WTO: No cause for celebration

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The framework agreement for the Doha Round of trade negotiations crafted by the General Council of the WTO has been described as a breakthrough that would eliminate billions of dollars in farm subsidies. According to Celso Amorim, Foreign Minister of Brazil, "Obviously, developing nations did not get everything they asked for in Geneva. But the overall direction is clear: This is the beginning of the end to export subsidies; the stage is set for a substantial reduction in all types of trade-distorting domestic support; market access negotiations will open up new opportunities for trade, without prejudice to the needs of developing countries." This viewpoint has been echoed by the Indian delegation to the talks as well, which has returned home with claims of a "victory" that helps protect the interests of the developing countries.

The upbeat official assessments from Brazil and India are expected since they were part of the group of five countries that extracted an agreement out of a situation in which none was in sight. What is interesting, however, is the nature of the remaining membership of what has come to be identified as FIPs, the group of "five interested parties". It includes the US and the EU (representing the developed countries) and Australia (representing the Cairns group of agricultural exporters). If Cancun had seen the birth of the G-20 group of developing countries, which was a potentially potent developing country forum formed to scupper the efforts of the US and the EU to push through a blatantly unjust launch framework, Geneva witnessed the emergence of FIPs. India and Brazil broke ranks with the G-20 to join "by invitation" the FIPs group.

The role of the FIPs group in generating a consensus, through discussions on the changes to be incorporated in the original July 16 draft framework, is now widely accepted. On 29 July 2004, WTO Director-General Supachai Panitchpakdi welcomed an agreement on the agriculture text reached overnight by ministers from the FIPs group as a key first step towards a consensus. Crucial to the consensus, however was the ability of the FIPs, especially Brazil and India, to win the support of other developing countries, despite their criticism of the process which largely involved discussions among the five FIPs members. This they were able to do, despite the fact that the annexure on non-agricultural market access (NAMA) does not take the framework agreement any further than the much criticised Derbez draft.

It must be said, however, that compared with what was sought to be pushed through at Cancun the Geneva framework agreement does reflect a substantial advance. The two major advances are in the areas of agriculture and the so-called Singapore issues. With regard to the latter, three of four contentious new issues that the developed countries wanted included in the Doha Round, namely, investment, competition policy and government procurement, have been dropped from the agenda.

In agriculture, the framework binds the developed countries into doing away with direct and indirect subsidies provided to their exports. It also obtains a promise of substantial reduction of domestic support provided to their farmers. This primarily comes in the form of an agreement to substantially reduce, based on negotiations, the sum total of Final Bound levels of the Aggregate Measure of Support (AMS), *de minimis* (or minimal acceptable) support and Blue Box measures. Such reduction is to occur through a tiered-formula involving larger reductions by those currently providing higher levels of support, leading to some "harmonisation" of support levels. In particular, the framework requires that there would be a minimal reduction in such support to 80 per cent of pre-existing levels in the very first year and throughout the period of implementation. Finally, while a major compromise in the form of the continuation of the Blue Box has been made, a promise to cap Blue Box support at 5 per cent of the value of production has been extracted.

In its proposal for improving market access, the new WTO draft framework retains the concept of a tiered tariff reduction formula originally introduced in the Harbinson's text. This formula calls for deeper tariff cuts for products with higher levels of protection. This formula aims to harmonize the tariff structure and address the issue of tariff escalation. However, there are some exemptions allowed in the new text. It has a provision for lower tariff cuts for an "appropriate number" of 'sensitive products' for all countries. There is an apprehension that the clause on "sensitive products" will be used by developed countries to protect their uncompetitive sectors. Early indications suggest that USA is likely to designate sugar as a sensitive product. However, in this sphere, there are some important gains in terms of special treatment for developing countries. The agreement explicitly recognises the need for Special and Differential Treatment for developing countries – in terms of the quantum of tariff reduction, tariff rate quota expansion, number and treatment of sensitive products and the length of the implementation period. In particular, in parallel with the right of developed countries to designate certain products as "sensitive", developing countries have the right to identify an appropriate number of "Special Products", based on criteria of food security, livelihood security and rural development needs, which would be eligible for more flexible

treatment. Finally, the framework provides for a Special Safeguard Mechanism against disruptive imports, the details of which are to be worked out.

