Asia-Pacific Economic Cooperation

2004/ASCC/011
Panel: 12

On Product, Box and Blame-Shifting: Negotiating Frameworks for Agriculture in the WTO Doha Round

Purpose: Presented to ASCC, PECC Trade Forum – LAEBA Conference

Submitted by: Mario Jales, Instituto de Estudos do Comercio e Negociacoes Internacionals (ICONE) – Brazil

APEC Study Centers Consortium Meeting
Viña del Mar, Chile
26 -29 May 2004

ANNEX E

EXECUTIVE SUMMARY

Background Information

Agriculture has traditionally enjoyed a distinct status in international trade negotiations. Since the establishment of the General Agreement on Tariffs and Trade (GATT) in 1947, the sector has been repeatedly singled out from broad trade liberalization initiatives. The Agreement on Agriculture signed at the conclusion of the Uruguay Round was a first step in the direction of disciplining agricultural trade protectionism. The Doha Round presents a unique opportunity to reduce the distance between multilateral trade rules for agricultural and non-agricultural goods. Nonetheless, the dynamics of the negotiations on modalities have indicated that developed countries are not disposed to reach the ambitions of the Doha Mandate on agriculture. The challenge that lies ahead of negotiators is to achieve the fundamental reform in agriculture that would allow the establishment of a fair and market-oriented trading system.

This paper explores the concepts of product-, box-, and blame-shifting in the context of negotiations on agriculture. First, it examines how exceptions have become the rule for international trade in agricultural goods. Sensitive products have been virtually excluded from trade liberalization by means of mechanisms constructed to prevent the markets from operating. Second, it investigates how developed countries have played around with the different domestic support boxes in order to accommodate their trade-distorting policies. Finally, the paper explores the blame-transferring phenomenon that arose at the Fifth WTO Ministerial Meeting in Cancun, in which developed countries hold the developing world responsible for the failure of the negotiations and vice-versa.

The text briefly examines the evolution of agriculture within the GATT and the Uruguay Round Agreement on Agriculture (URAA), and explores the prospects for further reform of agricultural trade rules during the Doha Round negotiations. It analyzes the Doha Ministerial Declaration, the reform proposals submitted by key negotiating parties, and the draft of modalities proposed by Stuart Harbinson, chairperson of the Special Session of the WTO Committee on Agriculture. Subsequently, it considers the joint European Communities-United States (EC-US) framework paper on agriculture, the Group of 20 (G-20) framework document, the Draft Cancun Ministerial Text circulated by Carlos Pérez del Castillo, Chairman of the WTO General Council, and the Revised Draft Cancun Ministerial Text proposed by Luis Ernesto Derbez, Chairman of the Fifth WTO Ministerial Conference in Cancun, Mexico. The paper concludes with an investigation of alternatives for the reform of the multilateral trade regime on agriculture.

Recommendations

Please indicate required actions, decision points (e.g. note, approve, etc)

It is recommended that ASCC Delegate:

1.
2.

*For conciseness, please try to limit the information to one page. Thank you.

APEC STUDY CENTERS CONSORTIUM ANNUAL MEETING
CHILE 2004

CHILE PACIFIC FOUNDATION
ASCC – PECC TRADE FORUM – LAEBA - PUCV CONFERENCE
"THE CHALLENGES OF APEC:
TRADE, SECURITY AND CAPACITY BUILDING"

VIÑA DEL MAR/VALPARAÍSO, 26-29 MAY 2004

"ON PRODUCT, BOX, AND BLAME-SHIFTING: NEGOTIATING FRAMEWORKS FOR AGRICULTURE IN THE WTO DOHA ROUND"

(FINAL VERSION)

MARCOS SAWAYA JANK
President, Institute for International Trade Negotiations (ICONE)
Professor, Faculty of Economics and Business, University of São Paulo (USP-FEA)

MÁRIO DE QUEIROZ MONTEIRO JALES
Senior Researcher, Institute for International Trade Negotiations (ICONE)

SÃO PAULO, BRAZIL
MAY 14, 2004

Instituto de Estudos do Comércio e Negociações Internacionais
Institute for International Trade Negotiations

Mission

ICONE is an independent non-profit organization that aims to develop studies and applied research in order to support international trade negotiations and contribute to a broader integration of Brazil into the world economy.

Team

President	Marcos Jank
Executive Director	André Nassar
Public Affairs Director	Maria Helena Tachinardi
Senior Researchers	Mário Jales & Zuleika Arashiro
Junior Researchers	Antonio Meirelles, Joaquim Cunha Filho & Leandro Araújo
Administrative Coordinator	Telma Pereira
Interns	Alejandro Chacoff, Cynthia Marin & Gustavo Sugahara

Contact Information

Avenida General Furtado do Nascimento, 740, cj. 81
São Paulo, SP 05465-070 Brazil

Telephone / Fax: 55-11-3021-0403

www.iconebrasil.org.br

icone@iconebrasil.org.br

ACRONYMS & ABBREVIATIONS

ACP	Africa-Caribbean-Pacific group
AMS	Aggregate Measurement of Support
AU	African Union
CAP	Common Agricultural Policy
CCP	Counter-Cyclical Payments
EC	European Communities
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
EBA	Everything But Arms
LDC	Least developed countries
MFN	Most-favored-nation
NAMA	Non-Agricultural Market Access
NFIDC	Net food-importing developing countries
NTC	Non-trade concerns
OMA	Orderly marketing arrangement
S&D	Special and differential treatment
SP	Special products
SSG	Special safeguard (URAA)
SSM	Special safeguard mechanism (developing countries)
STE	State trading enterprise
TRQ	Tariff-rate quota
URAA	Uruguay Round Agreement on Agriculture
US	United States of America
VER	Voluntary export restraint
WTO	World Trade Organization

ON PRODUCT, BOX, AND BLAME-SHIFTING: NEGOTIATING FRAMEWORKS FOR AGRICULTURE IN THE WTO DOHA ROUND

Marcos Jank[1]
Mário Jales[2]

Agriculture has traditionally enjoyed a distinct status in international trade negotiations. Since the establishment of the General Agreement on Tariffs and Trade (GATT) in 1947, the sector has been repeatedly singled out from broad trade liberalization initiatives. The Agreement on Agriculture signed at the conclusion of the Uruguay Round was a first step in the direction of disciplining agricultural trade protectionism. The Doha Round presents a unique opportunity to reduce the distance between multilateral trade rules for agricultural and non-agricultural goods. Nonetheless, the dynamics of the negotiations on modalities have indicated that developed countries are not disposed to reach the ambitions of the Doha Mandate on agriculture. The challenge that lies ahead of negotiators is to achieve the fundamental reform in agriculture that would allow the establishment of a fair and market-oriented trading system.

This paper explores the concepts of product-, box-, and blame-shifting in the context of negotiations on agriculture. First, it examines how exceptions have become the rule for international trade in agricultural goods. Sensitive products have been virtually excluded from trade liberalization by means of mechanisms constructed to prevent the markets from operating. Second, it investigates how developed countries have played around with the different domestic support boxes in order to accommodate their trade-distorting policies. Finally, the paper explores the blame-transferring phenomenon that arose at the Fifth WTO Ministerial Meeting in Cancun, in which developed countries hold the developing world responsible for the failure of the negotiations and vice-versa.

The text briefly examines the evolution of agriculture within the GATT and the Uruguay Round Agreement on Agriculture (URAA), and explores the prospects for further reform of agricultural trade rules during the Doha Round negotiations. It analyzes the Doha Ministerial Declaration, the reform proposals submitted by key negotiating parties, and the draft of modalities proposed by Stuart Harbinson, chairperson of the Special Session of the WTO Committee on Agriculture. Subsequently, it considers the joint European Communities-United States (EC-US) framework paper on agriculture, the Group of 20 (G-20) framework document, the Draft Cancun Ministerial Text circulated by Carlos Pérez del Castillo, Chairman of the WTO General Council, and the Revised Draft Cancun Ministerial Text proposed by Luis Ernesto Derbez, Chairman of the Fifth WTO Ministerial Conference in Cancun, Mexico. The paper concludes with an investigation of alternatives for the reform of the multilateral trade regime on agriculture.

[1] Marcos Jank is President of the Institute for International Trade Negotiations (ICONE) and Associate Professor of Trade Policy at the Faculty of Economics and Business of the University of São Paulo (USP-FEA).
[2] Mário Jales is a Senior Researcher at the Institute for International Trade Negotiations (ICONE).

1. AGRICULTURE IN THE GATT AND THE URAA

The URAA was a breaking point for agricultural trade liberalization. It challenged the untouchability of agricultural protectionism, and introduced sweeping changes to existing trade rules. Despite its well known shortfalls, the agreement represented the basis for initiating a process of reform of trade in agriculture. Prior to the URAA, the agricultural sector was largely excluded from international trade liberalization efforts. At the outset of the GATT, agricultural products were subject to rules that were much weaker than those for manufactures. This special treatment of agriculture was largely a reflection of the influence of the US at the end of World War II (TREBILCOCK & HOWSE [2001] p. 247). Washington insisted that multilateral rules ought not to affect domestic agricultural policies. As a result, GATT disciplines on agriculture were in part written to fit existing US and EC policies (HOEKMAN & KOSTECKI. [2001] p. 212). Since import quotas and export subsidies were an integral feature of the American supply management system, disciplines for agriculture in the GATT incorporated these two instruments. Increased room for protectionist measures in the multilateral trading system was introduced overtime through special waivers, protocols of accession, tariff bindings, residual grandfathered restrictions, and the proliferation of grey area measures such as Voluntary Export Restraints (VERs) and Orderly Marketing Arrangements (OMAs).[3]

Little progress was achieved on the agricultural front in the first six rounds that followed the establishment of the GATT. The ministerial declarations of the Kennedy (1964-67) and Tokyo (1973-79) Rounds emphasized the status of agriculture as a unique sector and were oriented towards the negotiation of commodity-specific agreements (HOEKMAN & KOSTECKI [2001] p. 214). At the end of the Tokyo Round, some tariffs were reduced, quotas were increased, and two sectoral agreements were signed (the Arrangement Regarding Bovine Meat and the International Dairy Arrangement).

Nonetheless, the confluence of high costs associated with agricultural protection (particularly the subsidy war between the US and the EC) and the large fiscal deficits that followed the oil shocks made a strong case for reduction in protectionism. The Uruguay Round ministerial declaration made for the first time an explicit reference to liberalization in the three pillars of agricultural trade policy: market access, domestic support, and export subsidies. After a very arduous negotiation process, and following a bilateral understanding between the EC and the US (the Blair House Agreement), the URAA was finally agreed on. Agricultural tariffs were bound and reduced, and disciplines were created to limit the use of domestic support and export subsidies. Nonetheless, the quantitative commitments were so generous that they did not require major, if

[3] In 1955, the US was the first country to obtain a special waiver for agriculture in the context of the GATT. Washington had threatened to withdraw from the GATT if it was not given a waiver from Article XI. In 1966, Switzerland's protocol of accession to the GATT granted this country the right to maintain import restrictions on agricultural products. Contracting parties believed that American and Swiss commitments in manufacturing goods outweighed their restrictions on agricultural trade. Canadian Secretary of State for External Affairs, Lester Bowles Pearson, recognized that the acceptance of Switzerland as a GATT member "would be another instance of the exclusion of trade in agricultural products from the GATT rules." However, since Switzerland was a strongly liberal trading country in other products, he argued that "on balance Swiss accession would […] be valuable to the GATT." In these circumstances, he advised the Canadian Delegation to welcome and support the accession of Switzerland as an associate member of GATT, on terms which did not create undesirable precedents. *Memorandum from Secretary of State for External Affairs to Cabinet*, Documents on Canadian External Relations, Vol. 23-810, Chapter VII, Part 1, Section B (2 October 1956).

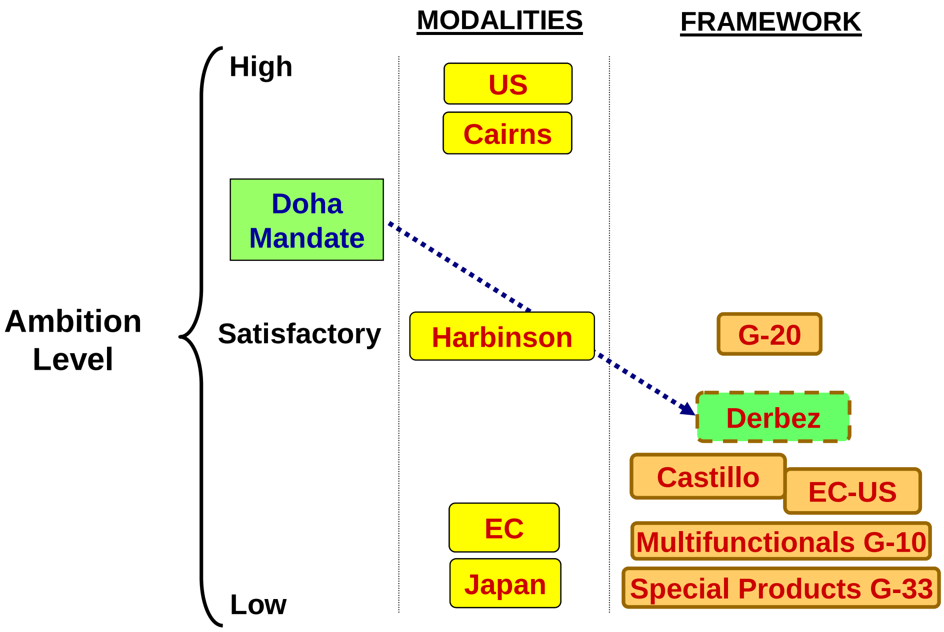
any, policy changes. The URAA did not result in the expected liberalization of global agricultural trade.

