Hong Kong Ministerial Declaration and Export Competition in Agriculture: What has it really achieved?

ABSTRACT

One of the achievements of the Hong Kong Ministerial meet was that it managed to arrive at a consensus on the date of elimination of farm export subsidies in developed countries. Export subsidies are considered to be the most trade distortive form of subsidies and efforts were on in the Doha Development Round of trade talks to put an end to these subsidies. It is generally perceived that the Paragraph 6 of the Hong Kong Ministerial declaration has taken some major strides towards disciplining all forms of export supports. This paper takes a look at the Paragraph 6 of the Hong Kong declaration analyzes its implications for international agricultural trade.

Hong Kong Ministerial Declaration and Export Competition in Agriculture: What has it really achieved?

Parthapratim Pal
Deepika Wadhwa

I. Introduction

In the Doha Development Round of trade talks, agriculture has emerged as the most contentious issue for the negotiators. The debate in agriculture is mostly centered on the issue of huge domestic and exports subsidies given by developed countries to their farm sectors. During the Hong Kong Ministerial, there was hardly any convergence among the WTO Members on the reduction of domestic subsidies. But progress has been made about disciplining export competition. It is generally perceived that the Paragraph 6 of the Hong Kong Ministerial declaration[1] has taken some major strides towards disciplining all forms of export supports. This is considered to be one of the biggest achievements of the Hong Kong Ministerial.

This paper takes a look at the Paragraph 6 of the Hong Kong declaration and analyzes its implications. The Paragraph 6 of the HK Ministerial declaration deals with four broad areas of export competition, they are: export subsidies, export credits, food aid and State Trading Enterprises (STEs). These issues will be discussed below in detail. Also, Paragraph 11 of the declaration has some reference to export subsidies on cotton. It will also be discussed in this paper.

II. Export Subsidies

Widespread use of domestic and export subsidies is perhaps the most disruptive element in the global agricultural trade. Agriculture is unique in this respect, as export subsidies are prohibited in WTO in all other sectors. Export subsidies lead to inefficiencies and high costs that have to be borne by consumers and tax-payers in the subsidizing country. Countries which do not subsidize their exports get affected in several direct and indirect ways. In general, export subsidies increase the share of the exporter in the world market at the cost of others; they tend to depress world market prices and make them more unstable because decisions on export subsidy levels can be changed unpredictably.

One of the major achievements of the Hong Kong Ministerial meet was that it managed to arrive at a consensus on the date of elimination of farm export subsidies in developed countries. Export subsidies are considered to be the most trade distortive form of subsidies and efforts were on in the Doha Development Round of trade talks to put an end to these

[1] WTO Document Number WT/MIN(05)/DEC, dated 22 December 2005

subsidies. During the meeting of WTO negotiators in July 2004, in the so called "July Framework"[2], Members agreed to "eliminate all forms of export subsidies and disciplines on all export measures with equivalent effect by a credible end date". But the end date was not specified in the July Framework and negotiations were on to arrive at a consensus on this issue. In the Hong Kong Ministerial, the negotiators have agreed to eliminate export subsidies by the end of 2013. Paragraph 6 of the Hong Kong Ministerial declaration says:

"We agree to ensure the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect to be completed by the end of 2013." Paragraph 6, Draft Ministerial Declaration, WT/MIN(05)/DEC dated 22 December 2005.

Reaching a consensus on this issue is a positive step towards the reduction of trade distortion in agriculture. However, there is also a sentence in the same paragraph which makes this deadline conditional. It says:

"*The date above for the elimination of all forms of export subsidies, together with the agreed progressivity and parallelism, will be confirmed only upon the completion of the modalities".*

This means that the 2013 deadline for abolishing exports subsidies is still a tentative date and will only be confirmed when agreements about the modalities are reached. The Ministerial text suggests that modalities are to be established by April 2006. Here it must be mentioned that the original deadline for finalizing the modalities text was 31st March 2003 and lack of convergence on key issues have pushed the deadline back by more than three years. Given the fact that fundamental differences still exist among Members on a number of issues, one should remain open to the possibility that the April 2006 deadline may not be met.

