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Agriculture in the 'July Package'

An Assessment of Implications for Least Developed Countries

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The Doha Round of negotiations at the World Trade Organisation (WTO) aims at comprehensive negotiations for agriculture reform of the three pillars of the Agreement on Agriculture (AoA): market access, domestic support and export competition. Notwithstanding deadlines set out in the Doha Declaration were missed, but in July 2004, the WTO General Council agreed on the framework for the modalities of negotiations. Crucial technical aspects were left for negotiation, however, and the WTO General Council has since been working to finalise the modalities in time for the Hong Kong Ministerial.

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 developed, developing and least developed countries (LDCs). Due to the importance of the agriculture sector to the livelihood of a majority of people in the LDCs, the result of the agricultural negotiations is crucial for improving their lives and achieving the Millennium Development Goals (MDGs). This paper analyses the implications of the ongoing Doha Round on agriculture for LDCs as a group.

Agriculture in LDCs

The crucial role of agriculture on peoples' lives in LDCs and, hence, in countries' development cannot be overstated. The agriculture sector is a bed rock for economic growth, employment generation, rural development and food security in LDCs, as table 1 illustrates. It supplies the bulk of basic food in the countries and provides subsistence and other income to LDCs' large rural populations. Consequently, it has a disproportionate effect on poverty reduction, food security and environment conservation in LDCs, which explain the importance of agricultural growth in achieving a number of development goals. Hence, the importance of the ongoing WTO negotiations on agriculture for LDCs not only in order to expand market opportunities, but also to achieve policy flexibility to pursue domestic development objectives.

Although most agricultural production is at subsistence level and commercial farming is at a minimum, LDCs have historically been engaged in the international trade of agricultural products. However, the share of agricultural products in total exports varies among the LDCs, with the share of African LDCs higher compared to other LDCs. The tendency in the share of agriculture in total imports, however, is consistent among LDCs and constitutes more than one-sixth in most of the LDCs. Many of the LDCs are net food importing countries.

There has been a divergence amongst LDCs in terms of their overall export performances. The LDCs that primarily export manufactures experienced steady growth during 1998-2002, whereas agriculture-exporting LDCs saw their exports decline during the first half of the same period and bounced back in the second half. Despite sustained efforts to diversify their export base, lack of economic dynamism resulted in concentration of exports in agricultural products in most LDCs. The number of products exported by LDCs is very small and for certain LDCs, the export concentration index is close to 1.

Table 1: Basic Indicators for the LDCs

Indicators	LDCs	All Developed Countries	Developing Market Economies
Per capita GDP (in US$)			
1990	253	901	23,832
2002	281	1195	28,388
Population (in millions in 2002)	699.9	5,018.5	871.4
Share of rural population (percentage in 2000)	73	59	
Share of agriculture in labour force (percentage)			
1990	76	61	
2002	69	54	
Share of agriculture in GDP			
1990	38	15	
2002	33	12	
Percentage share of population living on less than:			
US$1 a day	50.1		
US$2 a day	80.7		

Source: UNCTAD, 2004, "Least Developed Countries Report 2004", United Nations.

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Agriculture in WTO

Outcome of the Uruguay Round

The adoption of the AoA created a whole new body of disciplines for agriculture and set quantitative commitments for the WTO members. They 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 support policies.

Market Access

The AoA has addressed the practice of unbound tariff lines and pervasive use of non-tariff barriers (NTBs) in three ways. Firstly, 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.

Domestic Support

The Agreement establishes binding quantitative commitments in the area of domestic support through limits placed on the Total Aggregate Measurement of Support (Total AMS). However, the agreement also identifies four kinds of support measures that are exempted from reduction commitments: ‘green box’ measures, development measures, ‘blue box’ measures and *de minimis* exemptions.

- Green box measures – The general criteria are that the measures must either have no, or at most minimal, trade distorting effects or effects on production;
- Development measures – As a part of special & differential treatment (S&DT), developing countries are exempted from the commitments and reduction of developmental measures;
- Blue box measures – The exemption of direct payments under production-limiting programmes based on fixed areas and yields and livestock payments based on fixed number of heads; and
- *De minimis* exemptions – All support for a particular product as well as non-specific products can be excluded from the reduction commitment if that support is small compared with the total value of production.

The domestic support measures that are not exempted and where the Total AMS has to be reduced are also referred to as the ‘amber box’.

Export Competition

The new rule on export subsidies under AoA 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 a certain level instead of being explicitly illegal as they are for non-agricultural products.

As 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.