Recognizing that the long-term objective of substantial progressive reductions in agricultural support and protection was an ongoing process, negotiating parties agreed in Article 20 of the URAA that negotiations for continuing the process should be initiated in early 2000. A new mandate for agricultural negotiations was set forth in the Doha Round.

2. THE DOHA ROUND: PRE-CANCUN

The Doha Round was launched at the Fourth WTO Ministerial Conference, which took place in the capital of Qatar in November 2001. The conference opened negotiations on a range of subjects, and incorporated the negotiations already underway in agriculture and services. The negotiations on agriculture had originally begun in March 2000, as prescribed by Article 20 of the URAA. From March 2000 to March 2001, 45 negotiating proposals and 3 technical documents were submitted to the WTO on behalf of a total of 126 members (89% of the organization's membership at the time). From March 2001 onwards, revised and more detailed proposals were submitted by several countries and groups of countries. An overview of the proposals presented by the Cairns Group,[4] the US, and the EC is presented in Annex I. The positions held by the various parties would change significantly throughout the Doha Round. Figure I depicts the evolution of the main negotiating proposals after 2001.

FIGURE 1
Evolution of Negotiating Proposals throughout the Doha Round



Source: Institute for International Trade Negotiations (ICONE).

The Doha Mandate was laid out in the ministerial declaration that emerged from the Fourth WTO Ministerial Conference. The mandate established the general parameters that would guide the ongoing negotiations and required members to agree on modalities for further commitments. Based on the several proposals submitted by member countries, the Chairman of the WTO

[4] The Cairns Group comprises 17 agricultural exporting countries that support trade liberalization in agriculture. It was created in 1986 in the city of Cairns (Australia), and is composed of Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand, and Uruguay. Together these countries account for one-third of world agricultural exports.

Committee on Agriculture, Ambassador Stuart Harbinson, presented a First Draft of Modalities in February 2003. Given the ambition level of the Doha Mandate, Harbinson's paper was satisfactory. Nonetheless, countries were unable to agree on modalities. The Cairns Group and the US believed that Harbinson's paper was not ambitious enough, while the EC and Japan argued that the paper was too ambitious and unbalanced.

The deadlock continued until the EC and the US released a joint framework paper on agriculture on 13 August 2003. This new document was substantially less ambitious than the original US proposal, and only slightly more ambitious than the original EC paper. The move from a modalities paper to a framework document in itself represented a decline in the ambition level, as framework documents do not contain numerical targets that can more clearly guide negotiators. On 20 August 2003, 16 developing countries dissatisfied with the joint EC-US paper released their own joint framework proposal. Five other developing countries joined this coalition and gave origin to what was then referred to as the Group of 21 (G-21).[5] Of the 21 members of this coalition, 12 were Cairns Group members and 9 were non-Cairns Group developing countries. The G-21 framework paper was considerably less ambitious than the one originally presented by the Cairns Group: it remained ambitious regarding developed countries but was rather lenient with developing countries. After August 2003, 4 countries joined and 6 left the G-21.[6] The group is now called G-20, in a reference to the day in which the coalition was originally formed.

Other coalitions also emerged in the aftermath of the EC-US paper, such as the "Friends of Multifunctionality" (G-10),[7] which strongly supported new exceptions based on the concept of non-trade concerns (NTC); the "Alliance for Strategic Products and a Special Safeguard Mechanism" (G-33), which demanded specific measures to protect vulnerable sectors in developing countries; and the Group of Ninety (G-90), which drew together Least Developed Countries (LDCs) and members of the African Union (AU) and the Africa-Caribbean-Pacific (ACP) Group.

On 24 August 2003, the Chairman of the WTO General Council, Ambassador Carlos Pérez del Castillo, circulated a Draft Cancun Ministerial Text that was very close in its content and ambition to the joint paper presented by the EC and the US. The G-20 did not accept Pérez del Castillo's paper as the basis for the negotiations and demanded that its own paper should remain on the table. On 13 September 2003, the Chairman of the Fifth WTO Ministerial Conference in Cancun, Ambassador Luis Ernesto Derbez Bautista, released a Revised Draft Cancun Ministerial Text, whose ambition level was slightly superior to that of Pérez del Castillo's paper.

If one considers the three main agriculture drafts circulated by WTO representatives since the beginning of the Doha Round (Harbinson's, Pérez del Castillo's, and Derbez's), it becomes evident that the overall level of ambition has declined significantly. The arrow in Figure I

---

[5] The 16 original members of the G-21 were Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Guatemala, India, Mexico, Paraguay, Peru, the Philippines, South Africa, and Thailand. The 5 other developing countries that joined the coalition prior to the Fifth WTO Ministerial Conference were Cuba, Egypt, El Salvador, Pakistan, and Venezuela.

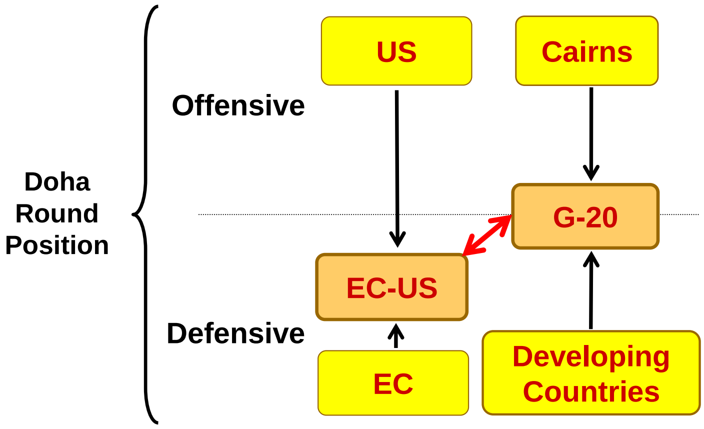
[6] The 4 countries that joined the G-21 after August 2003 were Indonesia, Nigeria, Tanzania, and Zimbabwe. The 6 countries that left the coalition were Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, and Peru. All the countries that have left the group are located in Latin America and were involved in bilateral or regional trade negotiations with the United States.

[7] The members of the G-10 are Bulgaria, Iceland, Israel, Japan, Liechtenstein, Mauritius, Norway, South Korea, Switzerland, and Taiwan.

illustrates this deterioration. However, if one looks at the several country and coalition proposals in the modalities and frameworks phases, it becomes evident that the distance separating them has become significantly smaller in the second phase.

Figure II demonstrates how the positions of the four key negotiating fronts (US, EC, Cairns Group, and developing countries) have evolved in the Doha Round. The US has migrated from its originally offensive position to a mainly defensive position shared by the EC, who at first had an even more defensive position. Some members of the Cairns Group and other key developing countries have gone from positions that were respectively very offensive and very defensive to a more middle-ground position based on the reduction of tariffs and subsidies in developed countries and the granting of increased special and differential (S&D) treatment for developing countries. Since the Cancun ministerial conference, the agricultural debate within the WTO has taken place between the defensive EC-US position and the middle-ground G-20 position.

FIGURE II
Evolution of the Positions of Key Negotiating Parties



Source: Institute for International Trade Negotiations (ICONE).

Following is a more detailed description of the main texts that have shaped agricultural negotiations in the Doha Round.

2.1. The Doha Ministerial Declaration

The Doha Declaration recognized the work carried out so far, made objectives more explicit, and set a timetable for the negotiations. It reconfirmed the long-term goals of Article 20 of the URAA, and committed member governments to comprehensive negotiations in each one of the three pillars of the agreement. The declaration called for: (i) substantial improvements in market access; (ii) reductions of, with a view to phasing out, all forms of export subsidies; and (iii) substantial reductions in trade-distorting domestic support.

The declaration called for S&D treatment for developing countries as an integral part of all elements of the negotiations on agriculture. The strong emphasis on the concerns of developing countries reflected the recognition that the majority of WTO members are developing countries and that trade can play a major role in the promotion of economic development and the alleviation of poverty. It also recalled the need, as established in the preamble of the Marrakesh Agreement, for positive efforts designed to ensure that developing countries could secure a share in the growth in international trade commensurate with the needs of their economic development. Not surprisingly, the mandate established in Doha was named the “Doha Development Agenda.” The Doha mandate also took note of the non-trade concerns reflected in the negotiating proposals submitted by member governments and confirmed that they would be taken into account in the negotiations.

Finally, the Doha Declaration established three important deadlines for the negotiations on agriculture: (i) modalities for further commitments were to be agreed by 31 March 2003; (ii) comprehensive draft schedules, based on the modalities, were to be presented by the Fifth WTO Ministerial Conference in Cancun, Mexico, from 10 to 14 September 2003; and (iii) the final deadline for completing the negotiations was set to 1 January 2005, as part of the Doha Round single undertaking.

2.2. Harbinson’s Draft of Modalities

In February 2003, Stuart Harbinson, Chairperson of the Special Session of the WTO Committee on Agriculture, presented the first draft of modalities for the Doha Round agricultural negotiations. A revised version containing only slight variations from the original text was released on 18 March 2003.[8]

Modalities are targets (numerical and non-numerical) and rules-oriented elements that lay down the basis from which a negotiation should proceed. They set out the scope of the negotiations, the methodology to be followed during the negotiation process, and the levels of ambition expected from this process. The modalities phase of a negotiation significantly shapes the format and depth of the final agreement.

Harbinson’s draft of modalities was an attempt to bridge differences among WTO members and serve as a catalyst for discussions. It drew on the proposals submitted by member countries and on the overview paper summarizing the main features and results of the work carried out during the series of formal and informal Special Sessions of the Committee on Agriculture and related intersessional and technical consultations. The draft represented no more than a first attempt to identify possible paths to solutions. It did not claim to be agreed in whole or in any part and was without prejudice to the positions of participants. The Chairman took a proactive approach by offering modalities options even in the most contested areas, such as the formula for tariff reduction. Square brackets were used to propose figures for indicative purposes, to suggest alternatives, or possible formulations. Some areas were not fully elaborated in the draft and were subject to further technical work.

[8] The Chairman had been tasked with the preparation of a second draft of modalities, but due to insufficient collective guidance from the members of the committee he was able to present only a revision of the first draft. The main features of the original draft remained mostly unchanged. The modifications introduced in the revised version dealt mainly with issues related to S&D treatment for developing countries.

Nonetheless, the draft failed to produce a compromise between member governments. Substantial divergence in opinions led the negotiating parties to miss the 31 March 2003 deadline set in the Doha Ministerial Declaration. The three informal mini-ministerial meetings held in Tokyo, Sharm el-Sheik (Egypt), and Montreal accomplished little results. WTO member countries were still too far apart in their positions to agree on agricultural modalities by the established deadline. The main precepts of the Harbinson draft for the three pillars of agricultural negotiations are discussed below.

2.2.1. Market Access

The Harbinson draft proposed two tariff reduction formulas: one for developed countries and another for developing countries (Table I). In both cases, tariffs would be reduced by a simple average and subject to a minimum cut per tariff line depending on the tariff interval in which each individual tariff fell. These formulas were an alternative to the use of the so-called Swiss Formula.[9] Specific and mixed tariffs would have to be converted into *ad valorem* equivalents only for the purpose of determining appropriate tariff reduction rates. Tariff cuts would then be applied to the specific and mixed tariffs, which would thus continue to exist. The base for the reductions would be the final Uruguay Round bound tariffs.

For developed countries, tariffs greater than 90% *ad valorem* would be cut by an average reduction rate of 60% and subject to a 45% minimum cut per tariff line; tariffs between 15% and 90% *ad valorem* would be cut by an average rate of 50% and subject to a minimum cut of 35%; and tariffs lower than 15% *ad valorem* would be cut by an average rate of 40% and subject to a minimum tariff cut of 25%. Tariff reductions would be implemented in equal annual installments over a period of 5 years. Greater terms of access should be provided for products of particular interest to developing countries, including the fullest liberalization of trade in tropical products and for products of particular importance for the diversification of production from the growing of illicit narcotic crops or crops whose non-edible or non-drinkable products, while being lawful, are recognized as being harmful for human health. This would include the elimination of in-quota duties for these products.

For developing countries, tariffs greater than 120% *ad valorem* would be cut by an average reduction rate of 40% and subject to a 30% minimum cut per tariff line; tariffs between 60% and 120% *ad valorem* would be cut by an average rate of 35% and subject to a minimum cut of 25%; tariffs between 20% and 60% *ad valorem* would be cut by an average rate of 30% and subject to a minimum cut of 20%; and tariffs lower than 20% *ad valorem* would be cut by an average rate of 25% and subject to a minimum cut of 15%. Tariff reductions would be implemented in equal annual installments over a period of 10 years. Harbinson's draft also provides developing countries with the flexibility of declaring certain products as being "special products" (SP) with respect to food security, rural development and/or livelihood security concerns. The simple average reduction rate for all SPs would be 10%, with a minimum cut of 5% per tariff line.

