foodrights

The WTO Agreement on Agriculture

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Summary

In developing countries, agricultural and rural development is central to reducing poverty. In its work with poor communities and small-scale producers in over thirty-five developing countries, ActionAid has witnessed the negative impacts of agricultural trade liberalisation. It believes that food security, poverty reduction and sustainable development should at the heart of the negotiations to reform the Agreement on Agriculture (AoA).

In many poor countries, agriculture not only accounts for a large share of gross domestic product (GDP), but is also the primary source of employment, food and livelihood for the majority of the population. This is in contrast to the situation in the world's two biggest agricultural exporters, the European Union (EU) and the United States (US), where agriculture employs a tiny percentage of the population and makes only a small contribution to the economy. Yet it is the EU and US that give most protection to agriculture, using high tariffs and huge subsidies to shield their producers from competition.

Although agricultural development and food security issues cannot be resolved by the WTO alone, it is vital that the rules governing the trade in agriculture and food are reformed to actively promote sustainable development and ensure food security. This should be made an explicit objective in the preamble to the AoA so that rules benefit small-scale farmers and not agri-business.

The original AoA included a commitment to renegotiate the Agreement after five years. This renegotiation is currently underway and preliminary outcomes are expected to be a key issue for negotiations at the Cancún Ministerial in September 2003. However, important deadlines have been missed, not least an agreement on the modalities for negotiations which was due in March 2003. Negotiations are stalled because of the intransigent positions of some developed country members, particularly the EU and Japan, who are rejecting calls for substantial reforms. In addition, developed countries are hindering progress on more meaningful special and differential treatment for developing countries.

ActionAid calls for the following key reforms:

- The phasing out of Amber Box subsidies in developed countries.
- The immediate elimination of Blue Box subsidies.
- A review of disciplines in the Green Box in developed countries to assess their impact on production and trade. All Green Box subsidies must be fully decoupled from production (and targeted only at the delivery of public goods). Production related subsidies should be eliminated. The amount of remaining Green Box subsidies should be capped.
- A prohibition of agricultural dumping.
- The introduction of a counter balancing mechanism within the AoA for developing countries. The aim would be to address the problem of the accumulated effects of high levels of production and trade distorting subsidies provided to agriculture in the North by allowing

developing countries to adjust their tariff levels in accordance with the level of subsidies in the exporting country. No proof of injury would be required from the importing country. The sole existence of subsidies to a product would be sufficient to trigger the measure.

- An agreement that only developing countries should have the flexibility to deal with price volatility and import surges through the special safeguard mechanism. The mechanism should be available for all products.
- An agreement whereby developing countries should have the long-term flexibility to exempt agricultural products from tariff reductions – on the basis of a positive list approach - on the grounds of concerns related to food security, rural development, poverty alleviation and livelihood conservation. They should have the flexibility to increase low bound tariffs and no compensation should be required.

The Agreement on Agriculture: an introduction

In 1995, the year that the WTO was established, the first effective rules governing international trade in agriculture and food were introduced. Following the Uruguay Round negotiations, all agricultural products were brought under multilateral trade rules by the WTO's Agreement on Agriculture.

The Agreement is made up of three 'pillars': market access, export competition and domestic support. All WTO members, except least developed countries (LDCs), were required to make commitments in all these areas in order to liberalise agricultural trade. As can be seen in the box below, developing countries were given a limited element of special and differential treatment (S&DT).

Box 1: The Three Pillars

Market access *(articles 4 and 5 and annex 5).* The most important commitments are:

- Developed and developing countries to convert all non-tariff barriers into simple tariffs (a process known as tariffication).
- All tariffs to be bound (i.e. cannot be increased above a certain limit).
- Developed countries to reduce import tariffs by 36% (across the board) over a six year period with a minimum 15% tariff reduction for any one product.
- Developing countries to reduce import tariffs by 24% (across the board) over a ten year period with a minimum 10% tariff reduction for any one product.

Export competition *(articles 8,9,10 and 11).* The commitments are:

- For developed countries, the value and volume of export subsidies to be reduced by 36% and 24% respectively from the base period 1986-1990 over a six year period.
- For developing countries, the value and volume of export subsidies to be reduced by 24% and 10% respectively from the base period 1986-1990 over a ten year period.

Domestic Support *(article 6 and annexes 2, 3 and 4).*

All forms of domestic support are subject to rules. The WTO classifies domestic subsidies into three categories known as the Amber, Blue and Green Boxes *(see Box 2)*. Only the Amber Box is subject to reduction commitments as follows:

- For developed countries, a 20% reduction in Total AMS (Amber Box) over six years commencing 1995 from a base period 1986-1988.
- For developing countries, a 13% reduction in Total AMS (Amber Box) over ten years commencing 1995 from a base period 1986-1988.

An unequal agreement

Since it came into force, the AoA has demonstrated several weaknesses. These can be categorised under two broad headings - design related issues and implementation related issues.

