

PREPARATIONS FOR THE 1999 MINISTERIAL CONFERENCE

Agriculture

Proposal under Paragraphs 9(a)(i) and 9(a)(ii) of the Geneva Ministerial Declaration

*Communication from Cuba, Dominican Republic, Egypt, El Salvador, Honduras,
Sri Lanka, Uganda and Zimbabwe*

The following communication, dated 7 October 1999, has been received from the Permanent Mission of the Dominican Republic.

Outcome of the Agreement on Agriculture Imbalanced for Developing Countries

1. The Agreement on Agriculture is fraught with inequities and imbalances for developing countries. In terms of the balance of rights and obligations flowing from the Uruguay Round Agreements, agriculture was one of the few sectors where it was predicted that developing countries would benefit. Unfortunately, this has not materialised. In fact, a recent FAO study has shown that it has brought more problems than benefits for developing countries, since their imports have increased significantly but their exports have not. According to the FAO, "The findings were contrary to what was expected. Developing countries had a lot of expectations (in terms of increasing their exports) from the Uruguay Round agreement. Many of their farmers are now finding it very difficult to cope with the surge in imports of basic foodstuffs".¹ "On the whole, few studies reported improvements in agricultural exports in the post-UR period – the typical finding was that there was little change in the volume exported or in diversification of products and destination."² At the same time, the same report observed that "Food imports were reported to be rising rapidly in most case studies".

2. In terms of the overall economic impact, the FAO has said that the period since the conclusion of the UR has been too short to assess fully the long-term impact on economies studied. However, experiences from structural adjustment policies point to the same direction. "A common reported concern was a general trend towards the concentration of farms, in a wide cross-section of countries. While this led to increased productivity and competitiveness with positive results, in the

¹Financial Times "Uruguay Round Agreement: Imports Boosted, Not Exports", 28 September 1999.

²FAO 1999 "Agriculture, Trade and Food Security: Issues and Options in the Forthcoming WTO Negotiations From the Perspective of Developing Countries", pp. 3 and 4, FAO Symposium, 23-24 September 1999, Geneva.

virtual absence of social safety nets, the process also marginalized small producers and added to unemployment and poverty."³

The Importance of Agriculture in Developing Countries' Economies

3. The present imbalance is a cause of concern since agriculture has a particular place in the economies of developing countries.

- Agriculture is a major source of employment and livelihood. There is usually no alternative source of employment for small farmers if they are displaced.
- Countries do not have adequate foreign exchange to rely extensively on food imports for their daily sustenance.
- People in developing countries who had relied more on the subsistence agricultural economy would most likely not have the purchasing power to procure food from the market.

4. The free market in theory is the best tool for responding to the forces of demand and supply. However, the reality is that the market is incapable of ensuring the availability of food to all people. Food is also unlike other goods in that it is an absolute necessity for all people.

Implementation Issues

5. The Agreement as it stands reinforces the inequities in favour of the developed countries. This has happened despite commitments aimed at reducing tariffs, domestic subsidies and export subsidies. This has taken place in various ways because of the many loopholes the agreement allowed:

- (a) It endorsed the **tariff peaks and tariff escalations** in the developed countries. Tariff peaks were aggravated by the practice of dirty tariffication which the Agreement endorsed. This has resulted in tariff rates for developed countries for major agricultural products being two or more times higher than those of the developing countries.

This problem of setting high initial bound tariffs has been compounded by the fact that tariff reductions were aggregated and it became common practice that developed countries minimised their tariff reductions for the more sensitive products while reducing tariffs on those products which did not have high tariffs in the first place.

- (b) Other benefits which developing countries had expected to benefit from, but which have not materialised, are the **minimum access opportunities** in developed country markets. The administration of these quotas have not been transparent. Traders in developing countries reported a lack of information about export opportunities under market access measures.⁴ Also, we now know that there has been an "underfill" of these quotas, i.e. market opportunities which should have been made available to developing countries have not materialized.

³ FAO 1999 "Agriculture, Trade and Food Security: Issues and Options in the Forthcoming WTO Negotiations From the Perspective of Developing Countries", p. 4, FAO Symposium, 23-24 September 1999, Geneva.

⁴ FAO 1999, "Agriculture, Trade and Food Security: Issues and Options in the Forthcoming WTO Negotiations From the Perspective of Developing Countries", FAO Symposium, 23-24 September 1999, Geneva.

