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**UNITED NATIONS CONFERENCE ON
TRADE AND DEVELOPMENT**

**ADVANCED TRAINING TOOLS
FOR
MULTILATERAL TRADE
NEGOTIATIONS ON
AGRICULTURE**

UNCTAD/DITC/TNCD/MISC/2003/2



UNCTAD
Commercial Diplomacy Programme

This module is for information and training purposes only and does not intend to state the official negotiation position of Member States of the WTO. It aims to provide training materials and inputs for developing countries' trainers, lecturers and government officials involved in training and research tasks.

This training module serves to inform trade experts and negotiators of developing countries of the major economic trends in agricultural trade and of the multilateral rules, which govern the trade in agricultural products. In so doing, it also serves to put the current WTO trade negotiations in agriculture in context.

The inputs used to produce this module are largely derived from the analytical and quantitative work carried out by the UNCTAD secretariat.

This training module builds upon the previous one: "Tools for Multilateral Trade Negotiations on Agriculture", which can be obtained from trade.negotiations@unctad.org

**Division on International Trade in Goods
and Services, and Commodities.
Trade Negotiations and Commercial Diplomacy
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I) MANDATE FOR MULTILATERAL TRADE NEGOTIATIONS ON AGRICULTURE

The mandate to continue the reform process to liberalise trade in agricultural products was incorporated in article 20 of the Uruguay Round Agreement on Agriculture. To this end, negotiations started in the year 2000¹. At the fourth WTO Ministerial Conference in Doha in 2001, this mandate was reaffirmed and enforced within the single undertaken of comprehensive multilateral negotiations.

Article 20 Continuation of the reform process

In the area of agriculture, the Ministerial Declaration addressed the following issues:

☒ The work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture;

☒ The long-term objective agreed at the Uruguay Round to establish a fair and market-oriented trading system, to strengthen the rules that govern the international trade in agricultural products and to correct the distortions in world agricultural markets;

☒ The commitment to carry out comprehensive negotiations aimed at substantial improvements in market access, reductions of, with the view to phasing out, all forms of export subsidies and substantial reductions in trade-distorting domestic support;

☒ The understanding that the special and differential treatment of developing countries shall be an integral part of all elements of the negotiations and that the specific concerns of developing countries shall be effectively addressed;

☒ The commitment to take into account the non-trade concerns;

☒ The need to establish modalities upon which Members will submit their comprehensive draft schedules for the further commitments.

Doha Mandate Single undertaking:

- substantial improvements in market access;
- reductions of, with a view to phasing out, all forms of export subsidies;
- substantial reductions in trade-distorting domestic support;
- Special and differential treatment provisions as an integral part of all elements of the negotiations.

.....
**See Annex 1 of this
module for extracts of
Doha mandate and
Article 20.**
.....

¹ For background information and training material see the Commercial Diplomacy Programme's website at www.unctad.org/Commdip



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The Doha Declaration offers an ambitious mandate for continuing the reform process in agricultural trade. It aims at the eventual phasing out of export subsidies which have such a detrimental effect on developing countries' ability to compete in world markets, as well as disciplining further trade-distorting domestic subsidies and market barriers. In addition, it provides for improvements in the current special and differential treatment provisions and/or the inclusion of new ones in all negotiating areas. The on-going negotiations, therefore, offer an opportunity for shaping the multilateral rules governing agricultural products to the particular needs of developing countries in order to allow them to develop their own agricultural sectors in a more market-oriented environment.

After the Doha Ministerial meeting, the negotiations went into the phase for establishing the "modalities". That is to say, the establishment of mechanisms which would allow Members to make new concessions and commitments -including numerical targets and formulae - for further agricultural liberalization. The technical work during the current stage of the negotiations was to culminate in the production of a modalities document by March 2003.

Modalities: Mechanisms for further commitments .

These modalities will serve as the basis for Members to produce and submit their comprehensive draft commitments by the Fifth Ministerial Conference in 2003.

Section 3 of this module illustrates the various elements involved in the production of such mechanisms.

Prior to that, in section 2, there will be an explanation of the major economic patterns of agricultural trade, which will put in context the current WTO trade negotiations in agriculture

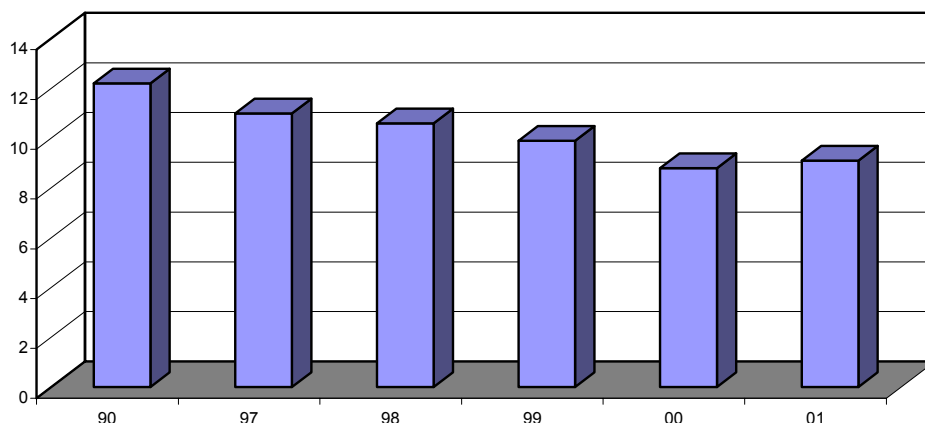


2) MAIN PATTERNS OF TRADE IN AGRICULTURE FROM THE DEVELOPING COUNTRIES' PERSPECTIVE.

Under the Doha Mandate, there is an understanding that the special and differential treatment of developing countries shall be an integral part of all elements of the negotiations and that the specific concerns of developing countries shall be effectively addressed. This section is concerned with identifying the extent to which these concerns have evolved with regard to their participation in world agricultural trade since the end of the Uruguay Round. To this end, it is necessary first to identify the major trends in international agricultural trade itself in order to contextualize the evolving participation of developing countries world trade.

Despite the relative decline in the importance of trade in agriculture over the last decade, it still remains a key component in the economic welfare of many countries throughout the world, and in particular for developing and transitional economies. While in 1990, world agricultural trade accounted for 12.2% of world merchandise trade, by 2001 it had dropped to 9.1%. As figure 1 demonstrates, the share of trade in agricultural products fell steadily throughout the 1990s.

Figure 1:
Share of Trade in Agricultural Products in The Total Value of World Merchandise Exports 1990-01

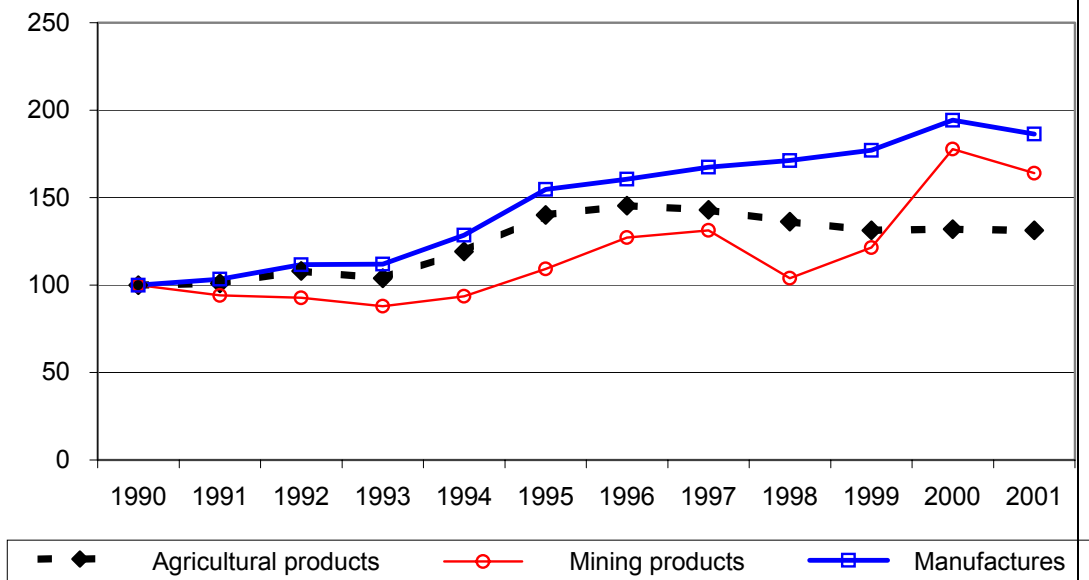


Source: Based on FAO, Statistical Database & WTO Annual Report 2002.



As figure 2 shows, the increase in value of trade in manufactures has been strong since 1990, as has that of mining products, albeit somewhat more variably. In contrast, the increase in the value of agricultural trade has been more modest but less erratic. In 2001, however, all three major merchandise product groups experienced a drop in their export value. Global agricultural exports fell by 1%.

Figure 2:
World Merchandise Trade By Major Product Group, 1990-01
Value Indices, 1990=100



Source: Based on UNCTAD, Handbook of Statistics, 2001 & WTO, Annual Report 2002. (Year 2001 estimated)

Developing countries' share of world merchandise trade (both imports and exports) rose from less than 20% in the mid-1980s to almost 30% in 2000. However, the structure of developing countries exports also changed significantly. In particular, developing countries as a group became relatively less dependent upon agricultural exports. The next table illustrates this change by comparing the export structure of developing countries in 1980 and 2000 (Table I)



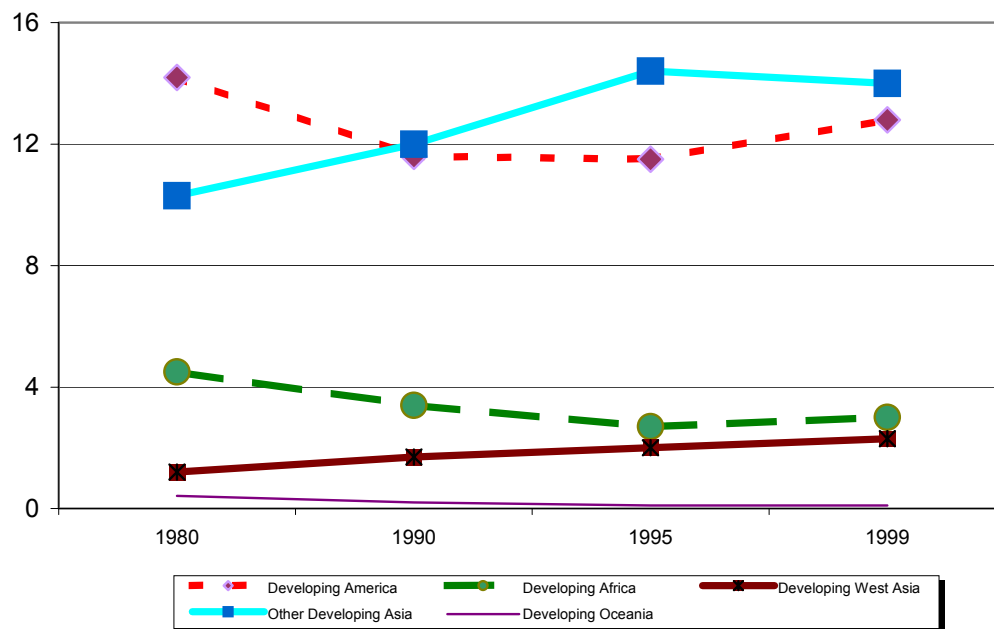
**Table 1:
Export Structure of Developing Countries by Major Commodity Group.**

Commodity Group	1980	2000
Food	11.8	9
Agric Raw Materials	3.8	2.6
Ores & Metals	4.3	3.5
Fuels	59.7	14.3
Manufactures	19.5	69
N.e.s	0.9	1.6

Source: UNCTAD, Handbook of Statistics, 2001.

Developing countries share of world food exports increased slightly from 29% in 1990 to 32.4% in 2000. However, this was still below the 1985 level of 34.3%. In addition, developing countries' participation in world food exports has been uneven among world regions. As figure 3 demonstrates, while the share of developing Asian countries in world food exports has increased, that of African countries has declined to less than 3 % in 2000 from over 4 % in 1980. Latin American and Caribbean countries have experienced a similar downward trend in their share of world food exports, which fell from 14.6% to 12.7% .

**Figure 3:
Evolution of Developing Countries' Exports of All Food Items .
Share as a percentage of Total World Exports of all Food Items**



Source: UNCTAD, Handbook of Statistics, 2001.



Despite the diminishing importance of world trade in agriculture relative to total world trade. As table 2 shows, some developing countries remain greatly dependent on the exports of agricultural products.

Table 2:
Exports of Agricultural Products, 2001
Share in Economy's Total Merchandise Exports.

• Argentina	45.8	• Guatemala	54.2
• Belize	86.3	• Honduras	52.4
• Bolivia	33.3	• Kenya	61.3
• Brazil	31.7	• Madagascar	61.6
• Cameroon	38.1	• Nicaragua	70.7
• Chile	39.9	• Paraguay	83.4
• C. Rica	33.3	• Peru	26.5
• C.d'Ivoire	59.4	• Sudan	58.5
• Ecuador	49.4	• Uruguay	54.9
• Ethiopia	84.2	• Zimbabwe	59.6

Source: WTO, Annual Report 2002

To sum up:

Relatively speaking, developing countries have a higher degree of dependency upon agricultural exports than developed countries. A recent UNCTAD study reveals that developing countries rely on a narrower export base than developed countries and that this export base is to a large extent dependent upon agricultural products. While a number of Asian countries and very few developing countries in America have been able to diversify their export base, the specialization of African countries has persistently narrowed over time².

The changing patterns in agricultural trade will be put in focus in the next section which identifies the various mechanisms being considered within the context of the on-going negotiations to improve the rules governing world trade in agricultural products.

For further information about the main patterns of trade in agriculture, see ANNEX 11 of this module Matringe, O., "Opportunities for an Constraints on Enchancing Agricultural Exports within the New Economy", UNCTAD, 2002. See also, Ostensson, O., "Commodities in International Trade: Current Trends and Policy Issues", UNCTAD, 2002.

² Laird, S., Turini and Cernat, Back to Basis: Market Access in the Doha Agenda, Geneva, UNCTAD, UNCTAD/DITC/TAB/Misc.9, 2003.



