lowering barriers only for specific products could actually increase distortions among commodities. There is a risk that these protections will become ensconced as a form of special preference that will continue to drive trade and investment and distort comparative advantage. There is also the question of who – developed or developing countries – will determine which "products of interest to developing countries" are to be given special access.

If full duty-free access for all commodities cannot be provided to all developing countries, then a significant share of developing country trade should be accorded duty free access immediately and the remainder within a relatively short time frame. If duty free access can only be granted on selected products, then duties on tropical products of interest to developing countries should be reduced to zero immediately, and duties on other products should be reduced over the implementation period.

There is no consensus on how to address issue of special preferences, like those provided to the Caribbean Basin countries by the United States, or the Asia, Caribbean and Pacific Countries by the European Union. If all Least Developed Countries are provided duty and quota free access to developed country markets, and if all developing countries have duty-free access for "all products of interest" to them, then the value of special geographic and commodity preferences will be eroded. Moreover, generalized tariff reductions and increased market access will also reduce the value of Special Preferences.

As the IPC has written elsewhere, special preferences distort trade, distort comparative advantage, lock in trade patterns, and generally have provided fewer benefits in terms of higher prices than costs in terms of lost opportunities. The Doha Round should facilitate the movement away from special preferences toward general preferences by opening up trade to all Least Developed Countries on all commodities (International Food & Agricultural Trade Policy Council, *Revisiting Special Preferences for Developing Countries.* Washington, DC: 2003).

EXPORT COMPETITION

11. Date Certain

End date for phasing out all forms of subsidies remains under negotiation.

Analysis: Export subsidies (in all their forms) are the most distorting of all subsidies. They are also an extremely inefficient way to transfer income to farmers and there is a general (but not unanimous) consensus to phase them out over time. Ironically, by including all forms of subsidized export competition in this pillar, other countries have become stakeholders in this debate. Setting a date to eliminate the subsidy element of export credits, food aid, and state trading entities may now be more challenging. The Doha negotiations must fix a date to eliminate all forms of subsidized export competition, even if the date is beyond the implementation period for the Doha Round to accommodate the domestic policy changes needed to allow the elimination of subsidized export competition.

12. Export Subsidies

Eliminate subsidies on products of interest to developing countries over X years. Reduce subsidies on other products with URAA formula. Reduce all forms of export subsidies with a "view to phasing out."

Analysis: Ideally, export subsidies should be reduced on a single timeline. However, most of the recent proposals have called for a two-track approach, with elimination of export subsidies on "products of interest to developing countries" first, and reduction with a "view to phasing out" (or elimination) on other products over a longer time frame. Again, this two track approach risks increasing the distortions between products and amplifies the impact of export subsidies concentrated on one or two commodities. However, if it is not politically possible to continue to phase down (and out) subsidies on a single timetable, then the determination of which products are "of interest to developing countries" should be subject to negotiation rather than established by fiat of the subsidizing country. For a dual track approach to be truly meaningful, products of real commercial interest to developing countries—such as rice, sugar and fresh fruits and vegetables—must be included.

13. Export Credits

Eliminate the trade-distorting element of export credits by reducing tenor on products of interest to developing countries over X years. Reduce trade-distorting element of credits on other products in parallel with export subsidy reductions.

Analysis: There appears to be general consensus to reduce the tenor (the length of the repayment period) for export credits and to discipline them in parallel with export *subsidies*. As with export *subsidies*, there are serious concerns about how the products for the two tranches would be determined. If disciplines on export *credits* apply to the same products covered in the first tranche of "products of interest to developing countries" then some products that do not benefit from export *subsidies* but do benefit from export *credits* might not be selected for elimination. (Cotton is a good example of a product that benefits significantly from export credits but not from export subsidies.) If this parallel approach is adopted, then again, the list of commodities subject to tighter disciplines on export *credits* should be subject to negotiation, and should not necessarily mirror the list of products subject to tighter disciplines on export *subsidies*.

Moreover, the Derbez text appears to define export credits in their most narrow sense. The subsidy element of export credit insurance and export credit guarantee programs should also be included in the disciplines. These programs can distort trade in the same ways that export credit programs do, and they should be subject to the same disciplines. Finally, tenor is not the only measure that should be disciplined. Many export credit programs also provide subsidies on interest rates. The framework document should clarify that all subsidy elements are to be disciplined.

14. State Trading Entities (STEs)

Reduce, with a view to phasing out, all forms of export subsidies provided by STEs. Single desk entities an issue of interest but not agreed.

