The World Trade Organization's
Doha Development Agenda
The Doha Negotiations after Six Years
Progress Report at the End of 2007

AGRICULTURE

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AGRICULTURE

Overview

Agriculture has from the outset of the Doha negotiations been seen as the key to progress in the Round as a whole. The crucial step under negotiation, referred to in paragraph 14 of the Doha Declaration of November 2001, is the establishment of "modalities" for the further commitments to be undertaken by Members in this sector.

The Chair of the agriculture negotiations (Ambassador Crawford Falconer of New Zealand) issued *Revised Draft Modalities for Agriculture*[1] in the summer of 2007. "Modalities" are the template for Members to table their "schedules of concessions" in the three "pillars" of market access, trade-distorting domestic support and export competition, according to a set of numerical parameters and related rules.

The establishment of modalities would not in itself be the end of the negotiations. Time would be required subsequently, first for members to draw up their draft schedules, then for some negotiation to take place on the basis of those draft schedules, and finally for a process of verification.

Major Positions and Groups in the Negotiations

<u>The European Union</u> began the negotiations in a highly defensive position owing to high levels of domestic support and market access sensitivities. However the process of internal reform of the Common Agricultural Policy has resulted in many of its subsidies being moved to the "green box" (i.e. non- or minimally distorting), so that it is now less sensitive in this area.

The <u>United States</u> has been defensive on trade-distorting domestic support but offensive in market access. Negotiators have repeatedly stressed that, if trade-distorting subsidies are to be reduced, there must be significant gains in market access for its exports.

The "<u>G20</u>" – an influential coalition of major developing countries – strongly emphasizes the need for developed countries to reduce agricultural subsidies significantly. On market access, the group contains some Members who are defensive and some who are relatively offensive.

[1] TN/AG/W/4 dated 1 August 2007

The Cairns Group is a long established grouping of agricultural exporting countries, led by Australia but containing several developing countries, which wants to see reductions in domestic support and improved market access opportunities. There is some overlap with membership of the G20.

The "G33" (originally so-called because it had 33 members, although this has now grown to 45) is a grouping of developing countries primarily focused on the need to protect domestic production of "special products" based on criteria of food security, livelihood security and rural development.

The "G10" is a coalition of some developed countries such as Japan, Switzerland and Norway, plus some advanced developing countries such as Korea and Chinese Taipei, focused on the need to protect domestic agricultural production which they regard as closely linked to traditional livelihood and national culture.

"Recently-Acceded Members" consider that they have made significant concessions recently in the process of accession to the WTO and should not be asked to make the same concessions as other Members at this stage.

"Small and Vulnerable Economies" stress the fragility of their economies which may be reliant on production of a relatively small number of commodities. They accordingly feel that they should be allowed extra flexibility to preserve their domestic production.

The ACP group of countries is concerned, *inter alia*, that multilaterally agreed tariff reductions would in some cases erode the tariff preferences which they have traditionally enjoyed in some developed country markets.

The above summary of group positions is abbreviated and non-exhaustive. It should also be noted that, under the terms of the Doha Declaration, special and differential treatment for developing countries shall be an integral part of all elements of the agriculture negotiations. Furthermore, little or no commitments are expected on the part of the least developed countries.

Situation at the end of 2007

Overall, negotiations have intensified since the Chair released the *Revised Draft Modalities for Agriculture* in 2007, and progress has been recorded in many areas. Serious negotiations are now taking place, with many participants showing a new willingness to seek middle ground on some of the outstanding issues. While there continues to be much posturing, the negotiations have in most cases moved well beyond restatement of original positions and proposals, and are generally well focused on the Chairman's text. In specific areas, as noted below, the Chairman is gradually refining his text through the issuance of "working documents" which reflect the evolution of the text based on his consultations.

The position under each of the three "pillars" of the negotiations is as follows.

a) Export Competition

The chairman issued four working documents on this pillar in November 2007 (all of which are available on the WTO website). The last of these[2] slightly revises the architecture of the *Draft Modalities* in this pillar and updates the section on Cotton.

It has been agreed that developed Members will eliminate their direct export subsidies by 2013. The quantitative phasing for elimination is to be agreed.

On export finance[3] and exporting state trading enterprises,[4] much progress has been made in recent consultations held on the basis of working documents prepared by the Chair. He has reported that discussions have taken a simpler track. Rather than drafting complete sets of new rules, the approach now is to look at existing WTO Agreements and see what needs to be added. For export finance, the basis is the Subsidies Agreement with some additional disciplines. A number of more "political" issues, such as exceptions to the 180-day repayment period, will need to be settled later. For exporting state trading enterprises, the basis is Article 17 of the GATT. The key question of monopoly power will probably be left for political decision at a later stage.

