BACKGROUNDER ON THE STATUS OF AGRICULTURE NEGOTIATIONS AT THE WTO FOCUSSING ON NAFTA PARTIES AND THE KEY TRADE LIBERALIZATION PROVISIONS OF THE WTO URUGUAY ROUND AGREEMENT ON AGRICULTURE

INTRODUCTION

This Note has been produced by the Commission for Environmental Cooperation's (CEC) secretariat. It has been prepared for the CEC's "Assessing the Environmental Effects of Trade Liberalization: Lessons Learned and Future Challenges" meeting held in Montreal on the 17th and 18th of January 2002. The Note is composed of two sections. The first section is intended to update participants of the meeting on the latest status of the negotiations on agriculture at the WTO. As such, it includes information on what the Ministerial declaration of the fourth Ministerial Conference may mean for negotiations on agriculture, as well as on the proposals made for these negotiations by Canada, Mexico and the United States.[1] For the most part, it condenses the proposals of the respective governments. The second section is designed to provide context for the first section and contains a description of the key trade liberalization provisions contained in the WTO Agreement on Agriculture, as well as references to studies that have examined the implementation of the WTO Agreement thus far. While every effort has been made to ensure the accuracy of this note, in no way can it be taken as an official interpretation of either the Doha Ministerial declaration, the proposals of the individual countries or of the Agriculture Agreement itself.

SECTION ONE: GENERAL STATUS OF AGRICULTURE NEGOTIATIONS AT THE WTO

The ministerial declaration in Doha built on previous work and ongoing negotiations at the WTO by:

a) recognizing the work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture, namely Phases I and II
b) reconfirming the WTO's commitment to its long-term objective of establishing a fair and market-oriented trading system through a program of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets
c) committing the WTO to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support, while at the same time agreeing that special and differential treatment for developing countries will be an integral part of all elements of the negotiations and that they will be embodied in the Schedules of concessions and commitments, and as appropriate, in the rules and disciplines to be negotiated.

As well, it confirmed that non-trade concerns will be taken into account in the negotiations as provided for in the Uruguay Round Agreement on Agriculture. The declaration also committed the WTO to establishing modalities for these further commitments, including provisions for special and differential treatment, no later than 31 March 2003.

Latest Proposals by Canada, Mexico and the United States Relating to Agriculture

Agriculture negotiations are now in their second phase. The first phase began in early 2000 and ended with a stock-taking meeting on 26–27 March 2001. The first phase consisted of countries submitting proposals containing their starting positions for the negotiations. The meetings discussed each of these proposals in turn. In the second phase, the discussions are by topic, and include more technical details, which are needed in order to find a way to allow members to develop specific proposals and ultimately reach a consensus agreement on changes to rules and commitments in agriculture. In the second phase, the meetings are largely "informal", with a record of proceedings taking the form of a

[1] While clearly of relevance to trade in agriculture, the status of sanitary and phytosanitary (SPS) measures has not been included (except where mentioned in proposals on agriculture) in this document due to the fact that there are no plans to amend the SPS agreement itself. Since this paper focuses on current proposals, it also does not include the recent decisions on the implementation of the SPS Agreement to come out of the Doha ministerial.

summary report by the chairperson to formal meetings (i.e. formal "Special Sessions"). The work program decided at the March 2001 stock-taking meeting set a timetable of six informal meetings in May, July, September and December 2001, and February and March 2002. The September and December 2001 and March 2002 sessions are also followed by formal meetings.

The first three informal meetings of Phase 2 covered: tariff quota administration; tariffs; "amber", "green" and "blue box" domestic supports; export subsidies; export credits; state trading enterprises; export taxes and restrictions; food security; food safety; rural development; geographical indications; and the special agricultural safeguard. Among the topics to be discussed in future meetings are: environment; trade preferences; food aid; consumer information and labeling; and sectoral initiatives. So far, only Phase I proposals are publicly accessible and as such, only the initial Phase I proposals are described here.

<u>Canada</u>

Canada has put forward proposals by itself as well as with the Cairns Group of countries.[2] The Cairns Group put forward four negotiating proposals, three to which Canada was party.[3] The three Cairns group proposals to which Canada was party related to export competition, domestic support and export restrictions and taxes. Canada by itself put forward a proposal on market access and another on domestic support whose goal is to complement the Cairns Group proposal on domestic support.

Cairns Group Proposal on Export Competition

The starting point for the export competition proposal is the fact that from 2004, agricultural subsidies will no longer be exempt from actions based on Article XVI of GATT or Articles 3, 5 and 6 of the subsidies agreement. As such, the group proposes that WTO members agree to the elimination and prohibition of all forms of export subsidies for all agricultural products. This elimination it is proposed, would be achieved through a substantial downpayment in terms of reduction of outlays and volumes during the first year of the implementation period and that the first installment be followed by an accelerated process of leading to zero of the residual subsidies. The starting point for the reduction process would be the bound export subsidy ceilings at the end of 2000 for developed countries and 2004 for developing countries. Moreover, it is proposed that additional or strengthened rules and disciplines be developed to prevent the circumvention of the elimination and prohibition of all forms of export subsidies (e.g. any subsidy elements of other forms of unfair export competition measures including, but not limited to, export credit guarantees or insurance programs, etc.) The date for the final elimination of subsidies is to be agreed to in negotiations.

To this end, they also propose that countries that are entitled to use export subsidies show maximum restraint in their use of subsidies so as not to threaten the reform process. Finally, the Cairns Group proposes that commitments on export subsidies include concrete, special and differential (S&D) treatment provisions for developing countries, provisions which could include longer implementation periods or the extension of existing and differential treatment for developing countries under Article 9.4 of the Uruguay Round Agreement on Agriculture until the elimination of export subsidies are completed.