Analysis: There seems to be general consensus that export credits and guarantees provided by STEs should be disciplined in the same manner as those provided by government agencies. However, proposals have advocated different approaches. Many proposals would be difficult to implement and enforce because they rely on information that is not openly available or quantifiable. Instead of establishing operational disciplines for STEs, it would be preferable to discipline them via easily discernable targets. For example, taxpayer subsidies for the operation of STEs could be reduced and eventually eliminated and the export or import market gradually opened to competition, as was done in the Chinese accession agreement.

15. Food Aid

Negotiate disciplines on food aid to prevent commercial displacement.

Analysis: Again, there is general consensus that disciplines on food aid should be increased to ensure that it does not disrupt commercial sales. However, few recent proposals have offered any detail about how that might be accomplished. The negotiations should focus on easily quantifiable measures, such as requiring all food aid to be in grant form and requiring countries to notify all food aid commitments to the Committee on Agriculture. This appears to be a reasonable basis to move forward with more technical negotiations.

16. Special and Differential Treatment of Export Competition

Exempt marketing and transport costs from export subsidy disciplines until export subsidies are phased out. Ensure that disciplines on export credits do not harm LDCs or net food importing countries.

Analysis: The Uruguay Round Agreement allowed developing countries to utilize transportation and marketing subsidies to facilitate their exports. (When developed countries use them, these subsidies are considered export subsidies.) Whether and how to adapt Special and Differential Treatment for competitive exporting countries was a contentious debate during the Cancun Ministerial. The US-EU proposal objected to the use of these subsidies by countries that are competitive in some exported commodities, which produced an angry reaction from some developing countries. These countries argued that developed countries use domestic subsidies that function as export subsidies and linked the use of transportation and marketing subsidies to the elimination of trade-distorting domestic supports and two price systems.

In general, per unit transportation and marketing subsidies are inefficient ways to promote exports. Similar investments in transportation and marketing infrastructure would be more beneficial to developing countries over the longer run. If developed countries agree to significant reductions (and eventual elimination) of subsidized export competition and to significant reductions in trade distorting domestic support, then developing countries should phase out all commodity-specific transportation and marketing subsidies for exported commodities on the same timetable. These export subsidies could be disciplined with the same budget and volume metrics used by developed countries.

17. Export Restrictions and Taxes

Strengthen disciplines on export prohibitions and restrictions. Restrictions on export taxes of interest but not agreed.

Analysis: The willingness of importing countries to depend on the global market as a stable source of food is inextricably linked to the reliability of their access to food supplies on that market. All too often developed countries have imposed export restrictions, in the form of embargoes and export taxes either as an extension of foreign policy or to maintain supplies for domestic users. Export bans and restrictions undermine the political will of net food-importing countries to open their markets. All of the negotiating proposals call for enhanced disciplines on these export restrictions, but none propose actually banning these instruments.

Ideally, exporters should never restrict food supplies to the international marketplace and export restrictions should be banned in the WTO. At a minimum, the negotiations should require that the domestic market share in any adjustment imposed on the export market, and that full embargoes for political or supply reasons should be banned.

Many developing countries use export taxes to raise general revenues and some have used differential export taxes to effectively subsidize local processing of raw materials. Either the use of export taxes on agriculture to raise general revenues should be phased out or the revenues generated should be used exclusively for agricultural research and other public goods measures in the agricultural sector. Differential export taxes should also be harmonized and reduced.

DOMESTIC SUPPORT

18. Overall Level of Support

Reduce trade-distorting support significantly more than URAA. Members with higher levels of support will make greater efforts. Sum of Amber Box, Blue Box and de minimis subsidies should be reduced from 2000 levels, with an initial down payment in the first year of implementation.

Analysis: Since the implementation of the Uruguay Round Agreement, there has been a small but perceptible shift away from market price supports toward less trade distorting subsidies. The Doha Round must require significant further movement away from trade-distorting market price supports and toward minimally trade-distorting direct payments based on historical entitlements. This is important for developing countries and others who must compete in the international market without subsidies, but it is also important for OECD countries because the level of trade-distorting support they provide has become linked to the level of market access that developing countries will provide. Without significant reductions in trade distorting domestic support by developed countries, it unlikely that there will be significant increases in market access by developing countries.