3) TRADE NEGOTIATIONS IN AGRICULTURE: -CURRENT MULTILATERAL TRADE RULES, -IMPLEMENTATION OF THE URUGUAY ROUND COMMITMENTS, -MODALITIES FOR NEGOTIATIONS.

This section looks at the main negotiating issues, i.e. market access, domestic support, export subsidies and other related issues. In each case, there is first a summary of the current multilateral trade rules, followed by an account of implementation of the UR commitments and finally, a brief outline of the modalities pertaining to it.

A. MARKET ACCESS

A. I. TARIFFS AND TARIFF RATE QUOTAS

A. I. (I) CURRENT MULTILATERAL TRADE RULES

Tariffication:

Defined non-tariff barriers (NTBs), such as quantitative import restrictions and variable import levies, were converted into their tariff equivalents. This conversion of NTBs into tariffs or “tariffication” was followed by a reduction of the resulting tariff rates.

Reduction Commitments:

Developed and developing countries had to cut their unweighted average tariffs by 36% and 24% respectively from their applied levels in 1986, or in the case of tariffied items from the base level period of 1986-88. Developed countries were allowed 6 years to implement these reductions starting in 1995 while developing countries were allowed 10 years

Least-developed countries were not required to reduce their tariffs.

Non-tariff barriers are border measures or other government actions other than tariffs that restrict trade.

Under the AoA, defined NTBs which were not tariffied had to be eliminated.

As a **special treatment exception, Annex 5** of the AoA allowed tariffication to be temporarily suspended for specific products .



Market Access Conditions:

Members committed themselves to guarantee the same access as under the base-period of 1986-1988. In addition, Members agreed to establish "minimum access" opportunities for those products whose imports in the base-period were less than 3% of domestic consumption. The *minimum access quantity* was set at 3 % of domestic consumption in the base year period, rising to 5 % by 2000 (2004 for developing countries). Commitments were implemented through the establishment of "tariff-rate quotas" with the in-quota tariff rate set at a 'low or minimal' rate.

Tariff rate quotas: *The application of a reduced tariff rate for a specified quantity of imported goods. Imports above this quantity are subject to full tariff rate.*

A. I. (II) IMPLEMENTATION OF THE UR COMMITMENTS

Tariffs

It is very difficult to compare tariffs on agricultural products across countries and markets. This is because while some agricultural tariffs have been bound in *ad valorem* terms, many others are expressed in non-*ad valorem* such as specific rates (and still other are mixed, i.e. a combination of *ad valorem* and non *ad valorem* tariffs)³. Nevertheless different studies on border protection in agriculture conclude that average post- UR bound tariff levels on agricultural products are substantially higher than industrial tariffs.⁴

While ad valorem tariffs are expressed as a fixed percentage of the value of the goods (e.g. 5%), specific tariffs are fixed charges per unit of imported products (e.g. US\$ 2 per pound). Other types of duties include mixed rates, such as US\$ 3 per pound plus 7%, and alternative rates (e.g. 10% or, if higher, US\$ a pound). In addition, tariffs can be based on technical factors, for example, technical rates which are based on alcohol or sugar content and those based on time of the year, i.e. seasonal rates which are increased or decreased usually in accordance with the growing season in the importing country

³ A recent study which illustrates this complexity shows that global average post-Uruguay Round bound tariffs for agricultural products are estimated to be 62%. Gibson, P., Wainio, J., Whitley, D. and Bohman, M., Profiles of Tariffs in Global Agricultural Markets, Washington, ERS, AER No 796, USDA, 2001.

⁴ Finger, J., Ingco, M. Reincke, U., The Uruguay Round: Statistics on Tariff Concessions Given and Received, Washington D.C., World Bank, 1996. Also see OECD, Post Uruguay Round Tariff Regimes: Achievements and Outlook, Paris, OECD, 1999.

Despite tariffs reductions agreed at the UR there remained a considerable degree of protection in agricultural products.. **Table 3** serves to illustrate this by presenting weighted averages of bound tariffs in developed and developing countries by major product groups.

TABLE 3: POST-URUGUAY ROUND BOUND RATES OF DEVELOPED AND DEVELOPING COUNTRIES BY MAJOR PRODUCT GROUP (Weighted averages, excluding trade within FTA)

<i>Product Group</i>	<i>Developed Countries</i>	<i>Developing Countries</i>
Agriculture exc. Fish	7.2%	19.9%
Fish & fish products	4.9%	25.9%
Petroleum	0.9%	8.4%
Wood, pulp, paper & furniture	0.9%	10.3%
Textiles & clothing	11.0%	25.5%
Leather, rubber, footwear	6.5%	15.4%
Metals	1.6%	10.4%
Chemical & photo. Supplies	3.6%	16.8%
Transport equipment	5.6%	13.2%
Non-electric machinery	1.9%	14.5%
Electric machinery	3.7%	17.2%
Mineral prods., precious stones & metals	1.0%	8.1%
Manufactures, n.e.s.	2.0%	9.2%
Industrial Goods (Rows 4-13)	3.5%	13.3%
All merchandise trade	3.7%	13.0%

Source: Finger, J., Ingco, M. Reincke, U., The Uruguay Round: Statistics on Tariff Concessions Given and Received, Washington D.C., World Bank, 1996.

Concerning applied tariffs, on the whole, developed countries apply rates that are lower than those applied by most developing countries. UNCTAD's estimates indicate that there are two notable exceptions to this generalization. Western Europe (20.9%) has a higher rate of protection on imports of processed agricultural products, than China (15.4%), Latin America (16.5%), Asian Newly Industrialized countries (NICs) (20.2%) and Transition economies (19.7%). In addition, Japan's average import protection on processed agricultural produce, which stands at 46% is exceeded only by that of North Africa and Middle east countries⁵.

*On average, the level of **tariffs applied** by developing countries is far below that of their bindings. However, in processed agricultural products, several developing regions are less protected than Western Europe or Japan.*

⁵ UNCTAD's calculations take into account MFN and preferential rates, as well as estimates of non-tariff protection in Laird, S., op. cit. page 21.



Another related issue is that after full implementation of the UR commitments in market access peak tariffs will remain a problem. The presence of peak tariffs means that the products or products concerned benefit from higher protection than others. An UNCTAD/WTO joint study demonstrates that peak tariffs occur in major agricultural staple foods, such as meat, sugar, milk, butter and cheese, cereal and tobacco products⁶.

Moreover, the UR Agreement on Agriculture did not substantially change the tariff structures of those WTO Members who provide additional protection by escalating tariffs. This results in high effective rates of for value added products.

Products with the highest frequency and rates of tariff peaks:

- » Beef
- » Sugar
- » cereals
- » Milk, butter and cheese.

Tariff escalation still remains in a number of product chains, often those of importance to developing countries such as coffee, cocoa, oilseeds, vegetables and fruits. It is important to point out, however, that UNCTAD's analysis of tariff levels reveals that the problem of tariff escalation exists not only in agriculture but also in manufacturing and is a feature not only of developed markets but also (sometimes more prominently) in developing countries too.

Tariff peaks: The occurrence of high tariffs relative to average tariff rate levels. As tariff peaks are not defined in the WTO some analysts refer to them as rates that are more than three times the national average.

Tariff escalation is when there are low rates on intermediate inputs (such as bulk farm products) and high rates on final products.

⁶ UNCTAD/WTO, "The Post-Uruguay Round Tariff Environment for Developing Country Exports", Geneva, UNCTAD, TD/B/COM.1/14, October 1997.

A. I. (II) IMPLEMENTATION OF THE UR COMMITMENTS

Tariff Rate Quotas

Developments which have taken place within the Committee on Agriculture have shed light on some problems Members have encountered with the implementation of the tariff quotas commitments. One sphere of contention has been the level of quota fill and the administration methods of such tariff quotas.⁷ In the first year of implementation there was a simple average fill rate of 66% - a percentage which decreased in the following years. In 2001, the simple average fill rate was 54%. Minimization of the trade distorting implications of TRQ requires that transparent and impartial methods are used to allocate import licenses.

Whether a certain method is transparent enough and non-discriminatory and who earns the quota rent are all issues which reflect the competition in the distribution of benefits and the need for a balanced outcome.

One of the WTO Members' tasks in the current negotiations on agriculture has been the consideration of a number of options for calculating the expansion of tariff quota volumes and general or specific principles on TRQ administration for agricultural products.

SEE ANNEX 4 OF THIS
MODULE FOR A SNAPSHOT
OF THE MARKET ACCESS
COMMITMENTS ON
MARKET ACCESS BY
SELECTED DEVELOPING
COUNTRIES

SEE ANNEX 6 OF THIS
MODULE FOR A
DESCRIPTION OF THE MOST
USED TRQ
ADMINISTRATION
METHODS.

⁷ *In 2002 there was a total of 1425 tariff quotas among the 43 WTO Members.*

Methods are: "first-come, first-served", "auctioning", "historical importers", "free trading entities" and "producer".
Secretariat, AIE/S4/Rev.1, 1998.

Given the high levels of tariff which resulted through the tariffification process

A. I. (III) MODALITIES FOR NEGOTIATIONS

Tariffs And Tariff Rate Quotas

The Doha Ministerial Declaration calls for “substantial improvements in market access”. In addition, Ministers agreed to provide special and differential treatment for developing countries. Negotiations on modalities for further commitments on tariffs and tariff rate quotas aim to elaborate a comprehensive approach to address tariff reductions and tariff quota expansion by building on existing rules and/or developing new ones as well

The different view of WTO Members concerning modalities for further reduction commitments in agriculture were set out in a draft submitted by the Chair of the Special Session of the Committee on Agriculture in document TN/AG/W/I. ⁸

This section summarizes the key issues concerning modalities on tariffs and tariff rate quotas. It highlights:

- ✓ Tariff reduction methods and targets for further commitments;
- ✓ Tariff structure and base rates;
- ✓ Approaches for tariff rate quota expansion and in-quota rates.

UNCTAD Agricultural Trade Policy Simulation Model (ATPSM) is a tool whose main purpose is to evaluate the various agricultural trade policy changes that may be proposed in the WTO negotiations.

Trade policy changes that can be simulated by the model are, among others:

- » Reduction of out-of-quota tariffs, either by a certain percentage or using the so-called Swiss formula,
- » Reduction of within-quota tariffs,
- » Change in tariff quotas,
- » Use of applied tariff rates.

The model produces five categories of economic estimates:

- Trade revenue changes;
- Welfare changes;
- Price changes;
- Changes in tariff quota rents;
- Changes in tariff revenues.

SEE ANNEX 7 FOR A BRIEF DESCRIPTION. SEE ANNEX 11 FOR AN EXAMPLE OF THE APPLICATION OF THE MODEL

⁸ To consult this document go to www.wto.org.



Reduction method / target for further commitments:

The main following reduction methods which have been so far proposed are:

- » **Formula approach**, which delivers greater reductions on higher level tariffs, including tariff peaks - i.e. reduces low tariffs by less than high tariffs. An example is the so-called Swiss formula, which can be written as:

$$t_n = (a * t_i / a + t_i)$$

where t_i is the initial tariff (bound tariff rate), t_n is the final tariff rate (new bound tariff rate) and a is a chosen coefficient value.

- » **UR methodology**: straight percentage cut.
- » **Downpayment**: A group of developing countries have proposed that developed countries should pay a downpayment in terms of tariff cuts – an immediate cut of the UR final bound tariffs by 50 % in the 1st year of implementation. This is to encourage developed countries to undertake autonomous reductions of their applied tariffs during the interval of time between the end of the UR implementation period in 2000 and the beginning of the Doha implementation period.
- » **Cocktail approach**: It combines a straight percentage cut over a certain range of initial tariffs with a Swiss formula applying to tariffs beyond that level.

Base rates

There have been different proposals on the table which could be summarized as follows:

-Reductions from the final **bound rates**, i.e. the bound rates in 2000 for developed countries and 2005 for LDCs.

-Applied tariff rates

-Tariff reductions should be based on **applied tariffs** or **final bounds rates** whichever is the lowest.

Some reduction methods are more flexible than others. That is to say, that some methods allow more or less differential rates of reduction across initial levels of tariffs.

Greater flexibility provides negotiators with an improved ability to trade-off lesser tariff reductions in some ranges for greater cuts elsewhere

EXAMPLES OF MODALITIES FOR TARIFF REDUCTIONS ARE GIVEN IN FIGURE 4.

Bound rates:

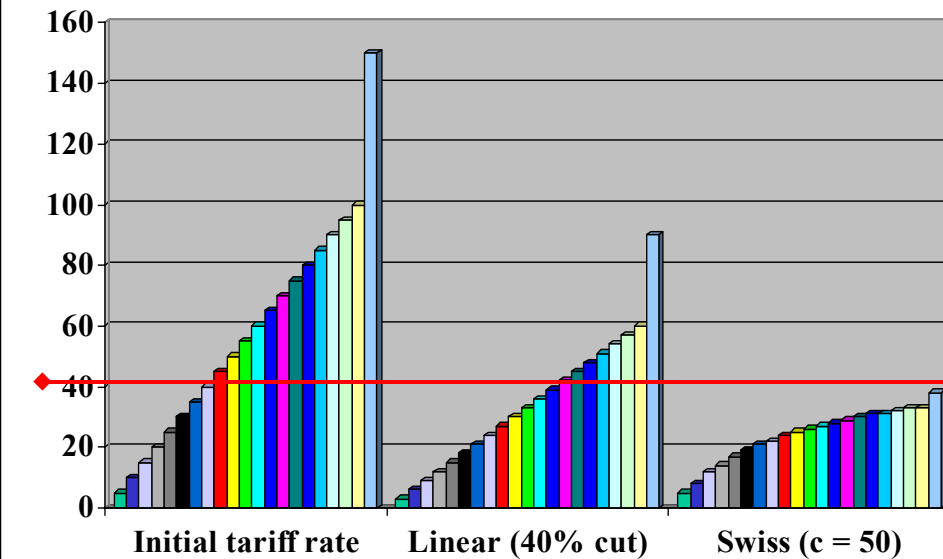
Tariff rates resulting from multilateral trade negotiations.

Applied rates:

Tariff rates actually applied by customs at the border.



**Figure 4:
Examples of Modalities for Tariff Reductions**



Tariff Structure:

The following modalities have been proposed:

- » Convert all non-ad-valorem (NAV) rates to ad-valorem rates.
- » Convert NAV rates to ad-valorem equivalents only for reduction purposes while allowing bindings in ad-valorem and specific rates.
- » Limit use of NAV tariffs to 3% of all tariff lines.
- » Status -quo.
- » Allow countries to use NAV tariffs to reflect product-specific non-trade concerns.