The Hong Kong Ministerial text also mentions that elimination of export subsidies should be carried out in a "progressive and parallel" manner so that a substantial part of the reduction is realized by the end of the first half of the implementation period. Assuming that the implementation period starts in 2007 and lasts for ten years, this implies that 'substantial' reduction in exports subsidies is required only by 2012. As the date to end all export subsidies is 2013, this additional criteria of progressivity does not appear to be too imposing. In fact, it is actually possible that this clause may lead to back-loading of export subsidy reductions during the implementation period.

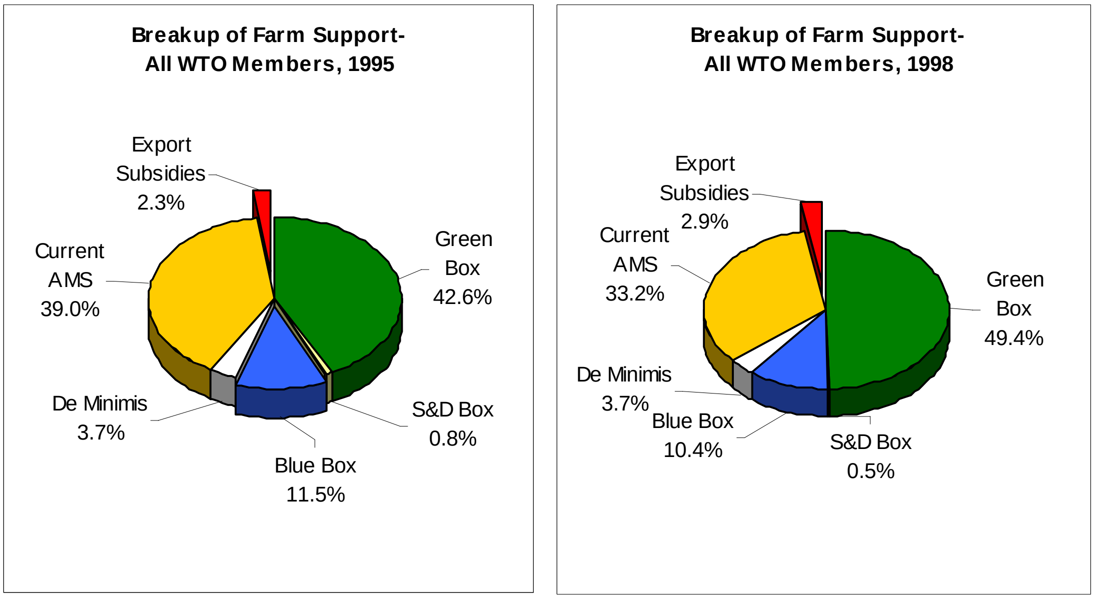
As a part of special and differential treatment, the HK Ministerial text allows developing countries to provide certain types of export subsidies for a period of five years after the date of abolition of export subsidies. The article 9.4 of the Uruguay Round Agreement on

[2] WTO Document Number WT/L/579, dated 2 August 2004

Agriculture allows developing countries to subsidize certain marketing and transport costs of farm exports. The HK Ministerial Declaration permits developing countries to continue these export subsidies till 2018 (or five years after the abolition of farm export subsidies).

The progress on export subsidies is a positive outcome of the Hong Kong Ministerial. However, it may not substantially reduce the distortions in agriculture substantially as little headway has been made on the issue of domestic support in agriculture. Domestic farm subsidies in developed countries are the main source of distortion in international farm trade and these subsidies amount to about 300 billion US Dollars. In comparison, total export subsidies given by developed countries sums up to less than 10 billion US Dollars (Figure 1). Hardly any progress has been made on the issues of reduction of domestic subsidies in the HK ministerial.

Figure 1: Breakup of Farm Support – As Notified by WTO Members



Source: Members' Usage of Domestic Support Categories, Export Subsidies and Export Credits, Background Paper by the Secretariat, WTO Document Number TN/AG/S/1, dated 5 March 2002
Notes: 1998 is the latest year for which majority of WTO Members have filed their subsidy notifications. Compliance regarding notifying domestic and export subsidies to WTO has been very poor.

