

Chapter 2

Agriculture in the ‘July Package’ *An Assessment of Implications for Least Developed Countries*

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1. Introduction

The Doha Round negotiations of the World Trade Organisation (WTO) aim at developing a comprehensive agenda for agricultural reform targeting substantial improvements in market access; reduction of (with a view to phasing out) all forms of export subsidies and substantial reductions in trade distorting domestic supports. Despite the deadlock in the Doha Round due to the failure of the fifth Ministerial Conference held in Cancun, the WTO General Council took decisions on the framework for the modalities of negotiations in July 2004. A separate annex A, 'the Framework Establishing Modalities in Agriculture', is devoted to the agricultural negotiations. The framework does not challenge the fundamental structure of the Agreement on Agriculture (AoA) and the reform agenda revolves around the original three pillars of AoA, i.e., market access, domestic support and export competition. However, crucial technical aspects, such as the exact degree of tariff reduction (bands and thresholds) and the level of cuts in distorting farm support have been left to future negotiation. The WTO General Council has been working to finalise the modalities to reach an agreement during the Sixth WTO Ministerial Conference to be held in Hong Kong, December 2005.

As the negotiated outcome changes the relative price *vis-à-vis* global market and competitiveness as well as rules governing agriculture trade, it may have different impacts on different groups of countries - developed, developing and least developed countries. Because agriculture is a source of livelihood for a majority of people in the least developed countries (LDCs), the added dimensions to the impacts on them would be the food security situations and rural development prospects. It also determines the policy flexibility to pursue domestic development objectives. Thus, agriculture is crucial for bettering the livelihoods of the poor in the LDCs and achieving the Millennium Development Goals (MDGs).

The purpose of this paper is to analyse the implications of the ongoing Doha Round negotiations on agriculture for LDCs as a group¹. The second section of this paper highlights the role of agriculture in the LDCs. The third and fourth sections discuss the latitude for negotiation and the state of play. The last section concludes the paper by way of providing recommendations.

2. Agriculture in the LDCs

In 2002, the level of per capita income in the LDCs, which constitute about 10 percent of the world population, was less than one percent of the developed countries and about one-fourth of the developing countries. Their combined growth rate lagged far behind compared to the developed and developing countries, albeit it picked up pace during 2000-02. (Table 1)

The agricultural sector plays significant roles — economically, socially and culturally — in the LDCs. About one-third of the total gross domestic product (GDP) generated from agriculture, which provided employment to 69 percent of the labour force in 2002. It means that labour productivity in agriculture is about half of the non-agricultural sector. The agriculture sector significantly lagged behind other sectors of the economy; its growth rate was lower than that of the population implying negative per capita agricultural growth. However, there has been marginal improvement in per capita food production, and total food supply has increased in the recent past (Table 1). Obviously, the agricultural sector supplies the bulk of basic food requirement and subsistence and other income for large sections of the rural population.

Various factors collectively have contributed to the sluggish growth in per capita agriculture production. The most important of these are socio-economic structures, which have resulted in indigenous land tenure system, traditional production relations and rudimentary technology in the farming system, environmental factors, the macroeconomic policy framework, paucity of credit, inadequate public investment in rural physical and social infrastructure such as roads, water, education and health in rural areas, and weakness in institutional infrastructure such as agriculture research and extension services (UNCTAD 1997).

The agricultural sector is a bed-rock for economic growth, employment generation, rural development and food security in the LDCs. Thus, nobody could deny the crucial role of the state to uplift agriculture from the quagmire of low-level equilibrium trap. However, the development of agriculture in a sustainable manner is not only about expanding production frontiers through policy intervention but also about creating agriculture development friendly international settings - favourable playing fields in export and import markets. Thus, the significance of the global agricultural market for developing countries goes 'beyond the price changes triggered by global reform' (Aksoy and Beghin 2005). The international market provides growth opportunities for the agricultural sector without any constraints of lower prices of domestic markets associated with increased production (World Bank 2003). For rural population, increased agricultural exports mean generation of employment and cash income, which contribute to availability

Table 1: Basic Indicators for the LDCs			
Indicators	LDCs	All Developing Countries	Developed Market Economies
Per capita GDP (in 2002 dollars)			
1990	253	901	23832
2002	281	1195	28388
Growth rates of per capita GDP (average annual percentage)			
1990-2000	0.9	3.1	1.7
2000-2002	2.4	1.5	0.2
Population (in millions in 2002)	699.9	5018.5	871.4
Share of rural population (percentage in 2000)	73	59	
Population growth rate (average annual percentage)			
1990-2000	2.6	1.7	0.7
2000-2002	2.4	1.5	0.5
Share of agriculture in labour force (percentage)			
1990	76	61	
2002	69	54	
Share of agriculture in GDP			
1990	38	15	
2002	33	12	
Growth rates of agriculture production (average annual percentage)			
1990-92	1.5	3.4	
2000-02	1.9	2.0	
Growth rate of per capita agriculture production (average annual percentage)			
1990-92	-1.2	1.5	
2000-02	-0.7	0.4	
Percentage of arable land and land under permanent crops (2000)	6.8	11.5	
Growth rate of food production (average annual percentage)			
1990-92	1.5	3.5	
2000-02	1.6	2.0	
Growth rate of per capita food production			
1990-92	-1.2	-0.9	
2000-02	1.6	0.4	
Total food supply (daily calories intake per capita)			
1990	2097	2516	
2001	2134	2675	
Percentage share of population living in less than:			
\$1 a day	50.1		
\$2 a day	80.7		
<i>Source: UNCTAD 2004a</i>			

of resources for farm inputs, e.g., fertilisers and insecticides, and modernisation of farming practices. It also leads to a change in the rural employment structure by creating jobs in agriculture processing and marketing activities, as well as the expansion of other non-farm jobs. Thus, growth in agriculture is crucial for achieving a number of development goals and has disproportionate effect on poverty reduction, food security and environment conservation (Ingco and Nash 2004).

The ongoing negotiations on agriculture are important for the LDCs not only to expand market opportunities but also to achieve policy flexibility for food security, rural development and employment generation. First of all, the largest proportion of the population in the LDCs lives in rural areas and works in the agricultural sector. Therefore, there are substantial attractions to raising incomes and reducing poverty by trying to increase growth in agriculture. Although growth rates in the industrial sector of poor countries are often rapid, growth in the agricultural sector will have more direct effects on poverty and incomes of large proportions of the population. Second, it is very difficult to imagine a poor country succeeding in alleviating poverty and extending growth to the whole country unless it incorporates a rural or agriculture-led growth strategy and unless it participates in a fair and functioning international market. The alternative could be industrial development, but in a poor and predominantly agrarian economy, the small industrial sector cannot create enough jobs to reverse growth in the rural labour force and, hence, rural poverty continues to rise. Thus, to the extent that poverty alleviation is a priority, the agricultural sector has a critical role in the development process. Thirdly, access to fair and functioning international markets would provide opportunities to exploit comparative advantage, potential economies of scale and innovation (Barichello, McCalla and Valdes 2003).

The trade performance of the LDCs has been unfavourable throughout the post World War II period. Over the last four decades, their share in world exports decreased constantly from 3.06 percent in 1954 to 0.42 percent in 1998 (UNCTAD 2001). The recent trend in the trade performance of the LDCs shows that the export growth of the LDCs as a group slowed down during 2000-2002. However, there has been divergence amongst the LDCs in terms of their export performance. The LDCs that export manufactures experienced steady growth whereas agriculture commodities exporting LDCs experienced decline during 1998-2000 but some improvements have been recorded during 2000-2002 (Table 2). Amongst the 20 LDCs whose major exports are agricultural products, total merchandise export declined in 11 countries (UNCTAD 2004a). Total imports of the LDCs have been growing steadily and this pattern continued in the case of agricultural products despite slight decline in 2000.