Design related isues

No recognition of differences in agricultural systems

The Agreement fails to recognise the fundamental differences between agricultural systems in developed and developing countries and uses a one-size-fits-all approach. It ignores, for example, the fact that agriculture is the main source of livelihood for the majority of the population in developing countries and that the sector is a major contributor to national income *(see Table 1).*

While LDCs are exempt from reduction commitments, the AoA affords very limited special and differential treatment (S&DT) to developing countries. Rather than ensuring the flexibility to implement trade policies that are consistent with their development objectives, these provisions amount to little more than providing additional time to implement agreements. The AoA fails to discriminate between the different needs of diverse developing countries and provides no guarantee of food security. In contrast, the way subsidies are classified, the provision of special safeguards (SSG) and the Peace Clause, all work in favour of producers in developed countries.

Subsidies: boxing in the AoA

There are a number of exceptions to the domestic subsidy reduction commitments outlined above.

The first exception is contained in the Blue Box. During the Uruguay round, the EU and other developed countries argued that reductions in Amber Box subsidies would have a detrimental impact on farmers. Blue Box subsidies were introduced to offset this impact. On the grounds that supposedly they are only partially linked to production, they are exempt from reduction commitments *(Article 6.5).*

Table 1 Some key differences between the agriculture systems in developed and developing countries[1]

Parameters	**Developed Countries**	**Developing Countries** *(including least developed countries)*
Nature of Agriculture System	Commercial /Export Oriented	Subsistence
Share of GDP	3%	26%
Contribution to foreign exchange	8.3%	27%
Population engaged in agriculture	4%	70%
Market orientation	Strong	Weak
Administrative capacity	High	Low

[1] Figures taken from Green, D. and Priyadarshi, S. (2001) Proposal for a 'Development Box' in the WTO Agreement on Agriculture, CAFOD and South Centre, October and Kaukab, R., (2002) Presentation at Agriculture and WTO Seminar, Ministry of Commerce, Government of Pakistan, Islamabad, August 2002

Box 2: WTO Domestic Subsidy Boxes

The WTO classifies subsidies into three categories:

Amber Box: all domestic subsidies – such as market price support - that are considered to distort production and trade. Subsidies in this category are expressed in terms of a "Total Aggregate Measurement of Support" (Total AMS) which includes all supports in one single figure. Amber Box subsidies are subject to WTO reduction commitments.

Blue Box: subsidy payments that are directly linked to acreage or animal numbers, but under schemes which also limit production by imposing production quotas or requiring farmers to set-aside part of their land. These are deemed by WTO rules to be 'partially decoupled' from production and are not subject to WTO reduction commitments. In the EU, they are commonly known as direct payments.

Green Box: subsidies that are deemed not to distort trade, or at most cause minimal distortion and are not subject to WTO reduction commitments.[2] For the EU and US one of the most important allowable subsidies in this category is decoupled support paid directly to producers. Such support should not relate to current production levels or prices. It can also be given on condition that no production shall be required in order to receive such payments.[3]

The second exception is the de minimis level of support (Article 6.4). For developed countries this exempts market price support if, in any year, the aggregate value of this support does not exceed 5% of the total value of the production of that product. It also exempts non-product specific domestic support, such as input subsidies, if their value is less than 5% of the value of total agricultural production. For developing countries, the de minimis level is 10%.

The third exception (Article 6.2) concerns subsidies for development purposes in developing countries. These are measures of assistance, whether direct or indirect, designed to encourage agricultural and rural development.

The fourth exception (Annex 2) is contained in the Green Box. This allows subsidies that are deemed to have no, or at most minimal, trade-distorting effects.

Unfortunately, given their complex administrative requirements and the fact that few developing countries have the financial resources to provide large subsidies, it is producers in developed countries that gain most from these exceptions.

Special safeguards (SSG)

The special safeguard (SSG) provision was introduced to allow countries to impose additional duties in order to protect them from sudden import surges in terms of volumes or low prices. However, in order to qualify for SSG, countries had to have non-tarriff barriers (quantitative restrictions on imports) in place at the time tariffication took place under the Uruguay Round. Only 22 developing countries had non-tarriff barriers that enabled them to qualify. In contrast, 16 developed and eastern European countries qualified. It is pertinent to note that out of the total number of SSG products (6072) that are available to all 38 countries, only 31.8% products (1930) are available to developing countries as against 68.2% (4142) to developed countries. Of these, the EU can use SSG against 539 products, the US against 189 products, Canada against 150 products, Australia against 10 products and Switzerland against an astounding 961 products.

[2] For full details see Annex 2 of the Agreement on Agriculture

[3] Other subsidies allowed include environmental programmes, government service programmes (eg. research, pest control, extension; infrastructure provisions); public stockholding for food security purposes; domestic food aid; relief from natural disasters; government income insurance and income safety-net programmes; producer and resource retirement programmes; adjustment support during agricultural land privatisation; and assistance programmes limited to producers in disadvantaged regions

Peace Clause

The inequalities in the AoA are further exemplified by the inclusion of the Peace Clause. In effect, this makes developed country subsidy regimes immune from challenge by other WTO members unless they renege on their WTO commitments. The Peace Clause is due to expire at the end of 2003.

As the Clause currently stands, WTO members are urged to use 'due restraint' by not challenging agricultural subsidies that fully comply with the rules in the AoA. When the Clause expires, it is likely that subsidies will be challenged, particularly where they cause adverse effects to the interests to other members, for example displacing exports of another member from a third country market. The types of subsidies that cause adverse effects are EU export subsidies to cereals, dairy products and sugar, EU direct payments to cereals, oilseeds and livestock, US export credits to wheat and US marketing loans to rice and cotton.