Cairns Group Proposal on Export Restrictions and Taxes

In order to provide increased certainty of food supply for developing food importing countries, as well as better opportunities for developing countries to develop processing industries, the Cairns Group makes two proposals. First is to develop improved disciplines on export restrictions and taxes to eliminate tariff escalation. The second is to preserve Article 12.2 of the Uruguay Round Agreement on Agriculture and provide additional S&D treatment provisions to address the legitimate needs of developing countries.

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[2]The Cairns Group includes: Argentina, Colombia, New Zealand,, Australia, Costa Rica, Paraguay, Bolivia, Fiji, Philippines, Brazil, Guatemala, South Africa, Canada, Indonesia, Thailand, Chile, Malaysia, Uruguay.
[3] Canada presented its own proposal on Market Access, separate from the Cairns Group Market Access proposal.

Cairns Group Proposal on Domestic Support

The starting point for this proposal is that starting in 2004, WTO members will no longer be restricted from taking action against domestic support under the GATT 1994 Agreement on Subsidies and Countervailing Measures and as such their proposal involves an alternate approach to domestic support which would include a "formula" approach used to deliver major reductions in trade and production distorting domestic support, leading to the elimination of such support provided by countries. The formula (very similar as that contained in the Cairns Group Export Competition proposal) is proposed to include a substantial downpayment in the initial year of the implementation period (e.g. not less than a 50% initial reduction in trade and production distorting domestic support), and to result in commitments on a disaggregated basis to ensure that such support will be reduced for all agricultural products. The time period, other parameters and the reduction formula for support are proposed to be agreed to in the negotiations. Moreover, it is proposed that the policy specific criteria for "green box" support will be reviewed to ensure that all such domestic support has no, or at most minimal, trade-distorting effects on production. As with the Export Competitive proposal they urge countries to exercise maximum restraint and reduce the extent to which trade and production-distorting forms of support are provided.

The proposal also recognizes the special circumstances of developing countries and the importance of S&D treatment for them. S&D provisions should build on existing WTO provisions and include enhanced "green box" provisions, which would address concerns regarding food security, rural development and poverty eradication, differentiated AMS formula and commitments including preserving *de minimis* provisions and exceptions for investment and input subsidies, as well as domestic support to encourage diversification from growing illicit narcotic crops. Finally S&D provisions should include enhanced technical assistance and the promotion of international cooperation to assist agricultural and rural development, and food security programs in developing countries.

Canadian Proposal on Domestic Support

The Canadian proposal on domestic support seeks to complement the Cairns Group proposal on domestic support by adding two ideas. It notes that the best way to ensure that overall support levels move in the right direction is to negotiate an overall limit on support of all types. Thus it proposes that the agricultural negotiations pursue and develop an overall limit on the amount of support of all types (green, blue and amber) provided to agriculture, so as to ensure that the reform program reduces inequities. Second, Canada notes it is an important achievement that the Uruguay Round began identifying the difference between support policies that have distorting impacts and those with no, or at most minimal, impacts on production or trade. However, it also notes that that it is reasonable to undertake a review of the Green Box criteria in light of previous experience. It also believes that if it can be ensured that programs in the green category do not cause material distortions in production, then it follows logically that they will not cause material injury to producers in importing countries. This in turn will prevent such programs from being subject to countervailing duties. Thus it proposes, that support meeting Annex 2 criteria should be permanently recognized as not countervailable.

Canadian Proposal on Market Access

Despite the advances made by the Uruguay Round Agreement on Agriculture, Canada has noted that the Agreement also resulted in a continuation of major disparities in the terms of access between Members and across products. Products subject to single-stage tariffs face widely different tariff levels for competing products, and often face higher tariffs on processed products compared to unprocessed forms of the same product through tariff escalation. For products subject to two stage tariffs, tariff quotas are often smaller than the targets set out in the Uruguay Round modalities, in-quota tariffs are often a significant access barrier, and tariff quota administration procedures frequently act to further constrain access. Thus, Canada proposes that these issues be addressed using approaches that cover single-stage tariffs, two-stage tariffs and tariff quotas, and complementary initiatives.

For single stage tariffs it proposes that all tariff lines where a single stage tariff exists should be subject to a formula reduction resulting in a substantial reduction in tariffs and a greater harmonization of tariff levels. Tariff escalation between primary and processed forms of the same product should be eliminated and that any single stage tariff for which the final bound duty would be above a certain threshold should be converted into a two stage tariff, with a specified quantity of duty free in-quota access to be provided. Canada suggests that a formula approach to reduce single stage tariffs could be supplemented by additional provisions to ensure that the final outcome provides real market access improvements that would open markets significantly and allow trade to flow. Options for such additional provisions mentioned include: establishing a maximum tariff binding for each single stage tariff line at the end of the implementation period; establishing a minimum total reduction for each tariff line from the original Uruguay Round base tariff, the total reduction being the sum of Uruguay Round cuts plus those undertaken in these negotiations.

For two stage tariffs and tariff quotas, the approach should address all of the related elements through binding rules: tariffs; the volume of access provided within tariff quota commitments; the assignment of expanded access to individual tariff quotas; and improved disciplines to ensure that tariff quotas provide usable access. One option suggested is that, in order to maintain the right to have tariff quotas, Members would be required to: eliminate tariffs within quota; expand the size of all tariff quotas to ensure that at least a common minimum end point is achieved, expressed as a percentage of current consumption in a recent period on a product basis (e.g., pork, not meat); provide access for products on the same basis (e.g., pork, not separately for carcasses and various pork cuts); and make commitments on over quota tariffs which take into account the extent of liberalization provided through the tariff quota. In addition Canada proposes that improved rules should ensure tariff quotas are administered in ways that do not impede the full utilization of the market access opportunities. Administrative practices such as limitations on the size of license allocations, limitations on the period of import license validity, or allocations to specific supplying countries should be carefully examined to ensure that existing and expanded market access opportunities can be fully realized.

