International Food and Agricultural Trade Policy Council

Recommendations for the Doha Agricultural Trade Negotiations

INTRODUCTION

The Uruguay Round Agreement

The Uruguay Round Agreement on Agriculture (URAA) brought agriculture fully under international trade rules for the first time. The Agreement eliminated country specific exemptions, bound and reduced all agricultural tariffs, converted non-tariff barriers into more transparent tariffs, and increased access into highly protected markets. The URAA disciplined export subsidies by establishing limits on the value and quantity of exports that could be subsidized. The URAA framework encouraged countries to shift domestic support away from trade distorting subsidies to less trade distorting subsidies.

While the URAA established an important framework for liberalizing agricultural trade, it did not make much progress in actually liberalizing agricultural trade. Converting non-tariff barriers into tariffs produced a number of tariffs bound at very high levels. Despite progressive reductions, many tariffs remained high enough to prevent imports. The agreed growth of tariff rate quotas helped somewhat but often led to greater intervention in the market rather than less. And while export subsidies were reduced, they still disrupt trade in certain commodity markets. And, finally while the form of domestic support provided by the major industrial countries changed, the overall level of support is little different from levels prevailing at the beginning of the Uruguay Round negotiations.

The Doha Challenge

The challenge of the Doha Round is to further the Uruguay Round Agreement while addressing the new demands on the emerging global food system. The Doha negotiations must encompass the three main elements of the Uruguay Round Agricultural Agreement, namely market access, export competition and domestic support. But, the negotiations must go beyond those elements to address concerns specific to developing countries; the negotiations must recognize the varied role agriculture plays in different countries and the negotiations must deal with tough problems that were not resolved in the Uruguay Round.

PREFACE

In May 2002 the International Food and Agricultural Trade Policy Council (IPC) began to develop recommendations for the Doha negotiations on agriculture. The following recommendations represent the consensus of 37 former government officials, farm leaders, agribusiness executives and leading academics from 21 countries including the United States, the European Union, the Cairns Group as well as less developed countries. We believe that these politically practical recommendations can fulfill the Doha mandate on agriculture "to establish a fair and market-oriented trading system… to correct and prevent …distortions in world agricultural markets." ***These recommendations are comprehensive, covering market access, export competition, domestic support, special and differential treatment and non-trade concerns.***

As with any consensus document, however, not all members of the IPC agree with every recommendation. Accordingly, specific statements in the document should not be attributed to any single IPC member. In discussing these recommendations, the IPC considered offering first and second-best alternatives. In the end, the IPC's members decided that to fulfill the ambitions of the Doha Development Agenda, the IPC should recommend what it viewed as first-best alternatives. Obviously, the first-best alternatives do not always represent the easiest path forward for individual countries. But, ***the IPC hopes that its recommendations provide a balance of concessions that will make difficult policy reforms more politically palatable.***

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INTRODUCTION *(Continued)*

Developing Country Concerns. The majority of WTO members are developing countries. Yet, until the launch of the Doha Development Agenda, the interests of most developing countries were on the periphery of international trade negotiations. The Uruguay Round did engage developing country exporters, who were disadvantaged by export subsidies and the high levels of protection in developed countries. But, the least developed countries were not a focus of the Uruguay Round negotiations.

For the least developed countries, the Doha negotiations are critical. Farmers in developing countries are disadvantaged by export subsidies on the one hand, which reduce world commodity prices, and import barriers on the other, which deny market access. ***Because agriculture is vital to developing country economies, the Doha negotiations must ensure that agricultural trade liberalization becomes a means to development, rather than an end in itself.***

In the first seven trade rounds, the GATT negotiated reciprocal cuts in industrial tariffs, where developing countries had little to give and little to gain. To address the concerns of developing countries, the GATT provided Special and Differential Treatment (S&DT) to developing countries, which reduced and delayed tariff cuts to give developing countries longer to adjust to open markets.

By the time the Uruguay Round negotiations began, the growing integration of the global economy, the emergence of competitive developing country exporters, and an increasing appreciation for the role of trade in economic development brought the interests of developing countries into the trade negotiations. However, the Uruguay Round agricultural negotiations focused mainly on agricultural policies in the OECD countries and their impact on developing country exporters, who were mostly members of the Cairns Group. The effect of these policy reforms on other developing country farmers and consumers, who are among the world's lowest income citizens, was not a central focus of the Uruguay Round negotiations.

In recent years, the conventional wisdom about trade and economic development has evolved. While sharp differences between developed and developing country agriculture persist, development economists have begun to emphasize the benefits of integration, trade and open markets for developing countries.

It is still widely accepted that developing countries need assistance to compete in world markets. But trade agreements that simply provide longer implementation periods and smaller commitments mean that the process of economic policy reform in developing countries is increasingly out of sync with the rest of the world. The benefits of a more open economy are delayed. And, the needs of developing countries themselves have diverged, due to their very different economic situations.

More importantly, traditional S&DT—longer transition periods and smaller commitments—does not address the very complex challenges facing developing countries as they integrate into the global economy. Developing countries need not only more market access; many need assistance meeting quality and safety standards necessary to actually capture market share. Developing countries need not only a reduction in price-depressing export subsidies; they also need more investment in infrastructure to compete in the global marketplace. They need not only a more level playing field, but also assistance in improving their domestic production, transportation and marketing systems. Simply continuing S&DT as currently defined is not sufficient to tackle these problems.

The IPC believes that an ambitious outcome that increases market access, reduces government financed export competition and reduces trade-distorting domestic subsidies will deliver greater benefits to developing countries than traditional S&DT ever could. Where developing countries have unique concerns, these concerns should be integrated into the overall framework of the agreement, rather than segregated into Special and Differential Treatment or into a Development Box.