It is also important to understand that over the years, the necessity to provide export subsidies have gone down. Earlier, in developed countries, a very high proportion of domestic support was provided through market price support. Market price support raises the domestic prices of agricultural commodities and induces overproduction. Export subsidies were used to dump the surplus in the international market by bridging the gap between higher domestic prices and lower international prices. However, domestic farm supports in most developing countries are moving away from price based support instruments (which fall under the Amber

Box subsidies) to direct payments (Blue and Green Box subsidies). This is being done to bypass the WTO reduction commitments on Amber Box subsidies[3]. As a result, the need to use export subsidies is also coming down.

Therefore, it can be said that though the Hong Kong Ministerial has scored a point by freezing a date for elimination of export subsidies, its real impact on global agricultural trade will be limited.

III. Export Credits

Export credits are concessional loans which can come in form of direct credit, guarantees or insurance for loans. The exporting country gives these loans to importers of an item. The importer receives a loan at an interest rate below the market rate. This effectively lowers the cost of export and acts as an export subsidy. Additionally, officially supported export credits may incur losses over time if the debts are not fully repaid by the importers. This adds another subsidy element and has a potential to distort trade even more.

One of the shortcomings of the UR AoA is that export credit programmes are not specifically listed as subsidies which are subject to reduction commitments. Mainly on insistence of the USA, export credits are given a special status that exempted them from such commitments. Although not explicitly mentioned in the agreement, it was agreed that the talks on export credit would continue in the OECD, and an arrangement placing limits on export credit conditions and terms and the length of credit extension would be negotiated. Though some progress has been made in the OECD regarding disciplining export credits, till date no formal agreement has been signed on this.

USA is the biggest user of export credits in agriculture and according to United States Department of Agriculture, outlays for different forms of export credit sums up to around US $ 5-6 billion (Table 1). According to OECD (2000), USA is not only the biggest user of export credits, US export credits are calculated to be almost twice as distorting on a per unit basis as any other countries and given the USA's relatively large credit allocation, it accounts for the majority of the distortions in world markets caused by officially supported export credits. In the current round of negotiations, efforts are on to impose strict disciplines on widespread use of export credits by the USA. The Hong Kong Ministerial declaration says:

"We note emerging convergence on some elements of disciplines with respect to export credits, export credit guarantees or insurance programmes with repayment periods of 180 days and below. We agree that such programmes should be self-financing, reflecting market consistency, and that the period

[3] See Pal (2005) for a more detailed discussion

should be of a sufficiently short duration so as not to effectively circumvent real commercially-oriented discipline".

This sentence indicates there has been some convergence on disciplining short-term export credit. If one looks at USA's export credit programme, there are four programmes- GSM-102, GSM-103, Supplier Credit Guarantee Programme (SCGP) and Facilities Guarantee Programme (FGP). GSM-102 guarantees repayment of short-term financing (six months to three years) which is extended to eligible countries that purchase U.S. farm products. GSM-103 guarantees repayment of intermediate-term financing (up to 10 years) to eligible countries that purchase U.S. farm products. Under SCGP, the duration of the credit is short, generally up to 180 days. The duration of FGP is not specified. Thus except for SCGP, other schemes are targeted towards longer term export credits. It appears from the Ministerial text that the GSM 102 programme is targeted for reduction. As Table 1 shows, the GSM-102 programme is the largest among the export credit programmes of USA.

Table 1. Breakup of US Export Credit Programmes

Export Credit Programmes	Duration	Outlays (2005)
GSM-102 Export Credit Guarantee Program	Up to 3 years	$ 4484 millions
GSM-103 Intermediate Export Credit Guarantee Program	Up to 10 years	$ 99 millions
Supplier Credit Guarantee Program	Less than 6 months	$ 1542 millions
Facility Credit Guarantee Program	Unspecified	$ 187 millions

Source: Monthly Summary of Export Credit Guarantee Program Activity, USDA, http://www.fas.usda.gov/excredits/Monthly/ecg.html

However, there are two caveats which are important here. First, the ministerial text has not mentioned any reduction schedule or an end-date for elimination of export credits. Experience with implementation of the UR has repeatedly shown that unless legally tight reduction commitments are imposed on countries, effective reduction of subsidies does not take place. It remains to be seen how effective WTO rules are going to be in reducing or eliminating trade distorting US export credits in the farm sector.