Table 2: LDCs Exports and Imports (in million US\$), 1998-2002						
	1998	2000	2001	2002	Percentage change 1998-2000	Percentage change 2000-2002
Merchandise Exports						
LDCs	26140	35737	35755	37780	36.7	5.7
Of which						
Non-oil primary commodity exporters	9653	7763	8547	8648	-19.6	11.4
Agriculture exporters	5646	4714	5025	5305	-19.6	11.4
Mineral exporters	4007	3049	3522	3343	-23.9	9.6
Oil exporters	6076	14904	13040	14242	145.3	-4.4
Manufacturers and/or services exporters	10411	13070	14168	14890	25.5	13.9
Merchandise Imports						
LDCs	38860	41504	43863	43949	6.8	4.8
Of which						
Non-oil primary commodity exporters	13977	13189	14784	14281	-5.6	8.3
Agriculture exporters	10128	9600	10903	10388	-5.2	8.2
Mineral exporters	3849	3589	3881	3893	-6.8	8.5
Oil exporters	6488	7368	7787	9316	13.6	26.4
Manufacturers and/or services exporters	18395	20947	21292	19897	13.9	-5.0
<i>Source : UNCTAD 2004a</i>						

Despite sustained efforts to diversify their export base, lack of economic dynamism resulted in concentration of exports in agriculture products in most of the LDCs. The number of products exported by the LDCs is very small and for certain LDCs, the export concentration index is close to 1 [Sierra Leone and Burundi (Table 3)].

Though most of the agriculture production is at subsistence level and commercial farming is at a minimum, the LDCs have been historically engaged in the international agricultural trade. However, the share of agricultural products in total export varies among the LDCs. Its share in total export in African LDCs is higher compared to other LDCs. The tendency in the share of agriculture in total import, nevertheless, is consistent among the LDCs. It constitutes more than one sixth in most LDCs. Many of the LDCs are net food importing countries (Table 4).

Table 3: Export Concentration Indicators for Selected LDCs			
Country/Group	2002		Primary Export Products
	No of Commodities Exported	Export Concentration Index	
Sierra Leone	8	0.918	Diamond, footwear and cocoa beans
Burundi	12	0.857	Coffee, tea and gold
Malawi	12	0.650	Tobacco, sugar, tea and coffee
Burkina Faso	50	0.605	Cotton, sugar and meat products
Sudan	53	0.602	Oil, cotton, sesame seeds and livestock
Rwanda	32	0.547	Tea and coffee
Zambia	7	0.504	Copper and cobalt
Niger	38	0.471	Uranium and live animal
Benin	42	0.456	Cotton, palm oil and cashew nut
Ethiopia	36	0.405	Coffee, sesame seeds and leather
Lesotho	32	0.352	Garments and diamonds
Togo	59	0.318	Calcium phosphate and cotton
Tanzania	92	0.307	Coffee and cashew nut
Senegal	122	0.290	Fish and fertiliser
Uganda	89	0.288	Coffee and fish
The Maldives	10	0.423	Fish products
Least Developed Countries	69	0.526	
<i>Source: UNCTAD 2004b, 2002</i>			

Table : 4 Agriculture Trade Indicators of Selected LDCs (average 1999-2001)

Country	Agriculture Exports mln \$	Agriculture Imports mln \$	Agriculture Export as Share of Total Export	Agriculture Imports as a Share of Total Imports	Net Food Import ('000' \$)	Agriculture Export Relative to GDP
Bangladesh	100	1613	1.8	20.5	12868	...
Bhutan	17	20	14.0	8.4	-637	11.5
Cambodia	31	353	8.2	48.3	65552	2.5
Kiribati	2	13	38.4	34.6	9258	...
Democratic Republic of Lao	32	75	10.2	13.9	9124	3.8
Maldives	0	71	0.1	18.0	56571	...
Myanmar	362	342	22.1	13.9	-177903	...
Nepal	60	244	9.5	17.2	71417	3.0
Afghanistan	55	225	47.4	38.3	145238	...
Burkina Faso	118	184	56.4	31.6	110113	12.6
Benin	176	127	45.5	18.9	89393	20.6
Burundi	38	19	78.2	14.1	-20062	11.8
Chad	96	47	51.1	11.7	-19575	16.8
Camaros	6	18	38.1	31.2	9494	6.7
Ethiopia	319	207	62.8	14.3	-45341	10.5
Gambia	12	76	32.3	39.5	62629	9.4
Guinea	10	153	1.5	17.2	108630	1.3
Lesotho	7	158	3.1	21.6	126895	5.4
Madagascar	105	92	22.4	14.0	-22929	9.6
Mali	222	122	37.5	15.1	18863	22.8
Mozambique	49	218	12.5	17.3	128812	5.6
Niger	72	130	27.0	34.9	24023	9.4
Senegal	138	469	14.3	28.2	341898	16.7
Sudan	344	317	27.6	20.8	74068	7.7
Uganda	279	146	56.9	10.2	-127113	14.0
Tanzania	501	330	78.0	20.6	-102260	13.3

Source: FAO 2004

3. Agriculture in WTO

3.1: Outcome of Uruguay Round

Due to vague and weak rules for agriculture in the General Agreement on Tariffs and Trade (GATT) (exemption provisions under Article XI:2 (c) (i) on quantitative restrictions and Article XVI: 3 on export subsidies, among others), unwillingness of governments to bind agriculture products (very few products were bound) and the reluctance of governments to question each others' agricultural policies, the agricultural sector was out of the purview of the GATT in a practical sense. The adoption of AoA was a turning point in the reform of the agriculture system. It created a whole new body of disciplines for agriculture as well as set the quantitative commitments by the member countries. Countries agreed to reduce trade and production distorting agricultural support and protection by establishing disciplines and rules on three areas: market access, export competition and trade distorting domestic policies. In each of these areas, two approaches were applied, the definition of new rules and the reduction in levels of support and protection through specific concessions and commitments.

Market Access

AoA has addressed the practice of unbound tariff lines and pervasive use of non-tariff barriers (NTBs) resulting from waivers, exceptions or outright violation of Article XI of the GATT in three ways. First, it requires all agricultural tariffs to be bound. Secondly, it establishes rules for tariff reductions and minimum access commitments based on specific numeric formulae. Finally, it obliges members to convert existing NTBs to tariffs.

NTBs to agricultural trade including quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing procedures, voluntary export restraint agreements and non-tariff measures maintained through State Trading Enterprises (STEs) and similar border measures other than 'normal customs duties' were outrightly prohibited (Article 4). They may, however, be converted into equivalent tariffs, the process of tariffication in WTO jargon. This provision ensures that trade in agricultural products takes place under a tariff-only regime. Developed countries were required to reduce all tariffs including that arrived under tariffication process by 36 percent on average of all agricultural products, with a minimum cut of 15 percent for any product over a six year period from 1995. For developing countries, the cuts were 24 and 10 percents respectively, to be implemented over ten years. LDC members were required to bind all agricultural tariffs, but not to undertake reduction commitments. AoA also provides members the right to invoke the special safeguard provisions for "tariffied" products subject to reservation of such rights, which allow the imposition of additional tariff (up to a third of normal applicable duty) in case of import surge or fall in the prices beyond the 'trigger level'.

Domestic Support

Another major accomplishment of AoA for agricultural trade is that all domestic supports in favour of agricultural producers are subject to rules. The Agreement seeks two types of commitments from members on domestic support: one qualitative and another quantitative. The qualitative commitment establishes a definition of domestic support policies, which are exempt from reduction commitments, and the quantitative one establishes binding commitments in the area of domestic support through limits placed on the Aggregate Measurement of Support (AMS). Thus, it implies that the Agreement does not eliminate domestic subsidies entirely, but rather, creates rules for agricultural domestic support.

The Agreement has identified four kinds of support measures, which are exempt from reduction commitments: 'green box' measures, development measures, 'blue box' measures and *de minimis* exemptions. The general criteria for the green box measures are that the measures must have no, or at most minimal, trade distorting effects or effects on production. Measures for which exemption are claimed must meet the following basic criteria: (a) must be provided through a publicly funded government programme (including government revenue foregone) not involving transfers from consumers and (b) must not have the effects of providing price support to producers (Annex 2 (1)). These kinds of support measures can be increased without any financial limitation and are equally applicable for both developed and developing countries. The 'green box' measures include the following categories of government programmes:

- a. general services, including research, pest and disease control, training services, extension services, inspection services, marketing and promotion services and infrastructural services;
- b. public stockholding for food security;
- c. domestic food aid;
- d. direct payment to producers;
- e. decoupled income support;
- f. government financial participation in income insurance and income safety-net programmes;
- g. payments for relief from natural disaster;
- h. structural adjustment assistance provided through producer retirement programmes, resources retirement programme and investment aids;
- i. payments under environmental programmes; and
- j. payments under regional assistance programmes.