In the months before the Cancun Ministerial, most of the attention focused on the total subsidy level – including Green Box measures – rather than on the more egregious policies in the Amber Box, Blue Box and de minimis categories. While it is becoming increasingly clear that Green Box subsidies can distort trade to some extent, the primary goal of the Doha Round must be tighter disciplines on and substantial reductions in Amber Box, de minimis and Blue Box support. The Doha Round should also ensure that policies in the Green Box are indeed minimally trade distorting.

Because of policy reforms already undertaken and because of the base year selected in the Uruguay Round Agreement on Agriculture, there is substantial “water” in the Amber Box (See Box Four). Therefore, even a significant cut in the bound level of trade-distorting subsidies will not result in much actual reduction of subsidies. In order to achieve real reductions, at the end of the Doha Round, the sum of Amber, Blue and de minimis subsidies must be significantly lower than the sum of those subsidies at the end of the Uruguay Round.

The Derbez text calls for countries with higher levels of support to make the greatest effort to reduce that support. If WTO members are simply required to equalize support (such as to a specific percentage of the value of production) it would, of course, be beneficial. However, this national “harmonization” would not address the very real differences in levels of support across commodities (See Box Five). Nor would it necessarily prevent increased relative distortions among commodity sectors. Limiting subsidies in the Amber Box, the “new” Blue Box, and the de minimis subsidies to a historical level restricts – but does not prevent countries from shifting support from one form of trade distorting subsidy to another. Neither does it prevent countries from shifting support among commodities. The Doha Round must ensure that countries cannot continue to protect agricultural products by shifting support from box to box or commodity to commodity. The best way abate this risk is to require product-specific reductions in domestic subsidy levels in both the Amber and the Blue Boxes.

19. Green Box

Review criteria to ensure that Green Box measures have minimal effects on trade or production.

Box Four: There is substantial "water" in the Amber Box. The table below illustrates that the level of support used by Europe, Canada, Japan and the United States in 1999 was significantly lower than Uruguay Round bound commitments.

1999 Bound vs. Applied AMS, Europe, Canada, Japan, US (in US$ million)

Domestic Support	Europe	Canada	Japan	United States
AMS Bound	69.4	3	36.3	19.9
Applied AMS	47.8	0.6	6.6	16.8

Source: WTO members' notifications
(**Note**:The Aggregate Measure of Support (AMS) essentially measures the level of trade distorting subsidies in the de minimis and Amber Box.)

Analysis: It is clear that some payments classified in the Green Box can be trade distorting. Updating the base on which farmers are paid does re-couple these payments in ways that could be trade distorting. As the reductions in Amber and Blue Box spending begin to be felt, countries that have the financial resources will shift more of their agricultural support into the Green Box, specifically into direct payments. It will become more imperative, therefore, to ensure that payments made under the Green Box have minimal or no impact on trade or production. Clearly, updating the base for making direct payments should not be allowed. Ideally, direct payments to farmers, as distinct from expenditures for public goods, should be part of a structural adjustment program, not as an ongoing subsidy to farmers.

Box Five: Levels of subsidy differ widely across commodities.

OECD Producer Support Estimate by Country 2000-2002, in percentage%

Commodity	Australia	Canada	European Union	Japan	Mexico	New Zealand	United States
Wheat	5	16	46	86	31	0	40
Maize	N/A	16	35	N/A	36	0	26
Refined Sugars	12	N/A	48	42	52	N/A	55
Milk	14	54	44	77	43	1	48

Source: OECD, PSE/CSE database 2003.
(The Producer Support Estimate (PSE) is a mechanism developed by the OECD to measure taxpayer and consumer support to farmers. It makes no distinction between trade-distorting and non trade-distorting subsidies, but it does indicate the relative levels of support to different commodities.)

20. Amber Box

Reduce Amber Box support. Members with higher levels of support will make greater efforts. Cap product specific Amber Box at average level during some historical base period.

Analysis: There are certainly benefits simply from steep reductions in Amber Box supports, regardless of which countries are providing them. Again, simply asking countries to reduce their levels of Amber Box support to an agreed percentage of the value of total production thereby 'harmonizing' levels of support would not address the different levels of support accorded to individual commodities in different countries.

Ideally, there should be actual reductions in product-specific Amber Box support. While capping product-specific support, as proposed in the Derbez text, is not same as reducing it, even that has the potential to be a big improvement to the current system. At a minimum it would prevent countries from increasing support, even if it does not mandate decreases.

21. Blue Box

Redefine Blue Box to cover any payments made on fixed area or yields, or on 85% or less of production or on a fixed number of head. Cap Blue Box at 5% of 2000-2002 levels. Reduce Blue Box further through linear cuts.