- (c) **High levels of subsidies** in developed countries have increased significantly, even as the markets of developing countries were opened. The Producer Subsidy Equivalent level for OECD countries has risen from US \$247 billion in the base reference period (1986-88), to US \$270 in 1997, to US \$274 billion in 1998. One of the loopholes which allowed this is that countries reinstrumented their subsidy programmes, from prohibited programmes to AoA legal subsidies. In the US, subsidy levels have increased significantly, from US\$ 41.4 billion in 1986-88 to \$50 billion in 1998. The problem with the AoA is that these subsidy increases have been possible even though commitments have bound countries to reducing their AMS supports. There are therefore obviously loopholes which the AoA permits, which are extremely market distorting.

In contrast, 61 out of 71 developing countries reported zero AMS support levels. The FAO has commented that while some developed countries over-reported their AMS levels for the base period, some developing countries probably under-reported them.⁵ The imbalance here is that developing countries have been disallowed to raise their support levels above these zero or negligible levels.

- (d) **Non-tariff barriers** have reduced the export opportunity of developing countries. For example, the EU's complex system of entry prices for vegetables is aimed at protecting their domestic producers from competitive prices from abroad during certain seasons.

The other significant barrier to agricultural trade is in the area of food standards. (While this is dealt with under the SPS agreement, it nevertheless is closely related to the Agreement on Agriculture and should be addressed as part of the complex web of factors affecting agricultural trade). SPS standards set by developed countries have often not been transparent, and have been used to block developing countries' imports. Fair implementation of the agreement requires both financial and technical resources which developing countries lack. There have been few attempts to establish equivalence of standards with those of developing countries, and no attempts to provide the special and differential treatment promised. These are an integral part of the benefits developing countries had expected they would have under the SPS Agreement.

FAO studies have shown that these measures are playing an increasingly important role in trade.

"Among the major problems encountered included lack of mutual recognition of inspections and standards, with several large importing countries often asking for 'sameness' in the process rather than 'equivalence'. As a result, 'trade harassment' was considered a common problem... There were few cases of concrete technical and financial assistance from outside, as promised in the SPS/TBT agreements".⁶

- (e) Even though export credit guarantees are obvious examples of export subsidies, the AoA does not recognise this and the US, for example, has been able to provide such supports without constrain.

⁵ Konandreas and Greenfield (1996), Food Policy Vol. 21 No. 4/5 1996; 441.

⁶ FAO 1999, "Agriculture, Trade and Food Security: Issues and Options in the Forthcoming WTO Negotiations From the Perspective of Developing Countries", p.3, FAO Symposium, 23-24 September 1999, Geneva.

- (f) The Special Safeguard Provision has been used only by developed countries. Some of the trigger prices were set at rather high levels, which allowed the SSG to be invoked relatively easily. To date, it has been used about 200 times and only by developed countries.
- (g) The Due Restraint Clause: Annex 2 subsidies which are used mostly by the developed countries are "non-actionable". They are completely immune from counter measures and countervailing duty.

Conversely, the supports which developing countries use, such as de minimis supports and input and investment subsidies are not given the same level of protection from GATT challenges. They have in fact been treated on par with production limiting (blue box) subsidies. Blue box subsidies are widely seen as trade distorting. It is therefore only reasonable that the Special and Differential Treatment subsidies allowed to developing countries are not treated in the same category as blue box subsidies, and should be given the immunity from challenge similar to green box measures.

- (h) The Marrakesh Decision: This was a significant component of the agricultural negotiations during the Uruguay Round. Many developing countries fearful of sharp rises in their import bills and other consequences of agricultural liberalization agreed to the AoA because they felt that the Marrakesh Decision would address, at least to some extent, the problems they would face as a result of implementation of the AoA. However, there has been no political will on the part of the developed countries to activate this Decision, even in the face of significantly higher import bills for NFIDCs. There is therefore a sense that the developed countries have not kept their part of the balance of rights and obligations in the area of agriculture.
- (i) Special and Differential Treatment (S and D): The Special and Differential treatment provisions in the AoA have been inadequate in dealing with the particular position of agriculture for the economies of developing countries. Under the S and D provisions, developing countries have to undertake two-thirds of the reduction commitments of developed countries, and their commitments stretch over 10 years instead of 6. In terms of domestic supports, they have been allowed to provide investment and input subsidies, but not in excess of their 1992 levels.

Like S and D provisions generally, a longer transition period and tariff and support reduction commitments which are 2/3 those of developed countries are arbitrary targets which do not actually take into account the real economic development of many countries. Even after 10 years, developing countries' economies would not have reached the position of the developed economies, hence, the idea of providing these benefits to level the playing field would not have been met. Furthermore, it has been found that developing countries would require more innovative support policies than merely being allowed input and investment subsidies. While these are useful, they do not go far enough to address the problems and special position of agriculture in developing countries. The WTO secretariat has found that for developing countries providing S and D related supports, the majority of countries provide below 1 per cent of these supports as a percentage of their agricultural GDP (See Table 1).