It must be noted that all of these gains are not really commodity specific, but apply to agricultural products in general. In an area like cotton, where some developing countries, especially from the ACP bloc, had a special interest and where their demands were specific, the framework agreement recognises the vital importance of this sector to certain LDC members and promises to work to achieve ambitious results expeditiously, but within the parameters set out in the Annex on agriculture. The less-developed among the developing are therefore not as upbeat regarding the framework agreement.

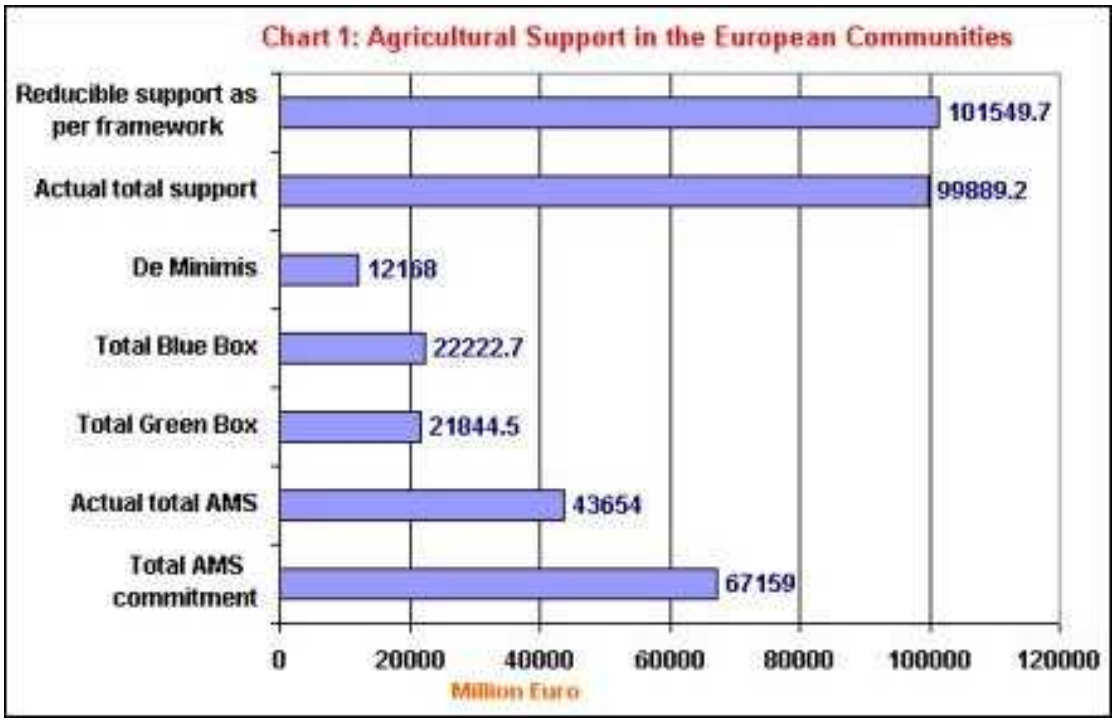
Despite the positive features of the framework agreement outside of NAMA and its advance *relative to Cancun*, doubts are now being cast on whether much has been achieved by way of substantial reductions in support. One area where this is indeed true is export subsidies, which are to be eliminated even if in a phased manner. But this was in many senses inevitable. Recent WTO rulings had made clear that many of these were unsustainable even under current rules, making their phase-out a prerequisite for any agreement whatsoever. This was an area where the need for revised rules had been conceded. What the EU, that offers such support, managed to extract in return for a phase-out was the promise of parallel concessions in the form of reductions of implicit subsidies on export credits, for example, from the US. The area of contention was of course domestic support, which accounted for the bulk of the more-than-$300 billion support that the OECD countries provide to their farmers allowing them to dominate the $600 billion global market for agricultural commodities. It is here that the developed countries have managed to retain much of their leverage, unless subsequent negotiations force them to offer much more than provided for in the framework agreement.