Analysis: The proposal to redefine the Blue Box by removing the requirement that Blue Box subsidies be offset with supply controls, thereby reclassifying some forms of Amber Box support, contradicts the overall goal of the negotiations to reduce levels of trade distorting support. This proposal is probably the biggest step backward in the Doha Round negotiations. The original economic rationale for creating the Blue Box was that the required supply controls offset the production inducing and trade distorting impacts of these policies. The political rationale was that both the United States and the European Union relied heavily on subsidies linked to acreage set-asides or quantity controls, and they were politically difficult to discipline.

By removing the need for supply control provisions, this new “Blue Box” negates the rationale for creating the Blue Box in the Uruguay Round. Moving policies that are now in the Amber Box to the new Blue Box could result in virtually no change in the overall level of trade-distorting subsidies in the United States, for example. This is particularly true if Amber Box limits are not first reduced to reflect the value of subsidies shifted from the Amber Box into the Blue Box under the newer definition. Overall Amber Box payments could actually increase from current levels if no deductions are made for the policies moved into the new Blue Box and if reductions are taken from the bound limits (as opposed to the actual amount of subsidy currently provided).

While the new Blue Box policies would be slightly less trade-distorting than existing Amber Box policies, its payments are made on the basis of production, so they would still be more trade distorting than Green Box policies.

If the Blue Box is to be retained and redefined, several restrictions should be implemented to minimize the negative repercussions. First, expenditures on Blue Box subsidies should be capped at some historical level or as a percentage of farm value, then reduced and eliminated over the duration of the Doha Round implementation period. Second, like Amber Box subsidies, commitments should be made on a product-by-product basis. If Blue Box expenditures are capped as a percentage of production value, for example, that value should be determined commodity by commodity. Third, Amber Box limits should be reduced immediately to compensate for the subsidies transferred into the new Blue Box.

22. De minimis

Reduce product and non-product specific de minimis support.

Analysis: Reducing product and non-product specific de minimis support is a positive step forward to close a loophole in the subsidy disciplines, and is particularly important if a revised Blue Box is retained.

23. Special and Differential Treatment

Enhance Green Box subsidies for developing countries to address non-trade concerns. Maintain de minimis at existing levels.

Analysis: Retaining de minimis subsidies at existing levels for developing countries is a positive proposal but, enhancing Article 6.2 of the Uruguay Round Agreement on Agriculture, which establishes the Green Box, to address developing countries’ non-trade concerns is worrisome. These measures tend to become entrenched once implemented. Allowing developing countries to offset product-specific support with negative support, as proposed by some developing countries, will encourage the taxation of agriculture that has undermined farmers in developing countries.

OTHER ISSUES

24. Newly Acceded Members

Address concerns of newly acceded members with longer and shallower commitments.

Analysis: It seems reasonable to allow newly acceded members a grace period before accepting new commitments. However, it is not reasonable to further delay their integration by allowing a longer implementation period or shallower commitments, unless warranted by their economic status.

25. Extension of the Peace Clause

Extend the Peace Clause by X months.

Analysis: Since Cancun, the Peace Clause has lapsed. It is too early to determine whether there will be any cases filed in the short term. Many argued that the looming expiration of the Peace Clause would be a powerful incentive to keep countries at the negotiating table. Clearly, that threat did not hold much water in Cancun.

Developing countries have been anxious to pursue cases against the US and the EU. But the time involved in preparing a case and convincing a government to launch a case against one its two largest trading partners may be more difficult than many countries imagine. A proliferation of cases could cut both ways. If a number of cases are brought, it could demonstrate the need to reform policies across the board in the context of multilateral negotiations, rather than in an isolated way in response to litigation. However, a proliferation of cases could well be detrimental to restarting the negotiations if it turns political sentiment against the WTO.

If the negotiations do resume, the question is whether to reinstate the Peace Clause while the negotiations continue. The second is whether to extend the Peace Clause throughout the implementation period of the Doha Round. If the Peace Clause must be extended during the negotiations, it should be limited to the remaining timeframe for the negotiations. However, the IPC does believe that once negotiations are concluded, only Green Box subsidies should be immune from challenge under a narrower Peace Clause.

CONCLUSION

The Uruguay Round Agreement on Agriculture was a major accomplishment because it brought agriculture under world trade rules for the first time. However, the agreement did not reduce trade distortions by as much as expected. The rules established under the Doha Round Agreement on Agriculture must ensure that trade distortions are reduced in every commodity sector, and that trade reforms are real and meaningful. To do less risks continuing cynicism about the value of global trade agreements, raising doubts about the gains from multilateral trade reform, and undermining those gains for both developed and developing countries.