As a part of S&DT, developing countries are exempted from the commitments and reduction of developmental measures, whether direct or indirect, designed to encourage agricultural and rural development and that are an integral part of the development programmes of developing countries. They include investment subsidies which are generally available to agriculture in developing country members, agricultural input subsidies generally available to low income or resource poor producers in developing country members, and domestic support to producers in developing country members to encourage diversification from growing illicit narcotic crops (Article 6 (2)).

During the Uruguay Round (UR), a side agreement was concluded between the European Union (EU) and the US, the so-called 'Blair House accord'. Based on the accord, a provision was included, often referred as 'blue box' measures, which exempts direct payments under production-limiting programme based on fixed area and yields and livestock payments based on fixed number of heads (Article 6(5)). As these types of supports had been provided by a few Organisation for Economic Cooperation and Development (OECD) countries, the wording of the Agreement does indicate that the provision is tailored for these countries to escape their reduction commitments on major aspects of their farm policy.

The *de minimis* exemptions allow any support for a particular product to be excluded from the reduction commitment if that support is not greater than five percent of the total value of production of the agricultural product in question. In addition, non-product specific support, which is less than five percent against the value of total agricultural production, is also exempted from reduction. The five percent threshold applies to developed countries whereas in the case of developing countries the *de minimis* ceiling is 10 percent (Article 6 (4)).

All domestic support measures in favour of agricultural producers that do not fit into any of the above exempt categories are 'amber box' support and are subject to reduction commitments. The reduction commitments are expressed in terms of total AMS. The AMS is calculated on product specific basis for each basic agricultural products receiving market price support, non-exempt direct payments, or any other non-product specific support provided in favour of agricultural producers in general that is not exempted from a reduction commitment. Support which is non-product specific is totalled into a non-product specific AMS. The AMS includes support at both the national and sub-national levels. Subsidies included in the AMS include both budgetary outlays and revenue foregone by governments or their agents. However, specific agricultural levies or fees paid by producers are deducted from the AMS (Annex 3). Developed countries agreed to reduce their AMS levels by 20 percent from a ceiling calculated as their average annual level of overall support provided in the base year 1986-88 over the six years from 1995. For developing countries, the reduction was 13.3 percent over 10 years. LDCs were not required to make any reduction. It means AoA provides highest trade and production distorting domestic support ceiling for the countries with the highest level of such support in the base year. Moreover, such countries could comply with their overall WTO ceiling and avoid a binding limit on support to specific, highly protected commodities such as dairy, rice, and sugar using an aggregate measurement of domestic support instead of commodity-specific support limits.

Export Competition

Unlike in non-agricultural products, export subsidies for agricultural products were relatively undisciplined prior to the UR. Since export subsidies are almost universally recognised as the most trade-distortive policy of the government, one of the key issues during the Round was the formulation of rules to regulate export subsidies on agricultural products. The new rules on export subsidies under AoA are that the Agreement does not outlaw export subsidies, but imposes limits on their application. However, it bans any new export subsidies. Thus, export subsidies are allowed up to certain level instead of being explicitly illegal as they are for non-agricultural products.

AoA requires the following export subsidies for reduction commitments: direct export subsidies contingent on export performance, sales of non-commercial stocks of agricultural products for exports at prices lower than comparable prices for such goods on the domestic market, producer financed subsidies such as government programmes which require a levy on all production which is then used to subsidise the export of a certain portion of that production, cost reduction measures such as subsidies to reduce the cost of marketing goods for export, internal transport subsidies applying to exports only, and subsidies on incorporated products (Article 9(1)). For these categories of subsidies, developed country members are required to reduce, in equal annual steps over a period of six years, the base year period volume of subsidised exports by 21 percent and the corresponding budgetary outlays for export subsidies by 36 percent. In the case of developing country members, the required cuts are 14 percent over 10 years with respect to volumes, and 24 percent over the same period with respect to budgetary outlays. In addition, the export subsidy disciplines include an undertaking not to introduce or re-introduce subsidies on commodities that did not receive subsidies during the base period (Article 8), i.e., countries that did not provide subsidies during the base period are prohibited from creating subsidies for such products in the future. It also provides flexibility to carry forward unused export subsidies if the cumulative budgetary outlays/quantities exported do not exceed the cumulative commitments.

As a part of S&DT, developing countries are allowed to grant marketing cost subsidies and internal transport subsidies, provided that these are not applied in a manner that would circumvent export subsidy reduction commitments (Article 9 (4)).

3.2. The Ongoing Negotiations: July Framework and Beyond

The conclusion of AoA, which obligates members to reduce trade and production distorting agricultural supports and the level of protection is a starting point of the reform process to reposition agriculture in the global market. It has envisaged such reform as a continuous process. Article 20 of AoA commits members to start negotiations on continuing the reform. These negotiations are ongoing as a built-in agenda of the UR. The Doha Ministerial Declaration of November 2001 sets a new mandate by making the objectives more explicit. It reflects the commitments by the members on comprehensive negotiation aimed at: (a) substantial improvement in market access; (b) reductions of, with a view to phasing out, all forms of export subsidies; and (c) substantial reductions for domestic supports that distort trade. It also envisages S&DT for developing countries as an integral part throughout the negotiations, both in countries' new commitments and in any relevant new or revised rules and disciplines. It says the outcome should be effective in practice and should enable developing countries to meet their needs, particularly in relation to food security and rural development. The ministers also take note of the non-trade concerns, such as environmental protection, food security, rural development, etc., reflected in the negotiating proposals already submitted. They confirm that the negotiations will take these into account, as provided for in AoA. Agriculture is now part of the single undertaking.

The Doha Declaration also set deadlines for the conclusion of the negotiations. However, most deadlines were missed and the Fifth Ministerial Conference held in Cancun in 2003 failed to come up with any declaration reflecting substantial progress. Nonetheless, in the last week of July 2004, the General Council (GC) adopted a decision on Doha Work

Programme, called the 'July Package' (JP). The decision, among others, includes a 'Framework for Establishing Modalities in Agriculture' in Annex A. The modalities paper commits to reform in all three pillars – market access, domestic support and export competition. It also recognises the need for S&DT for developing and least developed countries to make them able 'to pursue agriculture policies that are supportive of their development goals, poverty reduction strategies, food security and livelihood concerns' (WTO 2004). However, the modalities paper is simply a precursor of the shape of future negotiation. It only provides underlying principles of the reform modalities without spelling out exact formula on the mechanism to reduce domestic support, export subsidies and the level of protection and also the timeframe for reduction. It reiterates that S&DT should be an integral part of all elements of negotiations, and introduces several new concepts of S&DT. The peace clause was not renewed (UNCTAD 2004). The Doha Declaration and the JP constitute the combined framework for the current negotiations. Based on these two documents, the technical discussions among various negotiating group have already been started.

Box 1: The Doha Mandate

13. We recognise the work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture, including the large number of negotiating proposals submitted on behalf of a total of 121 members. We recall the long-term objective referred to in the Agreement to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets. We reconfirm our commitment to this programme. Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.

14. Modalities for the further commitments, including provisions for special and differential treatment, shall be established no later than 31 March 2003. Participants shall submit their comprehensive draft Schedules based on these modalities no later than the date of the Fifth Session of the Ministerial Conference. The negotiations, including with respect to rules and disciplines and related legal texts, shall be concluded as part and at the date of conclusion of the negotiating agenda as a whole.

The following are the salient features of the JP on agriculture:

Parallelism: It envisages that the negotiation in agriculture shall not take place in a compartmentalised manner, but rather should go in parallel with other issues of the Doha Declaration. It is likely that progress in other negotiating areas, including Non-Agricultural Market Access (NAMA) and services, will continue to be influenced by progress in agriculture. It also foresees parallelism in negotiation within the agricultural sector, i.e., market access, domestic support and export subsidies.

Recognition of development and social issues: Unlike in previous negotiations where the focus used to be on the market access, the JP has recognised upfront the role of agricultural policies in developing and least developed countries for the achievement of their development goals, poverty reduction, food security and rural development.