Canada also believes that sectoral initiatives for the complete elimination of tariffs in some sectors should be possible and as such proposes that new opportunities for sectoral liberalization with broad product and coverage measures as possible be pursued. Improved market access, it argues, should be accompanied by improved security of access to supplies and so proposes that improved disciplines on quantitative export restrictions and export taxes on agricultural products be an integral part of a substantial market access result.

In order to help with the negotiations of its proposals, Canada believes that more information would be helpful. In particular it suggests that information on annual domestic consumption of products for a recent period should be compiled by the Secretariat on the basis of data to be submitted by Members.

<u>Mexico</u>

Mexico put forward a comprehensive proposal, which covered six topics, namely: export competition; domestic support; market access; sanitary and phytosanitary measures; non-trade concerns and special and differential treatment for developing countries. Its main concern with the results of the Uruguay Round Agricultural Agreement revolve around subsidies, in particular from developed countries, which have greater resources which can be (and are) allocated towards subsidies, thus causing market distortions. Developed country subsidies and the corollary market distortions, Mexico argues, have hampered agricultural development in developing countries. As such, it puts forward a number of proposals aimed at remedying these problems.

Export Competition

With respect to export competition, Mexico puts forward proposals on subsidies, the "peace clause," [4] the three "boxes" and S&D provisions.

Regarding subsidies, Mexico proposes that negotiations should result in an agreement to eliminate export subsidies within a timeframe to be determined during negotiations, and that should it not be possible to reach an agreement on the immediate elimination of export subsidies, the first step towards achieving that final objective would be to apply the formula used during the Uruguay Round, i.e.: developed countries would be required to reduce subsidies by [X%] of budgetary expenditures and by [Y%] of quantities exported, starting with the Uruguay Round final levels, within a period to be determined. Developing countries on the other hand would be required to reduce subsidies by substantially less than [X%] of budgetary expenditures and by [substantially less than Y%] of quantities exported, starting with the Uruguay Round final levels, within a period to be determined, but longer than the period provided for developed countries. Mexico proposes that the reductions would have to involve a given number of equal annual amounts, excluding the possibility of exceeding the maximum commitment levels with respect to budgetary expenditures and quantities exported, in absolute terms in both cases, for each year. These reductions would have to be applied as from the termination of the Uruguay Round reduction period.

To accomplish this task Mexico proposes that export subsidy disciplines must be improved, *inter alia* in order to prevent the subsidy margin of a product from being used to raise or exceed the ceiling established for the products derived therefrom. As such, disciplines ought to be established to regulate the activities of state trading companies to ensure that their operations do not cause distortions in international agricultural trade. As well, it proposes that Article 10.2 of the Agreement on Agriculture ought to be implemented immediately in the framework of the negotiations in order to establish internationally agreed disciplines to govern the provision of export credits, export credit guarantees or insurance programs, and that the provisions governing special and differential treatment for developing countries with respect to export subsidies should be maintained and improved. Special and differential treatment should also be applied to the disciplines agreed upon under Article 10.2.

With respect to the "peace clause," it is proposed that it be turned into a permanent obligation for the developed countries with respect to imports from the developing countries.

Numerous proposals are put forward by Mexico regarding the different "boxes." For the green box, Mexico proposes first, that the stability of the programs being implemented by many Members, in particular developing country Members, in conformity with the results of the Uruguay Round Agreements, should not be affected. Secondly, it proposes that the green box should be maintained, and hence, the provisions relating to those domestic support measures in favour of agricultural producers that are not subject to a reduction commitment because they conform to the criteria set forth in Annex 2 of the Agreement on Agriculture, and as well that the said Annex 2 criteria, should remain unchanged.

For the amber box Mexico proposes that: the reduction in the Aggregate Measure of Support (AMS) should be as substantial as possible; given that it is the amber box domestic support measures that most distort production and trade, reductions should considerably exceed those applied during the Uruguay Round; and finally that these reductions should be greater in the developed countries, where such instruments are used more extensively, than in the developing countries.

[4] Article 13 ("due restraint") of the Agriculture Agreement protects countries using subsidies which comply with the agreement from being challenged under other WTO agreements. Without this "peace clause", countries would have greater freedom to take action against each others' subsidies, under the Subsidies and Countervailing Measures Agreement and related provisions. The peace clause is due to expire at the end of 2003.

For the blue box Mexico proposes that contrary to what was agreed in the Uruguay Round, the amounts allocated to blue box programs should be reduced at an accelerated pace.

Finally, Mexico proposes that the provisions on special and differential treatment for developing countries with respect to domestic support should be maintained and improved and that the measures adopted under Article 6.2 of the Agreement on Agriculture should not be subject to countervailing measures.

Market Access

Mexico proposes that in the tariff negotiations, bound tariff levels should be used as the base rate; reductions should be applied as from the end of the Uruguay Round relief period agreed; the importing party shall be responsible for the administration of tariff quotas if it so decides.
In addition, it proposes that geographical indications, trade names and labelling do not fall within the mandate of the negotiations on agriculture.

Sanitary and Phytosanitary Measures

Mexico proposes that sanitary and phytosanitary measures should continue to be addressed under the Agreement on the Application of Sanitary and Phytosanitary Measures, which has proven to be an appropriate instrument for the purpose.