Market Access

Harbinson Draft (March 18, 2003)	Joint EC-US Paper (August 13, 2003)	Group of 20 Proposal (August 20, 2003)	Chair of General Council Text (August 24, 2003)	Derbez Draft (September 13, 2003)
➢Require minimum tariff cut from bound rates. ➢Average tariff cuts across all agricultural products. ➢Reduce tariffs according to four tariff bands, with higher tariffs subject to great reduction. ➢Reduce tariff escalation on all products. ➢Convert specific tariffs to ad valorem tariffs. ➢Expand TRQs to X% of annual consumption. ➢Allow countries to expand some TRQs less if they expand others by more. ➢Recalculate national consumption base for quota. ➢Improve TRQ administration. ➢Eliminate SSG for developed countries. <u>Special and Differential Treatment</u> ➢Eliminate in-quota tariffs on products of interest to developing countries. ➢Provide duty and quota free access to all imports from LDCs ➢Allow developing countries to designate X% of products as strategic products, with reduced tariff and quota commitments. ➢Retain margin of preference or delay developed country tariff cuts in these products. ➢Do not require reductions in in-quota tariffs. ➢Extend SSG to strategic products	➢Reduce X% of tariff lines with URAA formula. ➢Increase access with combination of TRQs and tariff cuts. ➢Reduce X% tariff lines with Swiss formula. ➢Eliminate duties on X% of tariff lines. ➢Reduce all tariffs to maximum cap OR increase TRQs in exchange for lower tariff cuts. ➢Discuss SSG for developed countries. <u>Special and Differential</u> ➢Create SSG for import sensitive commodities of developing countries. ➢Seek to provide duty free access for X% of imports from developing countries.	➢Reduce X% of tariff lines by Y%. ➢Reduce X% of tariff lines with Swiss formula. ➢Eliminate duties on X% of tariff lines. ➢Average of all tariff cuts shall be higher than minimum average cut. ØReduce all tariffs to a maximum tariff. ➢Expand tariff rate quotas by X% of consumption. ➢Increase TRQs in exchange for smaller tariff cuts on R/O basis. ➢Reduce in-quota duties to zero. ➢Reduce tariffs on processed products proportionately. ➢Discontinue SSG for developed countries. ➢Provide duty free access for all tropical products; other products representing X% of imports from LDCs <u>Special and Differential</u> ➢Reduce X% tariff lines using URAA formula. ➢Do not require any TRQ increase or in-quota tariff cuts from developing countries. ➢Create SSG for developing countries. ➢Create Special Products Designation.	➢Reduce X% of tariff lines by URAA formula, with increase in TRQs on sensitive products. ➢Reduce X% of tariff lines with Swiss formula. ➢Eliminate duties on X% of tariff lines. ➢Reduce all tariffs to a maximum cap OR provide increased TRQs. ➢Address tariff escalation. ➢Discuss SSG for developed countries. <u>Special and Differential</u> ➢Reduce X% of tariff lines with URAA formula with TRQ increases for sensitive products. ➢Establish subcategory of Special Products, subject to minimum tariff cut and no TRQ increase. ➢Reduce other tariff lines with URAA formula at lower rates OR Reduce X% of lines with Swiss formula. ➢Create SSG for developing countries. ➢Exempt developing countries from maximum tariff cap. ➢Ask developed countries to provide duty free access for X% of imports from developing countries. ➢Exempt LDCs from reduction commitments on market access.	➢Reduce X% of tariff lines by URAA formula [Reduce X% of tariff lines by X% average cut]. ➢Increase TRQs and reduce tariffs on sensitive products [create or expand TRQs on sensitive products.] ➢Reduce X% of tariff lines with Swiss formula. ➢Eliminate duties on X% of tariff lines. ➢Achieve a simple average tariff cut for all products. ➢Reduce all tariffs to a maximum cap OR increase access through TRQs. ➢Exempt "sensitive" products from tariff cap on basis of NTCs [G21 deletes this language]. ➢Reduce tariffs on processed products proportionately. ➢Reduce in-quota tariffs [and expand TRQs by formula]. ➢Discuss TRQ expansion. ➢Discuss SSG for developed countries [negotiate end to SSG for developed countries]. ➢Ask [Require] developed countries to give duty and quota free access to all products from developing countries. <u>Special and Differential</u> ➢Reduce X% of tariff lines by URAA formula. ➢Increase TRQs and lower tariff cuts for sensitive products [G21 deletes this language]. ➢Designate Special Products subject to minimum tariff cut, and no TRQ increase ➢Allow various reduction formulas for low tariffs. ➢Discuss tariff cap for developing countries. ➢Create SSG for developing countries.