[9] First proposed by Switzerland in the Tokyo Round (1973-1979) negotiations on industrial tariffs, the Swiss Formula attempts to harmonize tariffs through an individual cut to each tariff line. The individual cut depends on a chosen coefficient. While high tariff rates are drastically reduced by the formula, low tariff rates suffer more limited cuts. Switzerland does not support this approach to tariff reduction in the current multilateral negotiations on agriculture.

TABLE I
Tariff Reduction Rates according to Harbinson's Draft Proposal

DEVELOPED COUNTRIES		DEVELOPING COUNTRIES	
Tariff Interval	Tariff Reduction Rate	Tariff Interval	Tariff Reduction Rate
T > 90%	Average: 60% Minimum: 45%	T > 120%	Average: 40% Minimum: 30%
15% < T ≤ 90%	Average: 50% Minimum: 35%	60% < T ≤ 120%	Average: 35% Minimum: 25%
		20% < T ≤ 60%	Average: 30% Minimum: 20%
T ≤ 15%	Average: 40% Minimum: 25%	T ≤ 20%	Average: 25% Minimum: 15%

Source: Institute for International Trade Negotiations (ICONE).
Based on Harbinson's Revised First Draft of Modalities.

Harbinson designed a special rule to deal with the problem of tariff escalation[10] in developed countries. When a tariff on a processed product is higher than the tariff for the product in its primary form, the rate for tariff reduction for the processed product should be equivalent to that for the product in its primary form multiplied by a factor of 1.3.

Another special rule was designed to deal with the issue of preference erosion. Tariff reductions affecting long-standing preferences in respect to products which are of vital export importance for developing beneficiaries of such schemes may be implemented in equal annual installments over a period of 8 instead of 5 years by the preference-granting participants concerned, with the first installment being deferred to the beginning of the third year of the implementation period that would otherwise be applicable. The products concerned would have to account for at least 20% of the total merchandise exports of any beneficiary concerned on a 3-year average out of the most recent 5-year period for which data is available. In addition, in-quota duties for these products would be eliminated. Preference-giving members would be asked to provide technical assistance to support preference-receiving countries in efforts to diversify their economies and exports.

In regard to tariff-rate quotas (TRQs),[11] quota volumes should be expanded to at least 10% (6.6% in developing countries) of the average domestic consumption of the product concerned in the 1999-2001 period or the most recent 3-year period for which data are available. For up to 25% of the total number of TRQs, a country may opt for binding the quota volume at 8% (5% in developing countries) of domestic consumption, provided that the volumes for a corresponding

[10] Tariff escalation occurs when tariff levels increase with the level of processing of a product. It provides high rates of effective protection to the processing sectors of the importing country.
[11] Tariff-rate quota (TRQ) is a form of quantitative restriction that allows limited imports of a certain product at a low in-quota tariff rate and unlimited imports at a much higher over-quota tariff rate.

number of quotas are expanded to 12% (8% in developing countries). Any additional market access should be provided by the expansion of quotas on a most-favored-nation (MFN)[12] basis. In-quota tariffs would be eliminated in the tariff preference and tropical product cases described above, as well as in respect to those quotas for which the fill rates on average for the most recent years have been less than 65%. TRQ administration would be subject to a series of disciplines in a manner which ensures that the market access opportunities represented by such commitments are made fully and effectively available.

Finally, Harbinson's draft called for the elimination of the special safeguard (SSG)[13] provisions for developed countries and announced the possible creation of a new special safeguard mechanism (SSM) to "enable developing countries to effectively take account of their development needs."

2.2.2. Export Competition

For a set of agricultural products representing half of the aggregate final bound level of budgetary outlays for all products subject to export subsidy commitments, final bound levels of budgetary outlays and quantities should be reduced to zero over a 5-year period (10-year period for developing countries). For the remaining products, final bound levels should be reduced to zero over a 9-year period (12-year period for developing countries).

Export credits, export credit guarantees and insurance programs should be subject to disciplines so as to prevent countries from providing support for or in connection with the financing of exports otherwise than on market-related terms and conditions. Additional rules also discipline the provision of international food aid and the functioning of state trading enterprises (STE). The draft also bars developed countries from introducing new export prohibitions, restrictions or taxes on foodstuffs.

2.2.3. Domestic Support

Regarding Amber Box[14] payments, the final total Aggregate Measurement of Support (AMS)[15] should be reduced by 60% (40% in developing countries) in equal annual installments over a 5-year period (10-year period in developing countries). Current AMS for individual products should not exceed the respective average levels of such support provided over the 1999-2001 period. For developed countries, the *de minimis* level of 5% in Amber Box support should be reduced annual by 0.5 percentage point over a 5-year period. For developing countries, the *de*

[12] According to the most-favored-nation (MFN) principle, countries should treat all WTO members equally as "most-favored" trading partners. If a country improves the benefits that it gives to one trading partner, it has to give the same treatment to all other WTO members. Exceptions to the principle include free trade agreements, preferential concessions to developing countries, and remedies to combat unfair trade practices.

[13] Special safeguard (SSG) provisions of the URAA allow the imposition of an additional tariff when either a specified surge in imports (volume trigger) or a fall of the import price below a specified reference price (price trigger) are observed.

[14] The Amber Box comprises trade-distorting support measures that are not linked to production-limiting programs. The URAA bound total Amber Box payments and subjected them to reduction commitments.

[15] Aggregate Measurement of Support (AMS) is the annual level of support, expressed in monetary terms, provided for an agricultural product in favor of the producers of the basic agricultural product or non-product-specific support provided in favor of agricultural producers in general, other than support provided under programs that qualify as exempt from reduction under the URAA.

minimis level of 10% should be maintained. Developing countries should also have the flexibility to credit to the non-product-specific *de minimis* support an amount of any negative product-specific support up to the equivalent of 10% of the respective country's total value of production of the basic agricultural product concerned during the relevant year.

Still according to Harbinson's draft, existing provisions on Green Box[16] payments should be maintained, subject to possible amendments. For Blue Box[17] payments, the draft presents two possibilities: (i) they could be capped and bound at the most recent notified level, and then reduced by 50% (33% in developing countries) in equal annual installments over a 5-year period (10-year period in developing countries); or (ii) they could be included in the calculation of current total AMS.

2.2.4. Other Issues

In addition to the S&D treatment provisions for developing countries, least-developed countries should not be required to undertake reduction commitments. Developed countries should provide duty- and quota-free access to their markets for all imports from least-developed countries. Members that have recently acceded to the WTO should have the flexibility to defer the respective implementation periods by 2 years. Additional forms of flexibility for certain groupings that made specific proposals to this effect would possibly be further considered.

2.3. The EC-US Joint Paper

On 13 August 2003, only four weeks ahead of the Fifth WTO Ministerial Conference in Cancun, the EC and the US released a joint framework paper on agriculture. This arrangement between the two most powerful WTO members aimed at accommodating recent changes in their domestic agricultural policies, namely the Agenda 2000 and the 2003 CAP Reform in the EC and the 2002 Farm Security and Rural Investment Act (FSRIA) in the US. The EC-US rapprochement came after their disapproval of Harbinson's paper and strong pressures from third countries following the WTO Mini-Ministerial Conference in Montreal. The ambition of the Doha Mandate for agriculture was jeopardized by this move. Instead of being a proactive process aimed at further trade liberalization, WTO negotiations risk becoming a procedural mechanism that only reacts to timid changes in the domestic policies crafted in Brussels and Washington.

The EC-US bilateral understanding seriously curtailed the Doha Mandate in all three pillars of agricultural negotiations. Each party succeeded in limiting liberalizing ambitions in its most sensitive areas: the EC yielded to Washington's reservations on domestic support, while the US gave in to Brussels' reservations on market access. On export competition, the two parties proposed a conservative arrangement that called for the preservation of export subsidies for some

---

[16] The Green Box comprises domestic support measures that do not distort trade, or at most cause minimal distortion. Green Box payments tend not to be targeted at particular products, and must not involve price support mechanisms. They include direct income support that is not related to (is "decoupled" from) current production levels or prices. Environmental protection, rural extension, research, infrastructure, and regional development programs typically qualify as Green Box measures. The URAA did not set quantitative limits on Green Box spending.

[17] The Blue Box comprises trade-distorting support measures that are linked to production-limiting policies such as set-asides and production quotas. The URAA exempts Blue Box measures from reduction commitments.

agricultural products and equal treatment ("parallelism") for all types of agricultural subsidy. Developed countries would thus be allowed to continue to distort trade for a list of key agricultural products either through direct export subsidies (in the case of the EC) or export credits (in the case of the US).

2.3.1. Market Access

The EC-US joint paper calls for the application of a blended formula to improve market access. According to the proposed formula, a certain share of tariff lines would be duty-free, while a second share would be subject to a Swiss Formula with a yet to be defined coefficient, and a third share would be subject to a Uruguay Round-type formula (average tariff cut and a minimum cut per tariff line). For these import sensitive tariff lines, market access would result from a combination of tariff cuts and TRQs. In dealing with tariff peaks, countries would have the option to either cap tariffs at a certain level or ensure effective additional access through a request-offer process that could include TRQs. Developing countries would be subject to lower tariff reductions and longer implementation periods. In addition, all developed countries would seek to provide duty-free access for a certain percentage of imports from developing countries through a combination of MFN and preferential access. The paper also states that SSG should remain under negotiation, and that a special safeguard measure should be established for developing countries.

The US made significant concessions to the EC in regards to market access. The blended tariff reduction formula it proposed together with the EC in practice eliminated the usefulness of a Swiss Formula, as it allows all sensitive products to be subject to a Uruguay Round formula. Washington also gave up on the elimination of the SSG, the expansion of TRQs, and the phasing out of in-quota duties. Washington's concessions in market access were compensated by European concessions in domestic support.

2.3.2. Export Competition

The EC and the US agreed to eliminate, over a still undefined period, export subsidies for a yet to be defined list of products of particular interest to developing countries. For the remaining products, budgetary and quantity allowances for export subsidies would be reduced. This construction ignored both the Doha Mandate and Harbinson's draft of modalities, both of which stipulated the phasing-out of all forms of export subsidies.

According to the joint EC-US paper, rules similar to those on export subsidies would apply to the trade-distorting elements of export credits. Countries would also agree on disciplines in order to prevent commercial displacement through food aid and STE operations. In regards to disciplines on export competition, the US gave in to pressures from Brussels. Washington abandoned its initial call for full elimination of exports subsidies and accepted the European thesis that some export subsidies could not be eliminated.

2.3.3. Domestic Support

The EC-US joint paper calls all developed countries to achieve reductions in trade-distorting domestic support significantly larger than those made in the Uruguay Round. According to the joint proposal, countries having higher trade distorting subsidies should make greater efforts at reduction. This principle reflects the US demand for increased convergence between its own expenditure levels on domestic support and those of the EC. The final bound commitments at the end of the Uruguay Round on trade-distorting domestic support measures in the EC are 3.6 times larger than in the US.

Brussels and Washington propose a reduction in both AMS and *de minimis* payments. For Amber Box support, reduction rates would range between still undefined lower and upper limits. No disciplines are offered on the application of this range. The reduction on *de minimis* payments was a compromise between the original positions held by the EC (elimination of *de minimis*) and the US (maintenance of Uruguay Round *de minimis* levels). The text also proposes an important reformulation of what is presently known as the Blue Box. Contrary to what was established in the URAA, the new "less trade-distorting domestic support" category suggested by the EC and the US would not be linked to production-limiting programs. Nevertheless, it would be limited to 5% of the total value of agricultural production. In addition, the sum of allowed AMS, *de minimis*, and new Blue Box payments by the end of the implementation period should be lower than the sum of final bound AMS, *de minimis* payments and Blue Box support in 2004.

These new Blue Box disciplines are the result of a compromise between Brussels and Washington. The EC wanted Blue Box measures to be preserved, while the US wanted them to be included against a WTO cap. The elimination of the requirement that Blue Box support be linked to production-limiting programs reflects the desire of the US to notify the Counter-Cyclical Payments (CCP) created in the 2002 US Farm Bill in this box. What the EC-US joint paper has proposed as a reformulation of the Blue Box is in reality the creation of a new and much less strict box. As it does not require support measures to be production-limiting, the suggested box gives countries more room to effectively distort markets. The reformulation suggested by Brussels and Washington negates the principle that originally justified the creation of the Blue Box in the URAA, namely, that production-limiting measures are less trade-distorting and therefore deserve a more favorable treatment than other sorts of domestic support. As the reformulated Blue Box has been deprived of the key defining characteristic of Blue Box payments, some observers have ironically referred to it as the "Purple Box."

The EC-US joint paper was received with strong criticism and prompted reactive papers from numerous countries and groups of countries, the most notable of which being the one presented by the G-20.[18]

2.4. The G-20 Joint Proposal of a Framework Document

The G-20 coalition was originally formed on 20 August 2003 by 11 Cairns Group members (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Paraguay, Philippines, South Africa, and Thailand) and 5 other developing countries (China, Ecuador, India, Mexico, and Peru). Subsequently, 9 countries (Cuba, Egypt, El Salvador, Indonesia, Nigeria, Pakistan,

[18] Other papers included: (i) the Joint Text on Agriculture by the Dominican Republic, Honduras, Kenya, Nicaragua, Panama and Sri Lanka; (ii) the Position of Bulgaria, Chinese Taipei, Iceland, Korea, Liechtenstein and Switzerland on the Framework Package; and (iii) Japan's Position on the Framework Package.

