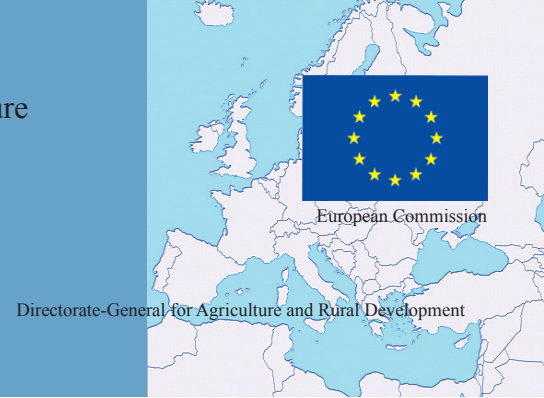


MAP - Brief

Monitoring Agri-trade Policy



The EU & the DDA: ambitious, flexible, realistic

Throughout the negotiating process, the European Union (EU) has remained ambitious, flexible and open to new ideas. It established a high level of ambition from the outset, entering into the round with a substantial agricultural policy reform already underway and a comprehensive proposal for the trade talks on the table.

Since then, it has agreed farm reform packages for a further three sectors, and has tabled new and increasingly ambitious offers on export subsidies, market access and domestic support. As a result, its last proposal is well balanced vis-à-vis both the three pillars in agriculture and the relative level of commitment it expects from developed and developing countries. It is also the only complete offer, at the time of going to press, to encompass both agriculture and other sectors and to respond to all the demands of the Framework Agreement for Agriculture (FA) in such a way that all the key objectives of the Doha Round could be achieved.

The EU proposal:

- Offers to substantially reduce its trade distorting support;
- Offers to phase out its export subsidies;
- Offers to substantially increase EU market access opportunities;
- Recognises the importance of special and differential treatment for developing countries in all three pillars.

It is conditional on the fact that other members are equally ambitious on all aspects of their proposals and that they respect the parameters laid down, and agreed, in the FA. All WTO members subscribed to making this trade round a development round; this cannot be achieved through EU efforts alone. The EU has, it should not be forgotten, already started to make substantial reductions in its trade-distorting support – independent of an agreement in the WTO – and, as a result, the vast majority of its direct payments to farmers will be minimally trade-distorting by 2007.

More substance is still required in the other proposals however, if anything other than the return plane from Hong Kong is to get off the ground in a couple of week's time; the EU is still waiting for third parties to present clear and comprehensive proposals that meet the level of ambition it has established.

1. Committed to reducing trade-distorting domestic support

The FA calls for “substantial reductions” in trade-distorting domestic support. In response, the EU offers a comprehensive proposal that would completely bind developed countries into making substantial cuts in their amber box support on the following basis:

- A three band reduction for AMS (amber box support) under which the EU (and possibly Japan) would fall into the upper tier (committing it to a 70 % reduction in AMS), the U.S would fall into the second (requiring it to cut its AMS by 60 %), and the remainder of WTO members into a third band that would be subject to a 50% reduction. It should be recognised, and accepted however, that those countries with a relatively high level of AMS (in comparison to their production) that fall into the lowest bracket should make additional concessions. The same percentages should apply to reductions in overall trade distorting support;
- Product specific AMS caps calculated on the basis of the whole UR implementation period to accurately reflect members' policy realities;
- An 80 % reduction in de minimis support for all developed countries (in both product and non-product specific support) from the 5 % level of production value currently allowed.

On the Blue Box too it has established clear objectives. The FA requires that members “recognize the role of the Blue Box in promoting agricultural reforms” and that blue box payments, under any new criteria agreed, be less trade-distorting than AMS measures.

In response, the EU calls for the 5% ceiling to be maintained to support on-going and future farm reform efforts, and for clear disciplines on any new ‘blue box’ measures that would guarantee highly trade distorting price related payments could not merely be shifted into a reclassified ‘blue box’ without undergoing significant change. In particular, there is a very real concern that the U.S counter-cyclical payments – currently floating around in no-mans land in terms of classification - could slip through the blue box's back door without a new disciplines to freeze the existing price difference between linked support prices, and to link this price gap to a percentage of the base price difference.