Non-Trade Concerns

Mexico emphasizes that non-trade concerns must be defined clearly and that such instruments, as may be agreed upon in this respect, must not have any distorting effects, create barriers to trade, or otherwise affect concessions and/or commitments bound in the WTO.

Special and Differential Treatment for Developing Countries

In addition to the previously mentioned provisions on special and differential treatment for developing countries, Mexico proposes that the negotiation procedures agreed upon for, and the actual results of, those negotiations must contain such provisions on special and differential treatment for developing countries as are needed by them, *inter alia*, to stimulate their agricultural sector, to promote rural development, to combat poverty and to bring down rural unemployment rates.

<u>United States</u>
The United States put forward two proposals: one comprehensive proposal, and another specific proposal regarding tariff rate quotas. Six topics are covered under the comprehensive proposal, namely, market access, export competition, domestic support, special and differential treatment, food security, and sectoral initiatives. The basis of the Unites States' comprehensive proposal is that it is committed to working through the WTO to eliminate trade-distorting measures. The US is likewise committed to, and supports, policies that address non-trade concerns, including food security, resource conservation, rural development, and environmental protection and maintains that these objectives are best met through non-trade-distorting means, with programs targeted to the particular concern without creating new economic distortions, thus avoiding passing the cost of achieving these objectives to other countries by closing markets, or introducing unfair competition, or both. The United States also recognizes the special circumstances and challenges developing countries face and thus seeks to supply proposals to help better integrate them into the world trading system.

Market Access

The US objective for these WTO negotiations on agricultural market access is to maximize market access opportunities for all countries and to make more uniform the level and structure of tariff bindings for all countries in all products. As such the US puts forward proposals on tariffs, tariff-rate quotas, import state trading enterprises and the products of new technologies.

With respect to tariffs, it proposes: to reduce substantially or eliminate disparities in tariff levels among countries, to reduce substantially or eliminate tariff escalation, and ensure effective market access opportunities for all products in all markets: as well it proposes to reduce substantially, or eliminate, all tariffs, including in-quota duties, by reducing them from applied rates through progressive implementation of annual reduction commitments over a fixed period; to denominate bindings and applied rates on a specific or *ad valorem* basis, without the use of complex tariffs or combinations of tariffs and to eliminate the transitional special agricultural safeguard as defined in Article 5 of the Agreement on Agriculture.

Tariff-Rate Quotas

The United States made proposals on tariff-rate quotas in both its comprehensive proposal, as well as in a separate proposal on tariff-rate quotas. Its comprehensive proposal proposes to subject all tariff-rate quotas to substantial increases through progressive implementation of annual commitments over a fixed period; and to establish disciplines to improve the functioning of tariff-rate quotas, including specific mechanisms that trigger when tariff rate quota fill remains below a fixed level.

This proposal is further fleshed out in its separate TRQ proposal. In that the US proposes first, that members agree to develop additional disciplines for TRQs that ensure that TRQ administration does not become a barrier to trade and that these additional disciplines should be based on three principles.

<u>Transparency</u>: the United States proposes to clarify and expand the Agreement on Import Licensing Procedures guidance on transparency and GATT's Article X guidance on timely and effective communication**,** to inform members of acceptable methods of disciplining TRQ administration.

<u>Non-restrictiveness</u>: the Analysis and Information Exchange process and the Committee on Agriculture have documented administrative practices that restrict the extent to which exporters fill TRQs or limit access to a narrow portion of the market demand. To remedy these restrictions, the United States proposes that members agree to new disciplines based on the provisions of the WTO Agreement on Import Licensing Procedures and relevant GATT Articles to ensure that imports are not limited to unprocessed bulk commodities to the disadvantage of processed products; to prevent end use specifications that limit imports; to prevent mixing requirements or other domestic purchase criteria; to correct distortions resulting from the distribution of licenses through domestic producer groups and license matching schemes; to prevent restrictive re-export requirements; and to assure the allocation of commercially viable quantities.

<u>Reallocation</u>: Many TRQ administrative practices, particularly the use of import licenses, do not permit sufficient reallocation to allow exporters to fill TRQs. The United States proposes that members develop new disciplines on license reallocation, such as requirements that licensees surrender unused licenses if they cannot arrange shipments within specified time periods. Members would reallocate, in a timely fashion, unused licenses to provide sufficient commercially viable opportunities for other importers, including new entrants.

The second element of the TRQ proposal by the United States is that members agree to reduce in-quota duties based on the historical performance of TRQ fill rates - the lower the fill rate, the deeper the cut. More precisely. The United States proposes that members commit themselves to continuing the reform process initiated in the Uruguay Round by progressively moving members to true tariff-only regimes by taking the next step towards the eventual phase-out of transitional TRQs. Consistent with the objective of reducing and eliminating disparities in tariff levels, as well as taking into account the particular interest of improving access for developing countries that have had little or no access to markets under existing TRQ arrangements, the US proposes that members agree: to establish in-quota duties based on historical quota fill, so that the lower the historical TRQ fill, the greater the reduction in the in-quota duty; to provide increases in TRQ quantities on a Most Favored Nation basis to ensure broad availability of market access opportunities to all members; to increase substantially TRQ quantities; and to reduce substantially out-of-quota duties.

The third of the US TRQ proposal (also stated in the comprehensive proposal) is that the United States proposes that members cut tariffs using an approach that reduces disparities across countries and progressively increase TRQ quantities. Fourth, the United States proposes that members agree to an automatic trigger mechanism to reduce in-quota duties when TRQ fill is low.

With respect to import state trading enterprises, it proposes the end of exclusive import rights to ensure private sector competition in markets controlled by single desk importers; and to establish WTO requirements that increase transparency in the operation of single desk importers, including their decisions on quality and source of imports.