Many analysts have pointed out that percentage rates are preferable to specific or other non advalorem rates in the interest of transparency. However, if specific rates are to be preserved information on *ad valorem* equivalents should be notified.

The main conclusions of a recent UNCTAD study on NAV tariffs⁹ are as follows:

- NAV tariffs are used more often in the agricultural sector than in other sectors;
- NAV tariffs are more commonly used in products that are considered to be “sensitive”;
- NAV tariffs are often those which constitute tariff peaks;
- Preferences given in NAV rates may retain high tariff barriers in ad valorem terms.

⁹ Shirotori, M., “WTO Negotiations on Agriculture. Impact of non ad valorem tariffs as a tariff barrier”, Geneva, UNCTAD, DITC, 2003.



Approaches for TRQ Expansion:

- » **Increase** TRQ volumes by 1 % of domestic consumption each year for 5 years.
- » **Increase** TRQ volumes by a minimum 4 % of the current domestic consumption per year for a five-year periods
- » **Increase** TRQ volumes by 20% as a percentage of total domestic consumption on each product or as a percentage of final commitment levels.

(Guidelines for setting an accurate measurement of domestic consumption would be needed.

Approaches for in-quota rates :

- » All in-quota tariffs to be brought to zero ,
- » Maintenance of current in-quota protection levels.

Approaches for TRQ Administration

- » **Binding general principles** on TRQ administration should be introduced into the Agreement on Agriculture to ensure that all methods of allocation are :practicable, predictable and transparent, enable business decisions to be based on commercial considerations and full use of minimum market access opportunities by WTO Members.
- » **Application of existing WTO rules:** Apply already existing WTO rules, e.g. Agreement on Import Licensing, relevant Panel findings, COA reviews.
- » **Flexible approach.** Members are free to chose appropriate administration method, as long as it is transparent, fair and non-discriminating.
- » **Negative List Approach:** Prohibit certain administration methods, such as those imposing re-export requirements, allocation only to state affiliated or controlled importers, etc.

Tariff rate quota fill rate:

The “fill rate” is the ratio of actual imports made under a tariff rate quota to the total tariff rate quota volume of the product concerned. The average fill rate during the UR implementation period was around 60%. Some countries suggest that tariff-rate quota fill should be obligatory. The issue is linked to that of methods of tariff rate quota administration (e.g. how import licences should be allocated, whether quota volumes should be designated to particular exporting countries, etc).

SEE ANNEX 6 FOR A
DESCRIPTION OF THE TRQ
ADMINISTRATION
METHODS



In an attempt to estimate the possible magnitude of gains and losses which could arise as a result of trade liberalization in agriculture and to assess how these gains and losses might be distributed across countries, UNCTAD has carried out work based on the standard static GTAP model to simulate the effects of multilateral trade negotiations in agriculture.¹⁰ In a recent study one of the scenarios considered was that of a worldwide reduction of 50% in all agricultural tariffs. The results indicate that this would increase world welfare by about \$20 billion and that all world regions would gain from agricultural liberalization. However, gains would differ widely both in absolute and in relative terms. The largest absolute gains are captured by Japan, North America, the NICs, North Africa and the Middle East, and Oceania. In percentage terms, those regions that appear to gain most are Oceania, the Asian NICs and North Africa. Analysis shows that developing countries would gain substantially from liberalization in agriculture, especially if this coincides with a reduction in the extent of tariff escalation in developed countries. Even though the level of applied agricultural tariffs in many developing countries is lower than bound levels, almost all developing world regions would gain by further reducing their applied tariffs. Thus, unless there are major difficulties in replacing reduced tariff revenues with other tax sources developing countries may well eventually benefit from the further opening their own markets in the extended WTO negotiations.

A. MARKET ACCESS

A. 2. SPECIAL SAFEGUARD

A. 2. (I) CURRENT MULTILATERAL TRADE RULES

The special safeguard provision (SSG) of the agreement on agriculture allows for the temporary application of an additional duty on top of applied tariffs in cases of import volume surges or import price falls. The SSG is a laxer alternative to the safeguard mechanisms provided through Article XIX of GATT 1994 as it is easier to invoke and does not require an injury test. In addition, the SSG can be activated under a volume-based trigger or a price-based trigger, although not both concurrently.

The SSG is intended to remain in force for the duration of the reform process.

¹⁰ Laird, S., UNCTAD, op. cit. 2003.

A. 2. (ii) IMPLEMENTATION OF THE UR COMMITMENTS

SPECIAL SAFEGUARD

The right to use the SSG is only available for those agricultural products where border measures were tariffed during the UR and where Members reserved the right in their schedules. Thirty-nine Members, among which 24 are developing countries, have reserved the right to use the SSG.¹¹

During the implementation of the Agreement on Agriculture, between 1995 and 2001, ten Members made use of the SSG. In the above-mentioned period, the US was the major user of price-based SSGs, accounting for 51% of the total price-based SSGs used up to 2001. The second largest user of the price-based SSG was Poland, which accounted for 25%. Concerning the volume-based SSG, the EC was its major user (followed by Japan), accounting for 57% of volume-based SSGs used during the same period

Some Members have identified various problems with the current mechanisms. For example:

- the level at which volume-based SSGs have been applied is sometimes very low.
- there have been cases where the trigger level has been set at zero.
- the price-based safeguard trigger is sometimes set at levels which are far higher than the external reference price used to calculate tariffs.

¹¹ These Members are: Australia, Botswana, Bulgaria, Barbados, Canada, Chinese Taipei, Colombia, Costa Rica, Czech Republic, Ecuador, El Salvador, EC, Guatemala, Hungary, Iceland, Indonesia, Israel, Japan, Korea, Malaysia, Mexico, Morocco, Namibia, New Zealand, Nicaragua, Norway, Panama, Philippines, Poland, Romania, Slovak Republic, South Africa, Swaziland, United States, Switzerland-Liechtenstein, Thailand, Tunisia, Uruguay, Venezuela.

Safeguard Action 1995-2001		
	Price- Based	Volume- Based
EC	65	147
Hungary	7	0
Japan	18	86
Korea	18	4
Poland	126	7
Slovak Republic	0	1
Switzerland	7	0
US	256	6
Costa Rica	4	
Czech Republic	0	5
Source: Based on G/AG/NG/S/9/Rev.1		

Between 1995 and 2001, Costa Rica, Korea Poland, the Slovak Republic, the Czech Republic and Hungary were the only developing countries and economies in transition to have made use of the SSG.



Overall, it could be said that the SSG has occasionally been used, although its use was not necessarily related with an influx of goods and sharp price falls. Nevertheless, many developing and least-developed countries have expressed the need to have the possibility of using a special safeguard

mechanism as a protective measure as part of a special and differential treatment (SDT) package.

A. 2. SPECIAL SAFEGUARD

A. 2 (III) MODALITIES FOR NEGOTIATIONS

As mentioned above, when the AoA was agreed it was intended that the SSG should last for the duration of the reform process. Consequently, some Members are of the opinion that it has run its course.

Therefore the key question on the table in the context of the agricultural negotiations is whether agriculture should continue to enjoy the benefits that the SSGs provide and if so, under what conditions.

⊗ Some Members have advocated the **elimination** of SSGs for developed countries, but with preservation for some developing countries.

⊗ Other Members have defended their right to make use of the SSG and advocate its **continuation**.

⊗ Some Members have proposed the creation of a **new mechanism for developing countries as part of the special and differential treatment**.

Proposals for a special mechanism for developing countries:

⊗ Some Members argue that this mechanism should take the form of a "special countervailing measures". This new mechanism would be specifically targeted at the "subsidized" exports (both in terms of domestic support and export subsidies) of developed countries.

⊗ Others argue that this mechanism should be used by developing countries to protect special products for food security/ rural development, and to protect vulnerable sections of the population.

B. DOMESTIC SUPPORT

B. (I) CURRENT MULTILATERAL TRADE RULES

Reduction Commitments: Amber Box

The AoA established a method for Members to calculate the total-trade-distorting domestic support that is provided to domestic producers in a year and to agree to reduce it in equal instalments between the years 1995 and 2000 (2005 for developing countries). It was agreed that this measure, that is to say, the Aggregate Measurement of Support or AMS, would be reduced by 20% of its 1986-88 level (13.3% for developing countries with no reduction commitments for least-developed countries during the implementation period).

Green Box Measures

Domestic support policies that have minimal impact on trade were excluded from reduction commitments and came to be known as 'Green Box Measures.' The basic general criteria for exclusion were that the measures should be provided through a publicly-funded government program which did not involve transfers from consumers. The green box covered many public service programs, including general services provided by governments. Thus, the green box provided for the continuation, and possible enhancement, of programs such as research, marketing and promotion services, agricultural training activities, etc.

Blue Box measures

These measures were also excluded from reduction commitments. They included direct payments to producers under production-limiting programs, payments of which should be based on a fixed area and yield, and should not exceed 85% of the base level of production.

The Aggregate Measurement of Support (AMS) was designed as a measure of domestic support against which reduction commitments could be made.

The AMS includes budget payments and market price support.

Green box measures allow Members to provide government services and rural infrastructure, as well as fund environmental and regional development programmes.

Green Box measures are not subject to reduction commitments.

Blue Box measures are not subject to reduction commitments provided they meet certain conditions.



De Minimis Levels of Support

The AoA includes a "de minimis" provision which allowed countries not to include in the calculation of the Total Aggregate Measurement of Support (Total AMS) trade-distorting subsidies which made up only a low proportion (5% in the case of developed countries and 10% in the case of developing countries) of the value of production of individual products or, in the case of non-product-specific support, the value of total agricultural production.

Domestic Support Measures for Developing Countries

Exemptions were also applicable to measures of assistance that were designed to encourage agriculture and rural development and that were an integral part of the development programs of developing countries. These included: (1) investment subsidies that were generally available to agriculture in developing country Members. (2) input subsidies generally available to low-income or resource poor producers. (3) support for producers to encourage diversification from growing illicit narcotic crops.

It is important to point out that the AoA contains the so-called "peace clause" in Article 13. The peace clause restricts retaliation for domestic and export subsidies that fully conform with the provisions under the AoA. Article I of the AoA states that the provisions of article 13 would be applicable for a 9-year period starting in 1995. (i.e. the peace clause will expire on 31-12-2003).

To Sum up: Domestic Support Obligations and S&D Provisions

	Developed countries	Developing countries	Least-developed countries
Reduction	20%	13.3%	No reduction
Commitments			
Implementation Period	6 years	10 years	---
De minimis	5%	10%	10%
Other S&D provisions		Generally available investment and input subsidies, and domestic subsidies to encourage diversification from growing illicit narcotic crops.	



B. DOMESTIC SUPPORT

B. (II) IMPLEMENTATION OF THE UR COMMITMENTS

It is important to point out that domestic support reduction commitments required only modest reform for most developed-country Members because much of the decline in that measure of support had already occurred by the time the Uruguay Round was completed.¹²

Green Box

The use of Green Box measures expanded during the implementation period of the URAA. From 1995-98, several countries, including Australia, Canada, Korea and the U.S. notified the WTO of new or modified Green Box measures. The two leading categories of support were domestic food aid (32%) and infra-structural and general services (28 %). Other forms of support, such as investments aids, environmental programs and decoupled direct payments each accounted for 6-8 % of total green box support.

Amber Box

Members are required to provide information on domestic agricultural support to the WTO Committee on Agriculture. Thirty-four 34 Members have commitments to reduce their amber box subsidies. The notification process reveals that the E.U., the U.S. and Japan account for over 90 % of total domestic support in the OECD countries. In the last year for which WTO figures are available (1998), US total domestic support was 6% higher than it had been in 1995 (at the beginning of the implementation period of the UR).

Continued domestic support reduction commitments remain an important issue in so far as domestic support might otherwise be used to substitute for reductions in import protection or export subsidization.

Examples of Green Box expenditure of some Members (US\$ million)

MEMBER	US\$ m	YEAR
Argentina	237	(1996)
Australia	819	(1998)
Brazil	2420	(1998)
China	2543	(1998)
EC	20475	(1997)
India	2196	(1995)
Japan	23445	(1998)
Korea	3828	(1998)
Phillipines	185	(1998)
US	51252	(1997)

Source: WTO.

¹² Laird, S., "Issues for the Forthcoming Multilateral Negotiations on Agriculture", Zaragoza, IAMA, 1999.



Blue Box

Some OECD countries, among others, have fulfilled their commitments to reduce domestic support by shifting from non-exempt to exempt measures. Japan placed its rice policies in the Blue Box in 1998, replacing the rice support formerly subject to reduction in the Amber Box. The EU accounted for over 90% of all WTO notified blue box measures from 1995 to 1998.

The EC is the main user of blue box policies. In 1998/99 it spent 205 billion Euro which constituted 23% of its total support.

“On average in OECD countries, support to producers accounts for 31 per cent of total farm receipts, of which 78 per cent is in the form of market price support, output payments and input subsidies. Support levels differ between countries and commodities, with higher support being given to those producers that are most exposed to international competition. Producer support to rice producers corresponded to 80 per cent of farm receipts, while support to producers of sheep meat, sugar and milk corresponded to 45 per cent or more. In summary, developed countries have failed to use the opportunity to implement commitments on reduction of agricultural support in a way that would have been beneficial for developing countries.¹³”

While the major effect of the AoA domestic support commitments has been to impose a ceiling on future use of the most trade-distorting measures, the AoA allows the continuation of subsidies judged to be less distorting (such as payments based on area planted or historical entitlements) at the same or higher levels than in the past.

Given that most of the agricultural support notified at the WTO is provided by developed countries and that spending on support measures not subject to AoA reduction commitments has increased, developed-country agricultural producers continue to enjoy a substantial if somewhat unfair advantage.

¹³ UNCTAD, “World Commodity Trends and Prospects. Note by the Secretary-General”, Geneva, UNCTAD, A/57/381, 5 September 2002.



B. (III) MODALITIES FOR NEGOTIATIONS DOMESTIC SUPPORT

The Doha Ministerial Declaration calls for “*substantial reductions in trade-distorting domestic support*”. In addition, Ministers agreed to provide special and differential treatment for developing countries. This section highlights and summarizes the key issues concerning the current multilateral negotiations on domestic support.