Export Competition

Harbinson Draft (March 18, 2003)	Joint EC-US Paper (August 13, 2003)	Group of 20 Proposal (August 20, 2003)	Chair of General Council Text (August 24, 2003)	Derbez Draft (September 13, 2003)
➢Eliminate export subsidies on X% of products within X years. ➢Eliminate export subsidies on remaining products over a longer period. ➢Continue URAA cuts in value and volumes of export subsidies. ➢Limit terms and interest rates, bring export credits under subsidy disciplines. ➢Restrict food aid to requests by multilateral agencies or recipient governments. ➢Restrict non-grant food aid. ➢Constrain state-trading entities. ➢Ban export taxes and restrictions. **Special and Differential** ➢Reduce and eliminate X% export subsidies over X years; the remainder over a longer period. ➢Exempt transportation and marketing subsidies from commitments. ➢Allow LDCs longer repayment terms on export credits.	➢Eliminate export subsidies on products of interest to developing countries. ➢Eliminate subsidized export credits on products of interest to developing countries by reducing tenor. ➢Reduce export subsidies on other products with URAA formula. ➢Reduce export credit "subsidies" on other products in parallel. ➢Prevent commercial displacement by food aid. ➢Discipline STEs. **Special and Differential** ➢Adjust S&D for net food exporting countries.	➢Eliminate export subsidies over X years for products of interest to developing countries. ➢Eliminate export subsidies over Y years for other products. ➢Discipline export credits, STEs, food aid with rules-based approach which reduces and eliminates subsidy component. ➢Prevent commercial displacement by food aid. **Special and Differential** ➢Exempt transportation and marketing subsidies from commitments.	➢Reduce and eliminate export subsidies on products of interest to developing countries. ➢Reduce export subsidies for other products with URAA disciplines. ➢Reduce and eliminate trade distorting element of export credits provided by STEs. ➢Prevent commercial displacement by food aid. ➢Discuss date certain for eliminating export subsidies. ➢Strengthen disciplines on export bans. **Special and Differential** ➢Exempt transportation and marketing subsidies from commitments until all export subsidies eliminated. ➢Ensure that disciplines on credits and food aid do not harm LDCs or net food importers.	➢Eliminate export subsidies over X years for products of interest to developing countries. ➢Reduce w/view to phase out, export subsidies for other products with URAA disciplines [over a period of X years]. ➢Eliminate trade-distorting element of export credits on products of interest to developing countries [include export credit insurance, guarantee program]. ➢Phase out export credits on other products. ➢Reduce and eliminate, all export subsidies provided by STEs. ➢Prevent commercial displacement by food aid. ➢Discuss date certain for eliminating export subsidies [Negotiate date to eliminate export subsidies]. ➢Strengthen disciplines on export bans. **Special and Differential** ➢Phase out export subsidies over longer timeframe. ➢Exempt transportation and marketing subsidies from commitments until all export subsidies eliminated. ➢Ensure that disciplines on credits and food aid do not harm LDCs or net food importers. [Provide flexibility on export bans].