Domestic Support: As outlined in the Doha Declaration, it aims for ‘substantial reductions in trade distorting domestic support’. Reduction is envisaged for total ‘trade distorting’ support which is specified as the sum of three elements viz. (i) the AMS; (ii) the *de minimis* support, which in the case of developed countries, the product specific support is five percent of production of that product, plus in the case of non-product specific support, five percent of total agriculture production (10 percent in the case of developing countries for each); and (iii) the support under ‘blue box’ measures. A tiered formula, which shall have harmonisation effects, i.e. higher cuts for higher base line, is being proposed for the reduction. However, 20 percent down payment in the reduction as the first instalment is proposed. As an S&DT for developing countries, the implementation period will be longer and the coefficient for reduction will be lower.

In order to achieve the goal of ‘substantial reduction in trade distorting support’ separate disciplines in each component are proposed. The reduction in total AMS will be harmonised from the bound level using the tiered formula. It will aim for substantial reduction and product specific AMS will be capped. However, the methodology for capping the product specific AMS and the formula is under negotiation. The *de minimis* level is open for negotiation, but the JP is silent on the level of reductions except recognition of S&DT for developing countries and exemption of *de minimis* support for subsistence and resource poor farmers. The blue box support has been capped at five percent of total value of the agricultural production. The criteria for blue box support shall be reviewed for making it less trade distorting. Similarly, the criteria for ‘green box’ will be reviewed and clarified to ensure that it has ‘no, or at most minimal, trade distorting effects or effects on production’.

Export subsidies: The JP put forward the proposal for the elimination of all forms of export subsidies and disciplines on all export measures such as export credit, export credit guarantees and insurance programmes with repayment period beyond 180 days within a *credible end date*. Similarly, trade-distorting practices relating to STEs (e.g. subsidies given to them or by them, government financing, underwriting of losses etc.) are to be eliminated by the fixed date. Food aid provisions are to be brought under agreed disciplines or eliminated by fixed date. It also asks for parallelism in the reduction process. However, it neither specifies the modalities nor the end date for the elimination of export subsidies and left for future negotiation except indicating that commitments

are implemented on an annual basis. The explicit recognition of 'the need for some coherence with internal reform steps of members' implies that the negotiated outcome would not go far on reducing export subsidies except legalising the reform programme of export subsidising members in the WTO framework.

Market Access: In order to achieve the goal of 'substantial improvement in market access', a single approach for both developed and developing countries with tiered formula, which takes into account different tariff structures, has been proposed. Tariff rate will be reduced from the bound rate rather than the applied rate and every member except LDCs, are required to commit tariff reduction. Cuts in the higher tariffs shall be deeper. The framework modalities have introduced the concept of sensitive products which could be designated by the members in negotiated numbers of tariff lines for which deviation from tariff formula is allowed and members may resort to the combination of tariff quota and tariff reductions. It also addresses the issue of tariff escalation, reduction or elimination of in-quota tariff rates and 'operationally effective improvements in tariff quota administration'. The issue of tariff simplification and special agricultural safeguard (SSG) remain under negotiation. The number of bands, the thresholds for defining the bands and the type of tariff reduction in each band also remain under negotiation.

Special and Differential Treatment: The issues of S&DT have been recognised in all three pillars of the negotiation. In market access, recognising the rural development, food security and livelihood security of the developing countries, the JP provides flexibility in tariff reduction formula, the number and treatment of sensitive products, expansion of tariff rate quotas and the implementation period. Similarly, a Special Safeguard Mechanism (SSM) will be established for use by developing countries. Based on the role of the products on food security, livelihood security and rural development needs, developing countries are entitled to designate these products as Special Product (SP). However, the criteria and treatment of these products will be further specified during the negotiation phase. In the area of domestic support, developing countries will have longer implementation period, lower reduction coefficients for domestic support reduction, and continued access to investment subsidies and input subsidies generally available to resource poor producers available under Article 6.2 of AoA. Developing country members will have longer implementation periods for the phasing out of all forms of export subsidies. They can continue to subsidise transportation and marketing (Article 9.4 of AoA) 'for a reasonable period, to be negotiated', beyond the date for ending the main subsidies.

Cotton: Based on the letters from four African cotton-exporting countries - Benin, Burkina Faso, Chad and Mali - submitted to the WTO Director General on April 30, 2003 and to the Trade Negotiating Committee on June 10, 2003, the issue of cotton got prominence in the Cancun Ministerial Conference. The proponent of cotton initiatives demanded that a mechanism be set up to progressively reduce support to cotton production and export, with a view to eliminating all cotton subsidies by 2007 and the compensation for losses suffered during the period of implementation. The JP set the framework for the negotiation in the main text in paragraph 1(b) which provides that trade related aspects of the cotton initiative will be dealt in the context of agriculture negotiations whereas development/compensation related issues will be dealt in separate

track in coordination with the relevant international organisation. Despite nice rhetoric of 'complementarities between the trade and development aspects', the JP implies that the reduction of cotton subsidies will not be negotiated on a fast track, separate from the rest of the Doha negotiation. However, it does not preclude providing special provisions for cotton or higher rate of reductions in cotton subsidies (Summer 2005).

The LDCs are not required to undertake any reduction commitments and they will have full access to all S&DT provisions.

After the JP, the development has mainly been on the issues related to technical aspects. So far, delegates have been working loudly under the Committee of Agriculture (CoA) on the different elements of what will make up an eventual package rather than on actual drafting of text. They have considered the three pillars of the negotiations, domestic support, export competition and market access, and briefly touched on some 'issues of interest but not agreed', such as sectoral initiatives, differentials export taxes and geographical indications (ICTSD 2005).

3.3. Brief Review of Post July Development

The July Framework settled only some political questions, for example, on the issues of eliminating export subsidies and giving political directions to the negotiations, such as an outline of the approach for cutting tariffs. Many technical details need to be sorted out and the members are working on 'full modalities' in the formal and informal meetings and technical consultations (WTO 2004). The then Chairman of the CoA requested members to achieve 'first approximation' on three pillars by the end of July 2005; however, the deadline was missed.

In addition to the negotiation process in Geneva under the CoA, four significant developments have occurred: Mini-Ministerial Meeting in Mombasa, Paris Mini-Ministerial Meeting, G-20 Ministerial Meeting, and the Cairns Group Ministerial Meeting. The Mombasa Mini-Ministerial during March 2-4, 2005 had the participation of 30 WTO members that hammered out the issue of *Ad Valorem Equivalent* (AVE) of specific duties, the contentious issues in CoA which held up the negotiation and pledged to develop the outlines of an agreement on agricultural subsidies. The G-20 Ministerial held in Delhi, India during March 18-19, 2005 adopted a declaration that calls for the elimination of export subsidies within five years at the latest. The Cairns Group Ministerial meeting held in Cartagena, Colombia from March 30, 2005 to April 01, 2005 focused, instead, on the issues of market access. The issues of reductions in trade distorting domestic support and export subsidies also surfaced in the declaration. On May 4, 2005, agreement was reached on the modalities of AVE in the Paris Mini-Ministerial, with the participation of 30 influential WTO member countries.

The dynamics of agricultural negotiations have changed after the Cancun Ministerial. Unlike in the UR, developing countries, though diverse in their economic structures and interests, are actively participating in the negotiation process. Now, it has become hard for Quad comprising the EU, the US, Canada and Japan to call the shot. Based on the proposals submitted and the positions taken in various formal and informal meetings, the interplay in agricultural negotiations could be analysed by defining WTO members as: the US, the EU, G10², G20³, Cairns Group⁴, G33⁵, LDCs⁶, African Group and African

Caribbean and Pacific Group of States (ACP), though there is some overlapping in the membership of the group. A brief sketch of the positions of these member and group of members is presented below:

Market Access

As explained in Section 3.3, the issues in the market access to be negotiated range from the choice of tariff reduction formula, which would also address tariff peaks and escalation to designation of sensitive and special products and establishment of SSM. The beneficiaries of preference have also raised the issue of preference erosion in the multilateral trade liberalisation process.

Tariff Reduction Formula: On this issue, the US and Cairns Group have taken very ambitious and offensive positions whereas the EU, G10 and ACP countries have defensive postures. Cairns Group advocates ‘Swiss formula’ to achieve the ambition of the JP in contrast to the preference of the US and the EU to the tiered formula. However, the EU and the US do not agree on the threshold level⁷. G-20 presented a formula proposal as a compromise position, which has different thresholds for developed⁸ and developing countries⁹ subject to each tariff with linear cut. It proposes developing countries to undertake only two third of cuts undertaken by developed countries as a part of S&DT. It has also called for establishing tariff caps at 100 percent for developed countries and 150 percent for developing countries.

