

Doha Round of Negotiations on Agriculture

The Current State of Play

#5/2008

Agriculture holds the key – nothing new about it! Agriculture negotiations have undoubtedly been the most complex and the main stumbling block in the way of successful conclusion of Doha Round. Since July 2004 Framework Agreement WTO farm talks' Chair has circulated three draft texts on modalities but the crucial breakthrough to ink a final deal is still eluding the WTO members. Agriculture is not an exclusive North-South issue as there are differences within the South as well as within the North.

A Brief Background

Since the Hong Kong Ministerial of the WTO Members held in December 2005, there have been intensive consultations/negotiations to achieve convergence in major areas of contention in agriculture – like treatment of Special Products and Sensitive Products, reduction of farm subsidies in the developed countries, the removal of cotton subsidies. While convergence has been achieved in some areas, there seems to be no consensus on the formula and numerical target for reduction of tariffs and subsidies.

At a general level, it can be observed that most of the concerns expressed by the G-20 in their various submissions to the Negotiation Group have been accommodated in the revised text (issued first in February 2008 and subsequently revised in May and July 2008), though there are some brackets and some numbers that will have to be heavily negotiated to achieve their negotiating objectives. On the other hand, many of the concerns expressed by the G-33, particularly in the areas of Special Products and Special Safeguard Mechanisms, are not fully on board in the revised text, and that the grouping may face an uphill task to get back to a position of strength. Some other areas, like the numbers on domestic support and the export subsidy commitments remain at the same level as they existed at the time of the Hong Kong Ministerial.

Special Products

One of the most controversial issues in the current negotiation is treatment of Special Products (SPs) under the market access pillar of the WTO Agreement on Agriculture. The success of February 2008 draft modalities on agriculture very much depends upon how far the text on SPs satisfies the G-33 concerns and the US. The G-33 is spearheading the campaign on SPs on behalf of a select group of

developing countries. The G-33 through its communication dated 14th December 2007 (TN/AG/GEN/27) made following drafting suggestions:

- Developing country Members shall have the flexibility to self-designate a guaranteed minimum number [X] percent of total tariff lines as SPs;
- The SPs have to be higher than the number of Sensitive Products for developing country Members;
- Developing country Members shall have the flexibility to self-designate an additional number [Y] percent of SPs provided that these are guided by indicators;
- Based on the above hybrid approach, developing country Members shall have the right to self-designate up to a maximum 20 percent of total agricultural tariff lines as SPs; and
- Maintaining a no-commitment tier (zero cut treatment) must remain a fundamental aspect for SPs.

The G-33 also proposed a graded approach to treatment of the tariff lines of SPs, which provides a preferred practical and workable solution for all. This is as follows.

Grade	Percentage of SP Tariff Lines	Treatment (Cuts)
1	40%	0%
2	30%	8%
3	30%	12%

This new G-33 proposal represents a significant movement from the Group's previous position. The latest draft modalities on agriculture, released on 10th July 2008, however, are non-committal on the above-mentioned demands of G-33 as it only partially addresses them. The main elements of the text are following:

- There shall be 10-18 per cent of tariff lines available for self-designation as SPs as against the demand of 20 percent tariff lines;

- b) Up to 6 percent of number of lines may have no cut as against the demand of 40 percent tariff lines; and
- c) The overall average cut shall, in any case, be 10-14 percent.

The latest draft indirectly proposes for two-tier architecture for SPs as against the G-33's demand of three-tier architecture. Although G-33 viewed its proposal of having three grades as the most appropriate architecture for SPs, it indicated that it can consider a two-tier architecture, but with the condition that there is an explicit zero cut treatment in the first tier with a comfortable number of SPs in that tier. It stressed that the zero cut treatment principle is a 'must' for the G-33 countries, as the most fundamental element in SPs and it must be part of the final outcome on SPs.

Special Safeguard Mechanisms

The Hong Kong Ministerial Declaration marked a first step towards evolving modalities in SSMs along with SPs agreed to in the July Framework Agreement in 2004. Regarding SSMs, two separately applicable import quantity and import price triggers were agreed as the core of the modalities. While the draft modalities propose the availability of both price-based and volume-based SSMs, the contents of the text on SSMs are complex and burdensome. It appears that the draft text on SSMs suggests a new kind of differentiation among the developing countries, which is not acceptable to the G-33 alliance. Furthermore, the Chair's proposal is loaded with multiple sets of figures and options, which would make it ineffective and unpractical. The G-33 has always demanded that SSMs shall not be designed with layers and multiple of limitations for developing countries and least developed countries to make use of it.