And secondly, as far as export credits are concerned, the Annex A (Report by the Chairman of the Special Session of the Committee on Agriculture to the TNC) of the Hong Kong Ministerial text, indicates that a number of unresolved issues are still there[4]. Particularly,

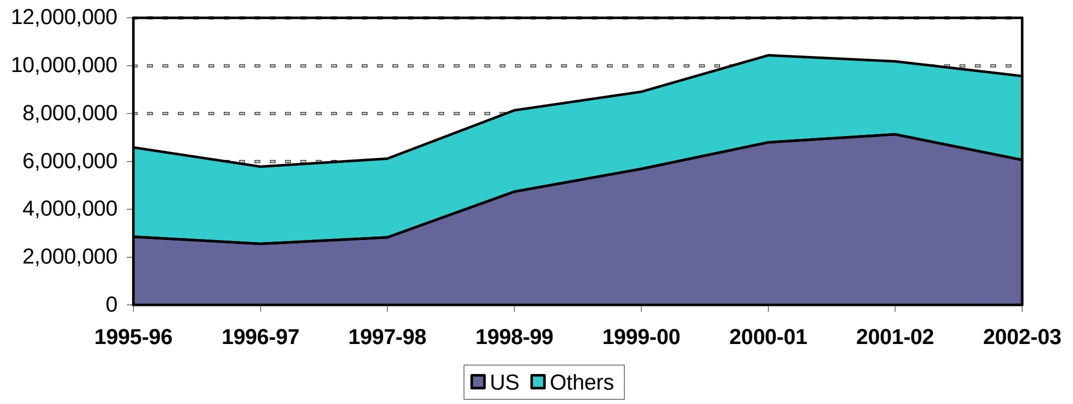
[4] *"This includes, but is not limited to: exemptions, if any, to the 180 day rule; whether the disciplines should allow for pure cover only or also permit direct financing; the appropriate period for programmes to fully recover their costs and losses through the premia levied from the exporters (principle of self-financing - there needs to be convergence between position which range from one year to fifteen years); the disciplines regarding special circumstances; and the question of special and*

there has not been much convergence on the S&D aspects of export credits. These include the treatment of inter-developing country export credits or export credits extended to least developed and net food importing developing countries.

IV. Food Aid

One of the more contentious issues discussed during the Hong Kong Ministerial is international ‘Food Aid’. The main debate was between the US, which is the biggest provider of food aid in the world (Figure 2), and the EU. EU is of the opinion that strict disciplines on food aid are required as it is frequently used as a tool of surplus disposal, while USA was of the opinion that “flexibility in Food Aid is critical to address world hunger”.[5]

Figure 2. Food Aid (in metric tons of wheat equivalent)



Source:International Grains Council Food Aid Committee, Food Aid Shipments 2001-2003

Food Aid, *per se*, is a noble concept where the donor country provides food to the recipient country for free or at a highly concessional rate. Food aid, if properly utilized, can help improve the nutritional status and support specific developmental activities of vulnerable sections of the population in poor food importing countries.

However, it has often been found that countries are using food aid to dispose their surplus production in other countries. In fact, this is not a new phenomena and if one looks back at the history of food aid, during the early 1950s, food aid was used to dispose of structural surpluses of cereal products which appeared in the United States. This trend continued till the 1990s and allegedly it still continues. The problem with this form of food aid is that in the