With respect to products of new technologies it proposes to focus disciplines to ensure that processes covering trade in products developed through new technologies are transparent, predictable, and timely.

Export Competition

The US objective for these WTO negotiations on agricultural export competition is to eliminate export subsidies and variable export taxes and to discipline export state trading enterprises. To this end the United States puts forward proposals on export subsidies, export state trading enterprises, export taxes and export credit programs.

With respect to export subsidies, the United States proposes to reduce to zero the levels of scheduled budgetary outlays and quantity commitments through progressive implementation of annual reduction commitments over a fixed period.

With respect to export state trading enterprises it proposes to end exclusive export rights to ensure private sector competition in markets controlled by single desk exporters; to establish WTO requirements for notifying acquisition costs, export pricing, and other sales information for single desk exporters; and to eliminate the use of government funds or guarantees to support or ensure the financial viability of single desk exporters.

With respect to export taxes, it proposes prohibiting the use of export taxes, including differential export taxes, for competitive advantage or supply management purposes.

With respect to export credit programs it proposes conduct negotiations for export credit programs in the Organization for Economic Cooperation and Development (OECD) in fulfilment of Article 10.2 of the Agreement on Agriculture, and to apply disciplines to all users.

Domestic Support

The US objective for these WTO negotiations on agricultural domestic support is to reduce substantially trade-distorting domestic support in a manner that corrects the disproportionate levels of support members use, while simplifying the way in which domestic support is disciplined.

The United States proposes building on the key elements of the Agreement on Agriculture, including the *de minimis* principle, and making progress through a fairer and simpler approach to capping, binding, and reducing trade-distorting support. This approach recognizes what it considers to be the legitimate role of government in agriculture. In particular, the US proposal allows for support that is delivered in a manner that is, at most, minimally trade distorting. This could include, among others, income safety-net and risk management tools, domestic food aid, environmental and natural resource protection, rural development, new technologies, and structural adjustment which promote economically sustainable agricultural and rural communities.

To this end the United States proposes first to simplify the domestic support disciplines into two categories: exempt support, as defined by criteria-based measures that have no, or at most, minimal trade distorting effects or effects on production; non-exempt support, which would be subject to a reduction commitment

Second, it proposes that all members with a final bound Aggregate Measurement of Support in their schedules commit to reduce the level of non-exempt support as follows: reductions start from the final bound Aggregate Measurement of Support, the Aggregate Measurement of Support is to be reduced to a final bound level equal to a fixed percentage of the members' value of total agricultural production in a fixed base period, the fixed percentage will be the same for all members, and reductions would be implemented through progressive annual reduction commitments over a fixed period;

Third, it proposes to enhance further, by building on experience, the criteria for exempt support measures while ensuring all exempt measures are targeted, transparent, and, at most, minimally trade-distorting.

Finally it proposes to give special consideration for exempt support measures essential to the development objectives of developing countries as noted under the section on Special and Differential Treatment.

Special and Differential Treatment

The US objective for these negotiations is that developing countries be better integrated into the WTO system through technical assistance, by improving market access opportunities, in particular for least developed countries, and by affording flexibility for exempt support measures essential to development objectives.

As such the United States proposes S&D treatment on market access, domestic support, and technical assistance. With respect to market access the US proposes that all WTO members consider products of interest to developing countries, in particular least-developed countries, when making tariff reductions and to give special consideration to least developed countries when they implement tariff reduction commitments. With respect to domestic support it proposes to create additional criteria for exempt support measures deemed essential to the development and food security objectives of developing countries to facilitate the development of targeted programs to increase investment and improve infrastructure, enhance domestic marketing systems, help farmers manage risk, provide access to new technologies promoting sustainability and resource conservation and increase productivity of subsistence producers. With respect to technical assistance that WTO members intensify ongoing technical assistance through governmental and non-governmental entities in parallel with these negotiations.

Food Security

The United States believes, in addition to the non-trade distorting domestic support measures countries take to enhance their food security, further liberalization of trade in agricultural products and promoting legitimate assistance programs are important elements in strengthening food security. It is important to recognize that liberalization alone will not address food security needs in all developed and least developing countries. As a consequence, the the US believes that negotiations need to take into account the continuing role of international food aid and credit programs in providing for food import needs.

As such, the United States has five proposals relating to food security. First, it proposes to renew the commitment to food aid as expressed in the Uruguay Round's "Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least Developed and Net Food-Importing Developing Countries". Second, to continue the WTO disciplines on food aid contained in Article 10.4 of the Uruguay Round Agreement on Agriculture, which have proven to be appropriate. Third, the disciplines to be developed at the Organization of Economic Cooperation and Development for agricultural export credits and credit guarantees should not prevent WTO members from using such programs to improve the food security status of other members. Fourth, to establish export reporting systems in all members to increase information on the level and direction of international grain and oilseed transactions. Finally to strengthen substantially WTO disciplines on export restrictions to increase the reliability of global food supply.

Sectoral Initiatives

The United States proposes that WTO members engage in sector specific negotiations to agree on reform commitments beyond those generally applicable in the areas of market access, export competition, and domestic support, including, but not limited to, zero-for-zero and harmonization initiatives.

SECTION TWO: TRADE LIBERALIZATION IN THE FARM SECTOR

The purpose of this Section is to provide an overview of the key trade liberalization provisions contained in the WTO Agreement on Agriculture, as well as references to studies that have examined the implementation of the WTO Agreement thus far. Although it likely covers ground of OECD and WTO, it is useful since it outlines different pieces of farm liberalization disciplines and progress thus far.