Key terms in the negotiations are:

- Reduction in Amber Box measures: The first draft modalities paper for further reductions¹⁴ proposes that final bound total AMS be reduced by 60% over 5 years.
- Aggregate Measurement of Support (AMS): The appropriacy of the AMS as a measure of actual producer support has been questioned by some Members. Under the UR AoA the reduction of trade-distorting domestic support measures was made on an aggregated basis – i.e. a reduction in the total sum of the spending on domestic support. Noting that this may allow a country to increase such support for a specific product, Cairns group and developing countries have called for reductions to be made on a product-specific basis, as in the case of export subsidies.
- The *de minimis*: The draft modalities paper calls for an annual reduction of 0.5% in the *de minimis* level for developed countries and the maintenance of the 10% *de minimis* level for developing countries.

The main issues are:

- *reductions in Amber Box measures,*
- *elimination of Blue Box;*
- *modification of Green Box criteria.*
- *special and Differential Treatment.*

SEE ANNEX 8 OF THIS MODULE FOR A COMPARISON OF THE IMPACT ON SELECTED DEVELOPED COUNTRIES OF THE PROPOSALS FOR FURTHER REDUCTIONS OF AMBER AND BLUE BOX SUBSIDIES

*While the Cairns group has proposed a reduction in the *de minimis* level for developed countries, some developed countries have called for its elimination.*

¹⁴ WTO, TN/AG/W/1., op.cit, 2003, page 8.



- Three-Box, two-box or one-box approach:
Some countries propose taking a Three Box approach, that is to say, maintaining the current structure of the AoA, i.e. Amber (subject to reduction) + Blue + Green ("status-quo"). Others are in favour of the Two-box approach, which would mean that subsidies which currently fall within the Amber and Blue Boxes would be included in one single box and subject to reduction commitments and that Green Box subsidies would not be subject to reduction commitments. The One box approach calls for the inclusion of all current subsidies in one box subject to reduction.
- Spending limit: The draft modalities paper proposes capping and then reducing Blue Box subsidies by 50%. Some Members suggest the Blue Box be eliminated, and "Blue" measures become Amber, i.e. subject to reduction commitments. Some Developing countries, suggest that the spending limit should be applicable to all types of domestic support, pointing out that according to OECD statistics the "total" spending on domestic support by rich countries has been steadily increasing since 1995, while Developing countries are struggling even to finance the Green Box measures.
- Development Programmes (Article 6.2):
As one of the S&D elements in the domestic support commitments, these payments allow developing countries to make use of some types of trade-distorting measures without limit. Many developing countries have proposed an expansion of the policy coverage of this provision

**Development
& Food Security Box:
Summary of Main
Proposals by
Developing Countries**

-A "Development Box" should be created to provide Developing countries with flexibility of import controls, tariff barriers and domestic support for domestically produced items in sufficient quantities.

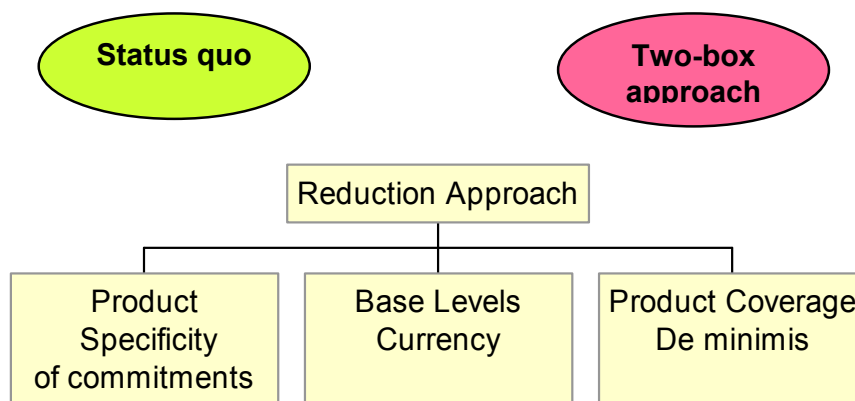
- A "Development Box" should contain all S&D measures for Developing countries in the domestic support commitments (Article 6.2, the de minimis limit, and S&D provisions for Green Box).

And /Or

- A "Development Box" should contain all S&D measures for Developing countries in the domestic support commitments plus S&D provisions in market access (e.g. tariff renegotiations, special safeguard measures) and export subsidies).

The key points surrounding domestic support negotiating issues can be summarized as follows:

AMBER BOX



BLUE BOX

Either

» maintain Blue Box (Article 6.5) as it is.

or

» shift all Blue Box measures to Amber Box, making them subject to reduction commitments.

or

» establish new disciplines aimed at reducing Blue Box spending (while maintaining this category).

GREEN BOX

» Should the Green Box criteria be modified?

» Should some subsidies be withdrawn from the Green Box?

» Should there be a Green "Food Security / Development" Box?

C. EXPORT COMPETITION

C. (I) CURRENT MULTILATERAL TRADE RULES

Export subsidy reduction commitments

Developed countries agreed to reduce direct export subsidy expenditures by 36% over six years, from the 1986-90 levels. It was agreed to cut the volume of subsidised exports by 21% over 6 years from the same period. For developing countries percentage cuts for the same measures were 24 and 14 % respectively and could be spread over 10 years (with no reduction applying to LDCs).

Export Credits

The AoA excluded several types of export subsidy programs. Export credits, credit guarantees and insurance programs were not covered, but governments committed themselves to developing internationally agreed disciplines in these areas. These disciplines remain to be agreed upon.

Export Taxes and Restrictions:

The AoA required that due consideration be given to the effects of export prohibitions or restrictions on importing members' food security and included a provision for notification to consult with any member with a substantial interest as an importer at their request. Developing countries are exempt from this provision unless they restrict exports of a foodstuff for which they are a net food importers.

Prevention of Export Subsidies Disguised as Food Aid

Under the AoA, food aid should not be tied to commercial exports of agricultural products of the donor country and should be provided as a full grant or at internationally agreed concessional rates.

-Export subsidies: the most 'trade-distorting' element in the AoA - as it provides exporters with direct price/cost advantage(s)

-Export subsidies are illegal' under the WTO rules applying to non-agricultural products.

-Developing countries are allowed to subsidise marketing, cost reduction and transport under certain temporary exemptions of Article 9.4 of the AoA.

-25 Members can subsidise the exports of products for which they have made reduction commitments.¹⁵

¹⁵ Australia, Brazil, Bulgaria, Canada, Colombia, Cyprus, Czech Rep, EU, Hungary, Iceland, Indonesia, Israel, Mexico, New Zealand, Norway, Panama, Poland, Romania, Slovak Rep, S. Africa, Switzerland-Liechtenstein, Turkey, United States, Uruguay and Venezuela.

C. EXPORT COMPETITION

C. (ii) IMPLEMENTATION OF THE UR COMMITMENTS

EXPORT SUBSIDIES

During the implementation period of the UR AoA to date, there has been a general decline in the use of subsidised exports both in terms of value and volume. As WTO members undertook to reduce volume and value rates of subsidy during this period, such a general decline was only to be expected. The fact that this general decline has taken place during a period of falling world food prices is all the more commendable. Most countries' export subsidies are below their permitted maximums and the percentage of both volume and value commitments that were filled has increased. Yet, the picture is not an even one and in some respects there remains cause for concern.

Some countries lay out considerably more than others on export subsidies. Spending an average of \$6 billion a year between 1995 and 1998, the EU accounts for over 90% of world expenditure on export subsidies. Switzerland and the US are in second and third place with 5% and 2% respectively. With nearly all the EU's exports of coarse grains, butter and butter oil, beef and skimmed milk powder being subsidized and most wheat and other dairy products, the EU is also the largest user of export subsidies by volume.

Some sectors enjoy a far greater degree of protection than others. The dairy sector benefits from 65 % of Switzerland's subsidies by value and 80% by volume. In the US, 98% of export subsidy expenditure goes to the dairy sector. Globally, dairy products receive 34% of expenditure spent on export subsidies, beef 21% and grains, sugar and incorporated products 35%. Dairy also obtains the largest subsidies per ton.

The general decline in export subsidies is due, at least in part, to WTO members fulfilling their commitments under the URAA. Changes in market conditions and exchange rates have also played their part, as have changes in world food prices. However, the rate of decline has in some cases been mitigated by the Rollover Provision and there are isolated examples of export subsidies that have actually increased.



EXPORT CREDITS

Officially supported export credits are an important part of many international trade transactions. Export credits are not currently subject to WTO disciplines but are currently being considered in the WTO negotiations. Government supported export credits are seen as a way of circumventing export subsidy commitments because interest rates and repayment terms can be easier than under normal commercial conditions. The extent to which an export credit constitutes a subsidy depends on a number of factors such as the rate of interest rate relative to the prevailing market rate, the fees charged, the down payments required and the term of the loan.

The OECD has calculated that the value of officially supported export credit programmes rose from \$5.5 billion in 1995 to \$7.9 billion in 1998. Credits represented 3.6% of the value of total of total agricultural exports in 1995 and 5.2 % in 1998. The OECD also estimated that the subsidy value of export credit programmes in 1998 stood at an average of 3.6% of total export value. This suggests that the distortions in trade patterns due to export credits are likely to be small. Yet, the fact that one country, the U.S., accounts for the bulk of these programs has made this an important trade issue.

The longer the term for a given export credit, the greater the subsidy effect. Since more than 96% of loans for greater than one year emanate from the U.S., the potential use of export credits as subsidies has become directly associated with the U.S trade policy.

The OECD notes that most subsidised credits are applied to trade between its member countries. Least developed countries received only 0.2 percent of export credits and food developing countries received only 8.9 percent of credits.

Export Credits take a number of forms including

- *the government assumption of default risk for private loans,*
- *publicly supported or subsidized insurance offered to private lenders*
- *the offer of credit through public and non governmental agencies,*
- *interest rate subsidies.*

The OECD points out that disciplines on agricultural export credits would not harm poorer countries greatly, since they have not been the beneficiaries of these programmes. The OECD concludes that export credit programmes have not served to help the liquidity constraints of poorer countries.



EXPORT TAXES

The current AoA disciplines concerning export taxes are very weak. Countries may choose to apply export taxes when the world price for commodities rises above the domestic support price, the purpose being to protect domestic stocks by reducing exports. However, in so far as this might restrict supply on world markets, it would also serve to put further upward pressure on the global price for that particular commodity. Various countries have employed export taxes on grains during the URAA implementation period.

FOOD AID CONDITIONS

The Uruguay Round decision on Net Food Importing Developing countries was intended to address the needs of poor states. However, there has been some criticism that it has not been adequately implemented. In December 2000, the General Council of the WTO instructed the Committee on Agriculture to examine problems facing food importing developing countries. The Committee's recommendations regarding implementation-related issues were approved by the WTO Fourth Ministerial Conference in November 2001. In this regard, the Doha Ministerial Conference approved recommendations in the areas of:¹⁶

- » food aid,
- » technical and financial assistance in the context of aid programmes to improve agricultural productivity and infrastructure, and
- » financing normal levels of commercial imports of basic foodstuff.

Support for restrictions on export taxes is widespread, particularly among net food importing developing countries. In so far as the use of export taxes is seen to spread the burden of adjustment on to the world market, their use is condemned. However, some developing countries, have made use of export taxes as a means of generating tax revenue.

The objectives of food aid vary from donor to donor and from year to year. While some aid consists of emergency donations to counteract the effects of political unrest and disaster, other serves more developmental purposes, such as health and nutrition programs, school feeding and food for work programs. Food aid also serves to reduce donor countries' surplus stocks and donors may also be motivated by considerations of potential market development.

¹⁶ For further details, see WTO documents: G/AG/11, 12, 13 and 14 and G/AG/R/33.



Concerning financing normal levels of commercial imports of basic foodstuff, the feasibility of an ex-ante financing mechanism aimed at food importers is still being pursued at the Committee on Agriculture. On October 2002, a proposal regarding the establishment of an ex-ante financing mechanism was submitted by the WTO Net Food-Importing Developing Countries. On the basis of this proposal which calls for the establishment of a “revolving fund facility” for the financing of food imports, a series of consultations have taken place with the view to resolving this implementation issue.

SEE ANNEX 9 OF THIS MODULE: PROPOSAL G/AG/W/58 FOR THE ESTABLISHMENT OF AN EX-ANTE FINANCING MECHANISM.

C. EXPORT COMPETITION

C. (III) MODALITIES FOR NEGOTIATIONS

Key terms in the negotiations are:

- » Export Subsidies: The first draft modalities paper¹⁷ for further reductions proposes that: developed countries reduce a set of products representing at least 50% of bound levels of budgetary outlays and quantities over 5 years. Eliminate the remainder over 10 years.¹⁸

Members’ proposals on modalities include:

- Downpayment and elimination over 3/6 years for developed and developing countries respectively;
- Elimination over a five-year period;
- Average (instead of current-product- specific reductions) 45%.

The main issues are:

- The speed at which export subsidies (ES) should be “phased out”;
- The policy coverage of reduction commitments;
- Disciplines on export credits;
- S&D provisions
- A safety-net against possible rises in basic foodstuff prices.

¹⁷ WTO, TN/AG/W/1., op.cit, 2003, page 6.

¹⁸ Proposed formulae with the constant factor c equal to [0.3]

(1) $B_j = B_{j-1} - c \cdot B_{j-1}$ with $j = 1, \dots, n$

(2) $Q_j = Q_{j-1} - c \cdot Q_{j-1}$ with $j = 1, \dots, n$

B = budgetary outlays, Q = quantities, c = constant factor, j = implementation year and B_0 and Q_0 being the base levels, respectively.



Export Credits¹⁹: The draft modalities paper calls for the elaboration of disciplines on governmental support for export financing. Various developing and developed countries have endorsed the creation of rules to ensure that export credits are not used to circumvent commitments on export subsidies. However, the main differences among Members lie in the forms and providers of export financing support subject to disciplines and in the terms and conditions.

Export Restrictions and Taxes: The draft modalities paper proposes to prohibit the introduction of new export restrictions or taxes of foodstuffs with the exceptions of the provisions of GATT 1994.

Food Aid: The draft modalities paper proposes to strengthen the rules related to international food aid and provides a draft for a possible replacement of article 10:4 of the AoA. While some Members have endorsed the strengthening of rules and transparency concerning food aid, others believe that no changes should be made.