Implementation related issues

Design related issues have resulted in the unfair implementation of the AoA. Developed countries continue to subsidise their agriculture and food exports very heavily while simultaneously protecting their producers by manipulating tariffs and employing tariff peaks and tariff escalation.

No reduction in subsidies

Since the AoA came into effect, developed countries in the early 1990s have been juggling the way that subsidies are provided in order to avoid reduction commitments. The EU has progressively moved domestic subsidies from the Amber Box to the Blue and Green Boxes. As can be seen in Table 2, the majority of US subsidies already fall under Green Box provisions (see also Boxes 3 and 4 regarding the recent US Farm Bill and the EU's final agreement on agricultural reform).

The net result of transferring subsidies into different Boxes is that between 1999 and 2001, developed countries' support to agriculture was some 9% higher in nominal terms than during 1986-88 *(Table 3)*

Table 2 Subsidy levels for selected countries ($ millions) [4]

	Year	AMS		Blue Box	Green Box	De Minimis	Export subsidies*
EU	1999/00	47,874	(69,446)	19,787	19,926	308	5,968
USA	1999	16,862	(19,899)	0	49,749	7,435	147
Japan	1999	6,572	(36,359)	817	23,601	290	-
Brazil	1997/98	74	(893)	0	298	94	-
India	1997/98	0	(0)	0	75	98	-
Pakistan	1999/00	0	(0)	0	5	0	-

Figures in brackets indicate bound levels
*Data for 1998

[4] See Soren, F., Jensen, K., Lind, P., Melgaard, P. and Yu, W. (2003) Note on the Harbinson Draft on Modalities in the WTO Agriculture Negotiations. Agricultural Policy Research Division, Danish Research Institute of Food Economics, 11th March. Fredericksberg, Denmark

Table 3 Levels of support to agriculture within OECD countries ($ billions) [5,6]

	1986-1988 (annual average)	1998	1999	2000	2001	1999-2001 (annual average)
OECD	302	339	357	321	311	330
US	69	91	99	92	95	95
EU	110	125	130	102	106	113

Box 3: US rhetoric belied by US actions

Despite its rhetoric, the US has shown no willingness to make any substantial concessions to liberalising its trade in agriculture.

The US Farm Bill, 2002 provides for dramatic increases in subsidies to domestic producers.

According to Gudynas and Evia, "the majority of the aid approved in the 2002 Farm Bill, which provides US$ 175billion in assistance over the next ten years, is focused on guaranteed prices for producers, mainly for wheat, corn, soybean, rice and cotton." [7]

In addition, new Fast Track* procedures were agreed in 2002 that further demonstrate the lack of US commitment to genuine reform of the AoA. As Wallach points out, the 2002 Fast Track process contains unique provisions "which newly limit the ability of US negotiators to make concessions on Agriculture. More importantly, under the new version of Fast Track, Congress must vote on whether to accept certain agriculture concessions which US negotiators could have delivered to other countries without congressional approval under past fast tracks." [8]

The new Fast Track procedures oblige the US government to consult the House and Senate prior to initiating negotiations on imports of sensitive products - a list which includes an enormous number of agricultural products that are of interest to developing countries. The Fast Track also increases the Congressional role in negotiations which could lead, among other things, to changes in US anti-dumping laws.

**"Fast Track" is a procedure through which Congress gives the US President authority to negotiate trade agreements and provides special rules for considering those agreements. In effect, Fast Track transfers constitutionally-mandated powers of Congress to the Executive Branch.*

[5] OECD, (2001) Agricultural Policies in OECD Countries: Monitoring and Evaluation 2001. Organisation for Economic Co-operation and Development, Paris

[6] OECD, (2002) Agricultural Policies in OECD Countries: Monitoring and Evaluation 2002. Organisation for Economic Co-operation and Development, Paris

[7] Gudynas, Eduardo and Evia, Gerardo. The FTAA Chapter on Agriculture: A Preliminary Analisys of its Impacts; in The FTAA Unveiled: A Citizens' Critique of the November (2002) Draft of the Free Trade Area of Americas. Social Hemispheric Alliance, January, (2003). (www.asc-hsa.org)

[8] Esquire, Lori Wallach. Recently Passed Fast Track Includes Unprecedent Provisions to Constrain U.S. Negotiators' Capacity to Make Concessions on Agriculture. Public Citizen. Memorandum January (2003)

Box 4: 2003 EU final agreement on agricultural reform

In late 2002, member states agreed the financial budget for the Common Agricultural Policy (CAP). It will rise from the current level (€43 billion) to about €49 billion by 2013. This will cover the ten new member states.

The EU's final CAP agreement of June 2003 will not deliver development benefits as part of the WTO Doha agenda. Issues of critical importance to developing countries – such as export subsidies and market access - were left largely untouched. The sugar regime was not included and the dairy reforms were extremely limited. Large quantities of export subsidies will still be required in both sectors to dispose of surplus production (without further reform, export subsidies in the dairy sector will still be at least €620 million by 2013).