WTO Agreement on Agriculture:

Three main categories of disciplines are contained in the Agreement on Agriculture: (a) rules to lower border protection, in particular through the tariffication of non-tariff measures coupled with tariff reduction commitments covering almost all tariff lines; (b) rules intended to reduce export subsidies; and (c) rules to limit domestic support measures. In addition, new rules cover product standards.

TARIFFICATION: An important achievement of the WTO Agreement on Agriculture (hereafter AoA) is the requirements for the tariffication of non-tariff measures, whereby all non-tariff measures are converted to their tariff equivalent, bound and (in general) subject to tariff reduction commitments. The conversion of non-tariff measures to their tariff equivalents has helped increase transparency and liberalization predictability, since products covered under tariffication represent nearly 100 percent of agricultural products, a goal yet to be reached in the manufacturing sector.[5]

TARIFF REDUCTION: A clean and robust negative correlation has been established between productivity growth and average tariffs. For example, sectors that are characterized by high average tariffs, such as food, beverages and tobacco, also tend to have low productivity growth rates, while tariffs tend to be lower in sectors with higher productivity growth[6]. Since countries that have high average tariffs also tend to have high non-tariff barriers in place, studies also show a negative correlation between NTB reductions and productivity growth. Given the robust nature of this negative relationship, the inclusion of tariff reduction schedules for agriculture can be regarded as important for a number of reasons.

[5] Tariffication is calculated either by specific duties or less frequently *ad valorem* tariffs, and comprises current and minimum access commitments, the right of countries to apply special agricultural safeguards. (Special safeguard provisions allow additional duties (to the bound tariff rates) to be applied if certain requirements related to import surges or declines are met.)

[6] Ferrentino, 1997

Under the AoA, the tariff reduction formula calls for total unweighted average bound tariffs to be reduced, on average, by 36 percent for industrialized countries over the six year implementation period, and 24 percent over ten years for developing countries.The minimum weighted reductions are 15 percent and 10 percent respectively. No tariff reductions are required for least developed countries.[7]

Table 1 - Examples of Average Percentage Reductions in Tariffs for Key Agricultural Product Categories for Developed Countries	
Product Category:	**Percentage reduction in tariffs**
Coffee, tea, cocoa,	35
Fruits and vegetables	36
Oilseeds, fats and oils	40
Other agricultural products	48
Animals and products	32
Beverages and spirits	38
Flowers, plants, vegetable materials	48
Tobacco	36
Spices and cereal preparations	35
Sugar	30
Grains	39
Dairy products	26
Tropical Products	
Tropical beverages	46
Tropical nuts and fruits	37
Certain oilseeds, oils	40
Roots, rice, tobacco	40
Spices, flowers and plants	52

Examples of average percentage reductions in tariffs for key agricultural product categories for developed countries are found in Table 1, although it is important to note that, very often, three tariff reduction schedules need to be examined: MFN tariff rates, applied tariffs, and GSP tariffs.[8]

EXPORT SUBSIDIES*:* Developed countries include all export subsidies in their schedules, and are required to reduce the value of direct export subsidies to a level 36 percent below the 1986-1990 baseline period, by 2000. At the same time, the quantity of subsidized exports is to be reduced by 21 percent over the same period (1994-2000): thus, disciplines are price and quantity-triggered.[9] For developing countries, export subsidies are due to be reduced over a ten-year period, with no reductions required for least developed countries.

MARKET ACCESS: provisions covered under the tariffication process have maintained current market opportunities and the establishment of minimum access tariff quotas (as reduced tariff rates) where current access is below 5 percent of domestic consumption. Minimum access tariff quotas, which will expand from 3 to 5 percent of domestic consumption by 1999.

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[7] For the European Union, final bindings for the year 2000 are approximately two-thirds above the actual tariff equivalent for 1989-1993, and for the United States they are more than three-quarters higher. (Ingco, 1995, cited in Hoecker and Anderson, 1999).
[8] GATT, The Results of the Uruguay Round of Multilateral Trade Negotiations: Market Access for Goods and Services, Geneva, November 1994.
[9] It has been noted that under the Special Safeguard Provisions of the Agreement on Agriculture, both price and quantity-triggered duties may be applied at frequently and at the same time, which leading to potential distortions to the process of tariffication. (Tangermann, OECD)

DOMESTIC SUPPORT: A clear definition of domestic support measures covered under the URAA is not contained in the agreement. However, they are generally deemed to be "any domestic support measure for the benefit of agricultural processors." (WT/AG/W) Under the Aggregate Measure of Support (AMS) system, all domestic support extended on a product-specific or non-product specific basis is subject to a reduction of 20 percent between 1994-2000 for developed countries; a requirement of 13.3 percent over ten years for developing countries, and no reduction requirements for least developed countries.

Three types of exemptions exist in the Agreement on Agriculture: (a) "Green Box" exemptions, comprise in principle non-trade objectives, such as research, disease control, pest control, infrastructure support, and food security objectives, and environmental and conservation objectives; (b) Blue Box exemptions, comprised mainly of direct payments under production-limiting programs; and (c), S&D Box exemptions, which cover certain types of government assistance measures that support agricultural and developmental programs in developing countries (including certain types of structural adjustment support and regional transfers, provided they do not represent more than 5 percent of the total value of production for developed countries, and 10 percent for developing countries.)

