Post-Cancun Reflections on Agriculture:
Joint NGO Submission to the European Commission

This paper is a response by a number of policy analysts[1] from leading international development and environmental organisations to the EC's call for input into its post-Cancún reflection process. Although NGOs are working on a number of areas in the Doha Round, this submission concentrates on the state of agriculture negotiations.

Rather than rehearse our critique of the CAP reform and the EU position on agricultural negotiations, this submission concentrates on the positive aspects of the agriculture debate in Cancun, and highlights three key areas where the EC should take the lead in the coming months.

Specific Policy Recommendations:

Domestic Support: The EU should

- present ambitious plans to reduce and eventually phase out AMS, blue box and de minimis support.
- take on board the G20+ proposal to eliminate domestic subsidies for products that are predominantly exported.
- agree on a thorough review of the green-box criteria

Market Access: The EU should

- Reject the application to developing countries of the Swiss formula and the third tariff category of 0-5% tariff ceilings.
- strengthen its support for the introduction of special products (SPs), including the right of developing countries to self-designate SPs in accordance with their own development needs, and for tariffs on SPs to be unbound
- strengthen its support for the introduction of a special safeguard mechanism (SSM), which should cover all products and not be conditioned on deep tariff reductions

Export Support: The EU should

- Agree within the WTO to eliminate export subsidies on all products of interest to (and nominated by) developing countries. This should be implemented immediately and not later than 2005.
- All other export subsidies that have not been nominated by developing countries should be phased out as soon as possible but not later than 2008.
- A peace clause should not be included in any new Agreement on Agriculture.

Positive Aspects of Cancun: the Developing Country voice: The authors of this paper welcome the unprecedented cohesion and assertiveness of developing countries on agriculture, notably through the formation of the G20+, the Alliance for Special Products and a Special Safeguard Mechanism (hereafter referred to as the G33) and the Africa Union/ACP/LDC group. This has the potential to turn the rhetoric of a development round into reality, but for this to happen, the EC must show leadership and work with these groups, acknowledging their legitimacy in identifying the kinds of trade policies required by different types of developing countries. Unfortunately, the negative tone adopted so far by many

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developed country negotiators, including those of the EU, has demonstrated an inability to rise to the political moment.

Positive Aspects in the Derbez text on Agriculture: A comparison between the first and second draft ministerial texts (of 24 August and 13 September) shows some important steps forward on development issues. While they fall far short of an adequate response to NGO concerns, it is important to identify these and ensure they are not lost in the post-Cancún confusion. The following table provides a brief outline of the strengths and weaknesses of the second draft ministerial text on agriculture, from a development perspective.

Table: Positive and Negative elements in Derbez Draft Agriculture Text

Positive Elements of Second Draft Ministerial Text	Negative Elements of Second Draft Ministerial Text
Domestic Support: • Green Box criteria to be tightened • Cap and reduce Blue Box spending • 'Downpayment' in first year in reducing Amber Box payments	**Domestic Support:** • No elimination of Blue Box
Market Access: • Tariff peaks to be eliminated in developed countries • Tariff escalation to be addressed according to a clear formula. (but this is also applicable for developing countries) • Possibility of making mandatory previous best endeavours language on developed countries providing duty and quota free market access to LDCs	**Market Access** • Swiss formula reintroduced for developing countries, along with 0-5% tariff band • Weak language on Special products and Special Safeguard Mechanism (see below) • Loophole for a 'very limited number of products to be designated on the basis of non-trade concerns'
Export Competition • Elimination of export subsidies on 'products of particular interest to developing countries'. • Elimination of all other export subsidies: 'an end date for phasing out of all forms of export subsidies remains under negotiation'.	**Export Competition** • No definite end date for phasing out all export subsidies
Other	**Other** • Peace Clause to be renewed by X months • No linkage between the pillars

Domestic support: the need to review the green-box-criteria

The EU should present ambitious plans to reduce and eventually phase out AMS, blue-box and de-minimis support. In addition it should take on board the G20+ proposal to eliminate domestic subsidies for products that are predominantly exported. However, such an approach may not convince many developing countries, since there is a widespread perception that it would only lead to a "change of colour" of the subsidies, without sufficiently reducing the trade distorting effects. This view is partly justified by the fact that the current green box contains a range of measures that are not directly related to the achievement of non-trade objectives. These unconditioned direct payments and investment aids may lead to the marketing and export of agricultural products at below their full cost of production, i.e. dumping.

A large number of developing countries and members of the Cairns group have proposed addressing this problem by capping green box subsidies or even giving up the differentiation between subsidies and proposing a reduction and eventual elimination across the board.