Domestic Support

Harbinson Draft (March 18, 2003)	Joint EC-US Paper (August 13, 2003)	Group of 20 Proposal (August 20, 2003)	Chair of General Council Text (August 24, 2003)	Derbez Draft (September 13, 2003)
➢Cap and reduce Blue Box payments OR include Blue Box in total AMS and reduce. ➢Reduce Amber Box. ➢Prohibit increase in Amber Box support for individual commodities beyond [1999-2000] levels. ➢Reduce product specific de minimis support. ➢Require fixed and unchanging base periods for Green Box. ➢Time limit structural adjustment payments. <u>Special and Differential</u> ➢Reduce Blue and Amber Box subsidies over longer time frame. ➢Retain product specific de minimis support. ➢Exempt all LDCs from domestic support reduction commitments. ➢Allow payments for production of food security crops. ➢Allow payments targeted to small scale family farms	➢Require countries with higher Amber Box levels to reduce more than those with lower levels. ➢Redefine Blue Box to include payments made on limited quantities; remove production limiting criteria. ➢Cap redefined Blue Box at 5%. Reduce de minimis payments. ➢Reduce Blue Box, Amber Box and de minimis below 2004 AMS.	➢Require countries with higher Amber Box levels to reduce more than those with lower levels. ➢Reduce trade distorting support by X% on a product specific basis. ➢Require products with higher support to reduce more. ➢Impose down-payment in first year. ➢Subject exported products to larger reduction (and eventual elimination) of support. ➢Reduce de minimis subsidies by X%. Eliminate Blue Box. Reduce AMS and de minimis by X%. ➢Cap and reduce direct Green Box payments. <u>Special and Differential</u> ➢Expand list of Green Box measures available to developing countries.	➢Require countries with higher Amber Box levels to reduce more than those with lower levels. ➢Reduce de minimis. Redefine Blue Box. Cap Blue Box at 5% and reduce. ➢Reduce AMS, de minimis and Blue Box support below AMS2000. ➢Discuss Green Box criteria. <u>Special and Differential</u> ➢Exempt developing countries from de minimis cuts.	➢Reduce trade distorting subsidies significantly more than URAA [with a downpayment of X%]. ➢Countries with higher Amber Box levels reduce more than those with lower levels. ➢Cap product specific AMS levels [Additional disciplines for products exceeding X% of world exports.] ➢Reduce de minimis. Redefine Blue Box; remove production limiting criteria. ➢Cap Blue Box at 5% and reduce. ➢Cap Blue Box at 2.5%, reduce and phase out. ➢Reduce Total AMS and de minimis, with a down payment. Review Green Box criteria to exclude trade-distorting subsidies [strengthen disciplines on direct payments]. <u>Special and Differential</u> ➢Expand list of Green Box measures available to developing countries. ➢Exempt developing countries from de minimis reductions.

Other Issues

Harbinson Draft (March 18, 2003)	Joint EC-US Paper (August 13, 2003)	Group of 20 Proposal (August 20, 2003)	Chair of General Council Text (August 24, 2003)	Derbez Draft (September 13, 2003)
➢Negotiate how non-trade concerns and other market access issues will be considered. ➢Allow compensation for animal welfare, environmental compliance costs, not related to production.	➢Items for further discussion: Peace Clause, NTCs, implementation, sectoral initiatives, continuation clause, and GIs.	➢Address concerns of newly acceded members.	➢Items for further discussion: product specific commitments, expansion of TRQs, in-quota tariffs, single desk exporters, flexibility for country groups, implementation, continuation, export taxes, NTCs, GI's and Peace Clause.	➢Extend Peace Clause [Do not extend the Peace Clause]. ➢Items for further discussion: single desk exporters; export taxes; treatment of certain country groups; NTCs, implementation, sectoral initiatives, continuation clause and GI's [Use existing texts to discuss other issues].]

Developing Country Concerns

Harbinson Draft (March 18, 2003)	Joint EC-US Paper (August 13, 2003)	Group of 20 Proposal (August 20, 2003)	Chair of General Council Text (August 24, 2003)	Derbez Draft (September 13, 2003)
			➢Address question of preference erosion	

Recent IPC Publications

Agri-Trade Forum

Agri-Trade Forum is IPC's quarterly newsletter. The newsletter provides valuable insight on the progress of the IPC's activities, announces new IPC publications and includes updates on the situation in agricultural policy in IPC members' home countries. The newsletter is available via email at no cost or in printed form for $25 per year.

IPC Issue Briefs

In order to link together the work of the IPC's Capacity Building Program, the IPC has begun a series of Issue Briefs. The Briefs contain concise, practical information from IPC members and other experts on topics of importance to developing country participation in the world food and agriculture system. The Briefs clarify options and provide concrete recommendations. A print subscription to IPC Issue Briefs is available for $75 per year. The following Issue Briefs are available from the IPC or at www.agritrade.org.

- **Issue Brief Number One:** *Revisiting Special Preferences for Developing Countries.*
- **Issue Brief Number Two:** *Beyond Special and Differential Treatment*

IPC Modalities Recommendations

The IPC has developed recommendations on continuing trade liberalization in the Doha Round. The IPC's recommendations on domestic support, export competition, market access and developing country concerns were discussed at the 29th IPC Plenary Meeting in Ottawa, Canada in May, 2002 and the 30th IPC Plenary Meeting in London, England in November 2002. The recommendations were released in Geneva on January 21, 2003 in a public briefing. Additional public briefings on the IPC's recommendations will be held in Washington, Brussels, and other capitals around the world. The recommendations are available at **www.agritrade.org**.