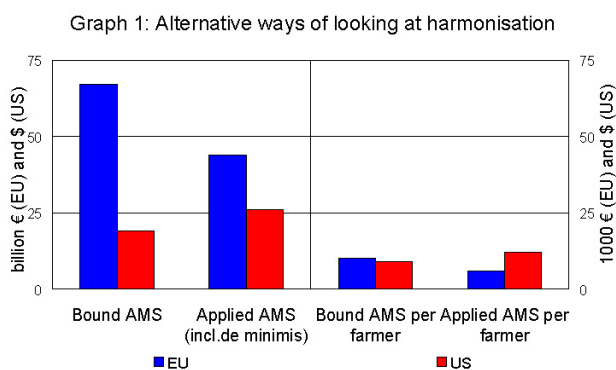


Clearly there are some outstanding loose ends still to be tied up. What is needed now, with one comprehensive and aggressive proposal on the table, is a similar level of ambition from all our trade partners that would allow real progress to be made in the final weeks before Hong Kong. There have undoubtedly been some positive moves in recent weeks – most notably from the U.S., but not enough to undo the stalemate on certain issues.

2. Assuming its share of the responsibility

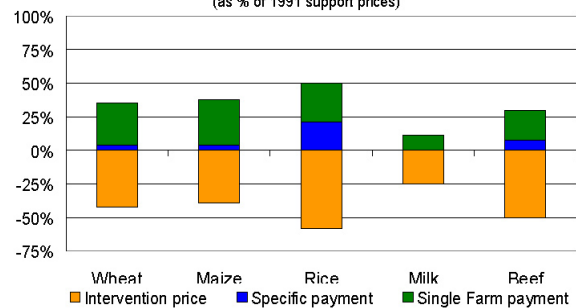
In particular, there is the issue of harmonisation. The FA specifies that there should be a clear level of harmonisation in the commitments made by developed countries to reduce trade-distorting domestic support; in other words, that they should undertake parallel cuts that produce similar results, distinguish between the different support mechanisms and recognise the relative ability of developed and developing countries to make such cuts in their domestic support.

What the U.S. seems to have done however, is to measure commitments on the basis of more arbitrary AMS (Aggregate Measure of Support) calculations that toy with exchange rates and ignore important facts such as the implications of EU enlargement. Graph 1 clearly illustrates the very different results that can be achieved by playing with the figures a little, and as such, the very different implications it has for the EU and the U.S. Using Bound-AMS, the ratio is roughly 3:1 in favour of the U.S., under an applied-AMS comparison with de minimis, this is reduced to less than 2:1 (see right side of graph); according to Bound-AMS per farmer (see left side), it is almost equal, while measuring the applied-AMS levels per farmer tips the balance in the EU's favour (even without including the farmers from the new Member States). Such an approach therefore not only generates a very distorted picture, it also draws attention away from the issue at hand.



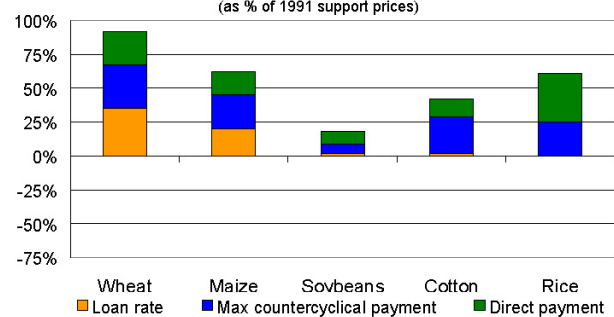
The issue at hand is clear in graphs 2 & 3. These graphs show the evolution of support prices in both the EU and U.S. since 1992. In the EU case, significant drops in support prices (the intervention price) have only partially been compensated for by direct payments to producers which, by 2007 will mainly be in the form of decoupled payments (the single farm payment).

Graph 2: Evolution of EU support prices, 1992-2007 (as % of 1991 support prices)



In the U.S. on the other hand, support prices have either increased or remained unchanged. Despite this, direct payments to producers were increased, firstly in the form of decoupled payments under the 1996 Farm Bill and secondly, – and more importantly – in the 2002 Farm Bill with the introduction of counter-cyclical payments. A comparison of these graphs – and the evolution of the two policies – demonstrates clearly the importance of harmonising reductions in trade-distorting domestic support across the board.