Tanzania, Venezuela, and Zimbabwe) joined and 6 (Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, and Peru) left the group. The countries in the coalition share the view that the joint EC-US framework paper constitutes a substantial threat to the liberalization objectives of the Doha Development Agenda.

The G-20 is a very significant bloc within the WTO (Table II). It encompasses almost 60% of the world's total population and 70% of the world's agricultural population. The bloc also accounts for 21% of the world's agricultural GDP. In contrast, the EC and the US together represent only 11% of the world's total population, less than 1% of the world's agricultural population, and 14% of the world's total agricultural GDP. Nonetheless, measures applied by Brussels and Washington – such as export subsidies and trade-distorting domestic support – have helped build artificial export competitiveness in these two countries. In 2001, the EC and the US accounted for 38% of world agricultural exports, while the G-20 accounted for 26%.

TABLE II
Key Indicators: Main Coalitions at the WTO Negotiations on Agriculture

		Share in World Total						Share in Coalition Total			
	2001	Total GDP	Agricultural GDP	Total Population	Agricultural Population	Agricultural Exports[1]	Agricultural Imports[1]	Ag GDP/ Total GDP	Ag Pop/ Total Pop	Ag Exports/ Total GDP	Ag Imports/ Total GDP
Cancún	G-20[2]	12.6%	20.7%	56.6%	69.8%	25.8%	18.0%	12.8%	51.7%	2.0%	1.4%
Cancún	EC + US	57.7%	14.2%	10.8%	0.8%	37.8%	31.4%	1.9%	3.3%	0.6%	0.6%
Cancún	G-9[3]	17.3%	3.2%	3.6%	0.4%	2.7%	16.3%	1.4%	4.5%	0.2%	1.0%
Doha	US	32.3%	6.8%	4.7%	0.2%	18.9%	14.1%	1.6%	2.2%	0.6%	0.4%
Doha	EC	25.4%	7.4%	6.1%	0.6%	18.9%	17.2%	2.3%	4.2%	0.7%	0.7%
Doha	Cairns[4]	8.0%	7.5%	9.2%	4.9%	31.4%	11.3%	7.3%	22.6%	3.8%	1.4%

Source: Institute for International Trade Negotiations (ICONE), based on FAO and World Bank data.
1. Excludes intra-EU agricultural trade.
2. Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Venezuela, and Zimbabwe.
3. Bulgaria, Chinese Taipei, Iceland, Israel, Japan, Korea, Liechtenstein, Norway, and Switzerland.
4. Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay.

The G-20 did not replace the Cairns Group. The two coalitions coexist at the WTO. Of the 17 countries of the Cairns Group, 12 were at some point members of the G-20. Australia, Canada, Malaysia, New Zealand, and Uruguay are the only Cairns Group countries that have not joined the G-20. The Cairns Group is a coalition of strong economic consistency. Its members are all agricultural exporters and share deep interests in the liberalization of trade in agriculture. Nonetheless, the group demonstrated some political frailty, as became evident in its inability to react to the joint EC-US paper. The G-20, on the other hand, showed political strength and economic inconsistency. While the group was able to quickly organize and promote a common agenda, their individual interests in agriculture are not as well aligned as it is the case among Cairns Group members. While some countries aspire to fully liberalize trade in agriculture, others prefer to maintain some form of market access protection for developing countries. The formation of the G-20 became possible because countries like Brazil and Argentina reduced their ambition regarding gaining significant market access in developing countries through multilateral negotiations. This move was based on the belief that further market access could be negotiated among developing countries at the regional and bilateral levels.

Following the presentation of the joint EC-US paper, a consensus emerged among WTO members on the view that a general framework document was better suited to move the negotiations forward than was the case with a detailed modalities paper. Although the G-20 countries shared this view, they believed that the framework paper presented by the EC and the US could not constitute the basis for the negotiations given that it failed to adhere to the Doha Mandate. Being a key stakeholder in the agriculture negotiations, the G-20 came forward with an alternative framework proposal "with a view to making the negotiating process more inclusive and balanced, having in mind the need to respect fully the level of ambition of the Doha Mandate."[19] It required a substantial contribution from developed countries, given that they are fundamentally accountable for existing distortions in agricultural production and trade. The G-20 document used the same format proposed in the joint EC-US paper, but dismantled the traps contained therein, with a view to effectively liberalize all three pillars of agricultural negotiations.

2.4.1. Market Access

The G-20 framework proposal introduced some critical modifications to the basic structure of the blended formula put forward by the joint EC-US paper. For developed countries, it substituted the Uruguay Round formula by a simple linear cut. This change was aimed at preventing protectionist countries from applying only the minimum reduction rate to the most prohibitive tariffs. For developing countries, the G-20 framework paper eliminated the Swiss Formula and duty-free options and maintained only the Uruguay Round formula.

In regards to tariff peaks, the G-20 framework proposal called for capping tariffs at a maximum rate. It eliminated the choice given in the joint EC-US paper of either applying a tariff cap or ensuring additional market access through a request-offer process that could include TRQs.

With a view to addressing tariff escalation, the G-20 called for the application of a multiplying factor to the tariff reduction rate of a processed product when its tariff is higher than the tariff of the product in its primary form. This was in strict accordance to what had been suggested in Harbinson's draft of modalities. The joint EC-US paper was silent on tariff escalation.

The majors' paper was very brief on its treatment of TRQs. It only stated that for sensitive tariff lines market access increase would result form a combination of tariff cuts and TRQs, and that tariff peaks would be addressed either through a tariff cap or though a request-offer process that could include TRQs. The G-20 paper, on the other hand, stated that TRQs should be expanded to a certain percentage of domestic consumption, that in-quota tariff rates should be reduced to zero, and that strict rules should be set for TRQ administration. In addition, there would be no commitments regarding TRQ expansion and reduction of in-quota tariff rates for developing countries.

[19] "G-20 Draft Ministerial Communiqué," 1.

The G-20 proposal incorporated the SSM provision for developing countries that had been espoused by both the EC-US joint paper and Harbinson's draft of modalities. Nonetheless, contrary to the EC-US paper, and in accordance to Harbinson's draft, the G-20 document called for the discontinuation of SSG for developed countries.

The G-20 paper recuperated the idea of "special products" (SP) for developing countries, which was put forward by Harbinson in his modalities draft and ignored by the EC and the US in their joint framework proposal. Finally, the G-20 document included the provision from the EC-US joint paper that stated that all developed countries should provide duty-free access to a certain percentage of imports from developing countries. This provision was expanded in the G-20 proposal to include duty-free access in developed countries for all tropical and other products mentioned in the preamble of the URAA.

2.4.2. Export Competition

On export subsidies, the G-20 proposal called for the elimination of all export subsidies over two still undefined time periods: one for the products of particular interest to developing countries, and the other for the remaining products. Unlike the construction put forward in the EC-US joint paper (elimination of export subsidies for just some products), the G-20 proposal was in line with both the Doha Mandate and Harbinson's draft of modalities. The G-20 also proposed the extension of the provisions on paragraph 9.4 of the URAA, which deals with exemptions to developing countries in the cases of export subsidies to reduce the costs of marketing exports, internal transport, and freight charges on export shipments.

With regard to export credits, export credit guarantees and insurance programs, the G-20 called for the implementation of disciplines on a rules-based approach that would, *inter alia*, identify and eliminate the subsidy component of these instruments. The G-20 also called for additional disciplines to prevent commercial displacement through food aid operations. The proposal was silent on the issue of STEs.

2.4.3. Domestic Support

On Amber Box payments, the G-20 document expanded the disciplines proposed by the EC-US joint framework paper. First, the G-20 proposal set a limit for the difference between the upper and lower limits of the reduction range. Second, it subjected the products that have received above average support to the upper level of reduction. Third, it required the application of the upper level of reduction to the products benefiting from domestic support that are exported and have accounted for more than a certain percentage of world exports of that product. These domestic support measures for products that are exported should be reduced with a view to elimination. Fourth, it required only developed countries to reduce *de minimis* payments. Finally, it subjected the sum of AMS and *de minimis* to a minimal required cut in order to discipline non-product specific payments.

The G-20 treatment of Blue Box payments was very succinct: the paper called for the outright elimination of Article 6.5 of the URAA. This position was irreconcilable with the EC-US joint proposal, which not only presupposed the maintenance of an escape box but also loosened up the criteria for inclusion of payments in this box.

On Green Box payments, the G-20 proposal called for a cap and/or reduction of direct payments described in paragraphs 5 to 13 of Annex 2 of the URAA. The EC-US joint paper was silent on the issue of further Green Box disciplines.

2.4.4. Other Issues

Three other issues were considered in the G-20 framework proposal: (i) the particular interests of recently acceded members, (ii) the particular interests of LDCs, and (iii) preference erosion. The first theme was mainly aimed at appeasing concerns from China,[20] while the last two were intended to engage smaller and less developed countries.

In general lines, the G-20 document addressed two key phenomena that have dominated multilateral trade rules on agriculture and have been recently reaffirmed by the joint EC-US framework proposal: product-shifting and box-shifting.

2.4.5. Product-Shifting

Several instruments were introduced during the Uruguay Round in order to provide sensitive agricultural products with a special treatment. These exceptions have become the rule in multilateral trade disciplines and have canceled off trade liberalization efforts in agriculture. Table III indicates how developed countries have used product-shifting to block imports of some key agricultural products. These countries have done so by means of tariff peaks, tariff escalations, specific tariffs, TRQs, and SSGs. For example, raw sugar is subject to a TRQ and an SSG in the EC, to a TRQ in the US, and to SSGs in Switzerland and Norway. The product is also subject to tariff peaks and specific tariffs in all of the 5 countries analyzed. Still more dramatic is the case of powdered milk, which is subject to specific tariffs, tariff peaks, TRQs, and SSGs in all of the countries analyzed.

The goal of WTO negotiations should be to eliminate market access discrepancies between products and sectors. Nevertheless, this has not been the case. The EC-US joint proposal has called for the continuation of TRQs, SSGs, and tariff peaks. The blended formula proposed in the document does not address the problems of prohibitive tariffs and tariff escalation. It replicates the Uruguay Round formula, which allowed countries to apply only a minimal cut to sensitive tariffs. The blended formula is ideal for countries that have asymmetric tariff distributions and once again do not want to apply significant cuts to their high tariffs. In order to effectively eliminate tariff peaks, tariff cuts should be greater for those products that currently enjoy high tariff rates. The blended formula proposed by the EC and the US does exactly the opposite: it allows countries to apply small cuts to high tariff rates and large cuts to low tariff rates.

[20] China's accession to the WTO occurred on 11 December 2001. Other recently acceded countries include Taiwan (1 January 2002), Armenia (5 February 2003), Macedonia (4 April 2003), Cambodia (11 September 2003), and Nepal (11 September 2003).

TABLE III
Product-Shifting in Market Access:
Tariff Restrictions on Sensitive Agricultural Products in Developed Countries

PRODUCT	EC	US	JAPAN	SWITZERLAND	NORWAY
Raw Sugar	<u>160.8*</u>	<u>167.0*</u>	154.3*	185.4*	82.0*
Ethyl Alcohol	46.7*	47.5*	83.3	53.2*	<u>424.0*</u>
Powdered Milk	<u>68.4</u>*	<u>49.1</u>*	<u>196.7</u>*	96.2*	<u>552.8</u>*
Poultry Cuts (Frozen)	<u>94.5</u>*	16.9*	11.9	1136.6*	<u>746.3</u>*
Pork (Frozen)	<u>50.6*</u>	0.0	309.5*	211.5*	<u>363.0*</u>
Beef (Frozen)	<u>176.7*</u>	<u>26.4</u>	50.0	698.4*	<u>773.3*</u>
Corn	<u>84.9*</u>	2.3*	95.4*	253.6*	<u>341.0*</u>
Tobacco	24.9*	<u>350.0</u>	0.0	8.6*	0.0
Orange Juice	<u>15.2</u>	44.5*	21.4	31.7*	0.0
Tariff-Rate Quotas	*7*	*4*	*1*	*0*	*6*
Specific Tariffs	*8*	*6*	*4*	*9*	*7*
Special Safeguards	*5*	*3*	*2*	*6*	*7*

Source: Institute for International Trade Negotiations (ICONE). Based on WTO Schedules, APECTariff, COMTRADE/UN, USITC, and TARIC. All tariffs are expressed in ad valorem equivalents at the 8 digit level of the harmonized system (HS). They are WTO Bound Tariffs. Uniform external reference prices were used for the conversion of specific tariffs.

Legend:
A star (*) indicates that a specific tariff was converted into an ad valorem equivalent.
An <u>underlined</u> figure indicates the existence of a tariff-rate quota (TRQ).
A shaded cell indicates the existence of a special safeguard (SSG).

