



No. 10. Special and differential treatment in agriculture

SUMMARY

- ▶ *Special and differential treatment (SDT) measures in the World Trade Organization (WTO) negotiations could be organized around situations linked to products, trade and development needs. Definition of situations would facilitate flexible policy interventions which are otherwise inconsistent with agreed rules and disciplines.*
- ▶ *Effective SDT could recognize different situations and ensure flexible rule-making with options that do not necessarily offer the same treatment for all situations. Thus, different SDTs could be provided to help subsistence and resource-poor farmers, those facing structural economic rigidities, or those facing risks associated with natural disasters.*
- ▶ *SDT is important in the offensive and defensive positions of countries in the negotiations. The framework agreement offers much potential to enhance SDT in support of both positions, if there were agreement on situations for which SDT is permissible.*
- ▶ *Effective implementation and monitoring are essential to avoid a repetition of the disappointment with the SDT offered in the Uruguay Round Agreement on Agriculture.*

Special and Differential Treatment (SDT) in the WTO is a response to the recognition that, due to structural problems, low levels of industrialization, limited access to advanced technologies and inadequate infrastructure, developing countries are often not able to take full advantage of emerging trading opportunities. SDT measures, therefore, recognize the interests of least-developed and developing countries by permitting fewer and different obligations over longer periods of time and provide for technical and financial assistance to these countries to facilitate greater participation in global trade. This brief reviews the current status of the SDT debate in the WTO, paying particular attention to the three broad areas which relate to the agriculture sector. These are:-

1. Cross-cutting issues relating to differing perspectives on the principles and objectives of SDT and the extent to which SDT can be a development tool; the conditions and concessions for applying SDT; and the countries where SDT should apply.
2. Agreement-specific issues related to the detail of the rules and expected compliance levels by different WTO members.

3. Issues related to implementation and monitoring to ensure WTO provisions are effective.

1 Cross-cutting issues

Addressing differences¹ between developing countries is central to making progress in WTO. Many developed countries are concerned with eligibility, including deeper SDT for those more in need, and the future graduation of countries from the SDT status when no longer required. There is a reluctance to extend SDT to developing countries beyond the sub-set of Least Developed Countries (LDCs), in order to protect the objective of common, transparent rules. On the other hand, developing countries themselves perceive an interest in being grouped together as a bargaining force in the negotiations; further differentiation might undermine this interest.

A more generally accepted approach to SDT is to highlight special situations, and to

¹ Developing countries are characterized by heterogeneity of economic and social conditions, resource bases, poverty levels, degrees of food insecurity, shares of rural population and income in respective totals, which result in each country having distinct SDT needs.

offer countries identifying with them the flexibility to apply policies which are otherwise restricted by WTO rules. Least Developed Countries (LDCs) have special situations in comparison to non-LDCs, but certain situations could be defined to trigger additional SDT measures, to address particular needs and allow further differentiation between developing countries. Examples of such situations are provided below.

SUBSISTENCE AND RESOURCE-POOR FARMERS

There is already a reference in the Framework Agreement to increased flexibility whereby “developing countries that allocate almost all *de minimis* support for subsistence and resource-poor farmers will be exempt”, which could form the basis of one situation. The definitions of the terms “subsistence” and “resource-poor” are problematic, both conceptually and in terms of data availability. An indicator of subsistence farmers could be derived from the percentage of farmers’ production that is consumed at home, or the percentage of farmers’ food consumption that is produced by them.²

Proxy indicators may provide an alternative mechanism for eligibility criteria. For example, there is a strong correlation between the extent of a nation’s dependence on agriculture and the proportion of agricultural producers not engaged fully in commercial activity, primarily because of the underdevelopment of agricultural input and output markets. The SDT most likely to be needed by producers in this situation is food crop production support and protection, typically for import substitutes. Such protection to enhance the commercialization of local food production in many developing countries is critical to generating greater rural and economic development. Widespread market failures often constrain this commercialization, contributing to the high transaction costs and risks that prevent increased investment in agriculture production. Policies that ameliorate such constraints are strong candidates for exemption from disciplines.