The central plank of the EU package is that the majority (but not all) of the current direct payments to farmers will be 'decoupled' from production. This will enable the EU to reclassify these decoupled payments into WTO compliant subsidies, moving them out of the Blue Box into the Green Box. One estimate is that, as a result of the agreement, the EU will be able to reduce its Blue Box subsidies by about 75%, more than meeting one of the demands in the Harbinson text to reduce them by 50%.[9] In short, massive amounts of domestic subsidies would still be available.

ActionAid believes that decoupled subsidies may still influence production decisions, and ultimately increase agricultural production and distort trade. The decoupling proposals are similar to those currently in place in the US which suggests that the area under production increased and that the subsidies are still partially linked to production. EU surpluses under decoupled subsidy payments will still have to be disposed in third markets putting further pressure on world prices.

Dumping

However they are categorised, substantial subsidy payments are still available to farmers and agri-business in developed countries. This has two interlinked impacts: domestic and export subsidies lead to over-production (with corresponding impacts on world prices) and dumping.

'Dumping' is defined as the sale of products in third markets at less than the cost of production in the exporting country. Dumping from developed countries occurs, in part, because export subsidies bridge the gap between high domestic prices and lower world prices (as in EU sugar and dairy products); and direct payments bridge the gap between higher costs of production and the lower world price (as in EU cereals).

It is generally accepted that currently "practically everything exported from [the USA and EU] involves some level of dumping".[10] In the US, it is calculated that over the past ten years, maize has been sold in third markets at some 5-35% less than its cost of production (COP), cotton 20-55% less than the COP, wheat 20-35%, rice 15-20% and soybeans 8-30%.[11] In the EU, the picture is similar. Recently, wheat was sold at 30-35% less than the COP, sugar 60-75% and skimmed milk powder some 50% below COP.[12]

Dumping has three main effects. It depresses world prices, displaces developing country exports in third

[9] Agra Europe (2003) A CAP reform agreement that – just about - delivers. 27 June

[10] Einarsson, P. (2000) Agricultutiral Trade Policy as if Food Security and Ecological Sustainability Really Mattered. ForumSyd, Church of Sweden Aid, SSNC and The programme for Global Studies. http://web.forumsyd.se/Arkiv/Globala/FS_Globalastudier_upload/Agrtrade.pdf

[11] Ritchie, M. S. Murphy and M. Beth Lake, 2003. United States Dumping on World Agricultural Markets. Cancún Series Paper No 1. Institute for Agriculture and Trade Policy, Minneapolis

[12] See ActionAid (2002) Farmgate: The Developmental Impacts of Agricultural Subsidies. London, UK. See also Oxfam, (2002). Rigged Rules and Double Standards. Oxford, UK

markets, and undermines domestic production in developing countries as local producers are unable to compete with the cheap imports. Dumping can have a devastating impact on developing country farmers, depriving them of their livelihoods and forcing them to leave their lands. In the process it seriously undermines food sovereignty and food security.

Box 5: The impacts of sugar dumping in Swaziland

Swaziland produces sugar at less than half the cost of the EU and yet it is unable to compete with EU confectionary imports. These are coming to dominate markets in Swaziland and its neighbours.

Sugar production plays an important role in the Swaziland economy. In 1995-6, sugarcane accounted for 53% of agricultural output and 34% of agricultural wage labour, while sugar milling constituted 37% of manufacturing output and 22% of manufacturing wage labour.

Swaziland has an annual import quota into the EU of approximately 117,000 tonnes and relatively little EU sugar is exported to Swaziland. However, export subsidies given to EU confectionary manufacturers to encourage global sales have enabled them to undercut prices and reduce the export market for confectionary manufactured in Swaziland. As southern African outlets have switched to buying cheaper, dumped EU confectionary, Swaziland's Sugar Daddy factory has gone out of business. Already the dumping of EU sugar products has led to the loss of some 16,000 jobs in the Swazi sugar industry and 20,000 jobs indirectly linked to the industry, such as packaging and transport. [13]

Box 6: The impact of dumping: dairy products and the Dominican Republic

The livelihoods of thousands of small-scale producers in the Dominican Republic have been undermined because of the dumping of EU dairy products. There are about 30,000, mainly small-scale producers in the country.

During the 1990s, demand for dairy products increased but, after the country liberalised its agricultural trade and joined the WTO in 1995, this demand was met primarily by imports. Largely as a result of export subsidies, the price of EU milk powder is 25% lower than the equivalent price for local fresh milk. By 2000, the Dominican Republic was the fifth largest recipient of EU milk powder and thousands of farmers had been forced out of business. [14]

The giant Scandinavian Company Arla Foods has been implicated in the dumping of dairy produce. According to AgraEurope, "Arla Foods' milk powder exports to the Dominican Republic are worth €65.85m, and are currently subsidised by the EU to the tune of €17.55m." [15]

High Tariffs

Not only do developed countries continue to provide their agricultural sectors with huge subsidies, they are also protecting key agricultural products behind high tariff barriers. This is possible because of the way they manipulated the process of tariffication under the Uruguay Round. At the outset of the Agreement on Agriculture, many developed and some developing countries set very high tariffs, enabling them to implement tariff reduction commitments without experiencing any real loss of protection for their domestic producers. As a result