Non-trade Concerns. Any trade negotiation must balance political demands and policy preferences. This is particularly true in agriculture. Food and agriculture are vital to the culture, politics and economics of every nation, whether food exporter, food importer, developed or developing. Beyond assuring food production, agriculture can help preserve the natural environment, maintain the quality of a nation's agricultural patrimony, sustain ecological systems, enhance rural development, stem rural-urban migration, and preserve rural landscapes***. To the extent that countries use agricultural policy tools to pursue these non-trade concerns, it is important that they avoid any trade-distorting effects. The agricultural negotiations under the Doha Development Agenda should take account of these concerns without hampering achievement of the goal of furthering agricultural trade liberalization.***

Unresolved Issues. Establishing the framework for trade liberalization was a daunting task for the Uruguay Round negotiators. As a consequence a number of issues were left unresolved. These include treatment of state trading entities, export credits, food aid, export restrictions and taxes, two-price systems, and tariff-rate quota administration. Many of these issues are highly technical, but they must also be addressed in the Doha negotiations.

MARKET ACCESS

Market access is the keystone of any trade negotiation. The URAA made visible the high levels of agricultural protection that were long hidden by non-tariff barriers. Converting quantitative restrictions, variable import levies and other similar measures into tariffs has made market access conditions in agricultural trade significantly more transparent. The URAA bound all tariffs, making it impossible to raise tariffs without re-negotiating with one's trading partners. The agreement also eliminated country specific exceptions that exempted sensitive commodities from the general prohibition on import quotas. And, the URAA created minimum market access requirements, which have provided increased access into some highly protected markets.

Despite these accomplishments, tariffs on some commodities and products remain high. By allowing countries to average their tariff reductions across all agricultural commodities, some sensitive sectors saw only marginal reductions in tariff rates. In some sectors, relative protection levels actually increased. Agricultural products remain subject to tariff peaks (relatively high tariffs) and to tariff escalation (increasing tariffs for the same commodity across varying levels of processing). Tariff rate quotas have not always increased market access due to the small size of the tariff rate quota, high in-quota tariff rates, prohibitive over-quota tariffs and complicated tariff rate quota regimes.

The URAA did not directly address concerns related to importing state trading entities. And finally, the URAA allowed only countries that converted non-tariff measures to tariff to use special safeguards to protect against import surges. This excluded many developing countries that were allowed to set their tariffs at very high bound rates, rather than at the applied rates used by developed countries. Because these countries already had protection through high tariffs, it was presumed that developing countries did not need a special agricultural safeguard.

IPC recommendations

- *There should be a minimum level of reduction required for any individual tariff line.*
- *There should be an average tariff reduction required for all tariff lines within a single tariff chapter, rather than averaging tariff cuts across all agricultural commodities.*
- *Extremely high tariffs (or tariff peaks) should be addressed by establishing a maximum allowable tariff rate for all agricultural commodities. All tariffs should be immediately reduced to that level, and then reduced in equal installments over the implementation period.*
- *Tariffs should be reduced in equal annual installments, from bound levels or from the maximum allowable tariff set for tariff peaks.*
- *Tariff escalation should be addressed by harmonizing tariffs on different stages of processing downward. Higher tariffs would need to be reduced by a larger percentage than lower tariffs, so that by the end of the implementation period, tariffs across different levels of processing for the same commodity would be more consistent.*
- *Minimum access commitments should be based on a rising percentage of national consumption over the Doha implementation period. The base period for determining the level of national consumption should be updated, since many countries have experienced significant changes in national consumption patterns since the Uruguay Round Agreement.*
- *To improve minimum market access, in-quota tariffs should be phased down to zero and country specific allocations should be phased out during the implementation period.*

- *The tariff quota volumes should expand annually, based on the percentage commitments prevailing at the end of the Uruguay Round.*
- *Tariff rate quotas are currently governed by the Agreement on Import Licensing Procedures. This agreement needs to be strengthened. Members should establish guidelines for tariff rate quota administration that increase the transparency and predictability of these mechanisms. These guidelines should ensure that new access is available on a Most Favored Nation basis and that new market entrants can compete with historical suppliers for quota access.*
- *A special safeguard clause should continue for developed countries, but with higher price and volume trigger levels than for developing countries, bound by the Agreement. Use of the special safeguard should be limited to a specific period of time.*
- *State trading importers should lose their monopoly trading power and be required to increase private sector access to import markets each year during the implementation period. Government funding for state-trading importers should be reduced along the same schedule accorded state-trading exporters.*

Developing Country Issues

Developing countries' interests are best served by a significant reduction in tariffs on all products and in all countries. Attempts by developing countries to seek more protection on development grounds (such as proposals to exempt "strategic" agricultural products from reduction commitments) will simply reinforce protectionist interests in developed countries, and keep sensitive commodities (many of which are of interest to developing countries) off the negotiating table. Moreover, many developing countries have strong dependence on South-South trade, where tariff barriers remain high. Reducing tariffs among developing countries will promote intra-regional trade. Enhanced South-South trade will enable countries to take advantage of economies of scale to serve larger, regional markets; to attract private investment by creating regional markets; to compete with countries at similar stages of economic development with similar consumer demands; and to develop the infrastructure needed to facilitate trade.

Because they require no fiscal outlays, import tariffs are often the only instrument used to protect farmers in developing countries. They are also a significant source of tax revenue for developing country governments. Many developing countries are reluctant to reduce tariffs while developed countries retain high domestic subsidies. However, tariffs act as a regressive tax on consumers in developing countries, who spend a large share of their income on food. Ways must be found to address the legitimate concerns of developing countries facing import surges in "strategic" crops due to subsidized exports or subsidized production.