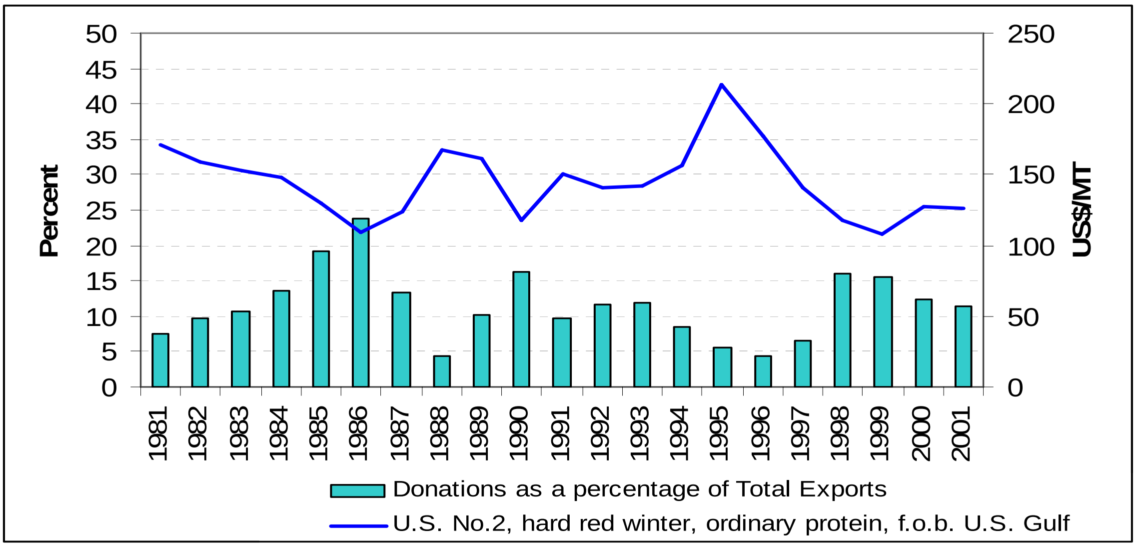
differential treatment, including whether, as some Members argue, developing countries should be allowed longer repayment terms for export credits extended by them to other developing countries and the specifics of differential treatment in favour of least-developed and net food-importing developing countries.” Note 5, Annex A of Hong Kong Ministerial Text.

[5] Office of the United States Trade Representative, www.ustr.gov/assets/Document_Library/ Fact_Sheets/2005/asset_upload_file582_8531.pdf

extreme case[6], it acts like a 100 percent export subsidy and leads to price depression and displacement of local producers in the recipient's market. Many countries have alleged that in the garb of food aid, donor countries actually try to dump their surplus and capture the markets in the recipient countries. There are also evidences showing that food aid is sometimes tied to commercial exports of agricultural products to recipient countries.

As argued by Hoda and Gulati (forthcoming), *a priori* it can be expected that genuine food aid for humanitarian reasons should respond to the international price situation and the volumes must increase when prices are high and vice versa. However, data on US wheat prices and the US donations of wheat and wheat products show an opposite trend (Figure 3). This evidence strengthens the hypothesis that food aid is often used as a surplus disposal mechanism rather than as a genuine humanitarian response to the problem of hunger in poor countries.

Figure 3. Movements of US Wheat Price & US Donations of Wheat & Wheat Flour



Source: Hoda and Gulati (forthcoming)

Given the sensitive nature of the topic, it is recognized by the WTO negotiators that a balanced approach is required for imposing disciplines on food aid. On one hand, the rules should not be so strict that genuine food aid comes down or deserving recipients of food aids suffer, but on the other hand, it is important to address the abuse of the food aid mechanism and check the resultant distortions in global agricultural trade.

The Article 10.4[7] of the Uruguay Round Agreement on Agriculture (AoA) tries to impose some disciplines on food aid but the language of the text has not been strong enough and

[6] That is, when food aid is given for free

[7] *"Members donors of international food aid shall ensure:*

implementation experience shows that it has not prevented the misuse of the food aid provisions.

In the current round of negotiations, there is a convergence of opinion that food aid for emergency situations should be treated differently from other food aids. There is a consensus that donor countries should be given sufficient flexibility about food aid to tackle such situations. Also most Members agree that if food aid is given in response to an appeal from a relevant international organization (such as the World Food Program, Food and Agriculture Organization, etc) then WTO rules should not come in the way of this type of humanitarian aid. However, Members have different opinions about disciplining food-aid for non-emergency situations. Most countries have argued that strict disciplines should be imposed on other types of food aid so that the system is not abused.

On this topic, the Hong Kong Ministerial declaration says:

"On food aid, we reconfirm our commitment to maintain an adequate level and to take into account the interests of food aid recipient countries. To this end, a "safe box" for bona fide food aid will be provided to ensure that there is no unintended impediment to dealing with emergency situations. Beyond that, we will ensure elimination of commercial displacement. To this end, we will agree effective disciplines on in-kind food aid, monetization and re-exports so that there can be no loop-hole for continuing export subsidization."