Proposals by Members include, among others, the following elements:

- food aid should be in fully grant form;
- a mechanism should be established to ensure that food aid would not disrupt domestic production in recipient countries;
- suitable guidelines for food aid should be developed as distinct from export subsidies, concessions given pursuant to Article IX(a)(iii) of the Food Aid Convention 1999 should not be subject to reduction commitments under the AoA.

Key Terms in the negotiations:

- **Forms of export financing support** such as direct financing support, risk cover, government-to-government credit agreements.
- **Providers of export financing support** such as government entities, departments, agencies.
- **Terms and conditions** such as maximum repayment terms, minimum interest rates, period of validity of export financing offers.

Objectives of WTO Disciplines in the Area of Food Aid:

To prevent circumvention of export subsidy commitments.

¹⁹ Officially supported export credits are any export credit transaction in the course of which government assumes the risk or government expenditure or government revenue is foregone.

D. OTHER AGRICULTURAL TRADE-RELATED ISSUES

D. (I) TRADE PREFERENCES:

One of the main concerns of developing and least-developed countries concerning trade liberalization is the erosion of preferences. This is particularly crucial in the case of long-standing preferences for products of vital export importance for developing countries.²⁰ The draft modalities paper proposes that tariff reductions affecting these long-standing preferences tariff “may be implemented in equal annual instalments over a period of [eight] instead of [five] years by the preference-granting participants concerned. The products concerned shall account for at least [25] per cent of the total merchandise exports of any beneficiary concerned on average of the most recent three years for which data are available”.

Some of the modalities proposed by Members concerning trade preferences are:

- » Existing historical preferences to developing countries should remain meaningful and be binding under the framework of the AoA.
- » New or enhanced preferences to be granted to developing and least-developed countries should be made over and above the terms and conditions of existing preferential market access.
- » Protect the current preferential market access enjoyed by small developing countries,
- » Targeted preferences should be acknowledged as the only way to allow “small single commodity producing countries” to export to the world agricultural market.

SEE Annex 10: Enabling Clause

Any differential and more favourable treatment provided under the enabling clause:

(a) shall be designed to facilitate and promote the trade of developing countries and not to raise barriers to or create undue difficulties for the trade of any other contracting parties;

(b) shall not constitute an impediment to the reduction or elimination of tariffs and other restrictions to trade on a most-favoured-nation basis;

(c) shall in the case of such treatment accorded by developed contracting parties to developing countries be designed and, if necessary, modified, to respond positively to the development, financial and trade needs of developing countries.

²⁰ See www.unctad.org



D. OTHER AGRICULTURAL TRADE-RELATED ISSUES

D. (II). STATE TRADING ENTERPRISES:

State Trading Enterprises (STE) are state organisations that exert monopoly or near monopoly power over the purchases and sales of a country's agricultural produce. Their conformity to the new international trading rules are among the issues raised in the current negotiations on agriculture. This is an area which members have tried to deal with in the past, such as under GATT Article XVII, the Understanding on the Interpretation of Article XVII and Article II:4, which deals with import monopolies. Article XVII states that STEs must operate in accordance with commercial considerations and in a non-discriminatory way. These criteria have been the subject of various interpretations by WTO members and the WTO established a working Party on STEs.

- » The draft modalities paper proposes possible provisions to discipline the activities of State Trading Import and Export Enterprises.

In the context of the current agricultural negotiations:

⊗ Some Members have called for tighter disciplines on the operation of STEs, including more transparency in the operations of STEs and greater consistency with "commercial considerations".

⊗ Some Members have pointed out that neither importing nor exporting STEs should enjoy any financial privileges.

⊗ Others have called for the maintenance of the status quo.

D. OTHER AGRICULTURAL TRADE-RELATED ISSUES

D. (III): NON-TRADE CONCERNS

PRODUCT ATTRIBUTE ISSUES
ANIMAL WELFARE
CULTURAL HERITAGE
RURAL VIABILITY

Various negotiating proposals have addressed issues related to product attribute regulations in the context of the current agriculture negotiations. Changes in production technologies and new disease outbreaks have led to calls for the multilateral rules governing product attributes to be reviewed. The emergence of GM products in agricultural markets and outbreaks of BSE and FMD in Europe are among the issues that have called into question the adequacy of existing disciplines in this matter. The EU, Japan, Switzerland and other countries favour explicit recognition of the *precautionary principle* and other legitimate factors in SPS policies, while countries



such as the United States, Canada, Australia and New Zealand favour current WTO rules.

Some Members are calling for governments to be granted greater flexibility to respond to legitimate consumer concerns unrelated to safety. They would like the WTO to explicitly recognise the legitimacy of government regulations to ensure specific attributes, or information about such attributes. The EU, Switzerland and Japan have proposed that the mandatory labelling of credence attributes related to production practices, including genetic modification, be explicitly allowed under WTO rules. Some members seek the recognition of geographical indicators. Still others, including several net exporting countries, such as Argentina, Australia and Canada have stated that they do not accept any linkages between these issues and the outcome of the agriculture negotiations.

Developing countries have issued a large number of statements and proposals identifying product attribute regulations as posing potentially significant impediments in the current negotiations. In particular, developing countries report that anticipated market access opportunities have not materialised under the equivalence and harmonization process of the SPS Agreement. Some developing countries have claimed that certain new obligations, such as those related to risk assessments, are actually diverting resources away from investments needed to capitalize on the trade opportunities created by the AoA. These countries have advocated extended exemptions from selected provisions of the UR in the current negotiations.

E. SPECIAL AND DIFFERENTIAL TREATMENT

E. (I) CURRENT MULTILATERAL TRADE PROVISIONS

Developed countries are to provide greater market access to products of interest to developing countries (DCs).

DCs could offer ceilings bindings on unbound products in lieu of reduction commitments

Least-developed countries were exempted from reduction commitments.

DCs have been able to implement reduction commitments over longer periods of time.



Rates of reduction applying to DCs in market access, domestic support and export subsidies would be two thirds of those applying to developed countries.

Some domestic support measures of DCs were exempted from reduction commitments as part of their development programs.

DCs allowed higher "de minimis" percentage (10%) of support of the total value of production. (5% for developed countries).

Exemption for DCs from reducing certain export subsidy measures (e.g. related to marketing and shipment of exports).

E. SPECIAL AND DIFFERENTIAL TREATMENT

E. (II) IMPLEMENTATION OF S&D PROVISIONS

While there have been several provisions in the area of S&D treatment, these have not been used effectively by many developing countries. A recent review undertaken by the WTO Secretariat concluded that while the S&D provisions enshrined in the Agreement on Agriculture were effectively implemented (from the Secretariat's perspective) based on the notifications, the number of beneficiaries was small.

Certain specific areas in the present Agreement on Agriculture, as well as many of the new areas under consideration will require additional special provisions for developing countries.

Many countries such as India, Pakistan, Brazil and Cuba have expressed concerns regarding the financing of the mechanisms of implementation. There appears to be a general consensus that more flexibility is required in the Agreement on Agriculture to assist developing countries to achieve their food-security objectives.



E. SPECIAL AND DIFFERENTIAL TREATMENT

E. (III) S&D PROVISIONS IN THE CURRENT MULTILATERAL TRADE NEGOTIATIONS

□The main issues are:

- Strengthening current S&D provision;
- Developing new ones without undermining the long-term objectives of the AoA.

□Key terms in the negotiations are:

- Development Box: The idea of a Development Box originated from the recognition of the fact that agriculture plays a key role in the economic and social development of DCs, and cannot be treated in a same manner as agriculture in developed countries. The like-minded group suggested various measures to be included under the "Development Box", calling for DCs to be exempt from various AoA obligations in all of the three pillars. Some other DCs suggest that the Development Box should be an independent mechanism for all S&D measures for DCs in the area of domestic support.
 - "Development needs": The Doha Declaration provided qualitative conditions for S&D – that S&D should (i) be operationally effective" and (ii) meet "development needs". DCs suggest that their needs are: food security, rural development, poverty alleviation and product diversification. The measures required to meet these needs remain to be agreed upon.
 - How to meet the S&D needs of DCs: Various approaches have been suggested: (i) "Complete liberalization of the agricultural sector" (ii) "Full policy flexibility to be given to DCs" (some DCs). (iii) "Complete agricultural liberalization by *developed countries* AND policy flexibility for DCs"
 - The "One-size-fits-all" approach: Current S&D provisions are geared towards all DCs alike (except for LDCs which receive their own S&D). *Vulnerable* DCs claim that the best approach to S&D provisions for DCs would be to meet country-specific agricultural and development concerns. This would mean that the degree of S&D treatment would depend on a country's agricultural production and trade capacity.
- S&D for LDCs**: The UR AoA exempts LDCs from all reduction commitments, i.e. they do not have to cut bound tariffs, reduce domestic support or export subsidies. The question arises as to whether LDCs are free to use domestic support measures without limits.



ANNEX 1

URUGUAY ROUND BUILT-IN MANDATE FOR NEGOTIATIONS ON AGRICULTURE:

ARTICLE 20 OF THE AGREEMENT ON AGRICULTURE

Continuation of the Reform Process

Recognizing that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, Members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account:

- (a) the experience to that date from implementing the reduction commitments;
- (b) the effects of the reduction commitments on world trade in agriculture;
- (c) non-trade concerns, special and differential treatment to developing-country Members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this Agreement; and
- (d) what further commitments are necessary to achieve the above mentioned long-term objectives.

WTO, Agreement on Agriculture, Article 20, December 1994.

DOHA MANDATE ON AGRICULTURE

"13. We recognize the work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture, including the large number of negotiating proposals submitted on behalf of a total of 121 members. We recall the long-term objective referred to in the Agreement to establish a fair and market-oriented trading system through a programme 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. We reconfirm our commitment to this programme. Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves 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. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.

14. Modalities for the further commitments, including provisions for special and differential treatment, shall be established no later than 31 March 2003. Participants shall submit their comprehensive draft Schedules based on these modalities no later than the date of the Fifth Session of the Ministerial Conference. The negotiations, including with respect to rules and disciplines and related legal texts, shall be concluded as part and at the date of conclusion of the negotiating agenda as a whole."

WTO, Doha Ministerial Declaration, November 2001



ANNEX 2

ABBREVIATIONS

AMS	Aggregate measurement of support
AoA	Agreement on agriculture
COA	Committee on agriculture at the WTO
DCs	Developed countries
Dping. countries	Developing countries
ESTEs	Exporting state trading enterprises
Export Restrict.	Export restrictions
Export Sub.	Export subsidies
HS	Harmonized commodity description and coding system.
ISTEs	Importing state trading enterprises
LDCs	Least-developed countries
MFN	Most-favoured nation
NAV	Non-ad valorem
NTC	Non-trade concerns
NTMs	Non-tariff measures
S&D	Special and differential treatment
SCM	Subsidies and countervailing measures
SIDS	Small Island Developing States
SPS	Sanitary and phytosanitary
SSG	Special safeguard
STEs	State trading enterprises
TRQ	Tariff rate quotas
TRQ Adm.	Tariff rate quota administration
UR	Uruguay round
WTO	World Trade Organization



ANNEX 3:

KEY WORDS DEFINING VOCABULARY

Ad valorem tariffs: Duties expressed as a fixed percentage of the value of the goods (e.g. 5%). (See also **specific tariffs**).

Aggregate Measure of Support (AMS): Index which measures the monetary value of government subsidies to the agricultural sector. The WTO Agreement on agriculture defined the policy measures to be included within the AMS such as actual or calculated amounts of direct payments to producers, input subsidies, the estimated value of revenue transferred from consumers to producers as a result of policies that distort market prices, and interest subsidies on commodity loan programs.

The AMS differs from the broader agricultural support measure, the Producer Subsidy Equivalent, by excluding estimated benefits (or costs) of certain non-commodity specific policies (e.g., research and environmental programs), and by using special WTO-defined measures of deficiency payments and market price supports. Furthermore, the final AMS for the WTO implementation period (1995-2000) is adjusted to exclude deficiency payments under WTO special provisions, even though they are included in the WTO base period.

Agreement on Agriculture: Part of the Uruguay Round Agreement covering issues related to agriculture (e.g., market access, export subsidies, and internal support).

Amber Box Policies: An expression that developed during the GATT trade negotiations using a traffic light analogy to rank policies. The traffic light analogy was that an amber policy be subject to careful review and reduction over time. Amber box policies include policies such as market price support, direct payments, and input subsidies.

Applied Tariff: The tariff which is actually applied by the importing country which should not exceed the bound tariff level.

Blue Box Policies: An expression that developed during the GATT trade negotiations using a traffic light analogy to rank policies. The traffic light analogy was that an amber policy could be converted to a blue policy that could eventually become "green." Blue box policies were seen as an acceptable, but temporary, or transition policies that would help pave the way for further reforms over time. Blue box policies represent the set of provisions



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in the Agreement on Agriculture that exempts from reduction commitments, those program payments received under production limiting programs--if they are based on fixed area and yields, a fixed number of head of livestock, or if they are made on 85 percent or less of base level of production. Deficiency payments were exempt under this provision, since compliance with acreage reduction programs was required for eligibility, payments were made on no more than 85 percent of established base acreage, and individual farm yields had been fixed since 1986.

Bound tariff rates: Tariff rates resulting from GATT negotiations or accessions that are incorporated as part of a country's schedule of concessions. Bound rates are enforceable under Article II of GATT. If a GATT contracting party raises a tariff above the bound rate, the affected countries have the right to retaliate against an equivalent value of the offending country's exports or receive compensation, usually in the form of reduced tariffs of other products they export to the offending country.

Ceiling Binding: In cases where an existing tariff was not already bound, developing countries were allowed to establish ceiling bindings. The ceiling bindings took effect on the first day of implementation of the Agreement.

Decoupled: Payments to farmers that are not linked to current production decisions. When payments are decoupled, farmers make production decisions based on expected market returns.

De minimis rule: The total AMS includes a specific commodity support only if it equals more than 5 percent of its value of production. The non-commodity-specific support component of the AMS is included in the AMS total only if it exceeds 5 percent of the value of total agricultural output.

Green Box Policies: An expression that developed during the GATT trade negotiations using a traffic light analogy to rank policies. The Green Box describes domestic support policies that are not subject to reduction commitments under the Agreement on Agriculture. These policies are assumed to affect trade minimally, and include support such as research, extension, food security stocks, disaster payments, and structural adjustment programs.