Under the Uruguay Round Agreement, few developing countries were able to utilize the Special Safeguards Agreement. Only countries that converted non-tariff barriers into tariffs were eligible to use the SSG. Moreover, use of the SSG required extensive administrative and legal resources that many low-income countries can ill afford.

It is also important to recognize that ***lowering tariffs is only one part of improving market access for developing countries.*** Developing countries must also be able to meet sanitary and phytosanitary requirements and to deliver quality products in a timely manner to world markets. Improving real market access will require significant investments in local infrastructure and in regulatory capacity in developing countries. Developing countries themselves, as well as overseas donors, will need to invest in Green Box measures to enable developing countries to take advantage of greater market access.

IPC recommendations

- *Developing countries should have access to a special safeguard clause. The use of this safeguard should be simple and transparent, with trigger levels (a percentage change in imports below an established price or above an established quantity) bound in the agreement. The use of the special safeguard clause should also be limited to a specific period of time.*
- *Developing countries' tariff reduction commitments should be smaller than required for developed countries, but implemented on the same schedule as required for developed countries.*
- *Developing countries should reduce tariff peaks and tariff escalation in the same manner as required for developed countries, but at a slower rate of reduction.*
- *Developing countries, which maintain parastatal entities to distribute food and prevent the dominance of*

private firms in markets with inadequate commercial structures, should reduce their role in the market over the implementation period. Developing countries may require assistance from bilateral and multilateral donors to create a competitive market environment.

Preferential Access

Over the years, developing countries have been granted preferential access into developed country markets. Special preferences have been based on historical or geographic relationships (such as the Lomé Convention—or its successor, the Cotonou Agreement, the Caribbean Basin Initiative, and the African Trade and Development Act). Some are applied by all developed countries to developing countries, such as the Generalized System of Preferences. Special preferences are also granted to the Least Developed Countries, as well as to countries that pursue non-trade objectives such as fighting narcotics.

In principle, tariff preferences offered by developed countries to developing countries are welcome, if they enhance growth in developing countries. They are more valuable to the recipient if they are given without reciprocity. But they also create distortions in trade among developing countries, thus defeating the basic objective of promoting trade for developing countries.

Special preferences have clear short- and medium-term benefits for the recipients. They offer higher prices when selling into the protected markets, as reduced or zero tariffs increase returns to exporters. And, they secure access for particular quantities of exports, allowing production and shipping to be geared to established markets.

But these preferences are not always as beneficial as they seem for recipients. They lock in patterns of trade, which inhibits adjustment to profitable new markets; they are subject to the political decisions of the preference-granting country, which inhibits investment; and they confer benefits to marketers, with no guarantee that higher prices reach developing country producers or traders. In some cases, developed country importers export domestically produced commodities onto the world market while importing the same product under preferential arrangements, lowering world prices for all producers. The existence of special preferences, and the quota rents they create has also contributed to corruption in developing countries, as competitors vie for the right to import preferred products.

More broadly, protected sectors in the developed countries have used special preferences as a rationale to postpone domestic and trade reforms. ***In effect, the existence of special preferences has made it more difficult to negotiate broader trade liberalization that would be of even greater long-term benefit to the developing countries.***

As tariffs continue to decline, the value of special preferences will erode. This process will continue as the agricultural negotiations in the Doha Round lead to further reductions in MFN tariffs. Special preferences should be seen as a way to encourage imports from developing countries before generally freer market access. Preferences give developing countries early access to developed country markets (a concrete manifestation of special and differential treatment) that allows them to expand production and establish marketing channels. The market advantage will erode over time, but these countries can increase productivity and maintain their market position in the meantime.

IPC recommendations

For many developing countries suddenly removing special preferences would have major repercussions. Not only are their trade patterns heavily influenced by preferences, but also their ability to compete in these markets has become dependent on the continuation of preferential access. Least developed countries and small island developing countries may be particularly affected. This implies that existing special preferences for developing countries should be converted over a transition period into a broader based system of generalized preferences for developing countries that comply with the following guidelines:

- *Economic development is best served when the principle of non-discrimination is applied to developing countries. Therefore, preferences should apply to all developing countries, where there is a clear, generally recognized case for such a treatment. This would reduce, if not eliminate, the trade diverting effect of these* *preferences on developing countries that do not currently benefit from special preferences.*

- *Generalized preferences should cover all commodities from eligible countries to avoid the distortions that occur in commodity markets when preferences dominate trade flows. As many of the commodity-specific preferences limit access in sensitive import sectors, the move to generalize such preferences will expand trade opportunities.*
- *More advanced developing countries should not lose preferences because of successful economic development, as long as they remain low- or middle-income countries according to the World Bank's definition.*
- *Eligibility for preferences should not be contingent on other non-economic criteria beyond compliance with WTO commitments.*
- *Tariff preferences should not be quota restricted for the Least Developed Countries. Quotas favor the more efficient and penalize the less efficient, which may contradict the objective of providing aid to the least developed countries.*
- *Tariff preferences should provide duty-free access, rather than simply reduced tariffs. This would increase the value to the beneficiaries.*
- *Tariff preferences should be bound in WTO schedules for a sufficiently long time to provide a reliable basis for trade and investment*

Indications of Geographical Origin

Geographic indications are covered under the TRIPS agreement. Geographic indications protect producers against the use of names that would mislead the public or constitute unfair competition. Members of the WTO can protect the names of wine and spirits*, even if the use of the name does not mislead the public.* Only countries that protect geographic indications from domestic competitors are eligible to use the protections accorded under the TRIPS agreement. The Doha Declaration mandates the TRIPS Council to examine whether to increase the protection now provided to wines and spirits. Some Member countries argue that the mandate includes negotiations to extend the level of protection accorded to wine and spirits to other agricultural products.