² In Ghana for example, 36 percent of farmers sell less than 20 percent of their output and 25 percent sell between 20 and 50 percent of their output. In Malawi in 2000, 63.7 percent and 59.1 percent of incomes for the rural poor and non-poor respectively were from subsistence agriculture in the form of consumption of own production.

ECONOMIC VULNERABILITY

Structural rigidities and production characteristics that prevent diversification and resource reallocation from certain types of agricultural production also constrain agricultural growth in some countries. Typically, such situations involve export commodities, notably cotton, sugar, bananas and tropical beverages. One common indicator of this situation is single crop dependence.³ Additional SDT, beyond that available to all developing countries, may be needed to help increase returns from export crop production in the short to medium term by, for example, enhancing productivity, promoting higher standards, facilitating greater market access and, in the longer term, assisting transition of less efficient producers out of production. In such cases SDT could include higher *de minimis* levels of domestic support to allow greater expenditure on coupled domestic support policies to stimulate agricultural production, or lesser export competition concessions to allow an active role for state trading enterprises.

PHYSICAL VULNERABILITY

A third situation could be defined by vulnerable agricultural livelihood systems, mainly, but not limited to those in areas susceptible to natural disasters, as measured by the proportion of low income producers affected by these events over a relatively long time. Such farmers may require SDT in the period following an event that severely disrupts their agriculture based livelihood. These may include policies to support the farm-gate prices of annual crops while the perennial crop systems, damaged by disaster, are re-established. Such measures should be transitory, and not permitted to continue after the re-establishment of the livelihood system.

2 SDT in the context of the framework agreement

SDT remains an integral component under each pillar of the August 2005 framework agreement. The logic of including SDT under all pillars is both to ensure that developed country reforms do not promote continued

³ Examples of countries with high single export crop dependence are Mauritius (sugar at 86 percent of total agricultural exports), Ghana (cocoa beans, 73 percent), Malawi (tobacco 72 percent), Mali (cotton, 67 percent) and Saint Lucia (bananas, 55 percent). This indicator could be expanded to include dependence on a limited number (2-3) crops.

trade distortions, and to support flexible policies that promote growth and development in developing countries. Such policies could include greater flexibility in the use of coupled policies to stimulate agricultural sectors, where these are required at a certain stage of agricultural development, given the important role of the agricultural sector in economic transformation. Developing countries need a level playing field to have a better chance of achieving the social and economic benefits promised by a more liberalized global trading environment. The Uruguay Round results have not been very satisfactory, since developed countries continue to provide high levels of support and maintain high tariff levels, thereby reducing trading opportunities. The focus in this Brief is on the options available within the framework to enhance the flexibility of developing countries.

SDT provisions related to *market access* are envisaged through the following.

- *Smaller tariff reductions, reduced tariff rate quota (TRQ) expansion and longer implementation periods*⁴

Significant reductions of bound tariffs might have few benefits and significant risks to some developing countries because of the relative vulnerability of their agriculture and their limited institutional and financial capability to resort to general WTO safeguards⁵, or to apply domestic policy instruments to offset the effects of external shocks. SDT for developing countries that rely on border measures for protection to promote food security and rural development may require agreed tariff cuts which maintain some distance between bound and applied tariffs.

- *Flexibility to designate an appropriate number of products as special products (SPs) associated with food security, livelihood security and rural development needs*

Although still to be defined, there are several indicators or criteria that are eligible for designating SPs for different

situations. Consideration is also needed to extend SP status to products not imported by the country but which compete with imported goods and can substitute for local products. It may be necessary for some developing countries to protect domestically produced import competing products for some period by restricting substitute imports.

- *Special safeguard mechanism (SSM) for developing countries*

The current safeguard measures are either not available to developing countries or too costly and time consuming to implement, and hence ineffective. An SSM available only to developing countries, which would be simpler to operate, is currently under negotiation.