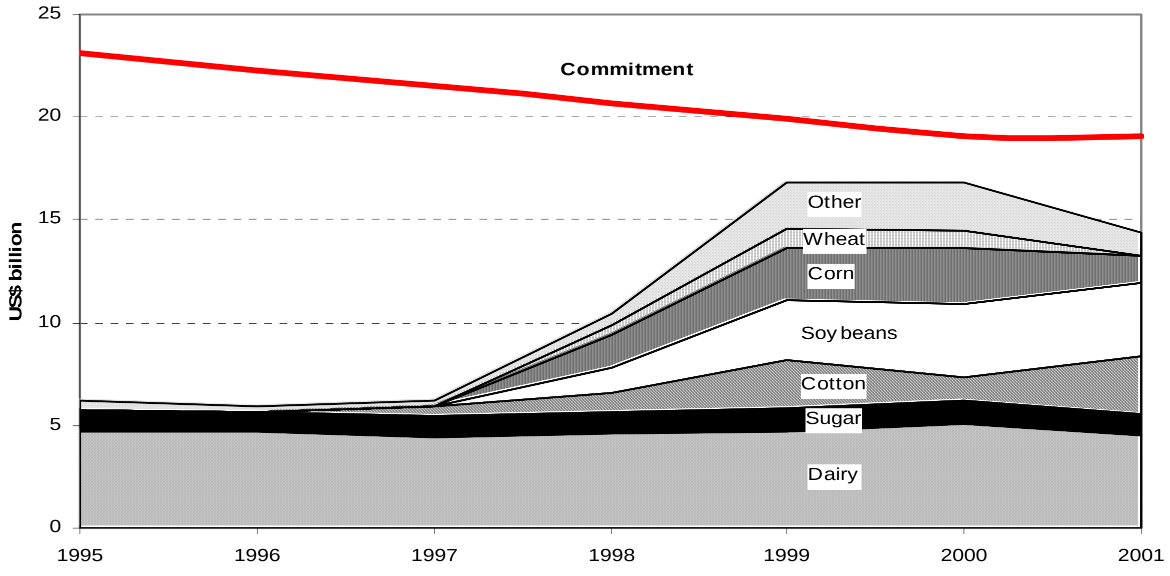
The EC-US document also calls for the extension of SSGs and for an increased role for a request-offer system of TRQs. The G-20 believes that tariff reductions, and not quota concessions, should be used to liberalize agricultural markets. Quotas only substitute one type of market distortion for another. Finally, the G-20 paper calls for the elimination of SSGs for developed countries.

Some sorts of product-shifting are also present in the G-20 paper in the form of S&D treatment for developing countries. Instruments such as the SPs and the SSMs would provide developing countries with new exceptions to protect sensitive products.

Product-shifting also occurs in the area of domestic support. Current disciplines allow Amber Box payments to migrate between products according to fluctuations in domestic policies. Limits are set only on total AMS, and not on a product-specific basis. The absence of AMS limits per product increases the trade distortions caused by Amber Box payments. The problem is exacerbated by the fact that Uruguay Round AMS commitment levels are exceptionally high for developed countries. Figure III demonstrates how the US, the EC, and Japan have significant freedom to shift protection from one product to another. Significant product-shifting occurred in the US following the 1996 Farm Bill. Expenditure in several "new" products (corn, cotton, rice, soybeans, tobacco, wheat, among others) exceeded the *de minimis* levels and were credited towards total AMS. Individual AMS for corn, cotton, and wheat have oscillated over time. In the case of soybeans, expenditures have increased significantly year after year. Expenditures on sugar and dairy have been the steadiest. In 2000, the US came close to breaching its WTO domestic support commitments. However, due to an improvement in world market prices in 2001, total government transfers to producers declined for the first time since 1996. While total AMS in the US corresponded to 88% of the commitment level in 2000, in the following year the share fell to only 75%. In contrast, Japan has plenty more room to adopt new trade-distorting domestic support measures. Until 1997, Japan was using more than 70% of its AMS commitment level. However, beginning in 1998 Japan did not classify its program in support of rice producers as an Amber Box subsidy. Therefore, the country's total AMS declined abruptly. In 1998 and 1999, it only utilized 18% of its AMS commitment level. This provides Japan with room to maneuver and to potentially subsidize other agricultural products. The distortions caused by domestic support measures are further exacerbated by the box-shifting phenomenon.

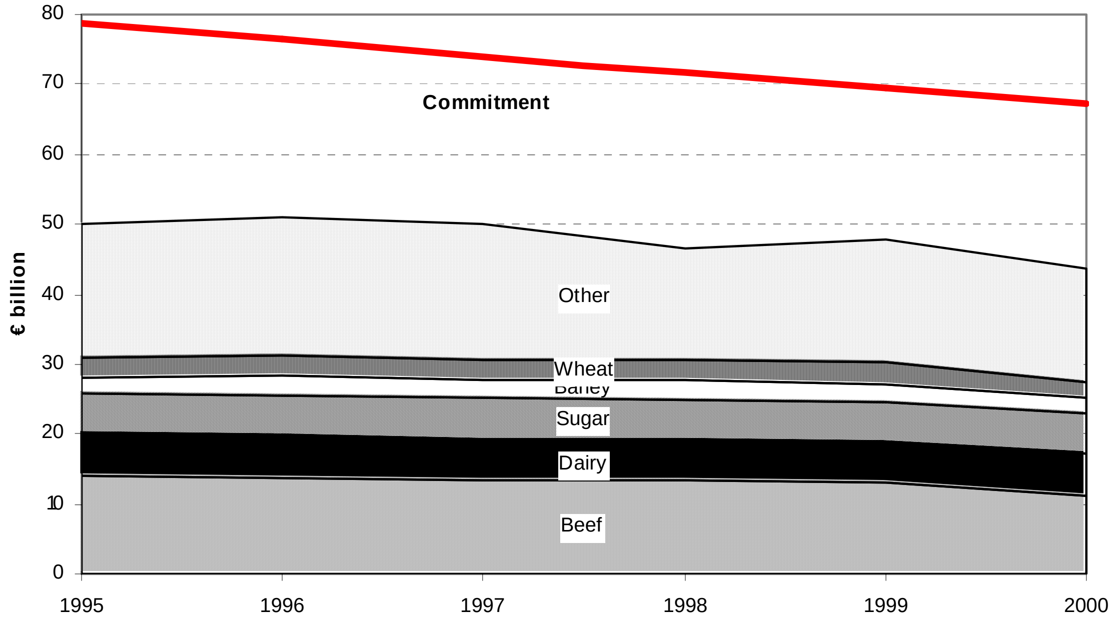
FIGURE III:
Product-Shifting in Domestic Support

(A) United States



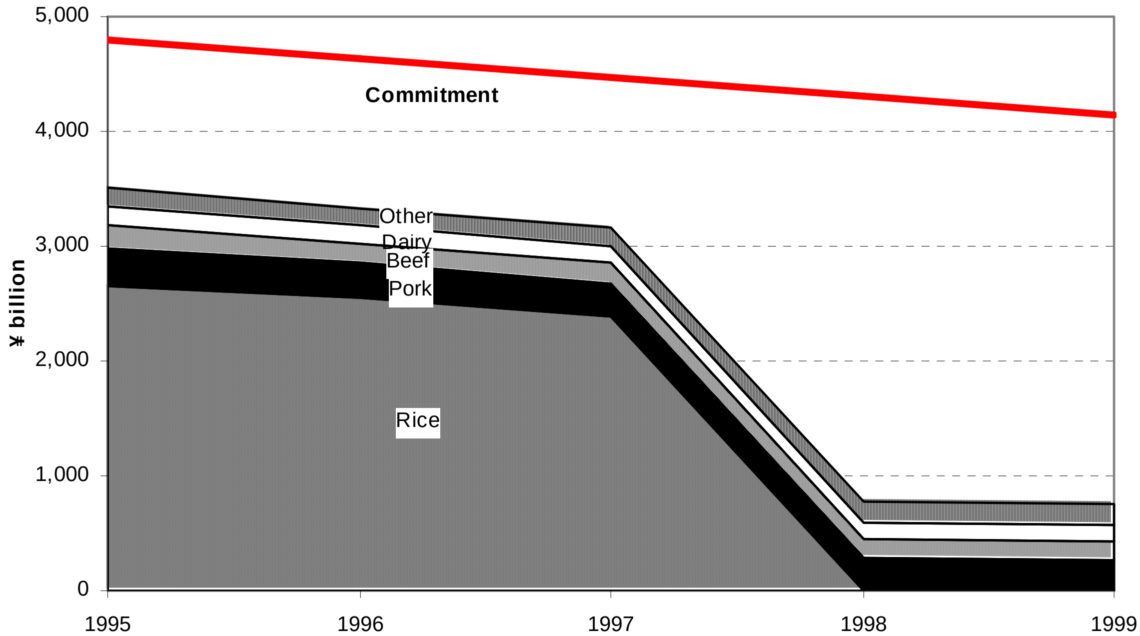
"Other" includes apples, apricots, barley, canola, crambe, cranberries, flaxseed, honey, mohair, mustard seed, oats, peanuts, rapeseed, rice, sesame, sorghum, sunflower, tobacco, and wool.

(B) European Communities



"Other" includes apples, apricots, artichokes, bananas, cauliflower/aubergines, cherries, clementines, chick-peas/lentils/vetches, citrus fruit for processing, corn, cotton, courgettes, cucumbers, figs for processing, flax fiber, grapes, hemp, hops, lemons, lemons for processing, mandarins, oats, olive oil, peaches/nectarines, peaches for processing, pears, pears for processing, plums, plums for processing, rice, rye, satsumas, seed for sowing, silkworms, sorghum, tinned pineapple, tobacco, tomatoes, tomatoes for processing, triticale, and wine.

(C) Japan



"Other" includes barley, soybeans, silkworm cocoons, starch, sugar, and wheat.

Source: Institute for International Trade Negotiations (ICONE).
Based on Notifications to the WTO.

2.4.6. Box-Shifting

The G-20 framework proposal attempts to prevent the box-shifting of domestic support payments. The joint EC-US document put forward new disciplines that if implemented would not lead to any substantive reduction in market distortions caused by subsidies, and would only serve to accommodate recent changes Washington's and Brussels' domestic agricultural policies. Table IV demonstrates how current levels of trade-distorting domestic support in the US would not change if the EC-US proposals were implemented.

TABLE IV
Box-Shifting:
Simulation of Total Support at the End of the Implementation Period of the Doha Round

		AMS	De Minimis	Blue	Total
US (US$ billion)	Uruguay Round ceiling[1]	19.1	9.9	n/a	**29.0**
	Doha Round suggested parameters[2]	50% cut	2.5% of PV	5% of PV	**15.8% cut**
	Doha Round ceiling[3]	9.6	5.0	9.9	**24.4**
	Most recent notification (2001)	14.4	6.8	0.0	**21.2**
	Required change[4]	-4.9	-1.8	9.9	**3.2**
EC (€ billion)	Uruguay Round ceiling[1]	67.2	12.2	n/a	**79.4**
	Doha Round suggested parameters[2]	70% cut	2.5% of PV	5% of PV	**51.6% cut**
	Doha Round ceiling[3]	20.1	6.1	12.2	**38.4**
	Most recent notification (2000)	43.7	0.5	22.2	**66.4**
	Required change[4]	-23.5	5.5	-10.1	**-28.0**
EC : US[5]	Uruguay Round ceiling[1]	4 :1			**3.1 : 1**
	Doha Round ceiling[3]	2.4 : 1			**1.8 : 1**

PV: Production value.
[1] In the case of "de minimis," the Uruguay Round ceiling corresponds to 5% of the value of production in the last year for which a notification is available (2001 for the US, 2000 for the EC).
[2] Reduction parameters based on the EC-US joint proposal. The figures in the "Total" column are not parameters. They merely indicate the end result of the application of AMS, De Minimis, and Blue Box parameters.
[3] New ceiling that would result from the application of the Doha Round suggested parameters.
[4] "Required change" corresponds to the difference between the Doha Round ceiling and expenditure levels in the most recent notification (2001 for the US, 2000 for the EC).
[5] Using 1.1315 US$/€ as the average rate of exchange in 2003 (US Federal Reserve Bank).
Source: Institute for International Trade Negotiations (ICONE).