[13] ACTSA (2002) Taste the Bitterness, Briefing, Action for Southern Africa (ACTSA), January. www.actsa.org/Trade/taste_the_bitterness.htm

[14] Oxfam (2002). Milking the CAP: How Europe's Dairy Regime is Devastating Livelihoods in the Developing World http://www.oxfam.org.uk/policy/papers/34milking/34milking.html

[15] Agra Europe (2003) Milk powder exports spark Swedish row. 28 February

final bindings for the EU for 2000 are almost two thirds higher, and for the US more than three quarters higher, than the actual tariff equivalents for 1989-1993.[16] Furthermore, because countries are allowed to achieve tariff reduction commitments by aggregating reductions across a range of different products, they have been able to reduce tariffs on less sensitive products - the ones they do not produce themselves - while maintaining high tariffs (tariff peaks) on goods they do produce. And, in order to protect domestic food manufacturers from competition, it is common for tariff rates to increase with each step in the processing ladder. This is known as tariff escalation and inhibits the growth of agricultural processing in developing countries.

Meanwhile, developing counties are opening up their markets through reduced tariffs, consistent with their commitments under the Uruguay Round. Improved market access is an important issue for some developing countries.

The Marrakesh Decision

The concerns of LDCs and net food importing developing countries (NFIDCs) that led to the adoption of the Marrakesh Decision during the Uruguay Round remain relevant. An effective mechanism must be in place to guarantee that LDCs and NFIDCs have access to adequate levels of food at all times (see accompanying brief for more information).

Key issues in current negotiations

The Draft Modalities Paper[17]

Stuart Harbinson, Chair of the Committee on Agriculture (CoA) circulated the first draft of the modalities paper in February 2003. This was followed by a 'revised first draft' in March 2003. The CoA met again in the last week of March but failed to reach a consensus.

After missing the deadline for submission of a modalities paper, the Chair obtained the agreement of members to continue technical and substantive discussions through bilateral and multilateral meetings. Indications are that the wide differences between member countries will mean the modalities are not resolved until the Ministerial Conference in Cancún.

Market Access

The draft modalities call on the developed world to provide duty- and quota-free access to LDCs, but whether this should be mandatory or voluntary is still to be negotiated. LDCs will continue to be exempt from tariff reduction commitments but the modalities paper says, "[LDCs] are encouraged to consider making commitments commensurate with their development needs on a voluntary basis, including in response to requests from their trading partners". This sentence is still to be negotiated but is a clear indication that developed countries will put pressure on individual LDCs to lower tariffs.

For all other WTO members, the tariff reductions proposed represent a compromise between the more radical Swiss formula proposed by the Cairns group and the US, and the Uruguay Round formula proposed by the EU and others.

The extent of these reductions is dependent on the current tariff levels. For example, for high tariffs of over 90% in developed countries, there would an average reduction of 60% with a minimum 45% reduction for each tariff line from the final bound level of the Uruguay Round. For tariffs between 15-90%, the respective figures would be 50% and 35% *(see Table 4)*. The proposal would mean sharp cuts in tariffs for developing as well as developed countries. Unfortunately, the modalities do not include any concrete steps to deal with non ad valorem tariffs, that is, tariffs which are not expressed as a percentage of the value of goods. These make up 42% of EU and US tariffs and 90 % of Swiss tariffs.

[16] Binswager, H. and Lutz, E (2000) Agricultural Trade Barriers, Trade Negotiations, and the Interests of Developing Countries. Paper for UNCTAD X, p10. February. UNCTAD, Geneva

[17] Soren et al (2003) "Modalities are targets (including numerical targets) for achieving the objectives of the negotiations, as well as issues related to rules. On the basis of the modalities… member countries will produce their comprehensive draft commitments."

Table 4 Reduction formulae for ad valorem tariffs

Developed Countries	Tariff Reduction		Time Period	Developing Countries	Tariff Reduction		Time Period
Current tariff	Simple Average Rate	Minimum cut per tariff line		**Current tariff**	Simple Average Rate	Minimum cut per tariff line	
> 90%	60%	45%		> 120%	40%	30%	
15-90%	50%	35%	5 years	60% - 120%	35%	25%	10 years
< 15%	40%	25%		20% - 60%	30%	20%	
				< 20%	25%	15%	

The draft does propose an increase in tariff quotas. These would rise to a level equal to 10% of current domestic consumption of the product, in equal instalments over five years.

The draft text makes some attempt to tackle the issue of tariff escalation. If the same product line (say cocoa and chocolate) carries higher tariffs for the processed good than the raw material, the tariff for chocolate would be subject to the tariff reduction in Table 4, multiplied by a factor of 1.3 (the factor is currently in square brackets). This provision would apply equally to developed and developing countries. However, this is plainly insufficient because tariff escalation should be eliminated to enable developing countries to expand processing industries.

Many developing country governments see increased access to developed country markets as extremely important, but ActionAid is more cautious because of concerns that this could fuel an explosion of export-oriented agriculture in developing countries at the expense of small-scale producers and the environment. This trend has been seen in Brazil with a rapid expansion in soybean production and in Indonesia and Malaysia in relation to oil palm production for export. Also, typically, produce from low-income farms is sold on local and national markets and so for small-scale farmers increases in export markets is to a large extent irrelevant. In addition, in the main it is companies that trade and they stand to benefit most from increased trade. There is very little evidence to support a claim that wealth will trickle down to poor people. ActionAid is aware that for certain commodities, such as coffee and bananas, farmers and workers receive a fraction of the final selling price (less than 3%); much of the remainder goes to multinational companies along the transport, processing and marketing chain.