The IPC believes that extending the level of protection afforded to wines and spirits to other agricultural products carries with it many difficulties. First, the wine and spirits agreement has yet to be implemented despite years of discussion and debate. It remains to be seen how the agreement will work in practice. Second, the beneficiaries of such a system would primarily be countries that already have a number of products protected by geographic indications. Countries which do not have many products covered by such a system would be required to establish one, at potentially great costs. It is difficult to predict which countries and which producers might benefit or lose from a global system of geographic indications for foods. Third, names of countries (which are sometimes used to designate origin) might not be eligible for a geographic indication. Fourth, many terms have already become so widely used that they are now "generic" and would not be eligible for protection. Fifth, while geographic indications protect consumers and producers against misleading product names, they can also be used to restrict market access for competing products.

IPC Recommendations

- *Any discussion of extending geographic indications for food should wait until the agreement on wines and spirits has been fully implemented. The WTO or other appropriate institution should undertake an analysis to determine whether a system governing foods could reasonably be constructed, and which producers and countries stand to benefit from a broadening of the system of Geographic Indications.*
- *Geographic indications should be discussed under the auspices of the TRIPS Council.*

FOOD SAFETY AND LABELING

In addition to bringing agriculture under international rules, the Uruguay Round also created the Sanitary and Phytosanitary Agreement (SPS), which established scientific criteria as the basis for determining the appropriate level of sanitary and phytosanitary regulations. There were two principle rationales behind the SPS Agreement. First, several unresolved conflicts involving health and safety regulations were damaging international trade relations. Second, negotiators were concerned that as countries lowered traditional trade barriers, they might be tempted to replace them with regulatory barriers.

The SPS Agreement obliges countries to conduct risk assessments and encourages countries to harmonize

SPS standards wherever possible. The Agreement allows countries to adopt higher levels of protection if justified by science. The SPS Agreement allows countries to take provisional precautionary measures, where sufficient scientific information is not available. The burden of proof lies with the country taking the precautionary measure, rather than with the country challenging the measure. Under the SPS Agreement, precautionary measures must be reviewed within a reasonable timeframe, and re-evaluated when more evidence is available.

The SPS Agreement established policies for the regionalization of disease control measures; and enshrined the notion of equivalence in the WTO agreement. The SPS Agreement requires countries to notify the WTO of any changes in SPS measures. Importantly, the SPS Agreement also exempts from challenge any country whose regulations conform to international standards (such as from the Codex Alimentarius).

However, since the conclusion of the Uruguay Round negotiations, consumer's confidence in government regulators has fallen in Europe and elsewhere. In response to consumer concerns, some governments have invoked a "precautionary approach" to food safety regulations. The precautionary approach originated in the area of environmental regulation, and is enshrined in the Biosafety Protocol. It is often characterized as giving pre-dominance to the risks of action, versus the risks of inaction.

Exporting nations have challenged the application of a precautionary approach to food safety. As a result, some governments want the Doha negotiations to clarify what a "precautionary approach" means in terms of relevant WTO rules.

IPC Recommendations

The existing SPS agreement requires countries to base their regulatory measures on sound science; it provides countries with a framework to evaluate risks and minimize risks.

- *The IPC believes the current SPS Agreement allows countries sufficient latitude to address issues where science may be inconclusive, and where consumers have legitimate concerns.*
- *The IPC believes it is not necessary to amend the SPS Agreement to clarify the precautionary principle.*
- *It is critical for the world trade system that SPS decisions remain grounded in sound science because it protects all exporters from disguised protectionism.*

Labeling and Communication

The global food system must provide consumers not only with safe food, but also with credible information about their food. Consumers, for religious or personal reasons, may chose to avoid foods that are produced using certain technologies or practices. However, ***the SPS Agreement is not the appropriate tool to address matters of consumer choice or preference***. Rather, consumers must have access to credible information from authoritative, respected and irreproachable sources. Credible information should be provided to consumers through a variety of communications media. In some cases, governments may create a labeling system to enable consumers to select foods that correspond with their values. Ideally, such labeling systems should be voluntary, independently verifiable and realistic. In addition, such systems should not impose greater burdens on imports than n domestic products.

Developing Country Issues

In the Uruguay Round negotiations, developing countries were allowed a longer time frame to implement the SPS Agreement. But, developing countries argue that their concerns about implementation and compliance were not addressed in the Uruguay Round Agreement. Developing countries have expressed concerns that they are underrepresented in the international bodies that set SPS regulations. Many want to change the decision-making process at these organizations to "level the playing field." Many developing countries also lack the institutional structure to conduct the risk assessments required by the SPS Agreement, and thus may be forced to depend on international standard setting bodies, rather than their own internal assessment. Developing countries also maintain that many developed countries do not recognize "equivalent" standards, even though equivalency is one of the hallmarks of the SPS Agreement. Developing countries also complain that the process for recognizing sub-national regions that are pest or disease free is costly and time-consuming.

The IPC believes that the ability to comply with sanitary and phytosanitary regulations is a key component of market access. Lower tariffs will provide few benefits if developing countries cannot meet SPS standards. Moreover, raising standards not only benefits producers in developing countries, who face many animal and plant diseases and pests, but also developing country consumers who suffer from unsafe food. Investment in institutional capacity, whether through Green Box Measures or through Official Development Assistance, must be made to address many of the concerns voiced by developing countries. International organizations, including the Codex Alimentarius, the Organization for International Epizootics, and the International Plant Protection Convention should be enabled to assist developing countries in this regard.