Graph 3: Evolution of US support prices, 1992-2007 (as % of 1991 support prices)





3. Eliminating all forms of export support

The EU is equally ambitious on export support. Here, the FA calls for Members to “establish detailed modalities” that would ensure “the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect by a credible end date,” including:

- Export subsidies;
- Export credits, export credit guarantees or insurance programmes with repayment periods of longer than 180 days;
- Export credits, export credit guarantees & insurance programmes of under 180 days that do not conform with specified criteria;
- Any trade-distorting practices of State Trading Enterprises (STEs);
- The provision of food aid that does not conform with agreed disciplines – i.e. that causes commercial displacement in the destination country.

In response, the EU offered, some time ago, to phase out all of its export subsidies (export refunds) by an agreed end date. Yet despite this, many seem to associate ‘export subsidies’ as exclusively an EU problem and there has been little attempt to introduce any meaningful proposals that would bring about the parallel elimination of all forms of export support with equivalent effect.

For example, proposals to discipline the activities of STEs – which distort prices through single-desk selling, the exclusive use of preferential market access quotas and the use of direct and indirect preferential financing mechanisms – are notably absent from certain groups i.e. those parties who make the greatest use of them. And similarly, there has been no real commitment so far to ensure that food aid will be used only as the name suggests – for humanitarian purposes – in the future and not, as is often the case, as a surplus disposal mechanism.

4. Boosting market access

It is in the thorny area of market access however, that the EU receives the greatest criticism, despite its recent attempt to kick-start talks with a new proposal that pushes it, some would argue uncomfortably, to the limits of its mandate with its Member States. Here, the FA calls for “substantial improvements in market access” with a view to “substantial trade expansion.” It allows Members to designate an “appropriate number of tariff lines to be treated as sensitive,” and specifies that “special and differential treatment” should apply to developing countries, all of which the EU proposal has taken on board.

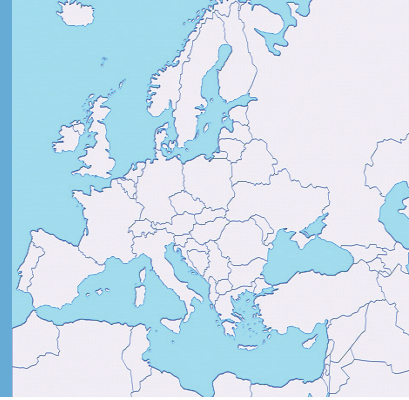
On the basis of ad valorem equivalents (AVEs – see MAP Brief, April 2005 for more details), it proposes a balanced and realistic approach under which tariffs would be cut on the basis of the number of thresholds. Four different bands would apply to both developed and developing countries but, in keeping with the objectives of the DDA, developing countries would only be expected to apply 2/3 the level of linear tariff cuts and thresholds. Furthermore, a higher tariff cap (of 150 %) would apply to developing countries than to developed ones (limited at 100 %). Linear tariff cuts would therefore follow the principle outlined in the table below:

Bands	Developed Countries		Developing Countries	
	Thresholds within AVEs (t)	Linear cuts	Thresholds within AVEs (t)	Linear cuts
	$0 \leq t < 30$	35 %	$0 \leq t < 30$	25 %
	$30 \leq t < 60$	45 %	$30 \leq t < 80$	30 %
	$60 \leq t < 90$	50 %	$80 \leq t < 130$	35 %
	$90 \leq t$	60 %	$130 \leq t$	40 %
Capping	100 %		150 %	

Flexibility for both groups should apply in the lowest band ($0 \leq 30$) to account for differences in tariff structure between members. In other words, the percentage cuts mentioned here would be an average – in practice, developed countries could apply cuts of between 20 % and 45 % in this band, and developing, cuts of between 10 % and 40 %, providing the average tariff cut is no less than 35 % or 25 % respectively.