The LDCs as well as African Group have not been actively involved in the debate on the tariff lines reduction formula. However, they call for binding commitments by trading partners in granting duty free and quota free market access for all products from the LDCs, to be implemented immediately on a secure long term and predictable basis without any restrictive measures.

Sensitive Products: Regarding the issue of sensitive products, the US, G20, Cairns Group consider designation of sensitive products as an exception to the tariff reduction formula and thus argue that very limited number of tariff lines based on well specified criteria should be designated as sensitive products. However, the EU and G10 argue that sensitive product is an important component of market access pillar and thus, it should be allowed to any tariff lines. They also proposed that the issue of sensitive products should be addressed through combination of tariff cut formula and expansion in Tariff Rate Quotas (TRQs). The LDCs, G33, African Group and ACP countries do not have specific position on the issue. However, they are likely to support designation of sensitive products to the extent that it includes their long-standing preferences.

Special Products: The US and the EU are not very supportive of the concept of SPs to be designated by developing countries for more flexible treatment in tariff reduction. Thus, they along with Cairns Group would like to limit the scope of SPs and strongly oppose exemption of SPs from tariff reductions. G-33, African Group and ACP countries are supportive of SPs and insist on self-selection of appropriate number of sensitive products based on the criteria of food security, livelihood security and rural development needs. G33 proposes exempting SPs from tariff reduction commitments and tariff rate quota expansion and favours automatic access to SSM for SPs. The LDCs are generally supportive of SPs but have not shown special interest, as they are exempted from tariff

reduction. Nevertheless, they would have stakes in the negotiation if products of their export interests were included among the SPs.

Special Safeguard Measures: Although all the major groups support the concept of SSM as it would provide incentives for liberalisation of the agricultural sector, the US has strongly opposed it arguing that it is the duplication of the concept of SPs because both instruments are deemed to be used for the same purpose. The Cairns Group, the EU and G10 favour SSM to deal with import surge and thus proposed volume trigger criteria for the invocation of SSM. G33, the LDCs and African Group have special interest on the provision of SSM. G33 has put forward a paper on SSM arguing that the concept of SSM is very different from that of SPs because SP is a long term exemption for rural development and food and livelihood security whereas SSM is a short term mechanism to help developing countries cope with fluctuation in prices and import surges. Thus, it proposes to apply SSM automatically to all products from all sources irrespective of subsidisation if either price trigger or volume trigger criteria qualify the invocation. G20 and the LDCs are supportive of the position of G33 and have shown interest to work with the group.

Regarding the issue of special safeguard measures, the EU and G10 would like the SSG to be extended whereas Cairns Group and G20 prefer its immediate elimination or otherwise its discontinuation over a negotiated period. Other groups and the US are silent over the issue of SSG.

Preference Erosion: The US and the Cairns Group are generally opposing the issue of preference erosion and argue that it should not be addressed at the expense of market access whereas the EU considers the concept as a critical issue for developing and least developed countries with long-standing preferential market access. Although G20 recognises the need to address the issue but generally is opposed to granting special treatment on market access to specific products to address the preference erosion. The group proposes to address the issue by expanding market access through promoting effective utilisation of existing preferences, providing additional financial assistance and capacity building to address supply constraints, promoting diversification and assisting in adjustment and restructuring. As the LDCs, African Group and ACP countries are long standing beneficiaries of preferences, the issue of preference erosion is critical to them. These groups would like to incorporate special provisions in the modalities to address the erosion of preferences. They also proposed to maintain preferences until such time as all domestic support and export subsidies for the products that affect LDCs are removed. They also asked for 'aid for trade' as an additional, substantial and predictable financial mechanism to strengthen supply side and infrastructure capacity, diversification of trade in the LDCs and address adjustment costs.

Domestic Support

The JP calls for 'substantial reductions in trade distorting domestic supports' through overall reductions in the AMS using tiered formula, capping of product specific AMS, revisiting *de minimis* support, capping of blue box and reviewing of green box supports.

AMS Reduction Formula: The US, the EU and G10 seem to be defensive on the overall reduction of AMS, but their position differs on the issues of amber box, blue box and *de*

minimis supports. All these groups support a three band approach for the reduction of overall supports. The US and the Cairns Group would like the EU to be placed in the first tier. However, the EU insists that the tiered approach should be applicable based on the relative level of trade distorting support vis-à-vis the value of agricultural production. However, G10 argues that such an approach will penalise smaller countries with proportionally large subsidies by imposing deeper cuts than what would result otherwise. The G20 is very offensive on the issue and has proposed three band approach: support above US\$60bn, support above US\$10bn and up to US\$60bn and support at less than US\$10bn, with higher cuts in higher level of AMS. It also demands for front-loading of commitments. It proposes the reduction commitments for developing countries to be two thirds of those required under the lowest band. The LDCs seem to be uninterested in the debate of reduction formula but would like significant reductions on all forms of trade distorting support while taking into account all S&DT provisions and recognition of the need for transitional measures that will offset the negative, short term effects of removal of subsidies in terms of reducing or removing LDCs' preferential margins into the markets of developed countries.

De Minimis Support: The EU, G30, G20 and Cairns Group would like the elimination of all *de minimis* support in developed countries whereas the US is very sensitive on the issue and would like to make as small cuts as possible. G20 further proposes that reduction be made to both product and non-product specific *de minimis* supports. It would also like to see that developing countries that allocate almost all *de minimis* supports to subsistence and resource poor farmers are exempted from reduction commitments. Cairns Group supports this proposition. The LDCs have not yet articulated any position on the issue but favour exemption of developing countries from the reduction commitments.

Blue Box Measures: As the US is the main proponent of the expansion of blue box criteria, it is very sensitive on the issue. It wants the criteria to be crafted in such a manner that it could be used to lock in counter-cyclical payments. The EU wants to preserve the *status quo* in the blue box measures. However, G20 and Cairns Group have very offensive postures and would like to review the blue box criteria so as to ensure that blue box payments are less trade distorting than AMS measures. It has also proposed additional measures such as specific cap and improvement in transparency and administration of the direct payments to avoid box shifting and concentration of support in a few products. Other groups such as the LDCs, G33, African Group and ACP countries do not have formal position on the issue.

Green Box: The EU and G10 would like to maintain the *status quo* on Green Box provisions whereas G20 and Cairns group propose revision of green box criteria to ensure that these measures have no, or at most, minimal trade distorting effects. G20, as a main proponent of the review process, has put forward a proposal aimed at excluding production and trade distorting subsidies from the green box. It calls for new disciplines for the green box to avoid box shifting. It also proposes exemption of income support provided to low income producers and subsidies for land reform for developing countries from reduction commitments. Other groups, including LDCs, do not have a position on the issue but are generally supportive of proposals for redesigning the green box disciplines in such a manner that developing countries would be able to use them

without any hassles, monitoring and surveillance would be improved and box shifting be avoided.

Export Competition

The issue of export competition is the most contentious issue even among the developed countries. Members agreed to eliminate export subsidies under the JP, but the timeframe for the elimination is yet to be negotiated. Similarly, other outstanding issues for export competition are: export credits, export credit guarantee or insurance programmes, discipline on the operation of STEs and food aid.

Timeframe for Elimination of Export subsidies: Although the US has indicated that it would be willing to eliminate all export subsidies, it wants to defend its export credit and food aid programme. Because the EU is the major user of export subsidies, it is very sensitive on the issue of elimination and would like to have a long time frame. It has put forward certain conditions for the elimination of export subsidies such as full parallelism within export competition pillar, agriculture modalities and July Framework. G10 supports the position of the EU. G20 and Cairns Group want elimination of export subsidies in the shortest timeframe possible, e.g. within five years with 50 percent down payment and immediate standstill on all form of export subsidies. Other groups, including the LDCs, are generally supportive of short timeframe for the elimination but are concerned with the effects of eliminating export subsidies on their capacity to import food.

Export Credit: The US, being the main provider of export credit and similar programmes, insists on providing special provisions in favour of the programmes under which developing countries are beneficiaries. But the EU, G20 and Cairns Group propose stricter discipline with comprehensive coverage so that export credits and similar programmes are not used in such a way that displaces third country commercial exports or promotes surplus disposal.