Early in the negotiations, there were two major gains in the agriculture area which the US and the EU managed to obtain, which are taken for granted now. The first was the “preserve-as-is” attitude to permitted Green Box support measures. The second was the continuation of the Blue Box, which was to be phased out at the end of the Uruguay Round implementation period.

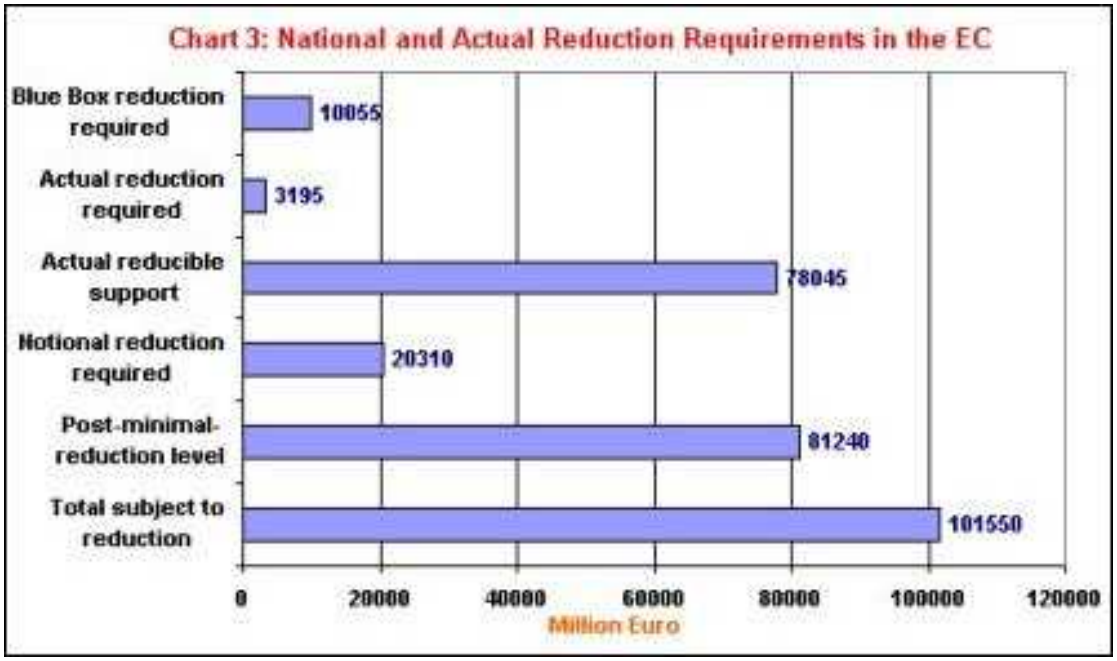
These gains have only been strengthened in the final framework agreement. The agreement clearly states that the “basic concepts, principles and effectiveness” of the Green Box remain untouched, subject to a review to ensure that its trade-distorting effects are ‘minimal’. Further, not only can members take recourse to existing forms of Blue Box support, but new measures can be negotiated subject to the condition that such payments will be less trade-distorting than AMS measures. Clearly then, the idea is to maximise support which is provided to agriculture

by offering an appropriate combination of Green Box and Blue Box support, rather than through measures conventionally defined as trade-distorting.

The real concession provided by the OECD countries, if any, is the promise to reduce aggregate support in the form of the sum total of current levels of bound AMS rates, *de minimis* support and Blue Box support. How much of a concession does this involve in the case of the EU? Chart 1 provides details of the officially recognised forms of support provided by EU governments to their farmers. The first feature to note is that Green Box support in 2000/01 already accounted for more than one-fifths of total support provided in the EU. This is an area into which other forms of support can be moved to bypass any conditions that the new framework may set.