It can be seen from this text that the Hong Kong declaration on food aid has indeed earmarked the problems with international food aid but the provisions indicated in the text are not very clearly defined. For example, it is not yet clear how the 'safe box' is going to be constructed. Neither is it clear what qualifies for an "emergency situation". Unless these two concepts are clearly defined, the operational effectiveness of these provisions will be difficult to asses.

V. State Trading Enterprises

In the last few years of WTO negotiations, the topic of State Trading Enterprises has gained importance. This has happened mainly because a number of Centrally Planned Economies (CPEs) have recently acceded or are in the process of accession to WTO. In these planned economies, STEs used to play a very big role. And even now, STEs control a significant share of agricultural trade in these economies. STEs are viewed with suspicion because during the implementation of the Uruguay Round it was realized that importing STEs can act as implicit

---

(a) that the provision of international food aid is not tied directly or indirectly to commercial exports of agricultural products to recipient countries;
(b) that international food aid transactions, including bilateral food aid which is monetized, shall be carried out in accordance with the FAO "Principles of Surplus Disposal and Consultative Obligations", including, where appropriate, the system of Usual Marketing Requirements (UMRs); and
(c) that such aid shall be provided to the extent possible in fully grant form or on terms no less concessional than those provided for in Article IV of the Food Aid Convention 1986."

non-tariff barriers and often it has been found that export subsidies given through the STEs do not become very apparent. In other words, there is a feeling that WTO Member countries can covertly provide trade distorting measures under the operations of STEs. Also, because of the monopoly powers enjoyed by the STEs, they are often in a position to influence the market in favour of their commercial interests. It is often pointed out that large STEs from developed countries (e.g. Canadian Wheat Board, Australian Wheat Board and New Zealand Dairy Board) can influence price and distort trade in their respective areas of operations[8]. The counter-argument is that as long as STEs are operating on commercial basis, they should not be restricted from their normal operations. Also, given the fact that a handful of multinational firms control a very high percentage of agriculture trade, it is unfair to accuse only the STEs of monopoly powers.

However, overall it has been felt that disciplines on export competition needs to be supplemented by imposing restrictions on potentially trade distorting practices followed by STEs. The Hong Kong Ministerial text says:

"As a means of ensuring that trade-distorting practices of STEs are eliminated, disciplines relating to exporting STEs will extend to the future use of monopoly powers so that such powers cannot be exercised in any way that would circumvent the direct disciplines on STEs on export subsidies, government financing and the underwriting of losses."

As it is evident from the text, the Hong Kong declaration has not suggested any concrete measures to impose disciplines on STEs. Currently, in WTO, the operations of STEs are governed by the Article XVII of GATT 1994 which lays down a set of procedures to ensure transparency of the activities of state trading enterprises. The implications of this paragraph will only be apparent if a new set of rules introduced to replace or append to the original Article XVII.

VI. Cotton

As far as the sectoral initiative on Cotton is concerned, some positive developments have taken place in Hong Kong. If one recalls, one of the highlights of the Cancun Ministerial meet was a debate about how high subsidies given to cotton farmers by developed countries are adversely affecting cotton exporters from some West African countries. Benin, Burkina Faso, Chad and Mali pointed out that as a result of subsidies given to cotton in richer countries,

[8] Vernon (1982) on how STEs can distort trade: "*Governments in many of these countries had developed programs for stabilizing and supplementing the income of their farmers, and had created state trading agencies to carry out some part of those programs. These state traders in agricultural products usually exercised control over competing imports, acted as discriminating monopolists in the export of products, and drew on the support of the public treasury whenever their costs exceed their revenues. Operating under an explicit mandate from their governments, these agencies as a rule had no great difficulty in resisting the application of the general trade principles to their situation*".

exports of these four West African countries have suffered. They argued that subsidies given to farmers in developed countries induce overproduction of cotton in those countries. Data show that between 1997 and 2002, international prices of cotton have declined by 39 percent and cotton prices in 2002 were at a 30 year low. Declining international prices of cotton and increasingly lower price realization from cotton exports is hurting cotton exporters from developing countries.

