

## IMPLICATIONS OF EU AGRICULTURE MARKET ACCESS POSITION

The EU proposal on agriculture market access does not deliver “substantial improvement of market access,” and this low level of ambition threatens the ability to deliver meaningful results for the Doha Round.

### Tariff Formula

- The EU formula delivers only a 39% average cut in EU tariffs. This is effectively less ambitious than the Uruguay Round average cut of 36%, as cuts are being made from a lower base and the average does not take into account the significantly lower cuts for a relatively large number of “sensitive products.”
- The EU proposal (39% average cut with 142 sensitive product tariff lines for the EU) pales in comparison to the U.S. proposal (which would deliver a 66% average cut of EU tariffs with only 18 sensitive product tariff lines) and the G-20 proposal (20 developing countries which call for a minimum 54% average cut for developed countries and 18 sensitive product tariff lines for the EU).
- The EU proposal also permits “flexibility” for the 80% of the EU’s tariff lines that have tariffs of 30% *ad valorem* or less, thus the likely tariff cut on many export priorities could be as little as 20%. Assuming this 20% cut:
  - The EU’s 22% tariff on snack foods would only be reduced to 17.6%
  - The EU tariff on canned sweet corn would fall from 12.5% to 10%.
  - The EU’s 25.9% tariff on navel oranges in April would fall only to 20.7%.
- Significant cuts will be required to provide practical market access to the EU market. The EU base tariffs for protected sectors are inflated, due to “water” in the tariffication exercise, generous *ad valorem* equivalent (AVE) calculations, and recent changes in support programs that have reduced EU market prices.
- The EU proposal does not deliver real market access in other countries either. The EU’s proposed cuts would not even reach actual, applied tariff rates in many markets. For example:
  - The Philippines bound tariff on pork is 40% but its applied tariff is 30%. Under the EU proposal the tariff would only fall to 28%. The Philippines bound tariff on corn is 50% but its applied duty is 35%. Under the EU proposal the tariff would stay at 35%, the current applied rate. The Philippines bound tariff on oranges is 45% but its applied tariff is 10%. Under the EU proposal the tariff would only fall to 31.5%.

- India's bound tariff rate for wheat is 100% but its applied tariff is 50%. Under the EU proposal the tariff would only fall to 65%. India's bound tariff rate for cotton is also 100%, but its applied tariff is 10%. Once again, the EU proposal would only lower this tariff to 65%.
- Brazil's bound tariff rate for wheat is 55% but its applied tariff is 10% or less. The EU proposal would only cut this tariff to 38.5%. Brazil's bound tariff rate for apples is 30% but its applied tariff is 10%. Under the EU proposal the tariff could remain as high as 27%.
- Japan's bound tariff rate on whey and non-fat dry milk is 30%, the same as the applied rate. Under the EU proposal these tariffs could remain as high as 24%. Japan's bound tariff rate on processed cheese is 40%, the same as the applied rate. Under the EU proposal the tariff would only be cut to 22%. Japan's bound rate on apples is 17%, the same as the applied rate. Under the EU proposal the tariff could remain as high as 13.6%.
- The EU's tariff reduction formula does not even increase market access for some of Europe's most prominent exports.
  - The EU has 75% of the world's export market for olive oil. Yet, under the EU proposal, India's 45% tariff on virgin olive oil only would be cut to 31%. The EU proposal would reduce Brazil's 35% duty on olive oil to 24.5%, and Korea's current 27% duty could remain as high as 24.3%
  - The EU is also the world's largest exporter of wine. However, under the EU proposal the tariff on sparkling wine in Japan could fall less than 3 percentage points, from 13% to 10.5%. Tariffs on other wines in Japan are currently as high as 50%, but would only be reduced to 27.5% under the EU's formula. The U.S. tariff on wine over 14% alcohol in containers over 4 liters, could fall as little as three percentage points from the current 16% duty.
  - The EU exports one half of the world's cheese, and will soon not be able to use export subsidies to move its product overseas. Yet the EU tariff proposal would only reduce Japan's 30% tariff on block cheeses to 24%. Canada's tariff on block cheese would remain at 98% after applying the EU formula on its current 246% tariff. The U.S. duty on blue-veined cheese would fall only from 85% to 42.5%.

### **Sensitive Products**

- The above examples assume that those names products would be subjected to the EU tariff formula. However, in many cases, there could be even less market access because these products would be excluded from the formula and treated as one of the many sensitive products allowed under the EU offer.
- A basic indicator of the relevance of the Doha Round is whether the EU will provide market-openings in sectors that traditionally have been shielded from import competition through high tariffs and restrictive tariff-rate quotas.