Export subsidies: Special incentives provided by governments to encourage increased foreign sales. Subsidies, which are contingent on export performance, may take the form of cash payments, disposal of government stocks at below-market prices, subsidies financed by producers or processors as a result of government actions such as assessments, marketing subsidies, transportation and freight subsidies, and subsidies for commodities contingent on their incorporation in exported products.



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In-quota Tariff: The tariff applied on imports within the quota. The in-quota tariff is less than the over-quota tariff.

Megatariffs : Extremely high tariffs which effectively cut off all imports other than the minimum access amounts granted under the agreement. Some well-known examples of megatariffs resulting from tariffication include the base tariffs calculated for EU tariffs on grains, sugar and dairy products; U.S. sugar, peanuts and dairy products; Canadian tariffs on dairy products and poultry; and Japanese tariffs on wheat, peanuts and dairy products.

Modalities: The Agreement on Agriculture was made up of three components, the text of the Agreement, the Country Schedules submitted to the WTO that included base year data and the commitments, and the "modality" documents of the Negotiating Group on Agriculture, which had no legally binding force but were agreed to by the negotiating parties as the suggested set of procedures to use to calculate various indicators and commitments. See Annex of this module for the draft on Modalities for further commitments tabled in February 2003.

Most Favoured Nation (MFN) Status: An agreement between countries to extend the same trading privileges to each other that they extend to any other country. Under a most-favoured-nation agreement, for example, a country will extend to another country the lowest tariff rates it applies to most other countries. A country is under no obligation to extend MFN treatment to another country, unless they are both members of the WTO, or unless MFN is specified in an agreement between them. Lower tariffs, such as those granted under a customs union or free trade agreement are negotiated under a special exemption to the MFN principle (GATT Article XXIV).

Non tariff barrier: A border measure, regulation, or other government action other than a tariff used by governments to restrict imports from, and exports to, other countries. Examples: embargoes, import quotas, quantitative restriction (quotas), licensing, domestic support programs, labelling and health standards, technical barriers to trade, and exclusive business practices.

Notifications: The annual process by which member countries report to the WTO information on commitments, changes in policies, and other related matters as required by the various agreements.

Over-quota tariff: The tariff applied on imports in excess of the quota volume. The over-quota tariff is greater than the in-quota tariff.

Peace Clause: refers to provisions in article 13 of the Agreement on Agriculture under which Members agree that for a period of nine years (i.e. until 31-12-2003): a) *green box measures* would be exempt from actions available under the Agreement on Subsidies and Countervailing duties and



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from actions based on non-violation nullification or impairment of the benefits of tariff concessions under GATT, b) *other domestic subsidies*, including blue box and de minimis support, may be the subject of countervailing duty actions, but due restraint is to be exercised by Members in initiating such investigations. In addition, in so far as the support provided to individual products does not exceed that decided in the 1992 marketing year, these measures are exempt from other subsidy action or nullification or impairment action; c) *export subsidies* conforming to the Agreement on Agriculture would be, to the extent relevant, covered by corresponding provisions.

Producer Subsidy Equivalent (PSE): A broadly defined aggregate measure of support to agriculture that combines into one total value aggregate, direct payments to producers financed by budgetary outlays (such as deficiency payments), budgetary outlays for certain other programs assumed to provide benefits to agriculture (such as research and inspection and environmental programs), and the estimated value of revenue transfers from consumers to producers as a result of policies that distort market prices.

Special and differential treatment: The provision allowing exports from developing countries to receive preferential access to developed markets without having to accord the same treatment in their domestic markets.

Special Safeguard (SSGs): The temporary application of an additional duty on top of applied tariffs in cases of import volume surges or import price falls. It can be activated under a volume-based trigger or a price-based trigger, but not both concurrently. SSGs are much easier to invoke than the normal safeguard mechanisms provided through Article XIX of GATT 1994 in that the SSG does not require an 'injury test'.

Specific tariffs: Fixed charges per unit of imported products (e.g. US\$ 2 per pound). Other types of duties include mixed rates, such as US\$ 3 per pound plus 7%, and alternative rates (e.g. 10% or, if higher, US\$ a pound). In addition, tariffs can be based on technical factors, for example, technical rates which are based on alcohol or sugar content and those based on time of the year, i.e. seasonal rates which are increased or decreased usually in accordance with the growing season in the importing country.

Tariff escalation: *The occurrence of low rates on intermediate inputs (such as bulk farm products) and high rates on final products.*

Tariff peaks: The occurrence of high tariffs relative to average tariff rate levels. During the UR market access negotiations on non- agricultural products, they were defined, for negotiating purposes, as being rates above 15%. However, for agricultural products, considering the high average level of tariffs this figure would be much higher. As tariff peaks are not defined in the WTO some analysts refer to them as rates that are more than three times the national average.



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Tariff rate quota (TRQ): A two-level tariff where the tariff rate charged depends on the volume of imports. A lower (in-quota) tariff is charged on imports within the quota volume. A higher (over-quota) tariff is charged on imports in excess of the quota volume.

Tariff reduction schedule: Based on guidelines contained in the GATT document "Modalities for the Establishment of Specific Binding Commitments Under the Reform Programme." Each country's bound tariff rates, reduction schedules for new and existing tariffs and market access levels (TRQs) are contained in its Country Schedules, which are the legal and binding commitments entered into by each country and form part of the Agreement.

Tariffication: The process of converting nontariff trade barriers to bound tariffs. This is done under the UR agreement in order to improve the transparency of existing agricultural trade barriers and facilitate their proposed reduction. In the future, countries will not be able to use nontariff measures to restrict trade.

ANNEX 4

COMMITMENTS IN AGRICULTURE OF SELECTED DEVELOPING COUNTRIES

REGION/ COUNTRY	TARIFF % (i)	SPECIAL SAFEGUARD RIGHTS	AMBER BOX RIGHTS	EXPORTS SUBSIDIES RIGHTS	COUNTRY GROUPINGS WITH COMMON NEGOTIATING PROPOSALS (SEE NOTE FOR GROUPINGS COMPOSITIONS)
<i>LATIN AMERICA</i>					
Argentina	33	NO	YES	NO	Cairns, MERCOSUR +, Zimbabwe and Turkey.
Bolivia	40	NO	NO	NO	Cairns and MERCOSUR +
Brazil	35	NO	YES	YES	Cairns and MERCOSUR +
Colombia	88	YES	YES	YES	Cairns and MERCOSUR +
Chile	32	NO	NO	NO	Cairns and MERCOSUR +
Ecuador		YES	NO	NO	-
Mexico	43	YES	YES	YES	-
Peru	38	NO	NO	NO	NFIDC
Uruguay	35	YES	NO	YES	Cairns and MERCOSUR +
Venezuela	55	YES	YES	YES	Group of DCs
	54				
<i>CENTRAL AMERICA (region)</i>					
Costa Rica	44	YES	YES	NO	Cairns and MERCOSUR +
El Salvador	47	YES	NO	NO	Group of DCs
Nicaragua		YES	NO	NO	Group of DCs
Panama		YES	NO	YES	-
Guatemala	-	YES	NO	NO	Cairns and MERCOSUR +
	86				
<i>CARIBBEAN (region)</i>					
Barbados	-	YES	NO	NO	NFIDC and SIDS
Dominican Rep.	40	NO	NO	NO	NFIDC and Group of DCs
<i>EUROPE</i>					
Czechs Rep.	13	YES	YES	YES	Economies in Transition
Hungary	22	YES	YES	YES	Economies in Transition
Poland	53	YES	YES	YES	Group of DCs and NTC
Romania	100	YES	NO	YES	NTC
Turkey	64	NO	NO	YES	Argentina
<i>ASIA/PACIFIC</i>					
Bangladesh	84	NO	NO	NO	LDC
India	124	NO	NO	NO	MERCOSUR +, Group of DCs
Indonesia	47	YES	NO	YES	Cairns, ASEAN
Korea	62	YES	YES	NO	NTC
Malaysia	14	YES	NO	NO	Cairns, Asean and MERCOSUR +
Philippines	35	YES	NO	NO	Cairns, Asean
Sri Lanka	50	NO	NO	NO	Group of DCs



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Singapore	10	NO	NO	NO	ASEAN
Thailand	35	YES	YES	NO	Cairns, ASEAN
<i>AFRICA</i>					
Cameron	80	NO	NO	NO	African Group
Egypt	92	NO	NO	NO	African group and NFIDC
Ghana	87	NO	NO	NO	African Group
Kenya	98	NO	NO	NO	African Group and NFIDC
Morocco	44	YES	YES	NO	African Group and NFIDC
Mauritius	119	NO	NO	NO	African Group, NFIDC and SIDS
Namibia		YES	NO	NO	African Group
South Africa	38	YES	YES	YES	African Group, Cairns
Tunisia	117	YES	YES	NO	African Group
Zambia	118	NO	NO	NO	African Group and LDC
Zimbabwe	134	NO	NO	NO	African Group and DCs

(j) TARIFFS: SIMPLE AVERAGE BOUND TARIFFS FOLLOWING THE IMPLEMENTATION OF THE UR.

Source: IDB-WTO. Trade Policies Reviews, WTO. WTO Members Negotiating Proposals, WTO.



ANNEX 5

Groups of Developing Countries (DCs) clustered on the basis of common proposals made in the context of trade negotiations in agriculture

NET FOOD IMPORTING DEVELOPING COUNTRIES. (NFIDC):

Barbados, Botswana, Côte d'Ivoire, Cuba, Dominica, Egypt, Honduras, Jamaica, Jordan, Kenya, Morocco, Mauritius, Pakistan, Peru, Dominican Republic, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Senegal, Sri Lanka, Trinidad and Tobago, Tunisia and Venezuela.

LEAST DEVELOPED COUNTRIES (LDC):

Angola, Bangladesh, Benin, Burkina Faso, Burundi, Chad, Democratic Republic of Congo, Djibouti, Gambia, Guinea, Guinea Bissau, Haiti, Salomon Islands, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Niger, Republic Centro Africana, Rwanda, Senegal, Sierra Leone, Tanzania, Togo, Uganda, Zambia.

SMALL ISLANDS DEVELOPING STATES (SIDS)

Barbados, Cuba, Dominica, Jamaica, Mauritius, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago

AFRICAN GROUP

Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Chad, Congo, Democratic Republic of Congo, Côte d'Ivoire, Djibouti, Egypt, Gabon, Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Morocco, Mauritius, Mauritania, Mozambique, Namibia, Niger, Nigeria, Central African Republic, Rwanda, Senegal, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, Zimbabwe.

Asean

Brunei, Philippines, Indonesia, Malaysia, Myanmar, Singapore and Thailand.

CAIRNS GROUP

Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Philippines, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, South Africa, Thailand, Uruguay.

Developing Countries Group (Group of DCs)

Cuba, Dominican Republic, El Salvador, Haiti, Honduras, Kenya, India, Nigeria, Pakistan, Sri Lanka, Uganda, Zimbabwe

AD HOC "NON TRADE CONCERNS" (NTC) GROUP = Barbados, Burundi, Cyprus, Korea, Slovenia, Estonia, Fiji, Island, Israel, Japan, Lithuania, Liechtenstein, Malta, Mauritius, Mongolia, Norway, Poland, Czechs Republic, Slovak Republic, Romania, Saint Lucia, Switzerland, Trinidad and Tobago, UE.



ANNEX 6

METHODS OF TARIFF RATE QUOTA (TRQ) ADMINISTRATION

Method of TRQ Administration	EXPLANATION	Number TRQs in 2001 (*)
Applied Tariffs	Unlimited quantities of imports are allowed to enter at or below the in-quota tariff rate.	631
First-come, first-served	The physical importation of the good determines the applicable tariff. That is to say, the first X amount of imports to clear customs is charged the in-quota tariff. Subsequent imports are charged the out-of quota tariff rate.	153
Licenses on demand	Licenses are required to import at the in-quota tariff rate. If demand for licenses is less than the quota, licenses are issued on a first-come, first served basis. If demand exceeds the quota, the import volume requested is distributed proportionally among all applicants	324
Auctioning	The right to import at an in-quota tariff rate is determined by auction.	52
Historical importers	The right to import at an in-quota tariff is determined in proportion to import market shares in a base period.	100
Imports undertaken by state trading entities or producer groups or associations -	Import shares are allocated entirely or mainly to a state trading entity which imports the product concerned.	29
Mixed	A combination of two or more of the above-described methods	60
Other or not specified	None of the above methods or not specified in WTO notifications	28
Total number of TRQ in 2001		1377

(*) Source: WTO, TN/AG/S/9.



ANNEX 7

BRIEF DESCRIPTION OF UNCTAD

AGRICULTURAL TRADE POLICY SIMULATION MODEL (2002)

FOR MORE INFORMATION, PLEASE CONTACT: ATPSM@UNCTAD.ORG OR GO TO WWW.UNCTAD.ORG/DITC/TAB/INDEX.HTM

A.1. MODELLING AGRICULTURAL TRADE POLICIES

The Agricultural Trade Policy Simulation Model (ATPSM) is a trade policy simulation model capable of detailed analysis of agricultural trade policy issues. It can be used as a tool by researchers and negotiators alike for quantifying the economic effects at the global and regional level of recent changes in national trade policies. Alternatively it can be used to consider the potential changes resulting from future unilateral action by individual countries or actions required under negotiated agreements.

ATPSM is a deterministic, partial equilibrium, comparative static model. It analyses the effects of price and trade policy changes on supply and demand using a system of simultaneous equations that are characterised by a number of data and behavioural relationships designed to simulate the real world. The model solution gives estimates of the changes in trade volumes, prices and welfare indicators associated with changes in the trade policy environment. A feature of the model is its handling of a two tier tariff structure whereupon imports within a quota level attract a relatively low tariff, and out-of-quota imports face a higher tariffs. Rents associated with these quotas are explicitly modelled within ATPSM.

Given limitations in the data and the abstract nature of such models, the user should interpret the results with caution. However, the model has detailed commodity and country coverage and for the comparison of various policy scenarios, it can be very helpful in indicating the relative magnitudes of the effects of policy changes on welfare, trade and prices.

A.2. THE ORIGINS OF ATPSM

The development of ATPSM was initiated in 1988 by UNCTAD. A detailed description of the model and its results was published for the first time in 1990 in a United Nations study entitled, *Agricultural Trade Liberalization in the Uruguay Round: Implications for Developing Countries* (UNCTAD/ITP/48).