EXPORT COMPETITION

Since the mid-1950s, the GATT has banned export subsidies for industrial products. It was not until the Uruguay Round that limits were placed on government-financed export competition in agriculture. The URAA made a good start in reducing the quantity of subsidized exports, and government expenditures on export subsidies. It broke new ground by reducing producer financed export assistance.

But, the Uruguay Round did not address broader issues concerning export competition. The URAA did not authoritatively address two-price regimes, where explicit export subsidies were not involved. The URAA also did not foresee the high level of loan deficiency payments in the United States. While these are domestic subsidies, and are counted as Amber Box measures, some countries have argued that they are implicit export subsidies in the case of some commodities. The URAA left the issue of export credits to the OECD, which was unable to develop a solution prior to the launch of the Doha Round.

The issue of disciplining food aid, whether for market development or surplus disposal was also not addressed effectively in the URAA. And, there was no real debate on strengthening the disciplines on state trading entities that participate in world markets. Nor was there much discussion of export embargoes and export taxes, which are equally disruptive in international markets. Thus, while many of these issues were raised during the Uruguay Round, only government financed export subsidies and producer financed export assistance were meaningfully engaged.

In the Doha Round it will be difficult for countries exporting at world prices without government subsidies to agree to allow their competitors to continue to subsidize their agricultural exports. In addition to further curtailing the use of direct export subsidies, other practices, such as export credits and state trading, which can also distort international markets, must be disciplined. WTO disciplines should also prevent members from circumventing export subsidy commitments with surplus disposal programs that are not serving legitimate food aid objectives.

The concerns of food importers must be addressed. ***There is a clear conflict between the ability of exporters to withhold supplies from the world market and the reliability of the world market for food importers.*** Restricting exports in times of high prices distorts the world trade system as much as subsidies in times of weak prices. Food importers (both developed and developing) need assured access of supplies to increase their confidence in the global food market and its ability to enhance their food security. Export taxes, export monopolies, export restraints and export embargoes must be disciplined to strengthen food importers' confidence in the international marketplace.

IPC Recommendations

- *A date-certain for the phase-out of all export subsidies should be established, even if that date is beyond the Doha implementation period.*
- *Export subsidies should be substantially reduced from bound levels during the Doha Development Round implementation period. The framework of cuts in both expenditure and quantity, as established under the URAA, should be used to achieve this goal. Countries that have already lowered internal price supports should be able to reduce export subsidies for some crops even more expeditiously in the Doha Round.*
- *Export credit terms should be extended for one year or less. Any export credits providing longer repayment terms should be considered export subsidies and disciplined as such. The Doha agreement also should limit the level of interest rate subsidies (using commercial interest rates as a benchmark) as well as the level of government expenditures used to implement export credit programs.*

- *Limits on export credits should apply whether the national government or a government-sanctioned state trading entity supplies the credit.*
- *Any taxpayer funds used to support state trading exporters should be reduced and eliminated over the implementation period. Monopoly trading power should be constrained by mandating that private traders control a growing share of the market over the implementation period.*
- *Food aid should be offered on a grant basis only. Food aid provided with credit guarantees should be classified as export credits and subject to similar disciplines. Food aid offered at concessional prices should be considered as export subsidies and subject to similar disciplines. The Committee on Agriculture should be notified of food aid donations.*
- *Establishing effective disciplines on export taxes, export restraints and export embargoes should restore the balance of obligations between exporters and importers. Export restrictions on foodstuffs for short-supply or foreign policy reasons should be banned.*
- *All export taxes should be bound, reduced and eventually eliminated at the same pace as export subsidies.*
- *Two-price systems and other forms of domestic support payments that can displace third country exports should be actionable for anti-dumping purposes and subject to serious prejudice claims, under the Agreement on Subsidies and Countervailing Measures.*

Developing Country Issues

In general, developing countries do not use export subsidies because of their cost. ***It is in the interest of developing countries overall to negotiate tough rules on export competition to avoid subsidy wars and to reduce the influence of government-financed export competition on the world market.*** Export subsidies can hurt developing country farmers by lowering world market prices; export credits and food aid also can reduce the prices received by developing country farmers, and subsequently their incomes. These policies do, on the other hand, provide short-term benefits to developing country consumers, who spend a high proportion of their income on food, by reducing food prices.

But, even in net food importing countries, cheap imports may displace local production and can be harmful over the longer-run. Judging from the proposals submitted by developing countries, as a group they oppose subsidized export competition, even net food importers. Low-income food importers are concerned that the reduction of government funded export competition could increase commodity prices, and result in higher food import costs. Overall supply and demand factors since the end of the Uruguay Round have made it difficult to relate world price levels to agricultural policy reforms. However, concerns about higher food prices are real, regardless of the reason, and should be addressed under the Marrakech Agreement signed at the end of the Uruguay Round negotiations.

Finally, a number of developing countries subsidize their processing industries by levying lower taxes on processed exports than commodity exports, implicitly lowering the internal commodity price to processors. These differential export taxes also distort markets, and should be reduced and eventually eliminated.