Special Safeguards (SSG) and a new Special Safeguards Mechanism (SSM)

If the draft modalities are accepted, developed countries would lose the right to use special safeguards in 2010 or 2012. Instead, the modalities paper includes a proposal for a new Special Safeguard Mechanism (SSM) for use only by developing countries that would allow them to employ tariff barriers to protect sectors from import surges. When the necessary technical work on the proposal is complete, this will be included as Attachment 2 to the modalities paper.

New Proposals on Strategic/Special Products

The modalities paper includes a proposal that developing countries should be allowed to nominate a number of Strategic/Special Products that need greater protection to meet food security or developmental needs. The tariff reductions on these items would be an average of 10%, with a minimum of 5% for each tariff line. Items not classified as Strategic would remain subject to the more exacting formula discussed above.

The proposal is for Strategic/Special Products to be identified at the 6 digit or 4 digit level of the Harmonised System of Coding (HS). Even if developed countries agree to the proposal (and the latest indications are that they will not), it is likely that they will attempt to limit the number of products to eight or less. At the 6 digit level, this would mean that a rice producing country would have to use four categories to cover rice alone, leaving little scope to nominate other crops.

The 4 digit HS level, though broader, still has sub-divisions of products that do not suit the genuine requirements of developing countries. For example, there are at least 120 food products (Table 5). Therefore, given the diverse nature of agriculture in developing countries, a reasonably large number of products would need to be exempted in order to address food security, rural development and/or livelihood requirements. Products that were not included in the list would be subject to significant tariff reductions under the proposed modalities. Furthermore, Strategic/Special products are not exempt from reduction commitments altogether, only to lower rates of reduction.

The Strategic/Special products proposal is based on a negative list approach. ActionAid believes that a positive list would come closer to meeting the demands of developing countries and that developing countries should also have the flexibility to increase low tariff ceilings on food security crops.

Domestic Support

On domestic support, the draft paper retains the Green Box, with slight modifications, but calls for either a 50% reduction in Blue Box subsidies over a five year period, or for the inclusion of these payments in the Total AMS (Amber Box), thus making them subject to reduction commitments. Developed countries are to reduce Amber Box/AMS commitments from bound levels by a total of 60% in equal instalments over five years, while developing countries must make 40% reductions over 10 years. Regarding de minimis payments, developed countries should halve their de minimis support to 2.5%, but developing countries retain their 10% allowance.

Special and differential treatment to developing countries is extended to exclude from reduction commitments payments to maintain domestic production of staple crops for food security purposes, and an expanded Article 6.2 includes subsidies for credit cooperatives, transportation to remote areas and on-farm employment subsidies for families of low-income and resource-poor producers.

Regarding AMS/Amber Box reductions, it is important to note that, as shown in Table 2, by moving subsidies into other Boxes, developed countries have already made significant reductions in Amber Box/AMS expenditures. As a result, by 2002 the EU was close to having achieved the additional 60% reduction required by the new

Table 5 Key Food Groups and their Products at 4 Digit HS

Group		**Number of Products at 4 Digits***	
Cereal & Products	14	Livestock & Products	40
Vegetables & Products (including veg oil)	30	*Milk and products*	*06*
Fruits & Products	22	*Meat and products*	*09*
Sugar & Products	05	*Live animals*	*06*
Water	02	*Eggs*	*02*
Spices	07	*Poultry*	*01*
		Other animal products	*16*
Total	**120**		

* *Products fall under corresponding groups were compiled from different chapters of the coding system*

modalities and Japan has already achieved this. Only the US has sizeable reductions to make. Developing countries should be aware that the new Amber Box modalities will not result in any substantial changes to the overall volume of subsidies.

ActionAid is also highly sceptical regarding the claim that Green Box subsidies do not distort production or trade, not least because of evidence of Green Box subsidy use in the US. Until such time as its impact is challenged and its provisions tightened, the Green Box will continue to provide a channel through which the EU and US can dispense unlimited support into their agricultural sectors.

Export Competition

The draft modalities propose that all export subsidies in the developed world should be phased out over a period of nine years, with some being cut within five years. Developing countries are given a slightly longer implementation period of twelve years. It also establishes terms and conditions for export credits, export credit guarantees and insurance programmes but does not set targets or timetables for reducing these.

Dumping and Countervailing Duties

The modalities paper contains no mention of dumping, despite its importance to developing countries and their farmers. It also ignores the demands of a large number of developing countries to be allowed to impose countervailing duties on imports of agricultural products from developed countries that benefit from export subsidies and trade distorting domestic support.

Responses to the modalities paper and future trends in the negotiations

The US and the Cairns Group believe that the draft could be more ambitious, particularly regarding market access, but also domestic subsidies. The US is against a blanket SSM provision for developing countries[18] and at the agriculture meeting in Geneva in late June 2003 came out against the proposal for Strategic/Special Products for developing countries. The US has always viewed both policies "as potentially limiting gains [to the US] through overall tariff reductions".[19] At the same meeting, Australia also rejected the call for Strategic/Special Products.