Achieving the Doha Development Agenda: *Proceedings from an IPC Seminar Series*

The IPC organized a series of three seminars held in Geneva, Switzerland in the summer and fall of 2002 to address issues important to improve developing countries' economic prospects in the Doha Round of agricultural trade negotiations. Part I dealt with export competition and market access; Part II with domestic supports; and Part III addressed non-trade concerns, special preferences and consumer concerns. The proceedings from that series are available at **www.agritrade.org**.

Achieving Agricultural Development through Agricultural Trade: *An IPC Project*

From 1997 to 2000, the IPC held three conferences on location with policymakers, academics and leaders of the agricultural communities in Latin America, Africa, and Asia to determine the domestic policies (regarding price, employment, investment, etc.) that would best help improve agricultural productivity as well as the multilateral policy reforms (related to market access, support regimes, etc.) needed to facilitate greater trade for these countries. A summary synthesizing the views of the many contributors to the conferences entitled *Achieving Agricultural Development through Agricultural Trade* is available from the IPC. The booklet provides a powerful testament to the generally positive views of developing countries on how trade liberalization affects agricultural development, and of how their countries can better take advantage of the opportunities offered by enhanced trade opportunities.

Forthcoming Publications

- IPC Position Paper: Rural Development
- IPC Position Paper: Biotechnology and Developing Countries
- Proceedings from *Easing the Transition to More Open Global Markets* an IPC Seminar held November 2003 in New Delhi, India
- Proceedings from an IPC Capacity Building Seminar held February 2004 in Johannesburg, South Africa

*A full list of IPC Publications is available at **www.agritrade.org**.*

Key Recommendations from

Twenty-Five Ways to Improve the Derbez Draft on Agriculture

On subsidized export competition: Subsidized export competition epitomizes the distortions in agricultural trade that hurt developing countries. The Uruguay Round Agreement reduced, but did not eliminate traditional export subsidies. It did little to reduce other forms of subsidized export competition, like export credits, food aid programs and subsidized state trading entities that also artificially depress world and local prices. Eliminating these subsidies has been a rallying cry from the outset of the Doha Round. The Derbez text calls for reducing all forms of subsidized export competition, but "a date certain for phasing out all forms of export subsidies" remains under negotiation. ***Negotiators must go further and commit to establishing a fixed date to eliminate all forms of subsidized export competition.***

On domestic support : The Derbez text threatens to create a *new* loophole that will allow developed countries to continue to protect their farmers with trade-distorting subsidies by moving them into a redefined Blue Box. Because countries are spending far below the targets allowed under the Uruguay Round Agreement, without very deep cuts in all forms of trade distorting subsidies, this could leave the actual level of trade distorting subsidies completely unaffected. ***Reclassifying trade-distorting Amber Box subsidies into the Blue Box is potentially the biggest step backward in the negotiations.***

Early drafts of the Uruguay Round Agreement proposed to discipline domestic subsidies commodity by commodity. At the last minute, the Uruguay Round agreement was weakened, and subsidies were disciplined across the board. Countries could therefore shift support amongst commodities and even raise subsidies on some, distorting farmers' production decisions and comparative advantage, often to the detriment of developing countries. ***If there is to be truly meaningful reductions in trade-distorting domestic subsidies, they must be capped, substantially reduced, and disciplined commodity by commodity.***

On market access: Real access to developed country markets will mean more to developing countries than any other reform in the Doha Round. While tariffs are not the only barrier to trade that must be tackled, it is vital that the highest tariffs be reduced more than the lowest tariffs. Perversely, by enabling countries to use two tariff reduction formulas, the Derbez text could allow countries to reduce their highest tariffs the least, and lowest tariffs the most. Again, ***requiring a minimum tariff cut, commodity sector by commodity sector, and requiring countries to subject the bulk of their tariffs to the more ambitious tariff-reduction formula would close that loophole.***

More troubling, however, are proposals in the Derbez text to exempt politically sensitive commodities from all but minimal tariff cuts. While developed and developing countries both face politically powerful commodity groups, the answer is not to create special exceptions. The answer is to allow ***countries with politically or economically sensitive products to be given some flexibility to phase in sensitive tariff cuts over a longer implementation period, or provide increased market access in those products through higher import quotas. But, no products should be wholly exempt from increasing market access.***

The full text of the IPC's recommendations "25 Ways to Improve the Derbez Text" is also available at www.agritrade.org.