From the point of view of the authors of this paper this is not an appropriate approach. In order to preserve and improve important societal benefits from agriculture such as conservation of landscapes, protection of the environment, enhancement of animal welfare and preservation of rural areas it is important to give targeted support to sustainable agriculture. We therefore agree with the EU's position, that agriculture should not be treated like industrial sectors. In order to support this position and enhance its credibility, the EU should agree on a thorough review of the green-box criteria.[2]

In its initial comprehensive negotiation proposal of 14 December 2000 (G/AG/NG/W/90), the EU itself proposed "that the criteria to be met by measures that fall into the "green box" be revisited to ensure minimal trade distortion whilst at the same time ensuring appropriate coverage of measures which meet important societal goals such as the protection of the environment, the sustained vitality of rural areas and poverty alleviation, food security for developing countries and animal welfare." The authors to this paper believe that to ensure that green box subsidies are 'minimally' trade distorting, they must ensure, as far as is possible, that they are fully decoupled from production including any link to an historical reference period.

In the follow-up to the Cancun conference, the EU should come back to this proposal. This would take on board the concerns voiced by developing countries in Cancun while avoiding capping the overall amount of green-box payments. At the same time it would present an opportunity for the EU to expand the green-box criteria to include important non-trade concerns such as animal welfare and perhaps increase flexibility for environment and rural development related payments. The EU's recently started sustainability impact assessment on the agriculture negotiations should be used to assess the green box criteria in that respect and inform the EU on appropriate proposals.

Market Access and Special and Differential Treatment

Developing countries should not be expected to undertake fast, deep and across the board agricultural trade liberalization as a result of the current negotiations, given the negative impact of such liberalization on their food security situation. This basic element of a development round should be reflected both in the market access formula applied to developing countries, and in the expansion of the role of S&D.

The market access provisions are significant to developing countries because tariffs constitute the major instrument to protect their agricultural markets and their small farmers. The Derbez draft proposed potentially drastic tariff reductions for developing countries. Whereas the Swiss formula was only an option in the Castillo draft, it became compulsory in the Derbez draft. Additionally developing countries were asked to reduce tariffs to 0-5% on an unspecified number of tariff lines. These tariff cuts could imply a major threat to small farmers, driving them out of business. Poverty in rural areas could be aggravated, emigration in the cities could increase. Therefore the application to developing countries of the Swiss formula and the third tariff category is unacceptable from a development point of view.

[2] Some development NGOs have called for a cap of the green box. Their concerns – that proposed green box subsidies within the EU will contribute to the dumping of agricultural products - would be addressed if the EU agrees to the review.

The basic principle of S&D is "non-reciprocity". It means that developing countries are treated differently from developed countries. The present proposal foresees merely a different coefficient for the application of the Swiss formula by developing countries as well as a tariff reduction of 0-5% (instead of 0% for developed countries) within the third category.

These concessions are a wholly insufficient embodiment of the non-reciprocity principle of S&D. Instead, developing countries should only be asked to apply the linear reduction formula of the first category. Besides the S&D argument, this requirement is also based on the different tariff structures existing in developed and developing countries. The "blended formula" is designed for the tariff structure of developed countries, with a few tariff lines with very high levels (dairy products, sugar etc.), some tariff lines with duty free access (tropical products, raw materials) and some tariff lines falling in the middle. In contrast, the majority of developing country tariffs are concentrated in the area of 60-100%. Therefore the application of the Swiss formula and the reduction to 0-5% are much more far-reaching and would put millions of small farmers at risk.

In S&D, the EU should strengthen its support for the introduction of special products (SPs) and a special safeguard mechanism (SSM). Any attempt to eliminate provisions on these from the final agriculture text, or to overly restrict their flexibility, should be resisted. NGOs welcome the formation of the G33 and call on the EU to demonstrate its commitment to development by supporting the group on food security issues.

Of especial importance is the way that SPs are designated. Given the variety of national situations, each developing country should be allowed to self-designate SPs in accordance with its own development needs. To prevent abuse, a ceiling could be placed on the maximum number of SP tariff lines, determined as a percentage of all domestically produced agricultural products, as proposed by pro-SP developing countries.

Moreover, if SPs are truly 'strategic' (they were termed 'strategic products' in the first Harbinson draft modalities text in February 2003), they should not be subject to an arbitrary tariff reduction formula, as proposed in the Derbez draft text. Tariffs on SPs should instead be unbound and set according to national development needs.

On Special Safeguards, NGOs favour extending the SSM to cover all agricultural products. Import surges and steep drops in prices for any crop can have deleterious effects on their rural economy, employment and farmers' income levels, and there is no reason to exclude *a priori* some agricultural products from protection.