The EU called the draft unbalanced, whilst Japan went further by concluding it was unacceptable overall. Both have rejected the draft as the basis for further negotiations. The main areas of contention are market access commitments, reductions in tariffs, and the fact that other forms of export support – such as credits – were not adequately covered. Like the US and Australia, the EU has also rejected the proposal for Strategic/Special Products, arguing that the Uruguay formula on tariff reductions already gives countries flexibility to minimise reductions on tariffs for sensitive products.

In general, developing countries have accepted the draft as a basis for on-going negotiations. The Like-Minded Group – including India, Kenya and Nigeria – called the recognition of the Strategic/Special Products a small victory. However, a large number of developing countries are critical of the sharp increases in their market access commitments that appear in the draft (and consequently many support the Uruguay formula on tariff reductions).

ActionAid and other NGOs have been critical of the modalities paper because it allows the continued use of substantial domestic subsidies, and a very slow phase out of export subsidies and Special Safeguards for developed countries. This is

[18] Inside US Trade (2003) House members Flag Safeguard as Problem in Doha Ag Talks. May 23rd
[19] Inside US Trade (2003) US Official stresses agriculture market access, says safeguard possible. April 25th

unacceptable, especially given the large tariff cuts required from developing countries over the same period. Also, it fails to address the problem of the accumulated effects of high levels of production and trade-distorting subsidies provided to agriculture in the North. This could be redressed by allowing developing countries to adjust their tariff levels in accordance with the level of subsidies in the exporting country (see Recommendations). In addition, the proposals for Strategic/Special Products do not allow developing countries to exempt products from tariff reductions or to raise tariffs if their current bound levels are already low.

On export competition, differences remain between the EU and other members. An agreement is unlikely before the Cancún Ministerial. The main stumbling block could be the EU's insistence that any commitment on export competition should cover all types of export subsidies, including export credits - used heavily by the US - as well as tighter disciplines on food aid - often used by the US as a surrogate form of dumping. However, the authoritative publication, AgraEurope, believes that, "the final agreement on agriculture [is] likely to include an agreement to phase out export subsidies, as the defence of these measures [is] not central to the EU's strategy for future agricultural support." [20] But, even if the EU does decide to give way on export subsidies, any meaningful change will depend on negotiating timetables and a much stronger text than that contained in the Doha Declaration. [21]

The crucial element in the AoA for developing countries is the ability to protect their own markets, and in particular their poor farmers, through the use of tariffs and other border measures. The EU proposals for this area rely almost exclusively on an expanded use of SSM by developing countries. While a revised SSM would be useful, and available to all developing countries as part of a set of measures under the AoA, this only deals with a very specific problem and does not tackle more fundamental problems of the imbalances within the Agreement.

However, many developed countries believe the SSM proposal should only be provided to a handful of developing countries and for a limited number of products. In addition, developed countries are unlikely to agree to the proposal for Strategic/ Special Products and in the unlikely event that they do agree, they will attempt to limit it to handful of products. In such circumstances, developed countries are likely to demand concessions in other areas before they allow these proposals to go ahead.

It is the area of market access that is likely to generate the biggest rifts between the EU and Japan (and other like-minded WTO members) on the one hand, and the US and the Cairns Group on the other. While in some developed countries there are large gaps between the bound tariff rates and those actually applied, in others the bound rate and the applied rate are more or less the same. For the latter, the tariff reductions proposed in the draft modalities paper will have a greater impact, forcing them to expose 'sensitive' products to competition from the rest of the world. This will be unacceptable to the EU in relation to dairy products, meat and sugar and to Japan in relation to dairy products, sugar, rice and wheat. In contrast, the US and the Cairns Group appear to believe that market access commitments should go further.

One of the most important issues to be resolved is the Peace Clause. This expires at the end of 2003 and unless it is extended, will expose developed countries' subsidy regime to challenge and their exports vulnerable to the imposition of countervailing duties by other members.

[20] Agra Europe (2003) WTO Progress Requires CAP Reform. 4th April

[21] The Doha Declaration called for members to"commit ourselves to comprehensive negotiations aimed at:… reductions of, with a view to phasing out, all forms of export subsidies." It did not stipulate a negotiating timetable

ActionAid's recommendations

ActionAid believes that the current negotiations provide a unique opportunity for WTO members to reform the Agreement on Agriculture and correct the faults in its design and implementation that have led to massive inequalities in outcome for developing countries. This will require vigilance and determination on the part of developing countries in the face of the inevitable pressures to achieve 'consensus' and move forward with the Doha Round. More importantly, it will require far greater integrity from developed countries than they demonstrated in the Uruguay Round. Failure to turn fine words into concrete deeds will bring into question not only the sincerity of their claims for trade as a development tool, but also whether agriculture should continue to be subject to WTO disciplines.

In this context, ActionAid believes that developed and developing countries should consider the following recommendations to rebalance the inequalities in the Agreement, particularly the current imbalances between subsidies and tariffs.