IPC Recommendations

- *Least developed country concerns about the impact of subsidized imports on their subsistence farmers should be addressed under a special agricultural safeguard clause, as outlined under the market access recommendations.*
- *Developing country concerns that reduced export subsidies might raise import prices should be addressed under the Marrakech decision and by international donor agencies. The IPC believes it is preferable to compensate poor consumers for higher prices through direct food aid, food stamps, or direct income transfer rather than by lowering food prices for all consumers, thereby depressing commodity prices for farmers.*
- *The provision in the URAA allowing the least developed countries to subsidize internal and external transportation costs should be continued. However, the IPC believes that government investment in building rural roads and other transportation infrastructure under Green Box measures is a more efficient way to reduce internal transportation costs.*
- *Export subsidies provided by developing countries should be reduced on the same schedule as developed country export subsidies.*
- *Differential export taxes should be harmonized across different levels of processing, and substantially*

- *reduced during the Doha Development Round.*
- *Developing countries using export taxes to finance agricultural research or marketing should be allowed to continue this practice, but taxes should remain at a minimal percentage of the value of the product in question. Export taxes should not be used to raise general revenues.*

DOMESTIC SUPPORT

In the Uruguay Round, trade-distorting domestic agricultural support was subject to reduction commitments for the first time. The classification of domestic subsidies into Amber, Green and Blue boxes encouraged countries to shift support out of trade-distorting Amber and Blue Box measures into non-or minimally trade-distorting Green Box measures. According to the OECD, over 60 percent of domestic subsidies provided by OECD countries are now classified as Green Box subsidies, and therefore are excluded from reduction commitments. OECD data show that member countries are shifting domestic support away from Amber Box and toward Green Box measures. However, the overall level of support to OECD farmers remains close to the levels at the beginning of the Uruguay Round negotiations.

Since the end of the Uruguay Round, new issues have emerged under the general heading of domestic support***. The level of supports provided to OECD farmers has raised concerns that even Green Box subsidies, if provided directly to individual farmers at sufficiently high levels, can distort trade.*** These direct income supports, even if decoupled, provide a measure of "insurance" against crop failures or low prices, making it easier for farmers to make potentially risky investments. Direct payments to individual farmers can also distort trade by increasing the capital farmers have to invest in their operations. Moreover, some direct payments are not perfectly decoupled, allowing farmers to influence future payments with current production decisions.

Even non- and minimally-trade distorting subsidies induce more production than would otherwise be the case, putting downward pressure on world prices. And, ironically, because these supports are often capitalized into asset values, they can make producers less competitive and more likely to demand higher levels of protection. In some commodities, Green and Amber Box subsidies generate sufficient supplies that export subsidies are required. As a result, some countries are asking whether direct payments to farmers, now classified as Green Box, are indeed minimally trade- distorting.

The impact of OECD subsidies on developing country farmers is of particular concern. Developing countries do not have the resources to provide their farmers with income supports. Yet, they are being asked to reduce their tariff barriers and to compete against subsidized farmers in OECD countries.

Since the Uruguay Round, there has been a growing discussion of non-trade concerns, such as rural development, food security, animal welfare and environmental protection. While these are issues in developed and developing countries, these concerns have been primarily raised by developed nations. Some countries want to expand the Green Box to include policies that address these non-trade concerns.

Several countries have proposed that overall expenditures on domestic support be capped at some percentage of agricultural GDP, rather than classified into Green, Amber and Blue Boxes as is done under the Uruguay Round architecture. Developing countries are asking for provisions that will address their particular concerns in the area of domestic support.

The challenge for the Doha negotiations will be to further discipline domestic support, without compromising the ability of governments to support their farmers and their society's needs.

Architecture

The URAA classification system has encouraged countries to move from more to less trade distorting policies. The IPC understands the arguments of those who wish to cap total support provided to farmers as a percentage of overall agricultural GDP, but believes that it is not realistic to substantially change the architecture of the Uruguay Round Agreement, although some adjustments are required to address concerns raised during Uruguay Round implementation.

Green Box

The Uruguay Round identified a number of support measures which have "no, or at most minimal" trade distorting effects. These were classified into the Green Box. All domestic support measures not listed in the Green Box fall into the Amber Box. Amber Box measures are counted towards a country's Aggregate Measure of Support, and are subject to reduction commitments. Many trade policy experts argue that the criteria for the Green Box are so broad they permit trade-distorting policies to escape discipline, yet so narrow they rule out certain non-trade distorting policies.

There are essentially two types of policies covered by the Green Box. On the one hand are subsidies for "public goods" such as agricultural research, extension, rural roads, etc. There are also subsidies for public goods relating directly to other effects of agricultural production, such as land and water conservation or protection. The use of these measures should be encouraged, particularly in developing countries.

Under the URAA, direct income transfers to individual farmers that were decoupled from prices and production were included under Green Box measures. Experience under the URAA has shown that some types of direct payments to individual farmers can distort farmers' production decisions, potentially distorting trade. For example, updating base acreage or base yields to calculate direct subsidies can alter farmers' expectations and behavior in ways that affect current production decisions and ultimately trade.

IPC Recommendations

- The Green Box should continue to encourage countries to provide a great share of their support to farmers and rural areas in the form of public goods, rather than as direct income support for individual farmers. Only government payments for generally available public goods should be wholly exempt from discipline under the Green Box. Included in this category would be investments in physical infrastructure, research, food safety measures, regulatory services, information services, and education services. Other Green Box measures could include commodity purchases for food security reserves, payments for land or water conservation where payments flow to individual farmers, but not for the production of specific commodities.
- Only direct income transfers that are completely decoupled from current and future prices and production levels should be included in the Green Box. The Green Box should exclude measures that provide direct support to individual farmers in ways that distort trade and production. If farmers can increase current or future payments by increasing production, then those payments should be placed either in the Amber Box or in the Blue Box, if appropriate supply control measures are instituted to counteract their trade distorting properties.