Differences on Food Aid[5] have also narrowed, with convergence, albeit short of full agreement, on definitions and the proposed role for governments and other bodies. A key question that may have to be settled later is "monetization" (selling some food to raise funds for transporting the aid and other purposes).

[2] See "Working Document No.4" dated 12 November 2007.
[3] See "Working Document No.1" dated 6 November 2007
[4] See "Working Document No.2" dated 6 November 2007
[5] See "Working Document No.3" dated 6 November 2007

The Chair has recently reported to the membership that all of these subjects are "one draft away from finalization."

b) Domestic Support

The overall architecture of this pillar is now relatively clear, with fairly well developed chapters in the *Draft Modalities* on *Overall Reduction of Trade-Distorting Domestic Support* (to be subject to a tiered formula, so that higher levels of support are subject to higher cuts); *Final Bound Total Aggregate Measure of Support (AMS)* (or "Amber Box", also subject to a tiered formula); *Product-specific AMS Caps; De Minimis provisions; the "Blue Box";* and *the "Green Box"*. In all chapters provision is made for special and differential treatment for developing countries.

The Chairman recently issued (on 21 December 2007) four new "Working Documents" in the Domestic Support pillar.[6]

One of the key areas for negotiation is the cut in Overall Trade-Distorting Support ("OTDS", the components of which are Amber Box plus Blue Box plus de minimis). Here, there is now conditional acceptance of the range of cuts identified in the Chair's *Revised Draft Modalities* as regards developed countries: 75-85% for the top tier, 66-73% for the middle tier and 50-60% in the bottom tier. However, it will be difficult to realise acceptance, and to bridge the ranges of cuts, until the situation with respect to market access in both agricultural and industrial products is clarified. This is particularly true with respect to the United States which has made it clear that it can only contemplate reductions in domestic support of the magnitude envisaged by the Chair if there are considerable new openings in market access. This issue is sometimes referred to as the "exchange rate" in the negotiations.

Other areas of the negotiations on Domestic Support also require further work, for example with respect to product-specific disciplines and the Green Box. There have been recent technical negotiations between Members on the latter. The Green Box is a sensitive area because subsidies classed as "green" are not subject to reduction, on the grounds that they are not supposed to be trade-distorting or, at worst, are only minimally so. There is accordingly much interest in ensuring that disciplines are clear enough to prevent misuse of the

[6] "Working Document No.5" on Overall Reduction of Trade-Distorting Domestic Support : A Tiered Formula;
"Working Document No.6" on Final Bound Total AMS : A Tiered Formula;
"Working Document No.7" on De Minimis;
"Working Document No.8" on the Blue Box

Green Box. Recent technical work has focused on certain criteria for decoupled income support and governmental stockholding programs for food security purposes in developing countries. Again, gradual progress is reported.

The Chairman's very recent "Working Document No.8", referred to above, adds detail to the proposed *Draft Modalities* in the area of product-specific limits for the Blue Box. A specific modality had been proposed by the Chair for the United States. At the time of writing (beginning of January 2008), Members' reactions have not identifed.

c) Market Access

This is recognized to be the most difficult of the three pillars. A tiered formula approach has been proposed for tariff reductions, with four tiers encompassing higher reductions for higher tariffs (and a matching lower set of reductions for developing countries under special differential treatment): a 66-73% reduction range has been proposed for the top tier for developed countries; 62-65% reductions for second tier; 55-60% for the third tier; and 48-52% for the bottom tier. The aim would thus be a degree of harmonization.

However there have been demands for various flexibilities (in addition to special and differential treatment for developing countries), leading to a situation in which such additional flexibilities are more or less agreed in principle but details are still under negotiation.

It has been agreed that both developed and developing countries may avail themselves of certain flexibilities for "Sensitive Products." Such products could be designated up to a maximum percentage of tariff lines. A tariff cut lower than that required by the tiered formula would apply but, in return, an expansion in tariff quotas would be necessary. Recent work has centred on the technical issue of how to apply available data on domestic consumption as a basis for tariff quota expansion.

Developing countries would also have the ability to self-designate an appropriate number of tariff lines as "Special Products," based on indicators relating to food security, livelihood security and rural development. These would be subject to lower tariff cuts than prescribed by the formula, or possibly no cuts at all. Recent consultations have centred on ways of settling the numbers of Special Products.

Differences also remain on whether any special products would be allowed to escape tariff cuts completely. As recently as 17 December 2007, the G-33 underscored its position that there must be a "no commitment tier (zero cut treatment" for special products[7] as part of the outcome. However this is opposed by a significant number of Members, both developed and developing.