S&DT and other issues

- The introduction of a mechanism within the AoA that would allow developing countries to adjust their tariff levels in accordance with the level of production and trade distorting subsidies in the exporting country. The aim would be to address the problem of the accumulated effects of high levels of production and trade-distorting subsidies provided to agriculture in developed countries. No proof of injury would be required from the importing country - the existence of subsidies to a product would be sufficient to trigger the measure.
- Only developing countries should have the flexibility to deal with price volatility and import surges through the special safeguard mechanism. The mechanism should be available for all products.
- There should be no extension of the 'Peace Clause' at the end of 2003.

The following long-term measures should be included to put development and food security at the heart of the AoA:

- Developing countries should have the long-term flexibility to exempt agricultural products from tariff reductions – on the basis of a positive list approach - on the grounds of concerns related to food security, rural development, poverty alleviation and livelihood conservation. They should also be allowed to increase bound tariffs where these have been set at low levels. No compensation to other WTO members would be required.
- The 1994 Marrakesh Decision should be overhauled and made operational to ensure that support is provided to compensate NFIDCs for any rise in food prices.
- The WTO should considerably strengthen its disciplines by prohibiting all forms of food aid, except those provided in full grant form and channelled through the World Food Programme or affiliated organisations. Existing bilateral food aid programmes should be regarded as export subsidies and phased out in a period to be negotiated.

Market access to the North

ActionAid is calling for:

- Immediate duty free and quota free access to all developed markets for all products exported from LDCs.
- Tariff regimes to be simplified and made more transparent and all non ad valorem tariffs to be converted to ad valorem tariffs.
- Tariff escalation to be eliminated and tariff peaks reduced.

However, because of the concerns outlined above *(see section on Key Issues on page 10)*, market access may not bring benefits (particularly pro-development benefits) unless most, if not all, of the following conditions are initially met. The developed world and international donors should support developing countries to:

- Develop national policies to address inequalities in access to productive and marketing resources, especially for women, and make them available on favourable terms. These include land, water, credit,

ActionAid's recommendations

inputs, market information, marketing facilities and services, appropriate technologies and physical infrastructure as well as public services such as health care and education.

- Establish national policies to ensure that low-income producers benefit from any widening of market access, through the integration of trade policy with poverty reduction strategies. Agricultural policies should prioritise the promotion of smallholder production, food security and sustainable agriculture, not large-scale commercialisation.
- Promote and develop value-added processing.
- Develop national policies that diversify agricultural production while taking care not to increase the vulnerability of small farmers by over exposing them to cash crops.
- Develop policies, skills and infrastructure (and the necessary technical and financial assistance) to enable processors and exporters meet product standards in the North.
- Enact strong national and international competition policies – outside the WTO - to address corporate profit levels and the distribution of profits in supply chains. This would also include developing better methods of regulating the activities of transnational corporations especially in relation to technology transfers, tax avoidance and restrictive business practices.
- Devise methods of stabilising primary commodity prices at remunerative levels.

Domestic subsidies and Export subsidies

ActionAid is calling for:

- The immediate elimination of the de minimis provision for developed countries.
- The phasing out of Amber Box subsidies in developed countries. Financial (or other assistance) should be given to developing countries – with their full consultation - that are affected by the erosion of preferences.
- The immediate elimination of Blue Box subsidies.
- A review analysing the impact on production and trade in developed countries of Green Box subsidies. All Green Box subsidies must be fully decoupled from production and targeted only at the delivery of public goods. Any Green Box subsidies found to increase production and trade should be eliminated. The amount of remaining Green Box subsidies should be capped.
- The implementation of supply management policies in developed countries to curb over-production of agricultural products.
- The immediate elimination of all forms of export subsidies in developed countries.

- The following subsidies in developing countries to be exempt from reduction commitments;
  - assistance related to investment in agriculture;
  - assistance to input subsidies for agricultural production;
  - assistance to producers to encourage the diversification from growing illicit narcotic crops;
  - assistance below the de minimis level for developing countries should be aggregated (no restrictions should be imposed as to the level of support provided within that level to any specific crop);
  - subsidies to reduce the cost of marketing of agricultural products, as well as reduction in the cost of the internal transport and freight charges on export shipments.

Dumping

ActionAid is calling for:

- An immediate prohibition on agricultural dumping. The OECD should calculate and publish the full production costs of all agricultural products in developed countries and other large exporters, in order to provide a 'point of reference' against which the dumping of goods can be measured.

ActionAid and Azione Aiuto are members of the ActionAid Alliance, a network of non-governmental development organisations working together to promote structural changes to eradicate injustice and poverty in the world. ActionAid Alliance members are ActionAid (UK), ActionAid Hellas (Greece), ActionAid Ireland (Ireland), Aide et Action (France), Ayuda en Accion (Spain) and Azione Aiuto (Italy). ActionAid Alliance's members have the regular and active support of more than 600,000 EU citizens, and its programmes reach over 9 million people in more than 40 countries in Africa, Asia, Latin America and the Caribbean.

The Food Rights Campaign is an ActionAid initiative that works with women and men to secure their right to food at local, national, regional and international levels. The campaign works in sixteen countries across Asia, Africa, Latin America and Europe.

ActionAid is a unique partnership of people who are fighting for a better world – a world without poverty.

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Front cover photograph: Sophia Evans/NB Pictures/ActionAid
P1474.07.03