The EC/US joint text of 13 August proposes the establishment of an SSM for use by developing countries, but only for 'import sensitive products'. The key concern here is that the SSM should not be conditioned on deep tariff reductions. This would be particularly damaging to countries with already low bound rates, for which relinquishing the right to the SSM may be preferable to undertaking further deep tariff cuts. In such circumstances, these countries would be once more deprived of the instruments they need to address import surges.

Export Subsidies and the Peace Clause

The authors of this paper welcome the stronger language in the Derbez Ministerial text on export subsidies; namely paragraph 3.1 that "members commit to eliminate export subsidies for products of particular interest to developing countries" (taken from the EC-US Joint Text of 13th August) and paragraph 3.6 that "an end date for phasing out of all forms of export subsidies remains under negotiation" (this is stronger language than that contained in the Castillo text of 24th August and changes the issue from 'if' all export subsidies will be phased out to 'when' this will happen.)

The authors of this paper urge the EU to agree to both these commitments when WTO negotiations on agriculture are revived. However, we remained concerned that the wording, particularly in paragraph 3.1, remains open to interpretation (one suggestion has been that the list of products put forward by developing would only be established through negotiation). As part of an agenda that attempts to put development back into the Round, it is imperative that on the issue of export subsidies, the EU puts the interests of developing countries first.

One of the key dilemmas for the EU (and developing countries) is that the final CAP agreement of July 2003 keeps large amounts of export subsidies in place until 2013. Another issue is that most if not <u>all</u> export subsidies are of interest to developing countries. For example, in 2001 the expenditure by the EU on export refunds was as follows:[3]

arable crops	€260 million
rice	€39 million
dairy products	€1,107 million
sugar products	€1,008 million
meat and eggs	€479 million
fruit and vegetables	€51 million
wine	€23 million
non-annex 1 products	€439 million

It is estimated that as a result of the final CAP agreement, only export subsidies on rice will be phased out by 2013. By the same date substantial quantities of export subsidies will remain available in other sectors of interest to developing countries, most notably dairy and meat products[4] (the authors of this paper welcome the proposed options on sugar reform put forward by the Commission in which the most likely option – that of intervention price cuts – would eliminate sugar export subsidies by 2012-2015).[5]

It is very likely that a significant number of developing countries will nominate to eliminate export subsidies on many of the above-mentioned EU products because they are of particular interest (and often damaging) to their agricultural sectors. Export subsidies have three main impacts; they depress world prices, displace developing country exports in third markets, and undermine domestic production in developing countries as local producers are unable to compete with cheap imports. Because export subsidies are very trade distorting, the EU must agree to eliminate all export subsidies on products nominated by developing countries immediately and not later than 2005 (and then investigate internal EU policy measures as to how they are to meet these commitments). All other export subsidies that have not been nominated by developing countries should be phased out as soon as possible but not later than 2008. The EU should also demand that the use of other forms of export subsidies – such as credits – are also phased out under the same conditions and over the same time period.

Export (and domestic) subsidies will be vulnerable to challenge when the peace clause expires at the end of 2003. Other WTO member states have – quite rightly in our view – indicated that they may well challenge the EU's trade-distorting agricultural support system. Now is the

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[3] Court of Auditors, 2003. Special Report No 9/2003 concerning the system for setting the rates of subsidy on exports of agricultural products (export refunds) together with the Commission's replies http://www.eca.eu.int/EN/RS/2003/rs09_03en.pdf

[4] European Commission, 2003a. *CAP Reform – A Long-Term Perspective for Sustainable Agriculture.* http://europa.eu.int/comm/agriculture/capreform/memo_en.pdf Page 151 (see also pages 150-159.) The level of export refunds shown in this document are almost certainly under estimates because the final CAP agreement was watered down compared to the original proposals (for example, partial decoupling was introduced).

[5] European Commission, 2003b. Reforming the European Union's Sugar Policy – Summary of Impact Assessment Work. Commission Staff Working Paper. http://europa.eu.int/comm/agriculture/publi/reports/sugar/fullrep_en.pdf

time for the EU to show leadership and a strong commitment to a development agenda. A commitment by the EU to accept, unconditionally, to eliminate all export subsidies of interest to developing countries and to eliminate domestic support on exported products of interest to developing countries would be a step in the right direction and also potentially reduce the threat of challenges through the WTO dispute system.

Ultimately, the authors of this paper do not believe that a peace clause should be part of any new Agreement on Agriculture. The inequalities and imbalances of the current AoA are exemplified by the inclusion of this clause, which in effect makes developed country subsidy regimes immune from challenge by other WTO members unless they renege on their WTO commitments. EU sugar and dairy products are dumped in other markets through the use of export subsidies but such subsidies have remained protected behind the peace clause.

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