July Framework and Beyond

The Doha Ministerial Declaration of November 2001 provides the mandate for agricultural negotiations. These aim at: substantial improvement in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions for domestic supports that distort trade. S&DT, for developing countries, is envisaged as an integral part throughout the negotiations.

Most deadlines set in the declaration were missed, but in July 2004, the General Council adopted a decision on Doha Work Programme (DWP), called the ‘July Package’. The decision includes a ‘Framework for Establishing Modalities on Agriculture’. The modalities paper is a precursor of the shape of future negotiations and only provides the underlying principles of the reform modalities. The ‘Doha Declaration’ and the ‘July Package’ constitute the combined framework for the current negotiations.

The following are the salient features of the ‘July Package’ on agriculture:

Parallelism: Negotiations on agriculture shall not take place in a compartmentalised manner, but should go in parallel with other issues of the Doha Declaration. The same should apply to negotiations within the agricultural sector.

Recognition of development and social issues: The role of agricultural policies in developing countries and LDCs on the achievement of their development goals, poverty reduction, food security and rural development is recognised upfront.

Domestic Support: Reduction is envisaged for total ‘trade distorting’ support, specified as the sum of the AMS, *de minimis* support, and the support under ‘blue box’ measures. The criteria for ‘green box’ will be reviewed and clarified.

Export subsidies: The elimination of all forms of export subsidies and disciplines on all export measures is proposed, but the ‘July Package’ neither specifies the modalities nor the end date for the elimination of export subsidies.

Market Access: A single approach for both developed and developing countries with tiered formula is proposed. Sensitive products could be designated by members in negotiated numbers of tariff lines.

S&DT: The issues of S&DT have been recognised in all three pillars of the negotiations. 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 products (SP).

Cotton: The ‘July Package’ 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.

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

After the ‘July Package’, the negotiations have mainly been concentrated on technical aspects of the issues. 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 the actual drafting of text. They have considered the three pillars of the negotiations and briefly touched on some ‘issues of interest but not agreed’.

Brief Review of Post July Development

The July Framework only settled some political questions and gave political directions to the negotiations. Many technical details still need to be sorted out and the members are working on 'full modalities' in formal and informal meetings and technical consultations.

The dynamics of agricultural negotiations has changed since the Uruguay Round and developing countries are now actively participating in the negotiation process. It has, therefore, become hard for the Quad [the European Union (EU), the US, Canada and Japan] to call the shots. Based on the proposals submitted and the positions taken in various formal and informal meetings, the interplay in the agricultural negotiations could be analysed by defining WTO members as: the US, the EU, G-10, G-20, the Cairns Group, G-33, LDCs, the African Group and African, Caribbean and Pacific (ACP) countries, though there is some overlapping in the membership of the groups. A brief sketch of the positions of these members and member groups is presented below:

Market Access

The US and the Cairns Group have generally taken very ambitious and offensive positions, whereas the EU, G-10 and ACP countries have adopted defensive postures and are in favour of an SSM and concerned about preference erosion. The G-20 is offensive, but has taken a more compromising position than that of the US and the Cairns Group.

The EU and G-10 consider sensitive products to be an important component of the market access pillar. Neither the US, nor the EU, is very supportive of the concept of SPs to be designated by developing countries for more flexible treatment in tariff reduction.

LDCs have not taken formal positions on several of the issues. The main exception is the issue of preference erosion, which is critical to LDCs, the African Group and ACP countries. These groups would like to incorporate special provisions in the modalities to address the erosion of preferences. They also propose to maintain preferences until such time as all domestic support and export subsidies for the products that affect LDCs are removed. They also ask for 'aid for trade' as an additional, substantial and predictable financial mechanism to strengthen supply-side and infrastructure capacity, diversification of trade in LDCs and address adjustment costs.

Domestic Support

The US, the EU and G-10 seem to be defensive on the overall reduction of domestic supports, but their positions differ on the issues of amber box, blue box and *de minimis* supports. The G-20 and the Cairns Group are very offensive. LDCs would like significant reductions on all forms of trade distorting support while taking into account S&DT provisions and 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.

Export Competition

The export competition is the most contentious issue even among the developed countries. Members agreed to eliminate export subsidies under the 'July Package', but the timeframe for the elimination is yet to be negotiated. The EU and G-10 are very sensitive on the issue of elimination and would like to have a long timeframe. The US is more sensitive on export credit and food aid. The G-20 and the Cairns Group have offensive positions on most issues – except for State Trading Enterprises (STEs), where, by contrast, the EU and the US want to have stringent disciplines.