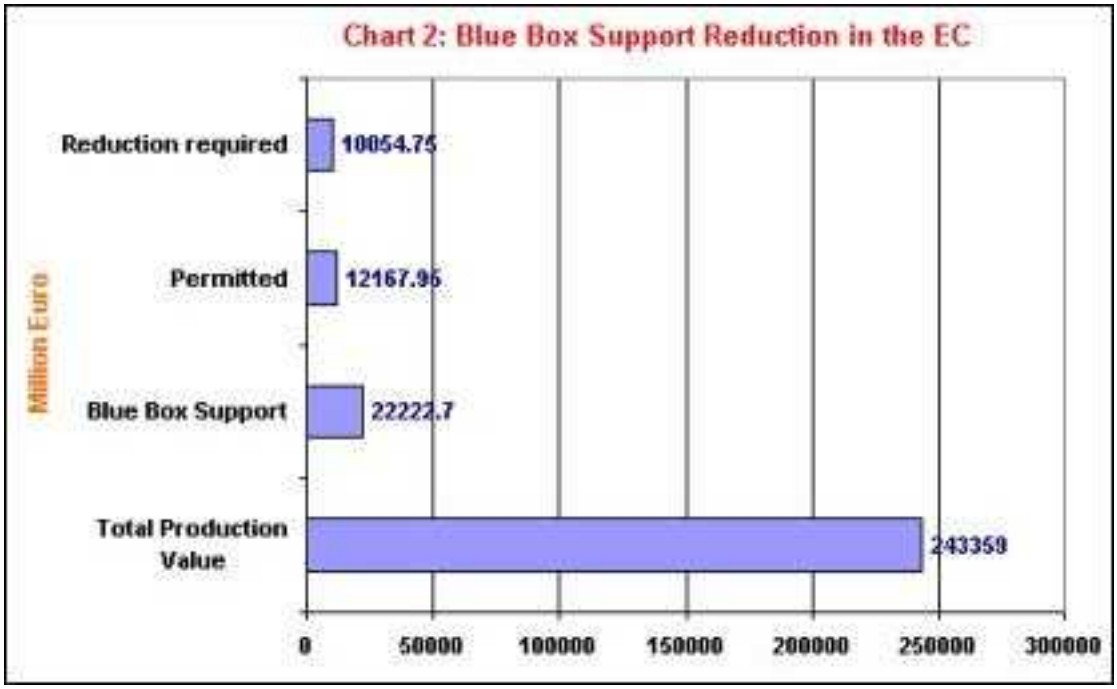


But that is not all. In 2000/01, at the end of the Uruguay Round implementation period, the bound AMS support that the EU was eligible to provide was Euro 67.2 billion. However, as a result of the reform of its Common Agricultural Policy, the actual support provided in the form of recognised AMS measures amounted to only Euro 43.7 billion (Chart 3). Permitted *de minimis* support, at 5 per cent of the value of production, amounted to Euro 12.2 billion. And total Blue Box support in that year amounted to Euro 22.2 billion or 9.13 per cent of the value of agricultural production.



Thus the total value of support subject to the minimal 20 per cent reduction commitment agreed on so far, which equals the total of bound AMS, plus *de minimis* support, plus Blue Box support, stood at Euro 101.6 billion. The framework agreement requires that at the minimum this is brought down to 80 per cent of that level or down to Euro 81.2 billion. However, since the actual AMS is less than the bound, commitment level, the level of ***actual*** as opposed to bound-AMS based total support plus *de minimis* support, plus Blue Box support stood at only 78.0 billion in 200/01. Thus in terms of the aggregate commitment provided for in the framework agreement the EU does not have to make any change. Change would be required only if negotiations are able to extract more than a 20 per cent reduction commitment or ensures that commitments in individual areas add up to a reduction that is larger.

However, there is a 5 per cent of value of production cap on Blue Box support, which implies that such support in the EU would have to be brought down by Euro 10 billion from Euro 22.2 billion (Chart 2). This reduction is not guaranteed, since the framework agreement provides for the possibility of some flexibility in cases where "a Member has placed an exceptionally large percentage of its trade-distorting support in the Blue Box". Further, if Blue Box support can be restructured and rendered in the form of Green Box measures, the required reduction could be shifted and added to the Euro 21.8 billion of Green Box support that the EU provided in 2000/01. In sum it can get away with no reduction whatsoever to meet its proposed new minimal commitments. In a worst case scenario, it would have to make a less-than-10 per cent reduction in total support to meet the requirement set thus far by the framework agreement.