Food Aid: The US wants to maintain the *status quo* particularly the flexibility to provide tied and in kind food aid regardless of whether there is an emergency or not. The EU, G10, G20 and Cairns Group are offensive on the issue and would like to limit food aid to the emergency and humanitarian interventions that too in grant form. They also stress the need to ensure that the commitments regarding the maintenance of food aid levels are in line with requirements under the Food Aid Convention. Though G33, the LDCs, African Group and ACP countries have significant stakes on the issue, they have not yet articulated formal position. However, they are in favour of disciplines that curtail commercial displacement of food aid. They would also like to ensure that food aid is available at all times to address the need of the LDCs and Net Food Importing Developing Countries (NFIDCs).

State Trading Enterprises: All the groups except Cairns Group would like to have stringent discipline that will prohibit monopoly status for STEs. But G20 and the LDCs have asked for special consideration for maintaining monopoly status of STEs by developing countries and LDCs.

Cotton

The *demandeurs* of Cotton Initiatives along with the LDCs, G20, African Group and ACP countries have offensive position on the issue. They demand ambitious and specific cotton related decisions that would ensure the elimination of domestic support measures and export subsidies that distort trade in cotton by no later than the Sixth Ministerial Conference and bound duty free and quota free market access for cotton and products derived from cotton from LDCs. They also seek for the creation of an Emergency Support Fund for cotton. However, the US and the EU, unsupportive of Cotton Initiatives, emphasise that there should not be any negotiated specific modalities on cotton. They underline to let the outcomes of the agriculture negotiations address the cotton issues. They also complain that the development aspects of the cotton initiative have been diverting attention from the pure trade issues. G10 and Cairns Group are silent on these issues.

4. Negotiating Landscape for LDCs

The stage for agricultural reform, an issue untouched by the GATT, was set by AoA. It had a stated goal of no backsliding and modest liberalisation. It obligates members to reduce trade and production distorting agricultural supports and the level of protection. It establishes disciplines and rules on the areas of market access, export competition and the domestic support related to agricultural products. In each of these areas, new rules have been defined and commitments are sought for the reductions. In the area of market access, it requires members to convert existing NTBs to tariffs, bind tariffs, and make commitments to reduce them. On domestic support, it establishes binding commitments in the area of trade and production distorting domestic supports provided to the agricultural sector by putting limits on the AMS. The new rules on export subsidy impose limits on, if not outlaw, the use of export subsidies. However, the levels of commitments made by members vary on different pillars of market reform.

Level of Agriculture Tariffs

Table 5 shows that the global average of applied tariff in agriculture is 17 percent. Its decomposition indicates that 11 percent is *ad valorem* tariffs and six percent is *ad valorem* equivalents of *non-ad valorem* measures. However there are significant variations between countries and country groups. The average tariff is 14 percent in developed countries as a group, but this is made up of only four percent *ad valorem* tariffs and the rest 10 percent constitutes *ad valorem* equivalent of specific, mixed or compound duties. Within the developed country groups, Japan has the highest rate of 36 percent, mostly derived from *non-ad valorem* tariffs followed by the EU with 12 percent. The US and Australia have the lowest rate of three percent. Developing countries have higher tariffs, at 20 percent than those of developed countries, but only two percentage points of this protection are provided by specific tariffs. The LDCs as a group have quite low tariffs (Jean, Laborde and Martin 2005).

**Table 5: Key Features of Applied Agriculture Tariffs by Country and Region, 2001
(Trade Weighted Average in percentage)**

Region	Overall Average	Ad Valorem Tariffs	Specific Tariffs	Tariffs for TRQs	TRQ Share
Developed country	14.3	4.3	10.0	36.9	17.3
Developing country	20.9	18.5	2.4	63.7	11.6
LDCs	13.4	13.0	0.3	0.0	0.0
World	17.2	10.08	6.4	46.5	14.4

Source: Jean, Laborde and Martin 2005

There have been significant gaps between bound and applied rates requiring higher cuts in the bound rate to realise market access improvement. Such gaps have two origins: the binding overhang, i.e. the gap between bound and Most Favoured Nation (MFN) tariffs, and preferential arrangements, which cause a difference between MFN and applied rates. Table 6 shows that bound tariff in developing countries is 2.4 times the average applied rate. In developed countries, tariff overhang is smaller but by no means non-existent. The LDCs as a group tend to have a very large degree of binding overhang, with binding for the LDCs group six times applied rates. For Bangladesh, the difference is over 150 percentage points. In Japan, the US and the EU, the average bound rates are more than 50 percent above the applied rates (Jean, Laborde and Martin 2005).

Region	Bound Tariffs	MFN Tariffs	Applied Tariffs	CV of Bound Rate	CV of MFN Applied Rate
Developed country	27.0	22.1	14.2	37.3	37.7
Developing country	48.1	26.7	20.6	13.9	15.1
LDCs	77.6	14.3	13.4	3.7	1.8
World	37.4	24.0	17.0	26.2	26.9

CV: Coefficient of Variation
Source: Jean, Laborde and Martin 2005

Special Safeguard Measures

Lower binding of agricultural products increases vulnerability of domestic agricultural market transmitted through external market instability and the possibility of import surge that could damage domestic agriculture sector. Such vulnerability to the external shocks is of particular concern to developing countries, which aspire to develop their agricultural and diversify production in order to enhance their food security and alleviate poverty. AoA has provided some mechanism through SSG to address such vulnerability but recourse to SSG was limited to those countries undertaking tariffication. As a result, there is now the anomaly that some countries have the right to use the SSG to deal with import surges, whereas others, including many developing country members, do not. In view of this, there is an agreement in the WTO that there should be a SSM accessible to all developing countries (FAO 2005).

Looking at the experiences of the LDCs on the import surge of agricultural products, there have been increasing tendencies of import surges. Table 7 shows that the LDCs have been experiencing surges in imports of various food products since the mid-1990s. The frequency of the surges is high, occurring on average in about one-third of the years in the period covered for each product in each country. It could have negative effects on local production and economy.

Table 7: Number of Cases of Import Surge in Select LDCs and in Select Food Products (1984-2000)

Country	Wheat	Rice	Maize	Vegetable Oils	Bovine Meat	Pig Meat	Poultry Meat	Milk
Bangladesh	5	6	9	7	5	6	2	3
Benin	6	4	3	3	6	7	8	7
Burkina Faso	6	9	4	3	8	8	6	4
Cape Verde	3	6	3	5	7	11	10	3
Comoros	4	5	4	6	5	3	11	4
Guinea	6	5	8	9	7	5	9	6
Guinea-Bissau	6	10	2	6	6	5	9	4
Haiti	1	2	4	7	4	9	8	5
Madagascar	8	5	7	5	3	8	5	5
Malawi	7	3	9	7	5	7	10	2
Mali	4	5	5	8	8	8	5	7
Mauritania	5	2	4	5	4	5	9	2
Niger	8	7	9	8	5	6	5	6
Togo	6	8	7	7	3	3	8	5
Uganda	10	4	8	11	4	3	2	1

Source: FAO 2005

Preference Erosion

Following the tariff cuts under Multilateral Trade Negotiation (MTN) at the GATT/WTO, the differences between the MFN rate and the preferential rate shrink which results in the erosion of preferences. Moreover, preferential Tariff Rate Quotas (TRQs) are fairly common among agricultural products. Many of them give rise to substantial rent for some LDCs and those rents are reduced following a cut in the out-of-quota tariff rate as a result of a MTN. In addition, multilateral trade reforms, especially those in agriculture, generally push up world market prices, which hurt net food importing countries, including many of the LDCs. The empirical studies have shown that the margin of preference has been decreasing over the period due to agricultural reform and suggest that further trade liberalisation may actually harm the LDCs (Yu and Jensen 2005). Since most LDCs are getting preferences in some of the developed country markets either on global or regional basis, preference erosion would adversely affect their agricultural production and trade.

Domestic Support

Tables 8 and 9 present current total AMS and *de minimis* support by country and product categories respectively. There are 34 member states that had based-period AMS values exceeding their *de minimis* levels (WTO 2004). Thus, only these 34 member states faced the prospect of cutting domestic support programmes. There have been five reported cases (Argentina in 1995, Hungary in 1998, and Iceland in 1998, 1999 and 2000) where countries have exceeded their commitment levels, however, these countries had not exceeded the levels if inflation is factored in (Jensen and Zobbe 2005). The EU,

the US and Japan account for more than 90 percent of US \$81bn notified AMS in 1999. The EU alone accounts for more than 60 percent (US\$50bn). Regarding *de minimis* support, the US accounts for more than 80 percent (US\$7bn) of total *de minimis* supports. Only a few other countries have some *de minimis* payments.