As noted, Green Box exemptions include programs in support of environmental objectives. Estimating pre and post-Uruguay Round transfers to the farm sector in support of environmental objectives remains imprecise, although there is consensus that such transfers have increased in developed countries. One non-dollar value estimate of environment-related transfers under Green Box exemptions can be found under URAA notifications. In 1999, environment-related measures comprised slightly over 10 percent of all agricultural notifications (WTO W/CTE/W/145). Domestic measures include financial transfers for environmentally-related agricultural production, support for soil conservation programs, waste management, water quality management, the preservation of the countryside, forests, and the promotion of sustainable use of "natural" or environmentally-friendly agricultural practices.[10]

Measurable Impacts of Uruguay Round Commitments

Estimating the effects thus far of the WTO on the farm sector remains problematic, as a result of what is contained in the accord itself, what is not contained in the accord and the subject of future work, and factors – like non-market volatility and implementation related issues. Among the requests to the WTO Secretariat was the preparation of background papers on "experience to date in implementing commitments," including updated information on (a) notifications on tariff quotas, domestic support, and export subsidies; (b) agricultural trade performance of developing countries; (c) a background paper in the context of Article 20(b); and (d) implementation of the least developed and net food importing developing countries' Decision.[11]

For example, while tariff reduction is a welcome step towards improved market access, actual levels of protection have in some cases increased. Part of this increase can be attributed to inclusion of non-tariff barriers through the tariffication process. However, at least part of this increase stems from the

[10] Examples include notification by Canada (WTO/G/AG/N/CAN/29, which covers domestic support in support of environmentally-sustainable water irrigation projects; by the Czech Republic (WTO/G/AG/N/CZE/23 which includes support for wetlands, the spread of wild animals, support for eco-agriculture, and the minimization of chemical inputs into agriculture; and by the EU (WTO/G/AG/N/EEC/12, which includes measures for the preservation of the country-side, and the control of soil erosion.

[11] The WTO Decision of 24 March 2000 in conjunction with the mandate of Article 20 states in part:

> "…the Special Session meetings would be held back-to-back with the regular meetings of the Committee on Agriculture in June, September and November 2000, with the possibility of an additional Special Session meeting being held in the interval prior to the March 2001 stock-taking meeting on the first phase of the negotiations. The timing of such a meeting, provisionally in the last week of January 2001, would be decided by the Chairperson in light of the consultations as appropriate."

high degree of flexibility available to countries in setting bound MFN rates within aggregate average tariff reduction schedules, so that tariff rates for many sensitive products have actually increased since the Uruguay Round. Of even greater concern are increases in AMS support measures in developed countries.

Given these and other factors, quantifying the effects thus far of the AoA remains imprecise. For some areas, including counting the number of tariff quotas or notifications of export subsidy schedules, progress can be measured. The WTO Annual Report (2000) notes that 37 Member countries (including the EU counted as one Member) have bound a total of 1,367 tariff quotas into their agricultural schedules. Since the introduction of the URAA, eight WTO Members have applied for safeguards.[12]

Nevertheless, given the mandate of Decision IV/6(10), some general observations can be made regarding the URAA, given the completion of the initial 1994-1999 implementation period. (For a comprehensive account of WTO obligations, please refer to the WTO.)

TARIFF REFORM: As noted, tariff reduction is an important accomplishment of the AoA. Measuring the effects of tariff reduction in trade theory suggests that a decrease in the power of the *ad valorem* tariff generally lowers the domestic market price for food imports. Price cuts associated with tariff reduction generally has two effects: encourage food exporting countries to shift production to access foreign markets that have lowered tariffs, and encourage domestic producers to lower costs to compete with imports. The responsiveness of producers to a reduction in relative prices associated with tariff cuts depends on numerous variables, including the elasticity of substitution among food imports, the extent to which the tariff reduction affects an intermediary input or a finished product.

The effect of tariff reductions in general includes changes in price and quantity traded. In the case of a simple tariff reduction, one effect of a contraction in some domestic agricultural production may mean capital and labor released from the food sector, with an expansion in nonfood sectors. Under general equilibrium assumptions, tariff reductions generally mean households increase consumption of non-savings commodities because of lower prices. These changes, in turn, generally change the value of farmland: this change in land value will depend on the direction of alternative land use: if farmlands shift to other types of production, for instance, industrial sites, then the market value will generally increase, while the biological value will generally decrease. There is generally a decrease in domestic food prices, an increase in food imports, and other effects. The reduction of import tariffs have the effect of lowering domestic prices. Effects will differ depending upon whether tariff reductions are applied to intermediate or final products, with effects differing between producers and household behavior.

A problem detected well before questions of URAA implementation arose was the propensity for some countries during tariffication conversions and the setting of bound tariff rates, to inflate – often substantially -- bound tariff levels. In some cases, especially for higher value agricultural exports like dairy products, bound tariff rates of several hundred percent are not unheard of.

In addition to dirty tariffication, actions which have inhibited progress towards liberalization, another challenge has been the high degree of flexibility that Members retain in meeting overall unweighted tariff reduction rates, while setting some bound tariff rates for specific products at very high levels. This flexibility has enabled countries to concentrate often very high tariff levels at shielding sensitive agricultural products from international competition. This has had the effect of making tariff equalization almost impossible, and can lead to more, rather than less, trade distortion.[13] At the same time, placing a ceiling on tariffs as a whole may contribute stabilize world food markets, especially over the long term.