In the late 1990s, the model was significantly enhanced in a joint effort by UNCTAD, with funding from the United Kingdom Department for International Development, and the United Nations Food and Agriculture Organisation (FAO) to address issues arising from the outcome of the Uruguay Round. The model database coverage was increased to enable policy analysis in an increasing number of commodities and countries. The



model equations were refined to enable the analysis of changes in tariff quotas and tariff quota rates and to distinguish between bound and applied tariff rates.

A.3. ATPSM - A DETERMINISTIC COMPARATIVE STATIC PARTIAL EQUILIBRIUM MODEL

ATPSM is a deterministic comparative advantage partial equilibrium model. The model consists of a system of equations that represent supply, demand and trade flows for different agricultural goods in different countries.

In an attempt to simulate the real world a number of assumptions are made. The model is deterministic. There are no stochastic shocks or other uncertainties. It is static. There is no specific time dimension to the implementation of policy measures or to the maturing of their economic effects. Finally, it is a partial equilibrium model. Whereas the model aims at estimating far-reaching details of the agricultural economy, it does not deal with the repercussions of barrier reductions on other parts of the national economy. Thus, neither effects on the industrial and service parts of the economy or the labour market are subject to analysis.

Simplifying the model in these respects allows for a detailed specification of the most relevant agricultural trade policies having computable economic effects. Similarly, the model reports results for many different countries. It gives results not only globally but also for various country groups, geographic as well as political. There is an extensive coverage of agricultural commodities and the model considers interrelationships between the agricultural commodities in both supply and demand (for example, when competing for land or consumer preferences). Finally, the model accounts for three different economic agents within each economy, producers, consumers and government. Therefore, results can be presented by commodity and by agent for each country, each region or the world.

A.4. EVALUABLE AND NON-EVALUABLE TRADE POLICIES

The ATPSM focuses on standard agricultural trade policies, such as tariff cuts, subsidy reductions and quota changes. However, a number of other agricultural trade interventions exist, such as sanitary and phytosanitary regulations, seasonal import restrictions and anti-dumping measures. Such interventions cannot be simulated unless a tariff equivalent can be derived.

Another set of non-evaluable policies is found in the farm price support over and above the market access measures. These range from subsidies on agricultural inputs to research and development financing, favourable interest rates and amortisation periods on loans, etc. The primary problem in modelling such policies is that the support they provide is general and not specifically assigned to certain commodities. These policies support agricultural production capacity as a whole. Although one could envisage simulating such support in a model, it is not currently possible in the ATPSM.

ANNEX 8

HARBINSON DRAFT MODALITIES TEXT OF 24 FEBRUARY 2003: COMPARISON WITH KEY POSITIONS

AMBER AND BLUE BOX - IMPACT OF PROPOSALS ON DEVELOPED COUNTRIES

Member	Most Recent Notification on AMS Spending			Final Bound AMS at end of 2001		AMS at Year 5 - Reductions from Bound Level (USD Billion)			
	Local currency		USD bill	Local	USD bill	Harbinson proposal ¹	Cairns Group proposal ²	US Proposal ³	EU Proposal ⁴
EU	Euros Billion	48	51	67	72	29	0	12	40
Blue Box	Euros Billion	21	22	<i>no limit</i>	<i>no limit</i>	11 ⁵	0	0	<i>unlimited</i>
US	USD billion	17	17	19	19	8	0	10	10
Japan	Yen Billion	74 8	6	3,973	33	13	0	4	18
Blue Box	Yen Billion	93	1	<i>no limit</i>	<i>no limit</i>	0.5 ⁵		0	<i>unlimited</i>
Australia	AUD million	21 4	0.13	472	0.28	0.11	0	1	0.15

¹ Harbinson Proposal - Final Bound AMS to be cut by 60% over 5 years.

² Cairns Group Proposal - Cut Final Bound AMS to 0 over 5 years.

³ US Proposal: Non-exempt support (Blue + Amber) shall be reduced from Final Bound AMS levels to 5% of value of agricultural production in 1996-1998 period.

⁴ EU Proposal - 55% cut from Final Bound AMS (presumed over 5 years) + retain Blue Box as it is.

⁵ Harbinson Blue Box alternative One - Blue Box reduced by 50%.



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DE MINIMIS - IMPACT OF PROPOSALS ON DEVELOPED COUNTRIES (USD Billion)

Member	Current De Minimis	Harbinson Proposal ¹	Cairns Group Proposal ²	US Proposal ³	EU Proposal ⁴
EU	24	12	-	24	0
US	20	10	-	20	0
Japan	8	4	-	8	0
Australia	2	1	-	2	0

¹ Harbinson Proposal - 2.5% for product specific *plus* 2.5% for non-product specific.

² Cairns Group Proposal - De Minimis levels unspecified. The Cairns Group proposal states that de minimis for developed countries are to be reduced with a view towards its elimination within an agreed period of time.

³ US Proposal: Retain existing levels (5% product specific *plus* 5% non-product specific).

⁴ EU Proposal - eliminate De Minimis provisions

GREEN BOX - CURRENT LEVELS

Member	Year	Expenditure		
		Local Currency		USD Billion
EU	1998/99	EURO Bill	19.19	20.62
US	1999.00	USD Bill	49.82	49.82
Japan	1999.00	Yen Bill	2686.00	22.63
Australia	2000/01	AUD Bill	1.29	0.77



EXPORT SUBSIDIES - IMPACT OF HARBINSON PROPOSAL

Member	After 5 Year Implementation period- export subsidies available
EU ¹	USD 4.2 billion
US	USD 300 million

¹Given this limit - 5 years into the implementation period, the EU would not have needed to make any export subsidy reductions on a basket of items, such as wheat, flour, grains, beef and sugar.

ANNEX 9

WORLD TRADE

ORGANIZATION

G/AG/W/58

28 October 2002

Committee on Agriculture

Original:

PROPOSAL FOR FOLLOW-UP TO THE RECOMMENDATION OF THE INTER-AGENCY PANEL ON EXAMINING THE FEASIBILITY OF THE REVOLVING FUND OPERATING AS AN EX-ANTE FINANCING MECHANISM

Submission by Bangladesh, Cuba, Egypt, Jordan, Kenya and Sri Lanka on behalf of the NFIDCs and LDC Group of the WTO

Background

The General Council examined the Report of the Inter-Agency Panel on Short-Term Difficulties in Financing Normal Levels of Commercial Imports of Basic Foodstuffs ("the Panel") at its 8 July and 30 July 2002 meetings.²¹ The establishment of the Inter-Agency Panel had been approved by the fourth WTO Ministerial Conference at Doha in November 2001 following a recommendation by the WTO Committee on Agriculture in the context of the implementation of the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries ("the Marrakesh NFIDC Decision").²²

The terms of reference of the Panel, as agreed by the Committee on Agriculture and approved by the General Council, included:

"1. To examine the terms and conditions of existing facilities of the international financial institutions (namely: IMF and the World Bank) to which least-developed and WTO net food-importing developing countries could have recourse in order to address short-term difficulties in financing normal levels of commercial imports of basic foodstuffs, principally cereals, rice, basic dairy products, pulses, vegetable oils and sugar, during periods of rising world prices for such basic foodstuffs, including, as appropriate, other relevant sources of concessional financing ...

"2. To examine the concept and feasibility of the proposal for the establishment of a revolving fund in documents G/AG/W/49 and Add.1 and Corr.1...

"3. In the light of its review and examination under paragraphs (1) and (2) above and having regard to the Marrakesh NFIDC Decision, to make such recommendations for the consideration of the WTO General Council as the Panel considers appropriate regarding: ways and means for improving access by least-developed and WTO net food-importing developing countries to multilateral programmes and facilities to assist

²¹ Inter-Agency Panel on Short-Term Difficulties in Financing Normal Levels of Commercial Imports of Basic Foodstuffs, WTO document WT/GC/62-G/AG/13 (28 June 2002).

²² Decision of 14 November 2001 concerning Implementation-Related Issues and Concerns (see WT/MIN(01)/17, dated 20 November 2001, paragraph 2.2).



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with short-term difficulties in financing normal levels of commercial imports of basic foodstuffs."

The Panel's recommendations, concerning ways and means for improving access by LDCs and NFIDCs to multilateral programmes and facilities to assist with short-term difficulties in financing normal levels of commercial imports of basic foodstuffs, are summarized in paragraph 168(a) to (d) of the Panel Report.²³ Of these, 168 (a) (c) and (d) refer to explicit actions that may be taken in the context of on-going activities by other institutions and the General Council is already considering ways of following up on these issues. The purpose of this paper is to put forward to the General Council a concrete proposal for pursuing the Panel's recommendation contained in paragraph 168(b), namely, to examine the feasibility of the Revolving Fund operating as an ex-ante financing mechanism. In doing so, the proponents of this proposal are mindful of the specific points and questions raised by Members in the examination of the Panel Report and seek to take these into account in this follow-up proposal.

²³ "168. In the light of our conclusions above and having regard to the Marrakesh NFIDC Decision, we make the following recommendations concerning ways and means for improving access by LDCs and NFIDCs to multilateral programmes and facilities to assist with short-term difficulties in financing normal levels of commercial imports of basic foodstuffs:

- (a) that in the context of the impending review of the CFF of the IMF, consideration be given by member governments to
 - (i) extending the product coverage of the facility to cover all basic foodstuffs,
 - (ii) clarifying access in the context of an existing arrangement with the IMF,
 - (iii) providing a greater degree of automaticity without requiring an IMF-supported programme,
 - (iv) reviewing the procedures and timeliness of disbursements, as well as encouraging governments to come forward with purchase requests;
- (b) that in the light of the limited potential usefulness of an ex-post revolving fund to support food imports in times of need, the feasibility of an ex-ante financing mechanism aimed at food importers be explored;
- (c) that the terms of reference of the Diagnostic Trade Integration Studies to be undertaken in the context of the Integrated Framework include, as appropriate and if requested by the beneficiary country, the items of
 - (i) food security implications of trade development strategies,
 - (ii) availability of, and access to, adequate financing, in particular by the private sector, to support food imports;
- (d) that strategies of commodity price risk management from the perspective of developing country food importers be addressed by the Commodity Price Risk Management Group of the World Bank."



Main issues raised as regards the functioning of the Revolving Fund

In examining the concept and feasibility of the proposal for the establishment of a revolving fund, the Panel concluded that:

- (a) Most government-owned food import agencies in developing countries have been disbanded or exposed to competition from private sector importers. A revolving fund would therefore need to have appropriate mechanisms to provide financing to all importing enterprises (both public and private) in the countries concerned to ensure that they can secure commercial imports at reasonable borrowing cost during periods of rising world market prices for basic foodstuffs.
- (b) If funds from the revolving fund were to be made available ex-post, i.e. after importation, to countries affected by excessive import payments, disbursements would allow them to reconstitute their foreign exchange reserves that have been depleted through higher food import bills. In this respect, the revolving fund proposal has similar characteristics as the CFF of the IMF.

However, given the prevalent system of food imports in developing countries, a fund that would provide ex-post loans would have little or no impact on the ability of private traders to continue importing food. Local traders who need to import more food need funds, or new credit lines, at once. The possibility, not certitude, that one or two years in the future, their governments will receive a new loan is unlikely to influence the willingness of international trading companies or banks to provide them affordable loans when needed. Moreover, governments are unlikely to authorize a new, dedicated credit line for food imports without being certain that the disbursements under this credit line will be refinanced from an international fund credit line. In the view of the Panel, the proposed revolving fund, if it were to operate as an ex-post-borrowing facility would be of limited value in reducing short-term financing difficulties. The proposed revolving fund would be of potentially greater value to the countries concerned if it were to operate as an ex-ante borrowing facility. While the Panel considered some of the elements of such an ex-ante financing mechanism, it did not address its operational modalities and cost implications in any detail.

- (c) Import bills as a trigger for a revolving fund are problematic because they are partly determined by government actions. Some country-specific review of macroeconomic management and sectoral policies might be required, if such a monitoring mechanism is not already in place. It may be necessary to consider adequate safeguards to ensure the viability of such a revolving fund. The practical arrangements for such a fund's operation would therefore require certain preconditions for lending, with similar characteristics to those of the CFF of the IMF.



If the triggering mechanism were to be based on exogenous factors, such as increases in world market prices and less favourable terms in financing food imports, no such preconditions for lending are necessary; and one positive effect would be that funds could be made available faster. However, if access to a revolving fund were based on such an exogenous trigger as prices, some countries which do not need short-term financial assistance might obtain access to such a fund. The eventual negative impact of this would need to be mitigated by setting the fund's lending terms in accordance to the rates normally available in the market, that is, at a non-concessional rate.

- (d) The viability of a revolving fund would require monitoring to avoid defaults. Again appropriate conditionality would be necessary to reduce defaults.
- (e) Demand for funds from a revolving fund may exceed available resources, particularly during times of high world market prices for food. Depending on the capitalization of the fund, modalities would have to be established for rationing available resources.
- (f) The role of the government will be to guarantee the loans to importers, whether they are public or private enterprises. Mechanism would need to be in place at the national level to make loans available to such enterprises. In this connection, methods used in financial markets on trade financing can guide the design of the operational mechanisms of the Revolving Fund facility.

As regards these observations, the following may be noted. First, the proponents of the Revolving Fund proposal, as elaborated in documents G/AG/W/49 and Add.1 and Corr.1, did not make any reference to an ex-post or ex-ante approach as regards its operational modalities. The concept of the Revolving Fund operating as an ex-post approach was the Panel's interpretation and not an explicit modality suggested in the proponents' proposal. Second, while the Panel limited its consideration of the Revolving Fund to that of an ex-post mechanism, it recognized that an ex-ante approach might be more promising as regards its effectiveness in assisting the countries concerned. Third, most of the issues raised in the Panel's examination of the Revolving Fund proposal, as well as by some Members during the review of the Panel Report by the General Council, apply equally to an ex-ante and an ex-post approach and hence have to be dealt with irrespective of what approach is pursued. Finally, in view of the fact that the Panel's terms of reference did not prescribe any specific approach in the consideration of the proponents' proposal, it is only fair to argue that the Panel did not fully complete its work and consideration of the Revolving Fund as an ex-ante financing mechanism; its most promising operational modality will have to be pursued.