Conversely to what was established in the Doha Mandate, the application of the rules proposed in the joint EC-US document would not require the US to substantially reduce current levels of distorting domestic support.[21] At the end of the Doha Round, the US combined AMS, De Minimis and Blue Box commitment (US$24.4 billion) would be significantly higher than the 2001 corresponding notification level (US$21.2 billion). Therefore, the US would not have to

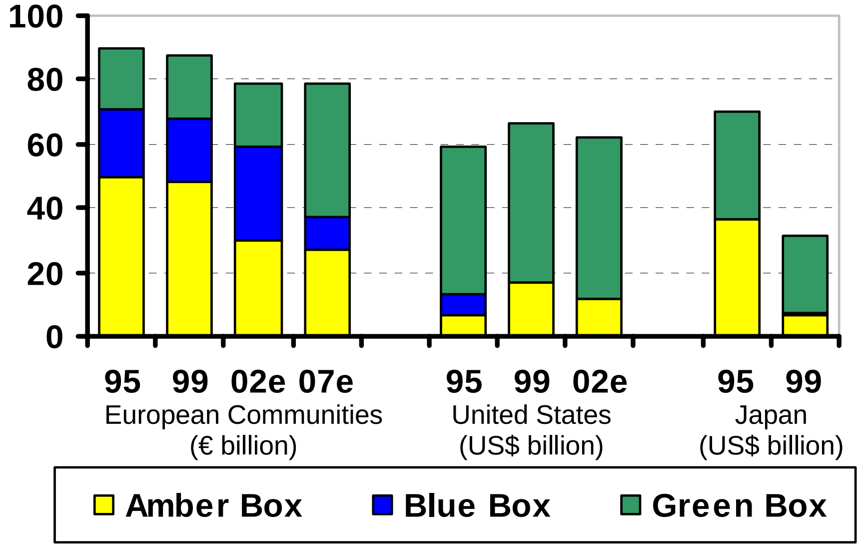
[21] "Current level" refers to the amount in the most recent year for which a domestic support notification has been submitted to the WTO Committee on Agriculture. In the case of the US, the 2001 notification was submitted on 11 March 2004. In the case of the EU, the 2000 notification was submitted on 15 March 2004.

reduce its actual levels of distorting subsidies. By simply shifting some of its Amber Box payments (CCPs) from *de minimis* to the new Blue Box, Washington would be in compliance to the proposed new rules.

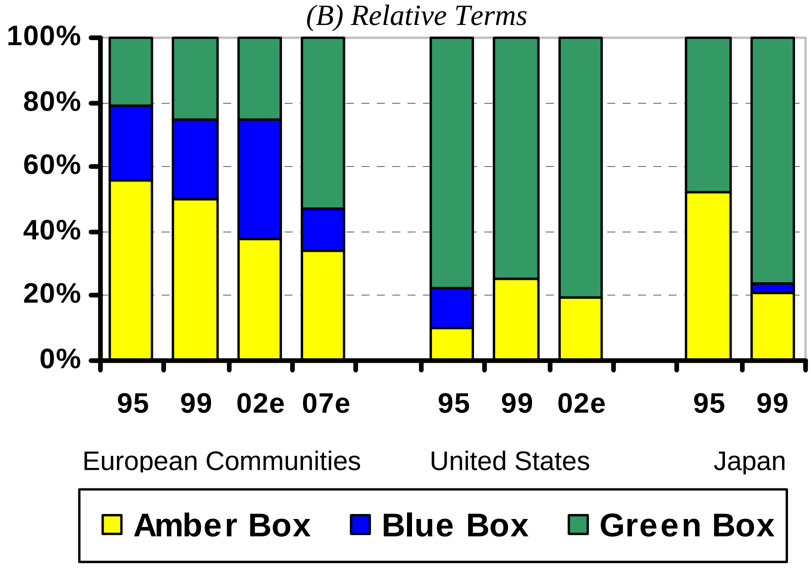
Since the EC-US joint paper does not propose any disciplines regarding Green Box payments, Brussels and Washington would only benefit from the maintenance of the current lax treatment of such payments. The nonexistence of rigorous rules on Green Box payments would allow the US, and increasingly the EC and Japan, to promote a "greening" of domestic support. Figure IV demonstrates how the EC, the US, and Japan have shifted domestic support payments out of the Amber and Blue Boxes and into the Green Box.

FIGURE IV
The "Greening" Shift of Domestic Support:
EC, US, and Japanese Domestic Support Notifications at the WTO

(A) Absolute Terms



(B) Relative Terms



Source: Institute for International Trade Negotiations (ICONE).

The US carried out an extraordinary "greening" shift of domestic support prior to 1995. "Over the period 1986-1988, programs that would have qualified for the Green Box had total expenditures of, on average, just over $26 billion. From 1996 to 1998, Green Box spending had increased to an average of $50 billion" (HART & BABCOCK [2002] p. 11). In the EC and Japan, the phenomenon is more recent: from 1995 onwards, Amber and Blue Box expenditures have retracted considerably, while Green Box spending has increased or remained at similar levels. As of 1999, Green Box payments accounted for approximately 25% of domestic support in the EC, 75% in Japan, and 76% in the US.

Finally, the absence of strict disciplines on non-product specific payments would also allow the US to continue to provide enormous amounts of domestic support under the *de minimis* provision. The G-20 proposal calls for a more thorough approach to domestic support in order to prevent developed countries from continuing to use box-shifting to evade trade liberalization commitments.

2.5. Pérez del Castillo's Draft Ministerial Text

A Draft Cancun Ministerial Declaration was circulated on 24 August 2003. The draft declaration was to serve as the starting point for negotiations at the Fifth WTO Ministerial Conference in Cancun, Mexico. The text was presented on the responsibility of Ambassador Pérez del Castillo, Chairman of the General Council, in close cooperation with Director General Supachai Panitchpakdi. At its initial stage, the document did not purport to be agreed in any part, and was without prejudice to any delegation's position on any issue. Nonetheless, it was received with stark criticism by member countries.

Pérez del Castillo's draft contained provisions in the various areas under negotiation in the Doha Round: agriculture, non-agricultural market access (NAMA), services, intellectual property, environment, dispute settlement, implementation, investment, competition, government procurement, trade facilitation, among others. Annex A to the document dealt specifically with agriculture. The text was very close in its content and spirit to the joint framework presented by the EC and the US. It added only a few new provisions on the new Blue Box and on S&D treatment. The draft favored the interests of the two largest subsidizers. This was especially odd considering that the Doha Round of negotiations was meant to be the development round. As the document gave precedence to the views of the two largest developed countries, some countries believed that it did not provide a balanced approach for negotiations. The G-20 members did not accept Pérez del Castillo's document as the basis for debate and made the point that their own inputs remained on the table for deliberation in Cancun.

The Draft Cancun Ministerial Text fell short of the Doha Mandate in all three pillars of agricultural negotiations. Following is a brief analysis of the content of Pérez del Castillo's document in each one of these pillars.

2.5.1. Market Access

Pérez del Castillo's draft was nearly a reprint of the EC-US joint framework proposal. Four adjustments were made to the EC-US text in order to reflect S&D treatment for developing countries. First, the blended formula put forward for developing countries differed from that for developed countries: developing countries were required to use a combination of Uruguay Round formulas, possibly in connection with a Swiss formula (no duty-free access requirement). Second, in Pérez del Castillo's draft the partial tariff cap provision only applied to developed countries. Finally, the issues of tariff escalation and "special products" (SP) were brought back into debate by the Chairman.

2.5.2. Export Competition

The Draft Ministerial Declaration built a very ambiguous language in order to curtail the liberalizing objectives agreed in the Doha Mandate. The draft first used the language originally present in the mandate ("reduction of, with a view to phasing out, all forms of export subsidies") and then invalidated it by putting the question of the end date for phasing out of all forms of export subsidies under negotiation. Otherwise, Pérez del Castillo's draft virtually followed the lines of the joint EC-US paper. Two exceptions were (i) the strengthening of rules on export prohibitions and restrictions, and (ii) the introduction of S&D treatment for developing countries, LDCs and Net Food-Importing Developing Countries (NFIDCs).

2.5.3. Domestic Support

Once again, the Chairman's draft relied heavily on the joint EC-US framework paper. Pérez del Castillo's draft only deviated from the majors' proposal on 3 issues: (i) it brought Green Box criteria back into negotiation, (ii) it subjected the new Blue Box to further linear reductions, and (iii) it provided developing countries with additional S&D treatment (lower reduction rates, longer implementation periods, and no requirement to reduce *de minimis* payments).

3. THE FIFTH WTO MINISTERIAL CONFERENCE IN CANCUN AND ITS AFTERMATH

The WTO Ministerial Conference in Cancun was a failure. Countries were not able to agree on a framework for negotiations. The main product of the conference was the Revised Draft Ministerial Text authored by the Chairman of the conference, Mexican Secretary of External Relations Luis Ernesto Derbez Bautista.

3.1. Derbez' Revised Cancun Draft Ministerial Text

Chairman Derbez circulated a Revised Draft Ministerial Text on 13 September 2003. The paper was very close to the text presented by Pérez del Castillo on 24 August 2003. Only a few additional issues were addressed in Derbez's paper, the extension of the Peace Clause[22] being one of the most criticized. The Revised Draft Ministerial Text did not produce a consensus among the negotiating parties.

3.1.1. Market Access

Derbez further elaborated the treatment of tariff escalations. As it had been previously done in Harbinson's draft and in the G-20 paper, the Chairman of the Fifth Ministerial Conference proposed the application of a factor to the tariff reduction rate for processed goods. He also recuperated the ideas of in-quota tariff reduction, and elimination of tariffs for all tropical and other products referred to in the preamble of the URAA.

In regard to tariff peaks, Derbez's draft provided developed countries with the additional flexibility to exclude, on the basis of non-trade concerns, a limited number of products from the tariff capping requirement. This provision would annul the efficacy of a tariff cap, as it would allow countries not to cap their highest tariff rates. Japan, for instance, would not be required to cap its tariff on rice. Finally, Derbez somewhat modified the tariff reduction formula for developing countries. He suggested a blended formula composed of a Uruguay Round-type formula, a Swiss formula, and a requirement to bind a certain number of tariff lines between 0% and 5%.

3.1.2. Export Competition

Derbez's proposal on export competition is almost an exact copy of Pérez del Castillo's. The only difference resides on the fact that Derbez's text calls for the establishment of a list, with the purpose of tabling comprehensive draft schedules, of products for which export subsidies should be eliminated.

---

[22] The Peace Clause of the URAA (Article 13) protected countries using subsidies which complied with the agreement from being challenged under other WTO agreements. Without this clause, countries would have had greater freedom to take action against each other's subsidies. The Peace Clause was a transitory mechanism due to expire at the end of 2003.

3.1.3. Domestic Support

As it was the case in the other pillars of the negotiations on agriculture, the content of the Revised Draft Cancun Ministerial Text on domestic support was very close to that of Pérez del Castillo's draft. Only 3 additional provisions were included in Derbez's text: (i) a cap for product-specific AMS, (ii) an initial cut in the sum of total AMS and *de minimis* payments in the first year of implementation, and (iii) a requirement to review Green Box criteria with a view to ensure that measures that fit in this box have no, or at most minimal, trade-distorting effects or effects on production.

3.2. Blame-Shifting

After proposals of new forms of product-shifting and box-shifting, the Doha Round was hit by another phenomenon in Cancun: blame-shifting. Faced with the inevitable breakdown of the conference, delegations started to hold each other responsible for their inability to move forward with the negotiations. Ministers from rich countries blamed large developing economies (Brazil and India, among others) for obstructing the negotiations and trying to create a North-South ideological divide within the WTO. USTR Robert Zoellick was particularly aggressive in his comments (ZOELLICK [2003] p. 23). On the other hand, the developing world pointed to the unwillingness of the EC and the US to dismantle their abusive border protection measures and abandon their outdated domestic policies and export support mechanisms. The media and some NGOs only fueled the blame-shifting spectacle that surfaced at the end of the conference.

Washington and Brussels carried out extensive media work in order to influence the international coverage of the conference. They were able to devote significantly more resources than the developing world to the marketing of their views. Many NGOs, on the other hand, radicalized the debate in Cancun and were able to influence the positions of many poor countries. The anti-liberalization radicals failed to recognize that trade liberalization can play a very significant role in promoting socioeconomic development, especially in low- and middle-income countries.

The root of Cancun's predicament was that too many countries continued grandstanding, rather than seeking to compromise. EC and US concessions were very timid. Brussels' and Washington's actions in Cancun seriously contradicted their discourse on trade liberalization and development. Some developing countries also had an intractable posture and did not go beyond rhetorical accusations. An exception was the case of the G-20 countries, which acted as tireless negotiators during the conference and left Cancun determined to push for continued negotiations on agricultural trade liberalization.[23]

A key incompatibility in the debate on agriculture at Cancun had to do with the end-goals sought after by the G-20, the EC, and the US. The G-20 wanted to dismantle trade protectionism in developed countries and ensure exceptions for developing countries. The EC wanted to gain in

[23] "The WTO under Fire," *The Economist,* 18 September 2003.

Singapore issues[24] in order to make concessions in agriculture. The US, on the other hand, was not very interested in Singapore issues. Washington wanted a trade-off inside agriculture: it would reduce domestic subsidies only if it could gain access to world markets, including large to developing countries like India and China.

As far as agriculture is concerned, the G-20 was open to negotiate. It was and still is ready to move in terms of implementing the ambition level set in the Doha Mandate. However, the EC and the US were tied up and unwilling to acquiesce to the original terms of the Doha Development Agenda. The G-20 could probably have acted in market access in developing countries if the EC and the US had made concessions regarding subsidies.

Despite the confrontations, the G-20, the EC, and the US were not very far from reaching an agreement in some of the agricultural issues under negotiation. Table V lists issues by pillar, demonstrates the sensitivity of each one of the three parties on these issues, and projects the likelihood of the three parties reaching an agreement in such issues. The EC was particularly defensive on market access and export subsidies, while the US was sensitive on domestic support and export credits. The G-20 was defensive on a few issues such as SSMs, SPs, and *de minimis* domestic support.