5. GIs: Preventing unfair competition and supporting consumer transparency

Improving the protection of Geographical Indications (GIs) is an integral part of market access in agriculture to ensure that certain products, produced in a certain manner receive the recognition they deserve in the market place. It is therefore an important element of the EU’s proposal. Not only would a better recognition of GIs provide a better quality guarantee, it also prevents products – from wherever they come in the world – from being subject to unfair competition from cheap imitations.



6. Recognising sensitive products

Finally, the EU market access proposal requires that a limited number of products be treated as “sensitive,” which it proposes achieving, in line with the FA, by combining the effect of an expanded tariff rate quota (TRQ) with a lower tariff cut, the objective being to offer substantial market access for a limited number of products, but at a lower rate than the full tariff cut would imply.

In doing so, the EU proposal links the two in such a way that respects both the desired outcome and current market realities. The choice of tariff cut deviation (within a sliding scale range) is left to Members to establish and TRQ expansion is then expressed as a percentage of total current import quantity. A Special Safeguard Clause should be retained for beef, poultry, butter, fruits, vegetables & sugar.

The results are consistent with the requirements of the FA and transparent; they take full account of market related factors – including the specific tariff profile of a sensitive tariff line, and they are based on known parameters and readily available data for every tariff line.

Why was it necessary to follow this approach? Largely because there has to be an objective way of determining how TRQ expansion should compensate for the lower level of imports that result from the lower tariff cut (which indirectly impact on consumption because of the effect they have on imports). While the EU proposal compensates for this effect through TRQ expansion, others ignore this very relevant issue, instead imposing an arbitrary TRQ expansion that is both excessive and irrelevant to the current level of imports. All the more perverse is the fact that such an approach results in “sensitive” products potentially being entitled to a higher level of market access than they would receive under a full tariff cut!

7. Offering real opportunities for developing countries

Central to the EU’s position on market access, indeed its whole proposal, is the fact that it wholeheartedly supports the development process, something it will continue to do, regardless of any outcome of the Doha round. For a number of years, it has offered the most open market, and has been the largest importer by far, of agricultural products from this group of countries and it has made it evident that it fully supports all the development principles subscribed to in the DDA.

In particular, it has embraced the principle of special and differential treatment for developing countries, clear primarily in its proposed 2:3 tariff cut

ratio (which remains absent in some of its partners’ proposals). Secondly, it has offered its full support to the notion that developing countries should be allowed to designate an appropriate number of “special products” for more flexible treatment where they are important to food and livelihood concerns, and/or can contribute to rural development. Moreover, the EU has repeatedly called on other developed countries to grant quota and tariff free access to all products from least developed countries in the same manner as it has done since 2001. Equally it supports developing country requests for the introduction of a Special Safeguard Mechanism (SSM).

What is disappointing, however, and despite signing on to the Development Round, is that other developed countries do not seem to share this commitment. Proposals either remain incomplete at this stage, or prescribe as high a level of tariff cuts for poorer countries as they do for richer ones, which not only undermines the principles of the DDA, it also implies that the poorest countries would pay the highest price adjustment due to preference erosion.

8. Moving forward

What next? The Hong Kong Ministerial has already been condemned to failure in many corners so how, when so many are continuing to sit on their own interests, can the Round move forward? Recent proposals did inject a bit of new impetus into the talks but not enough, seemingly, to keep the engine running. Unfortunately though, the debate still seems to be focussed on flawed figures and proposals that are best viewed through rose-tinted spectacles.

The EU’s chief aim remains unchanged: to reduce trade-distorting support and generate fairer trade conditions for all agricultural trade worldwide. It is clearly disappointing therefore that more concrete documents, covering all aspects of negotiations, are not on the table for Hong Kong, despite its recent efforts. It has now laid down its full hand, earlier than expected, in an attempt to draw negotiators out of other corners of the world, but still other proposals lack substance, realism, completeness and perhaps most worryingly, a real commitment to the Doha process.

Passing the buck has long since been a waste of time and energy. It is high time that members recognise that reforms in all three pillars of the agriculture negotiations must be approached as a whole and in a balanced and equitable manner. As such, members should examine the relative merits of each proposal as a whole, rather than focussing on individual elements. Otherwise, there is a risk that nothing positive will be salvaged from Hong Kong, let alone a full agreement.

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