[12] WTO, *Annual Report*, Geneva, 2000
[13] Tangermann, (OECD)

One of the reasons behind the use of tariff-rate quotas was in anticipation of dirty tariffication and non-uniform tariff application.[14] Tariff quotas provide some predictability in allowing a pre-determined level of a product to enter a country duty free, while anything above a threshold – which is contained in a national schedule and triggered by volume or value of imports – is subject to a tariff. Tariff rate quotas are subject to reduction schedules. However, in light of the complexity of the manner in which they are administered, one commentator has noted that tariff quotas introduce a new form of quantitative management in agricultural trade, only this time around such quantitative restrictions are formalized within the WTO.[15]

Tariff escalation has remained an issue of concern for developing and least-developed countries, given the export structure of many countries towards unprocessed commodities. In the agricultural sector, examples of relatively high tariff peaks (1998 estimates) include beef, sugar, and asparagus (in excess of 5 percent in developed countries). Even higher tariffs are applied in developing countries – averaging over 25 percent – for beef, tropical fruits, black tea, sorghum, groundnuts, sesame seeds and raw cane sugar. (WT/COMTD/LDC/W/11)

EXPORT SUBSIDIES: Estimating the extent to which export subsidies have fallen in the 1994-1999 AoA implementation is difficult, given the nature of export subsidy notifications. It has been noted that over 90 percent of the total WTO-permitted total outlay of export subsidies is accessible to developed countries, raising concerns about initial flexibility in setting export subsidy caps. Rules regarding export subsidy reductions apply to 25 WTO Member countries. A total of 428 export reduction commitments have been notified by the 25 members. Two of those commitments apply to all agricultural products, five apply to incorporated products, while the remaining 421 export subsidy reduction commitments are product specific, calculated both in terms of budget outlays and as volume commitments.

Different estimates exist regarding the total amount of agricultural subsidies, their application and effect. Part of the complexity in making absolute statements about the economic effects of subsidies is that they continue to undergo important changes. For example, within the European Union, Common Agricultural Policy subsidies continue from a percentage of total production, to flat-rate payments calculated per hectare of land. A complex series of payments take place in several developed countries for land set-aside or idling objectives, and such schemes have the potential to be beneficial to the environment.

MARKET ACCESS: According to the WTO, the probability that exports from least developed countries will encounter non-tariff measures in developed countries is 6.2 percent. This compares to a probability of 16.5 percent on NTBs applied in developing countries on LDC imports.

Quantitative restrictions may continue to affect market access of exports from least developed countries, such as sugar. In addition, other trade measures – including non-automatic import licensing, labeling requirements, state trading, administrative restrictions, standards and measures related to Sanitary and Phytosanitary Measures – may affect market access for frozen foods and meat (as well as fish and fish products).

DOMESTIC MEASURES: The OECD reports that since 1998, trends towards a gradual lowering of support to producers has been reversed, with levels bouncing back to those of a decade before. In 1999, the overall cost of agricultural policies in OECD countries was US$361 billion, or US$327 per

[14] Tariff quotas are administered in a number of different ways, including by auctioning, based on historical levels of imports, on a first-come, first-serve basis, through applied tariffs, export certificates, past trading performance or other administrative methods. (See WTO/G/AG/NG/S/8)

[15] Hoekman and Anderson, 1999

person within the OECD countries. The main reason for the reversal of this trend is low commodity prices, which have continued to depress farmer incomes. The OECD notes that in the years 1998 and 1999 "most of the reduction in support of the previous decade was lost."[16]

On average, 40 percent of total receipts in OECD countries come from producer support schemes. Within this OECD average, there is considerable variation between countries, with New Zealand and Australia being at the low end, with Japan, Iceland, Norway, Switzerland and Korea having in place (according to the OECD) producer support representing over 60 percent of total receipts.

Similarly, FOA reports that of the total base period value of the Aggregate Measurement of Support (AMS) of US$198 billion, over 90 percent was accounted for by OECD countries. For 13 out of 17 developed countries or country groups, total AMS values exceeded 20 percent of their agricultural GDP.

Financial transfers are directed at a fairly specific group of commodities, and typically include corn and wheat, barely, oats, sugar, rice, cotton, tobacco, peanuts, honey, dairy products, wool and other products.

[16] OECD Policy Brief, *Agricultural Policy Reform: Developments and Prospects*, OECD 2000

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GLOSSARY OF TERMS

Amber Box Measures: all domestic support measures considered to distort production and trade (with some exceptions). The total value of these measures must be reduced.

AMS: Aggregate measure of support - measurement of the amount of domestic support that has a direct effect on production.

Applied Tariffs: An applied tariff is the rate of duty actually in effect at the border.

Green Box Measures: domestic support measures with minimal impact on trade which can be used freely under the Agreement on Agriculture.

Blue Box Measures: domestic support measures involving certain direct payments to framers where farmers are required to limit production. Measures falling under this category are permitted under the Agreement on Agriculture.

NTB: See NTM

NTM: Non-tariff measures such as quotas, import licensing systems, sanitary regulations, prohibitions, etc.

Peace Clause: Article 13 of Agreement on Agriculture which protects countries using subsidies which comply with the agreement from being challenged under other WTO agreements.

Quota: Explicit limit (usually measured by volume or sometimes by value) on the amount of a particular product that can be imported or exported during a specified time period. A quota may be applied on a selective basis, with varying limits set according to the country of origin, or on a global basis, which only specifies the total limit and thus tends to benefit more efficient suppliers.

SPS regulations: Sanitary and Phytosanitary regulations - government standards to protect human, animal and plant life and health, to help ensure that food is safe for consumption.

Subsidy: An economic benefit granted by a government to producers of goods, often to strengthen their competitive position. The subsidy may be direct (i.e. a cash grant) or indirect (e.g. low-interest export credits guaranteed by a government agency).

Tariff: Customs duties on merchandise imports, levied on an *ad valorem* (percentage of value) or specific basis (e.g. $5 per 100 kilograms). Tariffs give a price advantage to similar locally produced goods and raise revenues for the government.

Tariff binding: Commitment not to increase a rate of duty beyond an agreed level. Once a rate of duty is bound, it may not be raised without compensating the affected parties.

Tariffication: Procedures relating to the agricultural market-access provision in which all non-tariff measures are converted into tariffs.

Tariff (rate) quota: Two-stage tariff: imports up to the quota level enter at a lower rate of duty; over-quota imports enter at a higher rate.