In order for S and D provisions to be more than cosmetic remedies to an imbalanced playing field, it would be necessary to provide developing countries with provisions that address their development needs and the special place of agriculture in their

economies. This is likely to require more than a market approach to a sector which is the main source of livelihood and employment in developing countries. It would also be necessary if we are to adequately address the increasing poverty and unemployment which FAO has concluded the current liberalization trends are causing.

Table 1: Expenditures on domestic support measures as percentage of agricultural GDP (number of countries under each range)

Per cent range	nil	0-5	5-20	20-50	Over 50	Total
Green Box-related support						
· Developing	1	16	4	3	nil	24
· Developed	nil	nil	8	2	nil	10
SDT-related support						
· Developing	11	13	nil	nil	nil	24
AMS-related support						
· Developing	61	4	4	2	nil	71
· Developed	1	1	2	5	8	17

Source: WTO, Supporting tables relating to commitments on agricultural products in Part IV of the Schedules, G/AG/AGST/Vols 1-3. WTO, Geneva.

- (j) **Food Security:** The food security needs of countries is mentioned in the preamble of the agreement. However, the AoA seems to have paid only lip service to this. It is largely presumed that the programmes allowed under Annex 2 (Green Box) would provide members with the necessary flexibility to deal with their special needs. However, we know now that most of the green box measures are beyond the reach of developing countries, either because of budgetary constraints, or because they are limited by structural adjustment programmes and obligations. The FAO has drawn this conclusion:

"It is clear that by and large the list of Green Box policies was drawn up with the developed countries in mind, as every single Green box policy is much more common in developed countries than in developing countries."⁷

For most developing countries which use the Green Box, outlays are less than 5 per cent of agricultural GDP (WTO, G/AG/AGST/Vols. 1-3).

As discussed above, the S and D provisions also have not gone far enough to address in any adequate manner, this issue of food security, and the fact that about 800 million people today still live in a situation of undernourishment.

The experience of developing countries so far with the AoA has not generally been positive in terms of addressing their food security needs. It has instead led to the marginalization of small farmers without providing safety nets or alternative employment. In this situation, food security is certainly being put in jeopardy as it leaves small farmers which have been pushed out without the necessary financial

⁷ Konandreas and Greenfield (1996), Food Policy Vol. 21 No. 4/5 1996.

resources to procure the food they need for their subsistence, even though food may be available on the world market.

Article 20 of the Agreement on Agriculture

6. There are 2 main elements in Article 20 of the Agreement on Agriculture.

- (a) It commits countries to "substantial progressive reductions in support and protection resulting in fundamental reform".
- (b) But, "...taking into account", *inter alia*, non-trade concerns and special and differential treatment to developing country Members.

7. In the light of both these elements, as well as the experience of developing countries so far in implementing the AoA, we propose the following as the main agenda for the coming agricultural negotiations.

Implementation Issues To Be Addressed Before/At Seattle. (Paragraph 9(a)(i) of the Geneva Ministerial Declaration)

(a) Assessment of the AoA

8. Even before negotiations commence, there must be an assessment of the effects of the AoA on developing and developed countries. The preliminary study of the FAO cited above shows that poverty and unemployment in developing countries is on the rise as a result of the type of agricultural liberalization that the AoA has implemented.

9. A thorough assessment must be undertaken before further negotiations begin so as:

- (i) to provide both developed and developing countries a clearer picture of the exact impact of agricultural trade liberalization and hence clarify what the priorities should be in the coming agricultural negotiations;
- (ii) to ascertain where the present imbalances and needs of countries are, so as to know how the agreement can be rebalanced such that benefits will flow equally to the developing countries, in a manner that will not exacerbate the rural poor, but will in fact raise living standards of even the small farmers.

(b) Market Access

10. The TRQ administration should be made transparent, equitable and non-discriminatory, in order to allow new/small-scale developing country exporters to obtain market access. Notifications submitted to the Committee on Agriculture shall include details on guidelines and procedures of allotment of TRQ.

11. The Special Safeguard Provision should be made permanent for use by all developing countries as part of Special and Differential Treatment. However, the "triggers" must be tightened so that the Special Safeguard Provision is not abused. Developed countries should depend on the general safeguard provisions of the GATT 1994.

(c) Domestic Supports

12. Some developing countries made some genuine mistakes in the calculation of their country schedules (tariff rates, AMS – base period, currency base etc). They should be allowed to recalculate their AMS levels to reflect a more accurate picture of their support and tariff levels.

13. Countries with under-utilised product specific de minimis levels should be able to "transfer" this credit to their "non-product specific" de minimis amounts. This will be fair to the developing countries that are reluctant to provide product-specific de minimis as this might raise product prices.