TABLE V
Balance of Sensitivities: the EC, the US, and the G-20

PILLAR	ISSUE	EC	US	G-20
Domestic Support	AMS - Final bound range	++	+++	+
	AMS - Limits per product	+	+++	
	AMS - Impacts on exports (income effect)	++	+++	
	"De Minimis"		+++	+++
	Blue Box - Commitment	++	+++	
	Blue Box - Elimination of supply control		+++	
	Green Box - Disciplines	+	+	
	Green Box - Capping	+++	+++	
Market Access	Progressive Tariff Cuts	+++	++	++
	Tariff Capping	+++	++	
	Tariff Escalation	++	+	
	Tariff-Rate Quotas	+++	+++	
	Special Safeguards - SSG	+++	+	
	Special Safeguards - SSM (S&D)	+	++	+++
	Special Products (S&D)	+	++	+++
	Duty-Free Access for Tropical Products	+	++	
Export Competition	Export Subsidies	++	+	
	Export Credits	+	++	

Source: Institute for International Trade Negotiations (ICONE).

[24] The 1996 Singapore Ministerial Declaration mandated the establishment of working groups to analyze issues related to investments, competition policy, government procurement, and trade facilitation. These themes are commonly referred to as "Singapore issues."

The EC, the US, and the G-20 could have reached an agreement on the final bound AMS range, *de minimis*, Green Box criteria, tariff escalation, SSMs, and duty-free access for tropical products. On issues such as export competition, SPs, tariff reduction formula, and the traditional Blue Box, the outcome was uncertain. Finally, countries were unlikely to agree on product-specific AMS limits, export-oriented domestic support measures, the elimination of the supply control requirement for Blue Box measures, the capping of Green Box payments, tariff capping, TRQ treatment, and SSG extension.

Contrary to most expectations, agriculture was not the reason for the failure of the Fifth WTO Ministerial Conference. The negotiations achieved a stalemate when Singapore issues were addressed. Some developing countries led by India and Malaysia were unwilling to accept disciplines on these issues, which they saw as being of almost exclusive interest to developed countries. Over 90 countries signed a letter in Cancun saying that they were not ready to move into these areas.[25] However, the EC, Japan, and South Korea refused to compromise. After much opposition from the developing world, the EC proposed that only trade facilitation be addressed in Cancun. This proposal was rejected by a group of African nations. Some developing countries argued that they should not make concessions to developed countries on Singapore issues if these same countries were not ready to make similar concessions on agriculture, an issue of extreme importance to the developing world. Finally, South Korea stated that it would only accept negotiations on all four Singapore issues. Seeing that there was no basis for compromise, the Chairman of the conference declared the meeting over. Final ministerial deliberations never got to agriculture.

3.3. Post-Cancun Negotiations on Agriculture

Cancun was a lost opportunity. The WTO is a key forum for low- and middle-income countries. The failure to proceed with multilateral negotiations is a significant setback to the Doha Development Agenda. The January 2005 deadline for completing the current round of multilateral trade negotiations will most certainly be missed. It is irrational and unreasonable to rejoice at the breakdown of multilateral negotiations since the maintenance of the *status quo* of agricultural trade practices costs billions of dollars to farmers in the developing world and to consumers in developed countries (WORLD BANK [2004], IFPRI [2003], and UNCTAD [2003]).

Although the collapse of trade talks in Cancun does not represent the end of the Doha Round, it has cast doubts on the feasibility of meaningful reforms and the effectiveness of the WTO as an international negotiating forum. While an important momentum for multilateral trade negotiations has been lost, the discussions have not been officially abandoned. The ministerial statement issued at the end of the Cancun conference called the Chairman of the General Council and the Director-General to convene a meeting of the General Council at senior officials level no later than 15 December 2003. Although the objective of the December meeting was to take the action necessary to enable a move towards the successful and timely conclusion of the negotiations, little progress was achieved. On 11 February 2004, the General Council nominated the new chairpersons of WTO bodies. Shotaro Oshima, of Japan, was chosen as the chairperson

[25] "The WTO under Fire," *The Economist,* 18 September 2003.

of the General Council, and Tim Groser, of New Zealand, was chosen as the chairperson of the Special Session of the Committee on Agriculture.

Derbez's Revised Draft Ministerial Text has served as the foundation for renewed discussions. The ambition level of agricultural negotiations in the Doha Round was expected to be determined by the numerical targets that would replace the open brackets in the text. However, this has not materialized. Countries must concentrate efforts on producing a more ambitious modalities paper that expands on Derbez's text and introduces figures. It is very important that countries go beyond the framework phase and come up with a more incisive document.

The efficacy of the WTO decision-making system has been called into question by the failure of its members to get anywhere during and after the Cancun Ministerial Conference. The WTO is based on the principles of consensus and transparency. However, it is very hard to reach a consensus among such a diverse membership. Attempts to create smaller groups to address specific subjects have been condemned as non-transparent. The adoption of more effective formal procedures could facilitate the achievement of a consensus among the WTO membership (SCHOTT & WATAL [2000]). According to Brazil's Minister of External Relations, Ambassador Celso Amorim, the Cancun conference "marks an inflection point in the internal dynamics of the [World Trade] Organization, where, traditionally, what was decided by the great commercial powers was seen as the 'inevitable consensus.' Thanks to a joint effort by key developing countries, small and large, from three different continents, the postulations of the great majority of the world could not have been ignored."[26]

Not only has the validity of the WTO as a multilateral organization been called into question, the multilateral sphere per se has lost much ground. Countries have increasingly resorted to bilateral and regional agreements to address their international trade concerns. The collapse of multilateral talks in Cancun only reinforces this trend. The "spaghetti bowl" that results from this explosion of limited-range agreements is far from being a reasonable arrangement for international trade. Countries must strengthen their support of multilateral trade talks given that it is at this level that free trade can produce the most benefits. Multilateralism is important especially to address systemic issues, such as domestic support and export competition, which cannot be properly tackled at the bilateral and regional levels. Given that it would be very difficult to obtain concessions from rich countries on systemic issues outside the WTO, it is fundamental to appropriately address trade-distorting subsidies in Doha Round of multilateral trade negotiations.

The emergence of the G-20 has been one of the key outcomes of the Doha Round thus far. The strength and consistency of the coalition were tested in Cancun. Prior to the ministerial conference, some observers envisaged that the G-20 would not stick together and that the coalition would be cut down to a mere G-2 (Brazil-Argentina or alternatively Brazil-India). They were proven wrong. Others claimed that the G-20 was a feeble association of countries that were out of tune with each other, that it only represented an ideological counterbalance to the developed world, and that it would be unable to coordinate diverging views and accomplish much at the multilateral level. These observers predicted that the G-20 would become a G-77 in

[26] "Statement by Brazil's Minister of External Relations, Ambassador Celso Amorim, on the Occasion of the Day of the Diplomat," Brasília, 18 September 2003.

the molds of the old North-South conflicts of the post-colonial period. They were also proven wrong. The members of the G-20 should strive to build a solid common agenda with other countries that defend free trade in agriculture. As a coalition of countries in the negotiations on agriculture, the G-20 is very significant. However, if the coalition goes beyond agriculture it risks losing its dynamism.

The future of the Doha Round will be affected by the domestic state of affairs in key member countries. The upcoming elections in the United States will have a strong imprint in Washington's negotiating positions at the WTO. The George W. Bush administration will seek to defend US trade-distorting domestic policies in order to secure campaign contributions from the farm lobbies and votes from the rural constituency (ORDEN, PAALBERG, and ROE [1999]). The US Congress will also shape Washington's stances in Geneva, as it has been already demonstrated by the interventions of the Chairman of the Senate Agriculture Committee in favor of US cotton farmers. The forthcoming enlargement of the EC will have a twofold impact on European negotiating proposals in the Doha Round. First, significant market access concessions will already be made in the intra-Europe sphere once accessing countries join the EC. Politically, it will be harder for national governments in the EC and the accessing countries to make further market access commitments at the multilateral level. Second, the fact that a number of Eastern European and Mediterranean countries will be joining the EC in the near future turns them into natural allies of Brussels. Moreover, the EC will be making use of the Everything But Arms (EBA) initiative to beguile LDCs into accepting minor unilateral compensations for siding with Brussels at the WTO.

The upcoming months in Geneva and in national capitals throughout the world will be marked by attempts, on one side, to revive the negotiating momentum of Doha, and, on the other side, to further distress the original liberalizing agenda set in Qatar. The deadlock between the positions of the G-20, the EC-US coalition, and other groups will have to be broken if the Doha Round is to achieve any meaningful trade liberalization.

In a letter dated of 9 May 2004 and addressed to WTO Director-General Supachai Panitchpakdi and to ministers responsible for trade in all WTO countries, EC commissioners Pascal Lamy (External Trade) and Franz Fischler (Agriculture) recognize that the previous EC approach to negotiating export competition has not worked. They indicate that if an acceptable outcome emerges on market access and domestic support, the EC will be ready to move on export subsidies, provided that "full parallelism" is applied to all forms of export competition (export credits, STEs, food aid, etc). This suggests that the EC is willing to accept – under certain conditions – the full elimination of agricultural export subsidies. The EC has thus taken an important step, which must be followed by countries applying other forms of export support. This includes not only the US (leading user of agricultural export credit), but also Canada and Australia (home to important trade monopoly activity in agriculture).

An understanding on market access or domestic subsidies seems less likely at this point. Countries have not agreed on appropriate formulas to reduce tariff rates and domestic support expenditures. The inability to find a common position on tariff reduction is the single most import obstacle to multilateral negotiations on agriculture. While the EC and the US have put forward a blended formula that benefits countries with asymmetric tariff distributions and allows for very limited tariff reductions on sensitive products, the G-20 has endorsed the concepts of “progressivity”, (i.e. higher tariffs must be subject to higher cuts) and “proportionality” (i.e. different coefficients of tariff reduction for developed and developing countries). Regarding domestic support, the main problems lie on the interaction of disciplines on the different boxes and on the permissiveness of the New Blue Box proposed by the EC and the US. Members of the G-20 want to prevent subsidizing countries from drafting loopholes to circumvent the objective of reducing domestic support expenditures.

The success of multilateral trade negotiations depend on a firm commitment from all participating countries. Negotiating parties must start working on compromises that will lead to the effective realization of the goals established in the Doha Mandate. Developing countries cannot afford to have a dismal result on agriculture. Developed countries must realize that agricultural trade reform is necessary to promote both growth in the South and efficiency in the North. After all, the Doha Round was envisaged as the Development Round. This concept was once understood in Doha. It must be revisited in Geneva.

May 14, 2004

REFERENCES

CANADIAN DEPARTMENT OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE (DFAIT). *Documents on Canadian External Relations*. Vol. 23-810 (October 1956).

HART, CHAD E., and BABCOCK, BRUCE A. "US Farm Policy and the World Trade Organization: How Do They Match Up?" Center for Agricultural and Rural Development (CARD), CARD Working Paper 02-WP 294 (February 2002).

HOEKMAN, BERNARD M., and KOSTECKI, MICHAEL M. *The Political Economy of the World Trading System.* Oxford: Oxford University Press. 2001.

INSTITUTE FOR AGRICULTURE AND TRADE POLICY (IATP). "United States Dumping on World Markets," IATP Cancun Series Paper 1.

INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE (IFPRI). "How Much Does It Hurt? - The Impact of Agricultural Trade Policies on Developing Countries." August 2003.

MESSERLIN, PATRICK A. *Measuring the Cost of Protection in Europe: European Commercial Policy in the 2000s.* Washington: Institute for International Economics. 2001.

ORDEN, DAVID, PAALBERG, ROBERT, and ROE, TERRY. *Policy Reform in American Agriculture: Analysis and Prognosis.* Chicago: The University of Chicago Press. 1999.

SCHOTT, Jeffrey J., and WATAL, JAYASHREE. "Decision-Making in the WTO." Institute for International Economics, Policy Brief 00-2 (March 2000).

"Statement by Ambassador Seixas Corrêa on the Introduction of a Proposed Draft Framework."

"Statement by Brazil," Informal Session, WTO General Council, 25 August 2003.

"Statement by Brazil's Minister of External Relations, Ambassador Celso Amorim, on the Occasion of the Day of the Diplomat," Brasília, 18 September 2003.

STEINBERG, RICHARD H., and JOSLING, TIMOTHY E. "When the Peace Ends: The Vulnerability of EC and US Agricultural Subsidies to WTO Legal Challenge." *Journal of International Economic Law,* 6(2).

TREBILCOCK, MICHAEL J., and HOWSE, ROBERT. *The Regulation of International Trade.* New York: Routledge. 2001.

"The WTO under Fire." *The Economist*, 18 September 2003.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD). *Back to Basics: Market Access Issues in the Doha Agenda.* Geneva: United Nations. 2003.

WORLD BANK. *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda*. Washington: World Bank. 2003.

WORLD TRADE ORGANIZATION (WTO). *The Legal Texts: The Results of The Uruguay Round of Multilateral Trade Negotiations.* Cambridge: Cambridge University Press. 2001.

ZOELLICK, ROBERT B. "America Will Not Wait for the Won't-Do Countries," *Financial Times*, 22 September 2003.

Documents Presented at the WTO:

"Agriculture – Framework Proposal - Joint Proposal by Argentina, Brazil, Bolivia, China, Chile, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, India, Mexico, Paraguay, Pakistan, Peru, Philippines, South Africa, Thailand, Venezuela" (JOB(03)/162) 20 August 2003.