It appears that domestic subsidy reduction commitments are not going be high for USA also. If one looks at the reduction commitments of USA, its total AMS commitment level for 2000 was $ 19,103.3 million and maximum de minimis level of support for that year was $ 9476 million[1]. So, calculations show that according to the current formula, USA will have to reduce its subsidies to $ 22863.45 million (80 percent of AMS plus de minimis) from their current level of AMS plus used de minimis support of $ 24143.26 million. This amounts to only about 5.3 percent reduction from their current (trade distorting) support level[2].

However, AMS accounts for only about a quarter of total domestic support given to the farm sector in the USA. Green Box subsidies are the most dominant form of domestic support for the agriculture sector in that country. For example, in 2000, total Green Box subsidies given to the farm sector was more than $ 50,000 million, while the AMS provided in the same year by USA is around $ 16,000 million. As there is no reduction commitment on Green Box subsidies, USA will be allowed be continue and increase its massive Green Box support programmes. Additionally, the WTO draft has incorporated provisions for countries to introduce Blue Box subsidies. This will provide USA the option to introduce Blue Box support up to 5 percent of the value of its agricultural production. The Bridges Weekly Newsletter suggests that this clause will allow the US to notify its counter-cyclical payments under the 2002 US Farm Act as Blue Box measures.

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[1] De minimis is taken as 5 percent of the value of agricultural production, USA currently does not use blue box subsidies

2 These data are taken from USA's submission to WTO

The commitment to reduce and eventually abolish all forms of export subsidies including "export credit guarantees or insurance programmes with repayment periods beyond 180 days" is considered to be one of the highlights of the new draft. A look at USA's export credit schemes show that there are four export credit programmes (Table 1) and apart from the Supplier Credit Guarantee Programme, other schemes are targeted towards longer term export credits. It also appears that the WTO ruling is likely to affect the GM-102 scheme, which is the largest of the four programmes. However, it must be kept in mind that the end date for the reduction of export support schemes is yet to be decided and the effectiveness of the new draft will depend, to a large extent, on the negotiated deadline. Also past experience with implementation of WTO rules show that there is a strong possibility that longer term export credit schemes will be tweaked to adjust to the WTO ruling. Therefore, at this point it is difficult to judge how effective these new WTO rulings will be to discipline huge US export credit outlays which amounted to about $ 3.34 billion in 2003.

Table 1. Details of Export Credits Schemes of USA

Export Credit Programmes	**Duration**	**Outlays (1999)**
GSM-102 Export Credit Guarantee Program	Up to 3 years	$ 3,000 millions
GSM-103 Intermediate Export Credit Guarantee Program	Up to 10 years	$ 44 millions
Supplier Credit Guarantee Program	Less than 6 months	$ 46 millions
Facility Credit Guarantee Program	unspecified	-
Source: USDA website		
Memo Items	2002	2003
Total US export credits (GSM 102, GSM 103, SCGP)	$ 3.22 Billion	$ 3.39 Billion
Source: Oxfam (2004)		

Thus, even though in the agricultural trade area the framework agreement does appear to both extract large concessions from the developed countries and accommodate the interests of the developing countries, it leaves more or less untouched both the framework of domestic support in the developed countries involving Green, Amber and Blue Boxes as well as the magnitude of domestic support that is being provided. Any change here would involve more "give-and-take" in the negotiations that are to follow, and considering the structure of power in the world economy it is likely to involve more take than give by the developed countries.

It is in this light that the formation of the FIPs needs to be assessed. History suggests that two different factors influence the extent of liberalisation that the evolution of the trade regime implies: first, multilaterally agreed, monitored and implemented measures, which define the minimal level of institutionalised trade reform; second, the regionally, bilaterally or unilaterally implemented measures of liberalisation, shaped by domestic and international compulsions. It hardly bears stating that, in developing countries, in most areas the liberalisation implied by the latter go far beyond those mandated by the former. Multilateral rules most often institutionalise the levels beyond which countries cannot retreat from existing degrees of liberalisation, rather than requiring them to undertake further liberalisation.