The use of WTO domestic support programmes varies by member states. New Zealand has not utilised any of its domestic support limits. Canada has restructured programmes so that its AMS has fallen to 15 percent, on average, of the country's allowable amount. The average AMS level for Australia is 27 percent of the limit. The US utilised 54 percent of its limit. The average AMS levels for Japan, the EU, and South Korea were 45, 67 and 90 percent of their respective limits. All these numbers show that the participating countries have reduced their spending on programmes that are classified as trade distorting, and these reductions have met or exceeded the requirements of the URAA (Jensen and Zobbe 2005).

The information regarding the domestic support on product categories show that most of the products sensitive for the LDCs either in the form of exports or imports have been heavily subsidised.

Table 8: Current Total AMS, and <i>De Minimis</i> Support by Country 1999 (in US\$ million)		
Country/ Region	Total AMS	<i>De Minimis</i> Support
Developed countries		
Iceland	185	0
Norway	1359	0
Switzerland	2110	0
Japan	6690	292
EU 15	49934	322
Israel	257	88
Canada	639	115
USA	16862	7435
New Zealand	0	0
Australia	40	14
Developing Countries		
Argentina	80	0
Brazil	83	409
Bulgaria	10	27
Colombia	7	0
Costa Rica	2	0
Jordan	1	34
Korea	1319	414
Mexico	401	0
Morocco	18	0
Papua New G.	n.a.	n.a.
South Africa	128	1
Taipei	n.a.	n.a.
Thailand	431	0
Tunisia	24	7
Venezuela	211	0

Source: Jensen and Zobbe 2005

**Table 9: Current Total AMS, and *De Minimis* Support by Product 1999
(in US\$ million)**

Products	Total AMS	<i>De Minimis</i> Support
Rice	2556	26
Wheat	4927	69
Grains	8501	56
Vegetable and Fruits	10212	177
Oil Seeds	5821	111
Sugar	7831	89
Fibres	3231	0
Wine	2140	0
Tobacco	2047	0
Livestock	5	41
Beef	15807	49
Pork	3147	15
Poultry	389	21
Other Meat	143	4
Milk	13836	0
Non-Product Specific	57	8451
Others	143	45

Source: Jensen and Zobbe 2005

Export Subsidies

Altogether 25 countries, out of which are eight are developing, are entitled to provide export subsidies under the WTO. Only the EU, Switzerland and Norway have provided export subsidies more than 50 percent of their commitments and many of the countries are providing nominal fraction of their commitments (Table 10). The LDCs do not report any export subsidies. The total amount of export subsidy commitments across WTO members amounted to US\$80bn in the period 1995-2000. High-income countries accounted for some 85 percent of the total export subsidy commitments, and middle-income economies accounted for the remaining support (Hoekman and Messerlin 2005). The products notified by middle income countries are much more heavily concentrated in commodities that poor countries (LDCs) either export or import. Around 17 percent of the value of LDCs exports comprises products that are subject to an export subsidy in one or more WTO members (Hoekman, Ng and Olarreaga 2004). The trade pattern of the LDCs shows that the export subsidies of developed countries have less of negative impact to them than that of developing countries (Hoekman and Messerlin 2005).

Country	Number of Products	Average of Commitments (1995-2000) in mln US \$	Average of Used Subsidies (1995-2000) in mln US \$	Average Utilisation Rate (in percentage)
EU	20	8421	4225	50.2
USA	13	881	81	9.2
Mexico	5	679	3	0.4
Turkey	44	659	28	4.3
Poland	17	619	22	3.5
Canada	11	391	7	1.8
Colombia	18	350	13	3.6
Switzerland	5	300	233	78.0
Czech Republic	16	174	37	21.3
South Africa	62	147	19	12.6
Bulgaria	44	110	0	0.0
Norway	11	102	78	76.5
Hungary	16	99	16	15.9
New Zealand	1	96	0	0.0
Brazil	16	88	0	0.8
Australia	5	78	1	18.3
Slovakia	17	59	11	12.9
Israel	6	51	7	16.2
Venezuela	72	32	5	0.0
Indonesia	1	26	0	5.1
Iceland	2	21	1	0.0
Uruguay	3	2	0	-
Panama	1	-	-	-
Cyprus	9	-	-	-
Romania	13	-	-	-

Source: Hoekman and Messerlin 2005

Cotton:

Although cotton is just one of the farm products with total global export value of less than US\$10bn, its production and trade is highly distorted by the subsidy policy of a few rich countries. The EU provides the highest per unit support. The US is the only WTO member for which cotton is highly subsidised, and which plays a significant role in the global cotton market. For most LDCs cotton is a minor crop, but it plays significant role in the economy of some West African countries. It comprises approximately 30 percent of total exports of four West African countries that proposed the initiatives and is a major source of income for millions of farmers. A study by the International Cotton

Advisory Committee indicates that the withdrawal of cotton subsidies would raise cotton prices by 11 cents per pound, or by 26 percent. Similarly, Oxfam's estimation shows that the cost to Africa of cotton subsidies in 2001-2002 amounted to US\$301mn, of which eight cotton-producing West African countries accounted for approximately two-thirds, i.e. US\$191mn (UNCTAD 2005).

5. Conclusion and Recommended Positions for LDCs

The fundamental issue here is what the LDCs need from the multilateral trading system in order to develop their agricultural sector. At the operational level, it means the maintenance of the role of the multilateral trading system to reduce distortions in global agricultural markets, securing enlarged and predictable export markets inclusive of trade preferences for their agricultural products and preservation of policy flexibility to support the agricultural sector so as to promote employment, enhance rural development and ensure food security. The natural question, then, is how the ongoing WTO negotiation on agriculture based on JP impacts on these issues.

If the outcome of the negotiation upholds the spirit of the Doha Declaration, further explained by the JP, a multilateral discipline on agricultural trade will be maintained. Such rules would reduce distortions in global agricultural markets and expand the trade opportunities. However, it will have significant implications on policy space to pursue policies suited to specific development needs. It may also reduce the volatility of world prices. However, with many of the LDCs being NFIDCs, they may face a rise in world food prices. It may also result in erosion of preferences. In particular, the outcome of the agricultural negotiations will play a critical role in industrialisation, rural development, food security and more broadly poverty reduction.

Since the JP exempts LDCs from reduction commitments, they are not required to make any commitments on market access, domestic support and export subsidies. It means that the outcomes of the ongoing negotiations do not constrain LDCs to protect their domestic farmers up to the level negotiated during the UR. Similarly, the LDCs would not be required to change their agricultural support policy both for domestic consumption and exports. But the new rules shall have impact on the policy flexibility to develop the agricultural sector.

Market access: The export baskets of the LDCs are concentrated in few products and in few countries. The major markets for most of the LDCs for their agricultural produce are developing countries. The exports to developed countries are mostly on the unilateral preference provided by them. Thus, the focus of the LDCs on market access should be on opening markets in developing countries rather than developed countries. Similarly, aggressive tariff reductions may erode existing preferences.

Domestic Support: The issue of the reduction in domestic support is a double-edged sword. On the one hand, it provides level playing field to compete in the domestic market of the subsidies providing countries. On the other hand, it may increase the

international prices thereby increasing import bills. Thus, the LDCs need to have a very cautious approach on the issues of reduction in domestic support. They need to trade off between the possibility of export expansion due to reduction in distortions in the international market and being net agriculture importers, with the potential increase in the import bills. Similarly, the LDCs exporting processed food also need to look at the increase in the price of raw materials, which may result in potential erosion in competitive edge.

Export Subsidies: The available information on export subsidies indicates that WTO members have been providing export subsidies to most of the products of export interest to the LDCs. It has distorted the global market and is prone to displace their products in the export markets. Thus, it is in the interest of the LDCs if export subsidies are eliminated in short duration with significant down payment and if it is agreed to standstill commitment on all forms of export subsidies during the negotiation period. However, again the LDCs are required to pay attention to the possibility of increased import bills. In addition to retaining marketing and transport subsidies for LDCs, export credits should be made permissible for the LDCs.