"Doha Ministerial Declaration" (WT/MIN(01)/DEC/1) 20 November 2001.

"Joint EC-US Paper- Agriculture" (JOB(03)/157) 13 August 2003.

"Negotiations on Agriculture – Overview" (TN/AG/6) 18 December 2002.

"Negotiations on Agriculture: First Draft of Modalities for the Further Commitments" (TN/AG/W/1) 17 February 2003.

"Negotiations on Agriculture: First Draft of Modalities for the Further Commitments- Revision" (TN/AG/W/1/Rev.1) 18 March 2003.

"Preparations for the Fifth Session of the Ministerial Conference – Draft Cancun Ministerial Text – Revision" (JOB(03)/150/Rev.1) 24 August 2003.

ANNEX I

COUNTRY NEGOTIATING PROPOSALS
(PRE-HARBINSON PHASE)

From March 2000 to March 2001, 45 negotiating proposals and 3 technical documents were submitted to the WTO on behalf of a total of 126 members (89% of the organization's membership at the time). From March 2001 onwards, many other revised and more detailed proposals have been presented by the negotiating parties. This paper provides an overview of the proposals presented by 3 representative countries or group of countries: (i) the Cairns Group, (ii) the US, and (iii) the EC. While the first two submitted ample and liberal proposals, the latter presented only timid offers.

1.1. Cairns Group

The Cairns Group submitted 4 separate proposals to the WTO in the second half of 2000, each dealing with a specific issue (export competition, domestic support, market access, and export restrictions and taxes).[27] Three new negotiating proposals and an additional special input were presented in the second half of 2002.[28]

Regarding market access,[29] the Cairns Group proposed the use of two different formulas for tariff reduction. For developed countries, the proposal called for the application of a Swiss Formula with a coefficient of 25. For developing countries, the reduction rate would depend on the initial tariffs: (i) tariffs over 250% should be reduced to a 125% final tariff; (ii) tariffs between 50% and 250% should be reduced by 50%; and (iii) tariffs between 0% and 50% should be reduced through the application of a Swiss Formula with a coefficient of 50. Reductions should be implemented from final bound tariffs, and phased-in over 5 years for developed countries and 9 years for developing countries. Developed countries should make a down payment in the first year of implementation equivalent to 50% of the total required cut. In those cases in which importing countries impose additional levies, import charges, taxes or mark-ups, these were to be added to the initial tariff and subject to the same reduction commitments. Furthermore, all non-*ad valorem* tariffs should be converted into *ad valorem* equivalents.

The Cairns Group believed that tariff-rate quotas (TRQs) should be ultimately eliminated. In the meantime, however, it called for an expansion of final bound quota volumes, on a

---

[27] WTO, *WTO Negotiations on Agriculture – Cairns Group Negotiating Proposal – Export Subsidy* (G/AG/NG/W/11) 16 June 2000; *WTO Negotiations on Agriculture – Cairns Group Negotiating Proposal – Domestic Support* (G/AG/NG/W/35) 22 September 2000; *WTO Negotiations on Agriculture – Cairns Group Negotiating Proposal – Market Access* (G/AG/NG/W/54) 10 November 2000; and *WTO Negotiations on Agriculture – Cairns Group Negotiating Proposal – Export Restrictions and Taxes* (G/AG/NG/W/93) 21 December 2000.
[28] Cairns Group, *Market Access (Further Commitments) – Special Input: Cairns Group – Negotiating Proposal on Market Access* (12 September 2002); *Domestic Support – Specific Input: Cairns Group – Negotiating Proposal* (27 September 2000); *Export Competition (Further Commitments) – Specific Input: Cairns Group – Negotiating Proposal on Export Competition* (20 November 2002); and *Market Access (Further Commitments) – Additional Special Input: Cairns Group – Negotiating Proposal on Market Access* (20 November 2002).
[29] Despite being a member of the Cairns Group, Canada released its own market access proposal almost 5 months sooner than the group. WTO, *WTO Negotiations on Agriculture: Market Access – A Negotiating Proposal by Canada* (G/AG/NG/W/12) 19 June 2000.

most-favored nation basis, by adding an amount equal to 20% (14% in developing countries) of current domestic consumption of concerned products over a 5-year (9-year in developing countries) implementation period. For developed countries, a down payment of 50% of the total expansion should be made in the first year. Within-quota tariffs should be phased out or developed countries and phased out or reduced for developing countries. Moreover, countries should be prohibited from using conditions or formalities (such as end-use requirements, product specifications, or time limitations) in administering TRQs that would prevent full utilization of quotas. The Cairns Group proposal also called for rules to ensure that unused licenses were reallocated.

The proposal states that special safeguard (SSG) provisions should be eliminated for developed countries, and that developing countries should be permitted access to a new mechanism which would operate under an agreed range of circumstances.[30]

On export competition, the Cairns Group proposed the complete elimination and prohibition of export subsidies. Members should make a down payment by cutting annual export subsidy entitlements by 50% on the first day of the implementation period. For developed countries, the down payment should be followed by 3 equal annual reductions leading to full elimination. For developing countries, the down payment should be followed by 6 equal annual reductions leading to full elimination. Existing S&D treatment for developing countries under Article 9.4 of the URAA should be continued until the elimination of export subsidies. All officially supported export credits, credit guarantees or insurance programs should not allow countries to increase their Uruguay Round export subsidy commitments. In addition, the Cairns Group proposed a series of disciplines on maximum repayment terms, minimum insurance premiums, risk sharing, principal repayment, credit starting-points, credit ending dates, and credit validity periods. The proposal called for the establishment of notification requirements for all member countries and S&D treatment for Least-Developed Countries (LDCs) and Net Food-Importing Developing Countries (NFIDCs). The Cairns Group also proposed specific rules on the provision of food aid in order to ensure that it is not used to circumvent export subsidy disciplines and commitments.

In terms of domestic support, the Cairns Group proposed to reduce final bound commitments on Aggregate Measurement of Support (AMS) to zero over 5 years for developed countries and 9 years for developing countries. This reduction should take place on a product-specific disaggregated basis. Existing *de minimis* support provisions for developed countries should be reduced with a view towards its elimination within an agreed period of time. For developing countries, the *de minimis* provision should be retained. Furthermore, disciplines should be strengthened in order to prevent product-specific support from being classified as non-product specific support. The Cairns Group proposal also called for the elimination of the exemption for "Blue Box" measures as described in Article 6.5 of the URAA. To achieve this objective, developed countries should commit to a down payment of 50% in the first year of implementation, followed by equal cuts over the following years to reach zero. In addition, the Cairns Group proposed a revision of Annex

[30] Argentina, a Cairns Group member, circulated a proposal suggesting the creation of a new mechanism to replace the SSG for developing countries.

2 of the URAA in order to ensure that “Green Box” support does not distort production and trade. Countries should commit to a mechanism that caps direct payments, and reduces expenditures in paragraphs 5, 6, 7, and 11 (direct payment, decoupled income support, government financial participation in income insurance and income safety-net programs, and structural adjustment assistance). Changes were proposed to paragraphs 5 to 13, with an emphasis on the use of a fixed and unchanging historical base period.

1.2. United States

On 23 June 2000, the US submitted a Proposal for Comprehensive Long-Term Agricultural Trade Reform.[31] A Proposal for Global Agricultural Trade Reform, which builds on the previous offer and specifies reform goals and reduction commitments, was presented in June 2002. The document outlines a two-phase process for trade reform: the first phase eliminates export subsidies and reduces tariffs and trade-distorting domestic support over a 5-year period; the second eventually eliminates all tariffs and trade-distorting domestic support by an undetermined date.

Regarding market access, the US proposed the use of a Swiss Formula with a factor of 25 for reducing tariffs. Cuts should be implemented from applied rates. TRQs should be expanded by 20% and in-quota duties phased out over a 5-year period. Rules on TRQs should be tightened, and shares of TRQ increases should be reserved for non-traditional developing country suppliers. The US proposal also called for the elimination of SSG.

On export competition, the US proposed the elimination of export subsidies, with reductions phased in over a 5-year period in equal annual increments. Export monopolies, as well as special financial privileges to state traders, should be eliminated. Export taxes should be prohibited, with an exception for developing countries for revenue-generating purposes under certain conditions. Report requirements for food aid should be expanded in order to increase transparency and strengthen market displacement analyses. The US also proposed the establishment of specific rules on export credits, credit guarantees, and insurance.

On domestic support, Washington proposed using a formula to limit the use of trade-distorting support to 5% of the total value of agricultural production, with reduction made from current caps over a 5-year period. The levels of both types of *de minimis* support (product-specific and non-product-specific) should be maintained. The current system of calculating trade-distorting domestic support should be simplified by including trade-distorting support linked to production limitations (the so-called “Blue Box” measures) against the WTO cap. For developing countries, specific support programs oriented toward subsistence, resource-poor, and low-income farmers should be exempt from subsidy limits. Basic criteria for non-trade distorting support (“Green Box” measures) should remain unchanged.

---

[31] WTO, *Proposal for Comprehensive Long-Term Agricultural Trade Reform – Submission from the United States* (G/AG/NG/W/15) 23 June 2000. The United States position was further refined through the *Note on Domestic Support Reform – Negotiations on Agriculture – Submission from the United States* (G/AG/NG/W/16) 23 June 2000, and the *Proposal for Tariff Rate Quota Reform – Submission from the United States* (G/AG/NG/W/58) 14 November 2000.

The US also proposed sector-specific initiatives on further commitments that would go beyond the basic reductions on all products. These would include deeper tariff reductions, product-specific limits on trade-distorting domestic support, and other commitments to more effectively address the trade-distorting practices in the affected commodity sectors.

1.3. European Communities

The EC presented four proposals on specific trade-related issues in the second half of 2000.[32] A Comprehensive Negotiating Proposal[33] was submitted on 14 December 2000 and a Proposal for Modalities in the WTO Agriculture Negotiations[34] was put forward on 16 December 2002.

In terms of market access, the EC proposed using the Uruguay Round Formula for tariff reduction. This formula would imply an overall average reduction of 36% and a minimum reduction per tariff line of 15%, and would apply to all developed countries and those developing countries which are in a position to do so from a development perspective. If necessary to attain their legitimate objectives regarding food security and other multifunctional concerns, developing countries should be allowed to assume substantially lower commitments. All developed countries and all advanced developing countries should provide duty–free and quota-free access to their markets for all imports from the LDCs. Duty-free access should also be guaranteed for at least 50% of all developing countries' exports to developed countries. The Uruguay Round final bound commitment levels should be taken as the base. The implementation period should commence in 2006 and last 6 years for developed countries and 10 years for developing countries. The EC proposal did not mention any expansion in TRQs. It only suggested a quota allocation method and called for increased transparency, reliability, and security in TRQ management. Brussels proposed the negotiation of specific commitments on geographical indications, and suggested the establishment of a list of names currently used by producers other the right-holders in the country of origin so as to prohibit such use. The proposal also called for the continuation of an instrument similar to the SSG.

On export competition, Brussels proposed an average substantial cut in the volume of export subsidies and an average 45% cut in the level of budgetary outlays. Countries should have the flexibility to deal with different products in different manners. In this context, the EC was ready to eliminate export subsidies for products such as wheat, oilseeds, olive oil, and tobacco. Brussels proposed that state supported amounts of export credit and the volumes supported by these amounts should be bound and reduced. Export credit terms should be moved towards commercial terms with a maximum repayment term. A separate proposal on export credits was released as early as June 2000. Food aid in kind should be provided only for well-defined vulnerable groups or in response to well-

---

[32] WTO, *European Communities Proposal – The Blue Box and Other Support Measures to Agriculture* (G/AG/NG/W/17) 28 June 2000; *European Communities Proposal – Food Quality: Improvement of Market Access Opportunities* (G/AG/NG/W/18) 28 June 2000; *European Communities Proposal – Animal Welfare and Trade in Agriculture* (G/AG/NG/W/19) 28 June 2000; and *European Communities Proposal – Export Competition* (G/AG/NG/W/34) 18 September 2000.

[33] WTO, *EC Comprehensive Negotiating Proposal* (G/AG/NG/W/90) 14 December 2000.

[34] European Commission, *The EC's Proposal for Modalities in the WTO Agriculture Negotiations* (Ref. 625/02) 16 December 2002.

recognized emergencies and humanitarian crisis. In addition, all food aid should be in fully-grant form. Stricter disciplines are also presented for State Trading Enterprises (STEs).

On domestic support, the EC proposed a 55% reduction in the AMS. The current definition of domestic support and the Uruguay Round reduction method should be maintained. Developing countries' concerns, in particular with regard to food security and rural development, should be accommodated in a "Food Security Box." The *de minimis* exception should be eliminated for developed countries, and a clear definition of non-product-specific support should be established. Support granted for the achievement of developing countries' needs, environmental protection, rural development, and animal welfare should primarily be provided through the Green Box. Brussels also called for the preservation of the Blue Box.

Finally, the EC proposed the continuation of the Peace Clause and conditioned its trade liberalization proposals upon key non-trade concerns (food safety, mandatory labeling, food security, environmental protection, rural development, and animal welfare) being adequately addressed.