In SSM, the issues of extra duty, cross check, exclusion of preferential trade from the calculation of volume or price triggers, duration of the volume based remedy or the duration of the measure itself, are witnessing substantial divergence between the proponents and others. However, the G-33 made a significant gesture by putting forward some changes in one aspect of SSM. According to informal sources, the G-33 has made a concession in SSM on the issue of whether the extra duty that can be imposed by the SSM mechanism should be limited so as not to exceed the pre-Doha or Uruguay Round bound level.

On SSM, the G-33 position had been that the limit (that is, that extra duties cannot exceed the pre-Doha bound levels) insisted on by some of its opponents shall not be imposed. The G-33 reportedly proposed a new 'architecture' with two windows. In the first window,

the remedy (extra duty) shall be allowed to go up only to the pre-Doha bound level. All products shall be eligible for this remedy in any 12 month period. In the second window, the remedy shall enable the duty to go beyond the pre-Doha bound level without any maximum level imposed. The G-33 is proposing that for this window, a reasonable percentage of tariff lines shall be eligible for use of the SSM mechanism, without any capping imposed. The G-33 also proposed that all developing countries are entitled to use the remedy of going beyond the Pre-Doha bound level, while LDCs (least developed countries) and SVEs (small and vulnerable economies) can have additional flexibilities in implementing the SSM.

The 10th July 2008 text has proposed for breach of pre-Doha bound duty for SVEs and developing countries (Paragraphs 135 and 136) under certain circumstances but they are in square brackets. Further, there is a differentiation between SVEs and developing countries in terms of availing the extra duty (breach of pre-Doha bound duty) flexibility.

Domestic Support

The issue of domestic support has been one of the major bones of contentions between G-20 and developed countries, especially USA. The US is in a weak position because of its huge trade distorting subsidies to cotton farmers. That is why the issue of cotton subsidies has been raised separately by African countries.

Broadly speaking, the draft modalities have accepted most of the drafting suggestions of G-20. In fact, the text is overwhelmingly based on G-20 suggestions. Most of the WTO Members, especially major players like India and USA have accepted it as a starting point for working out detailed modalities. On the issue of cotton also the draft modalities have included the formula suggested by G-20 for reduction of AMS (Aggregate Measurement of Support).

The text on domestic support is largely unchanged since the release of July 2007 modalities. The figures for how much support that Members would have to cut down overall trade-distorting domestic support which includes amber box subsidies, blue box payments, and the 'de minimis', remain unchanged since the July 2007 text. According to the draft modalities, the European Union would most likely have to cut its cap on overall spending by either 75 percent or 85 percent. Similarly, the US would have to bring overall reduction in trade-distorting domestic support either by 66 percent or 73 percent. It means the US needs to cut farm subsidy by US\$13bn to US\$16.4bn. As regards 'green box' payments, which are considered to be minimally trade distorting, differences still persist

among the WTO Members. However, the Chair has made a proposal to allow developing country Members some flexibility to account for food stockholding payments under the green box.

Export Competition

Export subsidies, which result from direct payment to exporters, food aid, export credits and state trading corporation, come under the export competition pillar of the Agreement on Agriculture. This has been resolved at the Hong Kong Ministerial Conference of the WTO Members in 2005. The deadline for eliminating developed country export subsidies by 2013 has been agreed. However, the latest draft modalities propose that developing country Members too eliminate their export subsidy entitlements by reducing to zero their scheduled export subsidy budgetary outlay and quantity commitment levels in equal annual installments by the end of 2016. The Chair has also included the G-20 drafting suggestions on export credits in the draft modalities as a separate annexure.

Other Issues

The draft texts on modalities (February, May and July 2008) are also an improvement over the previous July 2007 text in the areas of tariff escalation and tariff simplification. A new Annexure D has been added in the latest draft, which includes a provisional potential list of tackling tariff escalation. The text

also proposes a tariff escalation formula, which would be in addition to the application of the tiered tariff reduction formula. Further, tariff escalation shall not apply to any product that is declared as sensitive. The proposed modality on tariff escalation shall be applied by developed country members and developing country members who are in a position to do so.

As regard to tariff simplification, the draft text is a significant improvement over the July 2007 text. In December 2007, G-20 made a submission on guidelines for modalities in tariff simplification. It proposed for the simplification of all non-ad valorem tariffs, which is more prevalent in many developed countries. The experience has shown that the use of non-ad valorem tariffs has often been a form of disguised protectionism in agriculture trade, as the final tariff in ad valorem terms depends on prices and currency movements. As a consequence, maintaining additional layers of protection in market access jeopardizes the Doha mandate for “substantial improvements in market access”. Accordingly, the draft modalities propose to achieve at least 90 percent of all bound tariffs on products in a Member’s Schedule to be expressed as simple ad valorem tariffs.

The draft text also makes provision for special and differential treatment for developing country members and LDCs. Developing country members making such conversions shall have an additional two years to achieve this target. LDCs, however, shall not be required to effect any such changes.

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