Salient features characterising short-term difficulties of LDCs and NFIDCs in financing food imports

Before responding to the points made in the Panel Report and addressing some specific issues related to the feasibility of the Revolving Fund operating as an ex-ante financing mechanism, it is appropriate to recall also some pertinent observations and conclusions reached by the Panel as regards the particular food situation in the LDCs and NFIDCs. The Panels noted, *inter alia*, that:

- The concerns of the LDCs and NFIDCs stem partly from their dependence on the world market for a large share of their food consumption. In the case of cereals, NFIDCs imported 35 per cent of total consumption in 1998-2000. For the LDCs the dependence on cereal imports was 14 per cent compared to 11 per cent for the rest of the developing countries.
- During the most recent period of high world food prices (1995/96 to 1996/97), there was a surge in the aggregate cereal import cost of LDCs and NFIDCs and a significantly increased proportion of their imports was sourced commercially, as food aid and concessional sales declined drastically.
- During the same period, the aggregate volumes of cereal imports were not maintained by the LDCs. Although the factors behind this were not analysed in the Panel Report, the outcome may well be a downward adjustment in consumption, especially by poor households in these countries.
- Some of the LDCs and NFIDCs in a weak financial position often face highly unfavourable terms on world financial markets in financing of food imports (the implicit interest rates can easily be in the 20 per cent range).
- The existing IMF Compensating Financing Facility (CFF) has been of limited use by LDCs and NFIDCs, partly as a result of limitations in its product coverage, conditionality and degree of concessionality for borrowing from it.
- Price spikes on world markets for basic foodstuffs, as occurred in the past, are likely to recur in the future.

It is also with these considerations in mind that the proponents of the Revolving Fund made their earlier proposal for the creation of such a fund to assist LDCs and NFIDCs with short-term difficulties in financing normal levels of commercial imports of basic foodstuffs, as envisaged under the Marrakesh Decision. In this connection, it is also to be noted that while the world market situation in recent years has given a breathing space to LDCs and NFIDCs



heavily dependent on the world market for a substantial part of their food needs, past experience has taught us clearly that complacency is often paid dearly. It is now the time that action has to be taken to create an effective instrument to deal with the next price spike.

Some initial considerations of a Revolving Fund operating as an ex-ante financing mechanism

The availability of finance for food imports from private sector sources and indeed, from official export credit agencies is limited by ceilings which are expressed in US\$ terms. Thus, when financing needs for the import of foodstuffs increase strongly during a year relative to the previous year, it is often difficult to find the needed new credit lines. In such situations, importers may be forced to reduce their import volumes, even if this would lead to inadequate food supplies at the national/local level and to large domestic/local price hikes.

Speed is of the essence in food import finance. Many of the net food-importing countries depend on the food imports to feed a large part of their population, and they need to maintain a timely flow of certain import levels, as foregone food consumption implies hardship or even starvation. When nominal world market prices increase, or the average import prices increase otherwise (e.g. due to a reduction of food aid and concessional sales), importers with limited foreign exchange resources and borrowing possibilities need access to supplementary finance at once.

A financing facility supported by a Revolving Fund could make it possible for importers to contain the reduction of (or preferably maintain) the volume of food imports during such periods of high world food prices and thus limit the downward adjustment in consumption and hardship of domestic households many of which are already in a precarious nutritional situation.

Bearing in mind the issues raised in the Panel Report as well as during its consideration by the General Council, such a financing facility should meet, among others, the following requirements:

- avoid tying up large resources unproductively
 - recognise the predominant role of private sector in food imports and allow both private and public entities to draw on the facility on an equitable basis
 - have an external triggering mechanism under which funds would be released from the Revolving Fund, which in addition would enable importers to obtain finance rapidly when imports are effected
 - have appropriate mechanisms in place to ensure reimbursement of funds borrowed and reduce default risks
 - allow for rationing of available resources in situations where excessive demands are made on the facility and implications for



the capitalization of the Revolving Fund and need for a back-up arrangement

- avoid negative market distortions
- limit the secretarial costs of administering the facility.

With respect to the first requirement, the IMF's experience clearly shows that it is possible to create international contingency facilities that do not put an undue burden on member (donor) countries, and that do not result in large idle resources. The experiences and modalities of operation of such existing facilities in the IMF and elsewhere could be used in constructing the modalities of the Revolving Fund facility.

Public entities should not be the main beneficiaries of the proposed new facility, except if they have an import monopoly. In all cases, the role of the government would be to guarantee the loans to importers, whether they are public or private. Thus, strong rules ensuring that the private sector has equitable or even preferential access to the financing facility would have to be written into the agreement between the Revolving Fund facility and individual governments of eligible countries. These agreements would also contain provisions for enforcing the agreed rules. In addition, the methods used by private sector financiers in their food financing activities can guide the design of the operational mechanisms of the Revolving Fund facility, so that this requirement as well as several other requirements mentioned above can be met.

External factors are, by definition, outside of the control of a country's government. Thus, a trigger mechanism that would set off the disbursements under the facility on the basis of external factors such as world market prices does not require any checks on a country's policies, nor does it require any policy conditionalities (at the most, one might want to list countries that are eligible to access the facility, and those that are not, e.g., because of past reimbursement record). Disbursement can therefore be fast. Particular triggers need to be tailored for each country (e.g., a country that imports mostly rice should have different triggers from a country that imports mostly wheat), but this can be worked out on the basis of past import statistics, and reviewed every few years.²⁴

Reimbursement can be ensured in the same way that banks deal with credit risks in commodity trade finance. In this particular case, one could think of a **three-step** mechanism: the **importing agent** (private or public) is liable to reimburse the loan; the **local bank** (which can be a subsidiary of an international bank) through which the importing agent obtains the loan, guarantees it up to x%; and the **government** entity which administers the

²⁴ These "tailored" triggers ensure that not all countries start benefiting of the facility at the same time, which reduces the risk of short-term effects on prices that could result if all countries were to come to the market at the same time. Note also that the facility does not act as a buffer stock supplying an unlimited amount of foodstuff to the market at a given price – rather, net food-importing developing countries are given the means to maintain import levels even if world market conditions become more difficult for them (the world market conditions themselves are only marginally affected).



scheme in the country gives an unconditional guarantee to reimburse the full loan, irrespective of whether the individual borrowers have paid or not. This would leave a residual "country risk", which, if one wishes, can be insured on the private market for sovereign risk insurance (annual coverage for many net food-importing developing countries is available at 1% or so) – the margin between the costs of funds and the rate charged to importers (to avoid distortions) is large enough to cover such insurance costs.

Just like international banks usually do when providing credit for imports, the facility can control the use of the funds by not disbursing them to the importing agents, but directly to the international traders or export agencies from which they are buying. Local banks should be encouraged (and trained) to manage their credit risk vis-à-vis the importers, e.g., through the use of collateral management techniques. The latter will, in the long term, lead to larger credit lines and greater flexibility of banks in reacting to the financing needs of importers, and one can thus expect that after a number of years, in some countries faster than in others, the needs for the facility will disappear.

If food prices increase dramatically and across the board, there may be a large call on the facility's resources. The facility could re-insure its risk, if it wants (the risk is basically a price risk, which can be covered quite easily on the international market for commodity risk management instruments). But if it does not, a system of finance quota has to be established, and a formula acceptable to all eligible countries needs to be elaborated.

Market distortions can be avoided by using the established marketing channels. For example, consider that trader X usually imports 10,000 tons of maize, under a credit line from international trader Y. Maize prices increase strongly, and Y informs X that under the existing credit line, he can now only deliver 6,000 tonnes. If the international facility has been triggered, X can then approach (through a national coordinating office) the facility to request for a credit line for the remainder. If approved, the facility will either pay Y directly, or cover the credit risk of Y giving a larger credit line to X. In order to ensure that the financing facility complements rather than replaces existing credit arrangements, the interest rate should be set at a level commensurate with what X is already paying (given the costs of capital of the facility, this will generate considerable earnings to the facility, which can be used to cover secretariat costs and performance risks).

Finally, the administrative costs of a food import financing facility can be reduced by adopting fairly straightforward triggering mechanisms (reducing the review role of the secretariat), and through cooperation with appropriate counterparts (which could, for example, supply the relevant data).

In conclusion, all indications are that a Revolving Fund facility for the financing of food imports can be established in such a way that the risk of disruptions in imports due to import price increases are largely avoided, and



without any negative effects on the market or on the position of private versus public sector importers.

The way forward

Further work on the Revolving Fund facility (or some form of a trust fund) for the benefit of LDCs and NFIDCs could evolve along two lines: operational, and institutional and administrative. The point of reference should be a decision of the General Council to explore "the feasibility of an ex-ante financing mechanism aimed at food importers" as contained in paragraph 168(b) of the Panel Report. Future work would build on the analysis contained in the Panel Report. To the extent relevant, the design of the Revolving Fund facility would draw on the operational and institutional experience of existing financing mechanisms, such as the IMF's Compensatory Financing Facility (CFF). The intent would be to avoid duplication of CFF conditionality, which the Panel Report identified as unacceptable to the proponents of the Revolving Fund facility.

With respect to operational features, as already discussed above, further consideration is needed with respect to eligibility criteria and trigger mechanisms. For example, there would be a need to identify the global and country-specific variables, including definition of the commodity coverage, that would establish the basis for country access to Revolving Fund financing. Additional areas requiring exploration could include country-specific ex post assessment of developments in food imports compared to the assumptions used to trigger disbursements; interest rates and charges; normal and accelerated repayment schedules; provisions for delayed repayments; and investment of financial resources provided by donor countries not yet disbursed to eligible countries.

Institutional and operational considerations would need to be elaborated, based on the assumption that the overall management and administration of the trust fund would be lodged within an existing international agency, and the decision-making body of the said agency would oversee operations of the Revolving Fund. A small staff would be necessary to monitor economic developments, prepare loan requests, monitor ex-post developments, and administer repayments and financial investments. The intent of the proponents of the Revolving Fund is clearly to avoid the creation of a new international agency.

Finally, as regards the specific approach of exploring the feasibility of this Revolving Fund ex-ante financing mechanism, it was agreed by the Committee on Agriculture that this proposal would be discussed at its next formal meeting, and the appropriate decision be taken by the General Council at its meeting in December 2002.



ANNEX 10

DIFFERENTIAL AND MORE FAVOURABLE TREATMENT, RECIPROCITY AND FULLER PARTICIPATION OF DEVELOPING COUNTRIES ("ENABLING CLAUSE")

DECISION OF 28 NOVEMBER 1979 (L/4903)

Following negotiations within the framework of the Multilateral Trade Negotiations, the CONTRACTING PARTIES *decide* as follows:

1. Notwithstanding the provisions of Article I of the General Agreement, contracting parties may accord differential and more favourable treatment to developing countries²⁵, without according such treatment to other contracting parties.

2. The provisions of paragraph 1 apply to the following:²⁶

(a) Preferential tariff treatment accorded by developed contracting parties to products originating in developing countries in accordance with the Generalized System of Preferences,²⁷

(b) Differential and more favourable treatment with respect to the provisions of the General Agreement concerning non-tariff measures governed by the provisions of instruments multilaterally negotiated under the auspices of the GATT;

(c) Regional or global arrangements entered into amongst less-developed contracting parties for the mutual reduction or elimination of tariffs and, in accordance with criteria or conditions which may be prescribed by the CONTRACTING PARTIES, for the mutual reduction or elimination of non-tariff measures, on products imported from one another;

(d) Special treatment on the least developed among the developing countries in the context of any general or specific measures in favour of developing countries.

3. Any differential and more favourable treatment provided under this clause:

²⁵The words "developing countries" as used in this text are to be understood to refer also to developing territories.

²⁶It would remain open for the CONTRACTING PARTIES to consider on an *ad hoc* basis under the GATT provisions for joint action any proposals for differential and more favourable treatment not falling within the scope of this paragraph.

²⁷As described in the Decision of the CONTRACTING PARTIES of 25 June 1971, relating to the establishment of "generalized, non-reciprocal and non discriminatory preferences beneficial to the developing countries" (BISD 18S/24).



(a) shall be designed to facilitate and promote the trade of developing countries and not to raise barriers to or create undue difficulties for the trade of any other contracting parties;

(b) shall not constitute an impediment to the reduction or elimination of tariffs and other restrictions to trade on a most-favoured-nation basis;

(c) shall in the case of such treatment accorded by developed contracting parties to developing countries be designed and, if necessary, modified, to respond positively to the development, financial and trade needs of developing countries.

4. Any contracting party taking action to introduce an arrangement pursuant to paragraphs 1, 2 and 3 above or subsequently taking action to introduce modification or withdrawal of the differential and more favourable treatment so provided shall:²⁸

(a) notify the CONTRACTING PARTIES and furnish them with all the information they may deem appropriate relating to such action;

(b) afford adequate opportunity for prompt consultations at the request of any interested contracting party with respect to any difficulty or matter that may arise. The CONTRACTING PARTIES shall, if requested to do so by such contracting party, consult with all contracting parties concerned with respect to the matter with a view to reaching solutions satisfactory to all such contracting parties.

5. The developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries, i.e., the developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs. Developed contracting parties shall therefore not seek, neither shall less-developed contracting parties be required to make, concessions that are inconsistent with the latter's development, financial and trade needs.

6. Having regard to the special economic difficulties and the particular development, financial and trade needs of the least-developed countries, the developed countries shall exercise the utmost restraint in seeking any concessions or contributions for commitments made by them to reduce or remove tariffs and other barriers to the trade of such countries, and the least-developed countries shall not be expected to make concessions or contributions that are inconsistent with the recognition of their particular situation and problems.

²⁸Nothing in these provisions shall affect the rights of contracting parties under the General Agreement.



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7. The concessions and contributions made and the obligations assumed by developed and less-developed contracting parties under the provisions of the General Agreement should promote the basic objectives of the Agreement, including those embodied in the Preamble and in Article XXXVI. Less-developed contracting parties expect that their capacity to make contributions or negotiated concessions or take other mutually agreed action under the provisions and procedures of the General Agreement would improve with the progressive development of their economies and improvement in their trade situation and they would accordingly expect to participate more fully in the framework of rights and obligations under the General Agreement.

8. Particular account shall be taken of the serious difficulty of the least-developed countries in making concessions and contributions in view of their special economic situation and their development, financial and trade needs.

9. The contracting parties will collaborate in arrangements for review of the operation of these provisions, bearing in mind the need for individual and joint efforts by contracting parties to meet the development needs of developing countries and the objectives of the General Agreement.