The situation is similar with respect to the proposed "Special Safeguard Mechanism," which would permit developing countries to apply temporary increases in tariffs, triggered by import surges or price falls. Unlike the regular GATT safeguard, this would not require it to be shown that domestic production was being harmed. While recent consultations in this area have made some progress, a major difference remains on whether the raised "safeguard tariff" could exceed current bound rates. Somewhat related to this issue is the question of whether the existing Special Agricultural Safeguard under Article 5 of the WTO Agreement on Agriculture should expire for developed members or be retained subject to certain conditions.

In addition to the above issues, work remains to be done on, inter alia, additional flexibilities for Recently Acceded Members and Small and Vulnerable Economies.

A further question is the treatment of tropical and alternative products. Exporters of such products want steep and accelerated liberalization in these products in developed country markets. However, many of the products on their list are also on the African-Caribbean-Pacific (ACP) group's list of preferences. The ACP countries want much slower liberalization in order to postpone preference erosion.

It can be appreciated from the above very brief and incomplete summary that there are many grey areas in the Market Access pillar, which has made it less easy to discern the detailed outcome and what that might mean in terms of affecting real trade. This has previously led some to describe Market Access as a "black box". Nevertheless, it is also true that behind-the-scenes negotiations and direct contacts between participants have been gradually bringing more clarity. Indeed, the Chairman has very recently, on January 4, 2008, felt able to issue no fewer than eight working documents on market access,[8] covering many

[7] TN/AG/GEN/27
[8] "Working Document No.9" on a Tiered Formula for Tariff Reductions
"Working Document No. 10" on Sensitive Products
"Working Document No.11" on Tariff Escalation
"Working Document No.12" on Tariff Simplification
"Working Document No.13" on Tariff Quotas

of the problem areas referred to above. As is true for all of the "Working Documents" the Chairman is trying to reflect possible approaches to forward movement in an effort to help the membership feel its way towards the landing zone of acceptable outcomes.

d) Cotton

Cotton is not one of the three pillars. However it features as a distinct item under each pillar of the *Revised Modalities*. It is mentioned specifically in this report because of the high international political profile which has been imparted to the issue by the four West African proponents (Benin, Mali, Chad and Burkina Faso).

It is expected that all forms of export subsidies relating to Cotton will be eliminated at the start of the implementation period for the new agreement emerging from the Doha negotiations. Similarly, developed countries (and developing countries in a position to do so) will give duty- and quota-free market access for cotton exports from least developed countries from the start of the implementation period. Reductions in domestic support for cotton production will, as part of any final agreement, be deeper than those generally agreed and will be implemented on an accelerated timetable.

SUMMARY

The negotiations on agriculture are perhaps the most complex in the Doha Round and are particularly difficult given both the history of agriculture in the GATT/WTO and the closeness of the subject matter to many national and cultural sensitivities. Nevertheless considerable, if incremental, progress has been made and it is clear that the negotiations are now at an advanced stage. It would seem that, if the political will exists amongst the Membership, none of the obstacles should be insurmountable. Key issues remain however in the Market Access pillar, as well as in terms of the balance between market opening and subsidy reductions.

THE WAY AHEAD

Chairman Falconer will continue his consultations in various formats. His main *modus operandi* will be to work in smallish groups of Members – a

"Working Document No.14" on a Special Agricultural Safeguard
"Working Document No.15" on Special Products
"Working Document No.16" on market Access - Recently Acceded Members

common format has been to convene about 30 Delegations in "Room E" – with periodic reports to, and discussions with, the wider membership as a whole. He will continue, as in the last three months of 2007, to focus negotiations on specific texts. Depending on developments this month, he may circulate a comprehensive revision of the *Revised Draft Modalities* around the end of January 2008. However the exact timing of doing so will depend upon the receptiveness of Members to this course of action at the time in question.

In a recent meeting with Heads of Delegations, Director-General Pascal Lamy envisaged revised agriculture and NAMA texts coming out at about the same time at the end of January and foreshadowed a more "horizontal" process thereafter. This could mean that he envisages the possibility of taking over the reins of the negotiations himself in the not-too-distant future, with a view to establishing the modalities in agriculture and NAMA shortly thereafter. He has signalled this to happen by the end of February 2008. Target dates are, of course, just that, and history teaches one to be wary of dates for conclusion put forward in WTO negotiations.

Putting the modalities in place in agriculture (and NAMA) is the gateway to concluding the Round. If that were achieved, a new phase of the negotiations would be entered, opening the possibility of concluding the Round as a whole by around the end of 2008. As recently as a few months ago, such an outcome would have seemed highly implausible. Now, based at least on the current atmosphere in Geneva, it cannot be ruled out. But there is still a very long way to go and much work to do. The essential question is whether the Members really have the political will to move towards conclusion in 2008. If they do, events could move very quickly. If not, it is likely that negotiations will simply continue to move slowly forward without any breakthroughs or major concessions and no expectation for a conclusion until well into 2009. The time to make an assessment on which scenario is likely to play out will be towards the end of the first quarter of 2008.