Amber Box

The Uruguay Round Agreement bound and reduced the level of trade-distorting domestic support countries could provide to their farmers. Negotiators originally intended to make these commitments product- specific, but in the Blair House Agreement countries agreed to average commitments across the entire agricultural sector. ***The Blair House Agreement allowed countries to continue to reduce support for some products while increasing support for some products and leaving support for other products untouched, and still meet their overall commitment.*** The IPC felt at the time this was a major weakness of the Uruguay Round Agreement. This weakened the effect of the Amber Box reductions and allowed countries to avoid reductions (or even increase support) for sensitive commodities.

Under the Uruguay Round Agreement, developed countries were required to reduce Amber Box support over the six-year implementation period. (Developing countries were allotted a ten-year implementation period.) Outside of those bound levels of support, countries also could provide *de minimis* levels of support to their producers. Product specific support granted a particular commodity (up to five percent of the commodity's value for developed and ten percent for developing countries) would not count toward a country's total Amber Box commitment. Non-product specific support that did not exceed five percent of the value of the member's total agricultural production (ten percent for developing countries) was also exempt from reduction commitments.

IPC recommendations

- *Any support provided directly to individual farmers that distorts production and trade should fall into the Amber*

Box. Amber Box support should then be reduced in a linear fashion from bound levels on a commodity by commodity basis.

- *The allowance for product-specific, trade distorting de minimis support for developed countries should be reduced over the implementation period on the same schedule as that agreed for reducing Amber Box support.*
- *The level of non-commodity specific de minimis support for developed and developing countries should remain at five and ten percent, respectively.*

Blue Box

The Blue Box was also the result of the Blair House negotiations between the United States and the European Union. The Blue Box allowed countries to offset the production stimulating effect of policy measures they were politically unable to place in the Amber Box. Subsidies in the Blue Box must be accompanied by supply control measures or must limit the percentage of production that is eligible for subsidies. Hence, Blue Box subsidies were considered to be less trade distorting than open-ended Amber Box support. There were no reductions required for Blue Box spending.

The United States no longer uses the Blue Box. And, the European Union's use of Blue Box has also fallen. If enacted, the CAP reform envisioned by the Mid-Term Review would further reduce the level of Blue Box payments made in the European Union***. The need for Blue Box to ease the transition to Amber Box commitments appears to be diminishing.***

IPC recommendations

Blue Box expenditures should be reduced in line with Amber Box commitments in the Doha Round. Supply control measures could be eased as production-distorting subsidies are reduced.

Peace Clause

The Peace Clause suspended the right of exporters to seek redress from import displacement or third country export displacement caused by domestic subsidies which otherwise conform to WTO commitments. Under the Peace Clause, importers continue to have the right to take countervailing duty action against Amber and Blue Box subsidies. But Green Box subsidies are not actionable for countervailing duty purposes.

IPC Recommendations

- *The Peace Clause should be maintained for Green Box measures. Green Box subsidies should continue to be non-actionable for countervailing duty purposes.*
- *Two price systems and other forms of domestic support that can displace third country exports should be actionable for anti-dumping purposes and subject to serious prejudice claims, under the Agreement on Subsidies and Countervailing Measures.*
- *Exporters should regain the right to seek redress in cases where Amber or Blue Box subsidies cause serious prejudice.*

Developing Country Issues

Over the years, many developing country policies have taxed, rather than subsidized, farmers***. Developing countries have under-invested in Green Box measures that could increase agricultural productivity, raise rural standards of living and improve their long-term competitiveness.*** Investments in rural roads, research, regulatory infrastructure, physical infrastructure, and market information have all lagged in developing countries. In part, this under-investment is due to internal priorities in developing countries themselves, but also due to cuts in Official Development Assistance to agriculture from bilateral and multilateral donors.

Under the URAA, developing countries can provide product-specific support up to ten percent of the product's value. Developing countries can provide non-product specific support to the agricultural sector up to ten percent of total value of agricultural production. Very few developing countries are close to the levels allowed under the URAA. Only eight developing countries have reported *positive* support figures to the WTO. In many countries, product specific support is negative. In some cases, hyperinflation has increased the reported AMS, even though in real terms the level of support has fallen or remained constant.

The Uruguay Round Agreement does allow developing countries to use certain policy instruments to encourage agricultural and rural development. Investment subsidies and agricultural input subsidies are exempt if they are targeted to low income or resource-poor producers. Subsidies provided to encourage producers to diversify out of illegal narcotics are also not prohibited.

Yet, developing countries remain concerned that the current definition of Green Box subsidies (which was designed with developed country policies in mind) might impede their ability to support their agricultural sectors in the future. The most significant concern for developing countries revolves around the expiration of the Peace Clause. Some subsidies, such as subsidies for irrigation, are allowed under the Green Box as currently written. But, these subsidies could have a significant impact on production and potentially trade. Developing countries fear that these subsidies will be challenged if the Peace Clause expires.

IPC Recommendations

- *Investments in public goods made by developing countries to encourage agricultural development, to alleviate poverty and to enhance rural employment should be wholly exempt from discipline. This could include, inter alia, investments in rural transportation, physical infrastructure, domestic marketing systems, agricultural research, risk management, food safety measures, regulatory services, information services, and education services.*
- *Other measures of particular interest to developing countries such as commodity purchases for food security reserves, or land and water conservation measures should also be included under Green Box measures.*
- *Green box subsidies employed by developing countries should also be exempt from challenges under the Peace Clause, as are they are for developed countries.*
- *Developing countries should continue to be able to provide product specific support up to ten percent of the commodity's value. Non-product specific support should continue to be allowed up to ten percent of the value of agricultural GDP.*

Non-Trade Concerns

There are a number of non-trade concerns that the IPC believes can be addressed under the rubric of domestic support. These include rural development, environmental protection, animal welfare and food security. It should be noted that developed and developing countries share many non-trade concerns, but often view them from quite different perspectives.