Green Box: The CoA has not yet chalked out the technicalities on the green box measures. In the review process of green box measures, the LDCs need to see that the subsidies in infrastructure development as well as land reform will not be taken out of green box and the green box subsidies will not be capped for the LDCs.

Food Aid: Though the Marrakesh decision has stipulated to establish a mechanism to secure adequate level of food aid to meet the needs of the LDCs, to access to financial mechanism to smooth short term difficulties in financing normal levels of commercial imports and financial and technical assistance to the LDCs and NFIDCs and to improve productivity and infrastructure of their agricultural sectors, the LDCs need to pursue the operationalisation and implementation of these decisions. We need to see that issues of food aid are not tied up only with export competition, but are rather pursued in the holistic approach.

Preference Erosion: Though it has been argued that continuation of preference to developing and LDCs bolster external support for highly protectionist policies in industrialised countries on the one hand and it can create a high degree of dependence that constrains diversification and results in high cost production of preferred products (Brenton and Ikezuki 2004), the preferences provided by the EU and other developed countries have contributed to expand the export of the LDCs. Erosion of preference should be considered in the negotiation so that its effect could be slowed down. It could be attained either through the tariff reduction formula that cuts tariffs in the major exportable products of LDCs that enjoy preferential market access at lower rate or inclusion of these products in the sensitive lists. Moreover, preference providing members shall undertake, as proposed by Harbinson text, targeted technical assistance programmes and other measures to support preference receiving countries in an effort to diversify their economies and exports.

Special Safeguard Mechanism: SSM would provide the requisite policy space and flexibility for policy intervention needed to safeguard non-economic objectives such as

food security, livelihood security and rural development needs. More specifically it also should insulate the markets of developing countries from negative effects of import surge and declining international prices. Available information shows that there has been increasing tendency in the import surge of food products in the LDCs. Thus, the issue of SSM is very crucial to them.

SSM should be automatically activated and, in addition, the trigger mechanism has to be price and volume based. It should be available to all agricultural products and applicable remedies have to include additional duties and quantitative restrictions. However, in order to provide predictable market access to the LDCs, some restraints on the use of SSM on the export of LDCs should be shown. The provision of the Agreement on Safeguards could be a guiding principle in this regard.

Special and Sensitive Products: The framework agreement provides that all members may designate an appropriate number of tariff lines to be treated as sensitive products for tariff reduction. Similarly, it also provides developing countries to designate SPs based on the criteria of food security, livelihood security and rural development needs. Since the LDCs are not required to make reduction commitments and the development in the CoA on SPs has been linked with the issue of market access, LDCs in alliance with each other need to ensure that special and sensitive products do not adversely affect their market access situation.

Duty Free and Quota Free Market Access: According to paragraph 45 of the Agriculture Framework, the LDCs should be provided duty free and quota free market access in developed country markets and in the markets of developing countries in a position to make such concession. The LDCs must be given effective market access bound in the WTO, for all their agricultural products through duty free market access by all trading partners. Such market access ought to be immediate and predictable.

Cotton: In view of the high intensity distortions created by cotton subsidies, an ambitious specific cotton related decision should be made within the agricultural negotiations. In particular, the decision should include all cotton related subsidies - domestic and export – and they should be eliminated no later than the sixth Ministerial Meeting as proposed by African Group. The decision should also include duty free and quota free market access for all cotton and cotton-derived products. As a part of the development aspects of the cotton issue, the WTO, in coordination with and the financial support of other multilateral and bilateral donor agencies, should establish a fund to help cotton producing LDCs in modernising the cotton sector.

The above discussion shows that the issues on the negotiation table have disproportionate impacts on the LDCs. The issues of market access, particularly in developed countries, and the domestic supports are not the priority areas, whereas export competition and the peripheral issues for most of the developed and more advanced developing countries such as food aid, preference erosion, SSM, supply capability bear significant importance for the LDCs. Thus, it is necessary that the negotiating capital be channelised to form alliances on a case by case basis.

Endnotes

- 1 United Nations (UN) has designated 50 countries as LDCs. Out of these, Angola, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Madagascar, Malawi, the Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Solomon Islands, Tanzania, Togo, Uganda, Zambia are WTO members.
- 2 Bulgaria, Chinese Taipei, Republic of Korea, Iceland, Israel, Japan, Liechtenstein, Mauritius, Norway and Switzerland.
- 3 Argentina, Australia, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela, and Zambia.
- 4 Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay
- 5 Antigua and Barbuda, Barbados, Belize, Benin, Botswana, China, Congo, Cote d'Ivoire, Cuba, Dominican Republic, Grenada, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Republic of Korea, Madagascar, Mauritius, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Senegal, Sri Lanka, Surinam, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia and Zimbabwe
- 6 Angola, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Solomon Islands, Tanzania, Togo, Uganda, Zambia
- 7 US proposed single approach of four bands for developed and developing countries but EU has shown willingness to consider different bands for developed and developing countries.
- 8 0-20, >20-40, >40-60, >60-80 and >80
- 9 0-30, >30-80, >80-130 and >130

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Questionnaire
Stakeholder Perception Survey on current
Doha Round of Negotiation in Agriculture

Purpose of Questionnaire:

To capture the perception of farmers, farmer's organizations, civil society and business community on the issues to be addressed in the Doha Round of WTO negotiation as well as the role of agriculture on food security, rural development and gender equity.

Part I: General (To be completed by all respondents)

Name of Interviewee:

Occupation:

Address:

Telephone No: E-mail Address:

Date:

1. Do you think that trade in agriculture products under the discipline of WTO is beneficial for the country?

- Yes
- No

Reasons _____

2. Do you think our farmers and agriculture producers have level playing field to compete with foreign producers?

- Yes
- No

Reasons _____

3. If your response is negative for Question 2, what kind of positive discrimination or special and differential treatments are required for us? List on priority basis.

4. Do you think that we have right and appropriate policy to uplift agriculture sector?

Yes

No

Reasons _____

5. Do you think that women's issues or gender concerns are reflected in the policies related to agriculture sector?

Yes

No

Reasons _____

6. Do you think that there is enough coordination between civil society (business groups, trade union, women group especially working on trade and gender linkages), business community and the government in formulating national trade policy ?

Yes

No

Reasons _____

Part II: Questionnaire for businesses (Business groups/Chambers/Trade Unions etc.)

1. How do you rate the competitive strength of Nepalese agriculture vis-a vis foreign competitors?

None

Moderate

Strong

2. Is there any policy lacuna adversely affecting competitive strength?

Yes

No

If yes, what are they?

3. What are the agriculture products Nepal can not compete with import in the domestic markets?

4. What are the agriculture products Nepal can compete in international markets?

5. What are the agriculture products Nepal can compete in international markets if enabling policy environment and adequate infrastructure support is provided?

6. What are the major barriers to export agriculture products?

High tariffs

Subsidies provided by the importing country

Export subsidies received by the competitors

Non-tariff barriers

Part III: Questionnaire for farmers (Individual farmers or Farmer's Organizations)

1. What are the agriculture products you produce?

2. Do you face competition from import?

No

Yes

If yes, what are the products?

3. Do you think that import of agriculture products has displaced domestic farm produce?

No

Yes

If yes, what are the products?

4. Have you competed out any imported products?

No

Yes

If yes, what are the products?

5. What are the agriculture products you think you can produce if adequate support is provided by the government?

6. What are the agriculture products the government should protect from foreign competition?

7. Are you satisfied with the government policy related to agriculture?

Yes

No

If No, where should government intervene?

Part III: Questionnaire for members of Civil Society and Advocacy Groups and Policy Makers

1. Which area should be our priority in the Doha Round and July Package of the WTO? Kindly list on priority basis.

2. In agriculture sector, which issue should be our priority?
- Ensuring food security
 - Protecting rural jobs
 - Enhancing market access through tariff reduction
 - Reducing trade distortions through domestic subsidies and incentive
 - Reduction and elimination of export subsidies
 - Promoting and defending female rights

3. What kind of special and differential treatment Nepal should demand for?
- Duty free market access
 - Higher level of support for agriculture producer
 - More flexible measures for protecting farmers
 - Any others,

4. What do you think are the major products directly related to the situation of food security and rural development?

5. What approach should we approach to ensure food security and rural development?
- Insulating food security products from international competition
 - Seeking flexibility to adopt measures as and when required
 - Any other measures,