(d) Special and Differential Treatment Provisions

14. Developing countries must be allowed the flexibility to use domestic supports and transparent import controls as national governments see fit, to encourage domestic food production for domestic consumption.

15. Developing countries should have the flexibility in the areas of import restraint and domestic support to protect and provide support to small farmers and household farmers. This will not be trade distorting since what is produced by this sector is used for subsistence and is not traded on the international market.

16. Where people are highly dependent on a very small number of export commodities for their livelihoods, flexibilities must be allowed in providing the needed domestic supports for these commodities.

17. Open up the existing Special Treatment Clause for use by all developing countries for food security purposes.

(e) Marrakesh Decision

18. The Marrakesh Decision is at present only an enabling and best endeavour provision. It should be revised in order to ensure its effective implementation through the incorporation of concrete, operational and contractual measures, including provisions for technical and financial assistance that are both effective and responsive to the special needs of LDCs and NFIDCs. In the area of financial assistance, all agricultural exporting developed countries must be obligated to contribute to a fund for NFIDCs (as a proportion of their export earnings). This fund should also be used by NFIDCs to increase their domestic production, so that they can be less dependent on food imports especially in staple products.

(f) Sanitary and Phytosanitary Standards

19. When developed countries introduce new and higher sanitary and phytosanitary standards, these conditions must be met:

- (i) prompt notification and commitment by developed countries to take into account the comments by developing countries on the changes made;
- (ii) that standards revised by developed countries must not disrupt imports from developing countries. If they prove to be prohibitive, it is incumbent on the developed country setting those standards to provide the financial and technical assistance needed to exporting developing countries to comply with the new standards. The importing developed country with revised standards will not be allowed to curb the inflow of imports from developing countries based on the change in regulation.

Built-in Agenda Issues to be Addressed After Seattle

(Paragraph 9(a)(ii) of the Geneva Ministerial Declaration)

(a) Market Access

20. Eliminate tariff peaks in developed countries on all agricultural products. As a result of tariffication and tariff peaks, market access opportunities for major agricultural products have not materialised for developing countries.

21. Eliminate tariff escalations in developed countries. This has been a major factor which has prohibited developing countries from developing their food processing industries which they could easily be competitive in.

22. Tariff reductions should not be aggregated. Because of this, developed countries have not lowered tariffs on sensitive products. Where there are tariff cuts, tariffs on the sensitive products for developed countries must also be lowered.

(b) Domestic Supports

23. The various domestic support boxes which were intended to aid subsidy reductions have not served their purpose since overall domestic support levels have not been reduced. The boxes in fact are problematic because they complicate issues and provide room for many of the loopholes and policy reinstrumentation by the developed countries.

All domestic supports should be combined into one box. Support levels should be brought down to a common level within a specified period, no matter what their historical levels of support have been in the past.

24. Should the existing domestic support boxes remain, the following changes should be made to the present provisions:

- (i) The calculation of the Base AMS should be changed so that it excludes production limiting subsidies and de minimis supports.
- (ii) AMS supports in developed countries must be made product specific rather than aggregated. This will ensure that the presently high support levels provided to sensitive products are also reduced. It will also bring more transparency and predictability to commodity markets. For the developing countries, the aggregation of AMS should be applicable.
- (iii) All AMS supports should be brought down to a common percentage of production costs, rather than be reduced from former support levels.
- (iv) Green Box policies must be re-examined. The definition of "minimally trade distorting" must be clarified. Various supports, for example, direct decoupled payments and export credits and guarantees which have an effect of increasing production output must be removed from the Green Box category and be placed in the AMS and export subsidy categories respectively.
- (v) Green Box subsidies should be limited to a certain percentage of production costs and this percentage should be higher for developing countries.
- (vi) The Blue Box, or production limiting programmes should be placed in the AMS and should be disciplined accordingly.

(c) Export Subsidies

25. All export subsidies should be eliminated except those included under the special and differential treatment for developing countries.

(d) Development Box

26. Given the fact that there is no level playing field between countries, and that food is different from other forms of goods in that it is an absolute daily necessity, there should be a Development Box under which developing countries can, for development and food security reasons, deviate from their AoA commitments in order to meet these development and food security needs.

27. A Development Box will also put all S and D provisions in one place and will serve these purposes:

- (i) clearly distinguish between the rights of developing and developed countries;
- (ii) avoid possible use of such rights by members other than the developing countries;
- (iii) provide legal certainty;
- (iv) monitor and enforce implementation.

28. Provisions on the following can be included in the Development Box:

- (i) domestic support and transparent import controls for the protection of domestic production;
 - (ii) protection of small and household farmers;
 - (iii) input and investment subsidies;
 - (iv) food security; and
 - (v) measures in favour of NFIDCs.
-