Rural development has long been an objective of agricultural policy in developed and developing countries. However, their concerns are quite different. In developed countries, agriculture accounts for a small part of the rural economy. Even when ancillary activities, such as food processing are included, less than 20 percent of national income is agricultural. Moreover, as more farm families derive income from off-farm sources, it is increasingly apparent that farmers depend on the rural economy and not the reverse.

In developing countries, the case for linking rural development and agricultural production is much stronger, because farmers account for as much as 70 percent of the population. In these countries, a reduction in agricultural production due to trade liberalization could be painful, particularly if there are few non-farm sources of employment. Trade liberalization can also provide farmers in developing countries with access to new markets and new economic opportunities, and can lower food prices to consumers, who spend up to 80 percent of their income on food.

In neither developed nor developing countries are trade distorting commodity policies the most efficient way to promote rural development. Subsidies based on production levels often accrue to large farmers, who are not normally the intended recipients of such measures. Green Box measures, which are not linked to production are effective at addressing issues relating to rural development (such as communication and transportation infrastructure, managing landscape for tourism or hunting) in developed or in developing countries.

Environmental Protection and Amenities: The impact of agriculture on the environment has also become a concern in recent years, again in both developed and developing countries. Consumers and taxpayers in developed countries are increasingly concerned about preserving natural habitat, protecting the environment and providing amenities for urban residents. In developing countries, the focus is more on environmental sustainability and food production. Green Box measures should also be used to address environmental concerns, including rewarding farmers for providing resource amenities. In a few cases, protecting the environment might require the production of a specific commodity. In those cases, such payments should be part of a country's Amber Box commitments.

Food Security: Food security is one of the most important "non-trade" functions of agriculture. ***The IPC believes that more open markets can enhance food security by promoting the efficient use of resources, by promoting economic growth, and by relying on the international marketplace to reduce the impact of domestic supply shortfalls. However, trade alone does not guarantee food security***. In the case of developing countries there are a number of additional measures that could enhance food security. These include investments in rural transportation, domestic marketing infrastructure, market communication, and investments in sanitary and phytosanitary measures. Developing country food importers also want to eliminate export embargoes and restrictions, and to safeguard their ability to purchase food on world markets on reasonable terms. Many of these measures would fit under the Green Box. Others (such as banning export embargoes) should be addressed under the export competition reforms.

There are some developed countries that also express concerns about food security. Wealthy countries' food security concerns do not involve the ability to purchase food on world markets. Rather their food security concerns are often tied to maintaining domestic production of certain staple crops. Where possible, these countries should ensure the production of staple crops using Green Box measures. However, if Green Box measures are not deemed adequate, then direct support to compensate for the production of staple crops should be considered Amber Box support and should be counted against a country's Amber Box commitments.

Animal Welfare**:** Consumers in many developed countries are becoming increasingly concerned about animal welfare in modern agricultural production systems. In some cases, these concerns are ethical. In other cases, certain practices may ignore animals' biological needs in ways that actually reduce productivity. Many countries have instituted voluntary and, in some cases, mandatory codes of practice governing the treatment of farm animals. Often, these measures increase production costs, and farmers claim they may not be able to compete with imports that are not subject to the same regulatory requirements.

Some countries want the WTO to develop a framework to address animal welfare concerns. ***The IPC does not believe the WTO should address specific animal husbandry issues, which have little, in and of themselves, to do with trade.*** However, the IPC believes that countries can use the existing domestic support measures to address the trade effects of animal welfare concerns. Temporary direct support to compensate producers for one-time investments to comply with new regulations should be considered Green Box support. Continuing direct support to compensate for higher costs of production should be considered Amber Box support and would be counted against a country's Amber Box commitments. Continued support to compensate producers for higher costs should not be necessary if they are able to garner a premium in the market from consumers willing to pay for higher standards. Any labeling to inform consumers of "pro-welfare" animal husbandry practices should be voluntary and not mandatory; should be specific to the practices involved and should be independently verifiable. In this regard, country of origin labeling does not convey adequate information to consumers and could be used to discriminate against imports. And finally, imports of animals or animal products should not be denied, regardless of how they are raised or produced, as long as they meet food safety requirements.

CONCLUSION

The IPC offers these recommendations in hopes that they will provide a politically feasible basis for move to the next stage of the agricultural negotiations. To date, the discussions in the Special Session have been constructive and productive, and much technical groundwork has been laid. But, the program of work adopted by the Special Session of the Committee on Agriculture is ambitious. The members of the IPC strongly believe that positive results in agriculture must be achieved if the Fifth Ministerial Meeting in Cancun is to succeed. Time is of the essence. ***The world trade system, and in particular, the poor in developing countries cannot afford a stalemate or a delay in achieving the ambitions of the Doha Development Agenda.***

“Promoting an Efficient World Food System”

The International Policy Council on Agriculture Food and Trade (IPC) is dedicated to developing and advocating policies that support an efficient and open global food and agricultural system—a system that promotes the production and distribution of food supplies adequate to meet the needs of the world’s growing population, while supporting sound environmental standards.

An independent group of leaders in food and agriculture from industrialized, developing and centrally planned economies, the IPC’s 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.

The IPC develops policy recommendations addressing the critical issues facing the world’s agricultural system. It conveys these recommendations directly to policy-makers and decision-makers around the world through policy papers, seminars, conferences and personal contacts. The IPC’s influence and credibility are derived from its membership, all of whom serve on the Council as individuals, and not on behalf of their institutions. With its broad and diverse membership, the IPC is a microcosm of the interests at stake in global agricultural policy debates.

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