- The sensitive products formula proposed by the EU is very effective at keeping closed markets shut to import competition. This is in part because of the relatively high number of sensitive products, and in part because of the way sensitive products are treated under tariff-rate quotas (TRQs).
- Under the EU proposal, the level of TRQ increase is dependent on the size of the current tariff and the level of current market access. Thus, countries that currently protect their markets with high tariffs and small TRQs are rewarded, as their low level of imports translates into a smaller TRQ for the sensitive product.
  - EU poultry. Poultry is a top export priority of the United States. The proposed AVE of the tariff on chicken leg quarters into the EU is 53%. Under the EU proposal, if, as seems likely, the EU selects this product as one of the 142 sensitive product tariff lines it has requested, it could reduce the tariff by as little as 15% (to 45%) and only compensate WTO members by providing an additional 10,000 metric tons (mt) of access under the TRQ. The size of the additional access to the EU market works out to only 0.02 kg per capita. That is not even one chicken nugget per person per year.
  - Japan rice. The proposed AVE for the tariff on rice into Japan is over 700%. Under the EU proposal, if Japan selects this product as sensitive, it could reduce the tariff by as little as 20% (to over 550%) and only compensate WTO members by providing an additional 26,000 mt of access. This is equal to only 0.3% of total annual domestic consumption of rice in Japan, and just a 4% increase of the current TRQ.
  - EU butter. The proposed AVE for the tariff on butter into the EU is 90%. Under the EU proposal, if the EU selects this product as sensitive, it could reduce the tariff by as little as 17% (to 75%) and only compensate WTO members by providing an additional 15,000 mt of access. This is equal to less than one percent of annual EU consumption.
  - Canada poultry. The proposed AVE for the tariff on poultry into Canada is 296%. Under the EU proposal, if Canada selects this product as sensitive, it could reduce the tariff by as little as 20% (to 237%) and only compensate WTO members by providing an additional 7,000 mt of access. This is equal to only 0.7% of total domestic consumption of poultry in Canada.
  - Korea non-fat dry milk. The proposed AVE for the tariff on non-fat dry milk into Korea is 176%. Under the EU proposal, if Korea selects this product as sensitive, it could reduce the tariff by as little as 20% (to 141%) and only compensate WTO members by providing an additional 500 mt of access. This is less than 2% of total domestic consumption of non-fat dry milk in Korea.
- The number of tariff lines the EU proposes be eligible for this treatment is another concern. By calling for 8% of tariff lines, and by cherry picking the lines most likely to cover the vast bulk of trade, the EU proposal threatens to create a huge loophole for avoiding tariff cuts.

- The World Bank has determined that if even 2% of tariff lines avoid meaningful new access through an approach like the EU proposal, 75% of the gains from the Doha Round would be lost.
- A number of countries have proposed that under sensitive products the TRQ expansion should be based on consumption. This proposal draws on the basic rule in the Uruguay Round – sensitive sectors where high tariffs were established through "tariffication" of non-tariff measures were supposed to provide access equal to 5% of annual domestic consumption.
- Using consumption as a basis for identifying meaningful market access is practical and fair, as reflected by its use in previous WTO negotiations and in bilateral agreements.
- The EU has expressed concern that consumption data for certain specialized products will be difficult to ascertain. However, since most products expected to be sensitive in the EU are already covered by TRQs, and for these products consumption data of the basic product can be obtained, this should not impede this neutral calculation methodology. Moreover, expanding access for 10% or less of consumption would still leave the bulk of the market protected under relatively high tariffs.

### **Special Safeguard Provision**

- The EU proposal also calls for continuation of the special agricultural safeguard (SSG) from the Uruguay Round for a number of products.
- The SSG was developed in the Uruguay Round for products undergoing tariffication – the removal of non-tariff measures and institution of tariffs calculated to provide equivalent protection.
- The SSG was intended as a security measure in case the new tariffs were too low and resulted in a flood of low priced imports.
- The past ten years of Uruguay Round implementation suggest that the SSG was not needed: tariff equivalents have been so high that very little out-of-quota trade has occurred and the safeguards have rarely been triggered.
- Continuation of the SSG would convert this instrument into a long term barrier to trade, with price and volume triggers that would prevent any substantial increase in trade.

### **Impact on Other Areas of the Negotiation**

- Agriculture reform has been at the core of the Doha Round since its inception. This is because agricultural tariffs are twice as high on average as compared to other tariffs on goods, and trade distorting export and domestic subsidies are a particular problem in agriculture. Also, because agriculture is of particular interest to developing countries -- accounting for more than half of employment -- many see that they have comparative advantages in agriculture exports, advantages that are frustrated because the average duties on agriculture products are three times the average duty on merchandise trade as a whole,

even after preferences are accounted for. Thus, although trade in agricultural goods comprises less than 10% of global trade, addressing the concerns over tariff barriers and subsidy policies has always been necessary in order to make progress in the other areas of the Doha Round.

- In particular, many developing countries are unwilling to cut industrial tariffs in the NAMA negotiations, or remove barriers to service providers unless and until the Doha mandate is met in agriculture. In the area of reducing trade-distorting domestic support, the bold U.S. proposal to cut the most trade-distorting programs (amber box) by 60% was made expressly conditional on tangible new market access. It cannot otherwise be sustained.
- The EU's unwillingness to agree to a proposal to provide "substantial improvement" in market access for agricultural products threatens to lower ambitions for the entire Doha Round, including the reduction of trade-distorting domestic support, expanding non-agriculture market access, reducing barriers to services, development assistance, trade facilitation and other priorities. Note that the EU agriculture proposal contrasts sharply with the EU NAMA proposal, which would cap developed country tariffs at 10% and developing country tariffs at 15%, including flexibilities. As such, the EU agriculture position is an obstacle to concluding the negotiations and threatens to lower the reform ambition across the negotiation, putting at risk the potential of the Doha Round to increase global economic growth and improve the economies and conditions in the developing world.