In most less developed countries markets are hardly protected and already dominated by transnational industrial and agri-business firms. The result is that for most of the less-developed developing countries, the principal issues in trade talks are the degree to which they can legitimately seek out markets for their primary products in the developed or other developing countries and the extent of special treatment they obtain to do this given their underdeveloped status. However, since the role of these countries in world markets are limited, except in the case of particular primary commodities, such as cotton for example, they ability to get themselves heard is also limited. The implications of these features are that they have little to defend, and more to gain from others. Their need for a multilaterally agreed set of possibilities is far greater. They must finally go along with what is on offer.

As compared with this, the more developed of the developing countries like Brazil and India have far more to defend, in both agricultural and non-agricultural markets, and they are or can be important players in global export markets for agricultural, manufacturing and service sector exports. This makes their endorsement of any process of trade liberalisation, which is crucial if a consensus has to be forged, more uncertain. On the other hand, if their endorsement is obtained, bringing in other developing countries is easier. This includes major powers like China whose dependence on world markets and the huge concessions they have already given, makes any agreement better than none. It also includes countries like Thailand and the Philippines, whose dependence on the US and/or EU is too strong to permit dissent. Thus, FIPs was clearly created to obtain an endorsement from India and Brazil, and other similarly placed developing countries, and to use that endorsement to bring all else in line. The developed-country camp's climb down on the irrationally hard positions it took on agriculture in Cancun, including the promise of special and differential treatment especially in

the form of Special Products and new possibilities in areas like services for India helped clinch that endorsement outside the formal negotiations.

But this does not imply that any major victory has been won, not merely in the NAMA area but also in respect of domestic support for agriculture. If concessions have to be won in this area a high degree of solidarity in future negotiations within the developing-country camp is needed. It is that solidarity that the formation of FIPs undermines. However, the overall gains are seen by India as justifying its claims of a victory for developing countries and itself and of the correctness of its participating in the FIPs discussions. In the official view of the Indian delegation, India's participation also helped protect India's (short-term) interests. According to this view, the grouping helped present to the US and EU the minimal requirements of the more developed of the developing countries, by providing a negotiating channel between the dominant powers and the G 20. It helped ensure that the basis for a minimal set of concessions in the agricultural area was formally accepted by the developed countries. It helped prevent the developed-country bloc from offering damaging special concessions to the G-90, the group of less-developed developing countries in order to win their support for a framework agreement that works against the interests of countries like India and Brazil. For example, the developed country suggestion that all countries should provide duty free access to global, non-agricultural export markets to the G-90 countries, could have paved the way for them to be used as locations from which developed country transanationals could access markets in the more developed among the developing countries. And, as Indian officials informally argue, the formation of FIPs helped prevent Brazil – ostensibly the "weak link" in the developing-country camp – from breaking ranks and striking a separate deal with the developed countries.

These claims of success notwithstanding, the creation of FIPs, the inclusion of India, along with Brazil, in the grouping and the nature of the framework agreement that FIPs was instrumental in forging, has weakened the developing country camp, which G 20 was expected to strengthen. Even at the framework stage, in return for minimal concessions, the US and the EU have managed to obtain significant ***agricultural and non agricultural*** market access commitments in the form of to-be-negotiated, non-linear tariff reductions from the developing countries. India and Brazil have ignored the implications of these likely reductions, because they have unilaterally been reducing their tariffs. But when bound rates are reduced from there current relatively high levels, protection to prevent market disruption would depend on the yet-to-be-elaborated Special Products provision.

When the full implications of these reciprocal market access concessions are fully analysed, the losses that developing countries have suffered may prove substantial relative to the gains assessed relative to the hard positions adopted by the developed countries in Cancun. This would show that even till now the negotiations have not been a cake-walk for the self-designated and much-resented leadership of the developing world. And the process has just begun. Developing countries may have moved one step forward from Cancun, but it is not yet time to celebrate.