LDCs are generally supportive of a short timeframe for the elimination of export subsidies, but are concerned with its effects on their capacity to import food. The G-33, LDCs, the African Group and ACP countries have not yet articulated formal positions, but 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 LDCs and net food importing developing countries (NFIDCs). As for STEs, they have, together with the G-20, asked for special consideration in maintaining monopoly status of STEs for developing countries and LDCs.

Negotiating Landscape for LDCs

The AoA has a stated goal of no backsliding and modest liberalisation. It obligates members to reduce trade and production distorting agriculture supports and the level of protection. It further establishes disciplines and rules on the areas of market access, export competition and domestic support. However, the levels of commitments made by members vary on different pillars of market reform.

Level of Agriculture Tariffs

Table 2 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. There are significant variations between countries and country groups .

Box 1. Main Groups in Agriculture Negotiations

G-10 – Mainly highly protective, net food importing countries, including Switzerland, Japan and Norway. Generally, it takes a defensive position, stresses the importance of sensitive products, and is in favour of an SSM.

G-20 – A group of developing countries led by the large agricultural producing countries like India, Brazil, South Africa and China. It has an offensive stance, looking for significant trade liberalisation and deep reductions or eliminations in trade-distorting support measures. Advocates some S&DT for developing countries.

G-33 – A heterogeneous group of developing countries that focuses on promoting SPs and an SSM. Its membership ranges from small Caribbean islands to large countries like China and India.

Cairns Group – Agricultural exporting countries that include Brazil, Australia, Canada and South Africa. It takes an offensive position and, like the G-20, seeks significant trade liberalisation and deep reductions or eliminations in trade distorting support measures. Unlike the G-20, it is more negative towards SPs and preference erosion.

LDCs, African Group and ACP countries – Poor developing countries that are long-standing beneficiaries of preferences, many of which are net food importing countries. The issue of preference erosion is of particular concern to them. They call for S&DT and are in favour of SPs and an SSM.

Table 2: Key Features of Applied Agriculture Tariffs, 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 rates to realise market access improvement. Such gaps are due to the binding overhang – i.e. the gap between bound and most-favoured nation (MFN) tariffs – and preferential arrangements. The average bound tariff in developing countries is 2.4 times the average applied rate. LDCs as a group tend to have a very large degree of binding overhang, with bound rates six times the applied rates.

Special Safeguard Measures

At present, recourse to special safeguards under the AoA is limited to those countries undertaking tariffication. As a result, there is the anomaly that some countries have the right to use special safeguards to deal with import surges, whereas others, including many developing countries, do not. In view of this, there is agreement in the WTO that there should be an SSM accessible to all developing countries.

LDCs have experienced 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.

Preference Erosion

Empirical studies have shown that the margin of preference has been decreasing due to agricultural reform and suggest that further trade liberalisation may actually harm LDCs. Since most LDCs are getting preferences in some of the developed country markets either on a global or a regional basis, preference erosion would adversely affect their agriculture production and trade.

Domestic Support

The use of WTO domestic support programmes varies by member states. 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 AoA. The information regarding the domestic support on product categories show that most products sensitive for LDCs either in the form of exports or imports have been heavily subsidised.

Export Subsidies

Altogether 25 countries are entitled to provide export subsidies under WTO. High-income countries accounts for some 85 percent of the total export subsidy commitments, whereas middle-income economies accounts for the remaining support. The products notified by middle-income countries are much more heavily concentrated in commodities that LDCs either export or import. The pattern for trade of LDCs shows that the export subsidies of developed countries have less of a negative impact to them than that of developing countries.

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. For most LDCs cotton is a minor crop, but it plays significant role in the economy of some West African countries. A study by the International Cotton Advisory Committee (ICAC) 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.

Conclusion

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

The issues on the negotiation table have disproportionate impacts for LDCs. The issues of market access, particularly in developed countries, and domestic supports are not their priority areas. By contrast, export competition and peripheral issues – in the eyes of most developed and more advanced developing countries – such as food aid, preference erosion, special safeguard measures, and supply-side capability bear significant importance for LDCs. Thus, it is necessary that the negotiating capital be channelised to form alliances on a case-by-case basis to the relevant groups.

This is an abridged version of the chapter "Agriculture in the 'July Package': *An Assessment of Implications for Least Developed Countries*", written by Posh Raj Pandey in the book "South Asian Positions in the WTO Doha Round: In Search of A *True* Development Agenda". The abridged version has been prepared by CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE), D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India. Ph: 91.141.228 2821, Fx: 91.141.228 2485, E-mail: citee@cuts.org, Web Site: www.cuts-international.org and printed by Jaipur Printers Pvt. Ltd., M. I. Road, Jaipur 302 001, India.

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