It has been decided in Hong Kong that all forms of export subsidies for cotton will be eliminated by developed countries by 2006 (Paragraph 11 of the Ministerial Declaration). The Hong Kong Ministerial text also indicates that there is a convergence towards a more ambitious elimination of trade distorting domestic supports for cotton. In this Ministerial, Members have agreed to reduce trade distorting subsidies for cotton at a faster rate and over a shorter period of time than other products. It is expected that abolition of cotton subsidies in developed countries will lead to a reduction in dumping of cotton by developed countries. For the cotton exporting countries from Africa, this agreement can bring significant benefits by improving their price realization and export revenues.

VII. Conclusion

To conclude, it can be said that the Hong Kong Ministerial has made some progress regarding disciplining export subsidies. The agreement to eliminate export subsidies on cotton by 2006 is a welcome move. The African countries which are dependant on cotton are likely to benefit from this. Similarly, the agreement on elimination of export subsidies, even though it has been watered down to some extent, can be termed as an achievement. However, it is questionable how much real impact it is going to have on global agricultural trade. As export subsidies account for a very small percentage of total farm subsidies, its impact may not be substantial[9]. From the point of view of developing countries like India, it will be far more important to impose strict disciplines on domestic farm subsidies. Lack of any progress on this issue is definitely a shortcoming of the Hong Kong Ministerial meet.

Also, it is important to highlight that not much progress has happened in other areas of export competition, like export credits, food aid and STEs. As this paper highlights, the Hong Kong Ministerial declaration has identified the issues with each of these areas but no formal

---

[9] Moreover, Dubey (2006) says: *"The elimination of export subsidies is unlikely to result in either any improvement in India's competitive position in the world market or in lessening the impact of cheap imports of agricultural products. The elimination will help only those countries, like Argentina, Brazil and China, which by virtue of the efficiency of their agricultural sector, have the capacity to overcome the barrier of domestic subsidies given by major developed countries and thus place themselves in a position of close competition with these countries. For them, even the little advantage provided by the elimination of export subsidies can make a difference at the margin. But this marginal advantage will be of no practical value to India, which is a relatively high cost producer of agricultural products."*

discipline has been announced. It is now up to the negotiators to formulate a legally tight set of rules to ensure that export subsidies are not covertly channeled through these routes. To prevent circumvention, it will be extremely important to ensure that all forms of export subsidies are properly disciplined.

It appears that during the Hong Kong Ministerial, the negotiators have consciously kept the level of ambition at a low level to avoid a failure of the meeting. The breakdown of the Cancun Ministerial and the slow progress of the Doha Development Round of trade talks made the success of the Hong Kong Ministerial extremely important for the credibility of the Multilateral Trading System. That is the reason why the contentious and important issues like reduction of domestic subsidies were kept out of table. A soft approach has meant that the tangible achievements of the Hong Kong Ministerial were modest. The negotiators from developing countries should now press hard to address the more substantive issues to correct the distortions of international agricultural trade.

Reference:

Dubey, Muchkund (2006): "WTO's Hong Kong Conference: An Appraisal", Economic and Political Weekly, January 7, 2006.

Hoda, Anwarul and Gulati Ashok (forthcoming): *WTO, Agricultural Negotiations, and Developing Countries: Lessons from the Indian Experience*, Indian Council for Research on International Economic Relations, New Delhi.

OECD (2000): "An Analysis of Officially Supported Export Credits in Agriculture", OECD, available at http://www.oecd.org/dataoecd/48/45/1911035.pdf

Pal, Parthapratim (2005): "Current WTO Negotiations on Domestic Subsidies in Agriculture: Implications for India", ICRIER Working Paper 177, ICRIER, New Delhi.

Pal, Parthapratim and Shravani Prakash: (2005): "WTO Ministerial Meet: Doomed to failure?" Economic and Political Weekly, September 24-30, 2005

Vernon, R., (1982) "Introduction", in *State Trading in International Markets: Theory and Practice of Industrialized and Developing Countries,* M.M. Kostecki, (editor). St. Martin's Press: New York

Corresponding Authors:
parthapal@gmail.com
deepika.wadhwa@gmail.com