- *Need to address preference erosion*

In general the impact of preferences has been positive for the recipient countries and, for specific countries very important for their development. However, WTO members differ in their stance on preferences. Some argue for all trade to be done on a Most Favoured Nation (MFN) basis, with negotiations focussed on reducing MFN rates. High concentration on the use and benefits of preferences, by country and product, suggests that only a few developing countries will lose, as a result of a less distorted trading system. However, several difficult issues remain, among them the degree of linkage between adjustment assistance and loss of preferential access and how to provide such assistance.

SDT in the area of domestic support is to be reflected through:

- *Longer implementation periods and lower reduction coefficients for all types of trade-distorting support and continued access to Article 6.2 (of the Uruguay Round Agreement on Agriculture (URAA)) provisions*⁶

Revisions to Article 6.2 could include more measures and apply them more extensively, expanding the situations within developing countries that give access to SDT.

⁴ Tariff rate quotas were designed to create some minimum access opportunities through low tariffs for those products that went through the tariffication process, which was feared to result in out-of quota or MFN tariffs prohibitively high for trade to take place.

⁵ See FAO Trade Policy Technical Note on Special Safeguard Mechanisms for a review of these issues.

⁶ Article 6.2 of the URAA exempts investment subsidies generally available to agriculture in developing country members and agricultural input subsidies generally available to low-income resource-poor farmers in developing country members.

- *Reductions in de minimis support, taking into account the principle of SDT*⁷
Negotiations could ensure that *de minimis* for developing countries is not below the present permissible limit of 10 percent.
- *Developing countries that allocate almost all de minimis support for subsistence and resource-poor farmers to be exempt*
Instead of reducing subsidies, in some situations, developing countries could benefit from increasing them, if a permanent exemption from reduction commitments is granted until their agricultural transformation is complete.

SDT on export competition to be provided through commitments to:

- *Maintain the Uruguay Round AoA Article 9.4 for a reasonable period*⁸
In the past developing countries have used provisions under Article 9.4, and these need to be maintained and perhaps extended to offset partially the continued use of distorting domestic support in developed countries.
- *Special consideration for state trading enterprises (STEs) in developing countries for activities to preserve domestic consumer price stability and ensure food security*
Given the development level of many poorer developing countries, state enterprises play a dual commercial and development role. This could be recognized in setting disciplines for them, on the one hand ensuring the privileges STEs enjoy in developed countries do not allow them to compete unfairly on the export market, but on the other hand providing sufficient SDT

for developing country STEs to contribute to agricultural transformation.

- *Appropriate provisions for LDCs and net food importing developing countries*
The elimination of export subsidies and further disciplines on the use of export credits will have negative effects on some LDCs and NFIDCs. These effects should be recognised in further disciplining policies and actions falling under this pillar.⁹

3 Implementation issues

Ensuring effective implementation of commitments is essential, as are periodic monitoring and review. Enhanced monitoring will help evaluate the delivery and effectiveness of the provisions. Both effective implementation and monitoring of agreed provisions are critical to advance the development of poorer countries in the negotiations. A periodic evaluation of the SDT proposals would also receive active support from developed countries, which have been particularly concerned about indiscriminate SDT measures for all developing countries. Developing countries, on the other hand, are interested in ensuring that commitments be translated into effective policy measures and development assistance.

There is a need for adequate timelines consistent with each country's stage of development and its capacity to accommodate changes in the global trading environment. Some member countries may need to introduce change more slowly than others, because their goals or their capacities are different. There is also a need for more timely and comprehensive notifications to facilitate this review process.

⁷ The *de minimis* exemption allows any support for a particular product to be excluded from the reduction commitment if that support is not greater than 10 percent of the total value of production of the agricultural product in question. It also allows non-product-specific support which is less than 10 percent of the value of total agricultural production

⁸ Article 9.4 allows export subsidies by developing country members that reduces the costs of marketing exports of agricultural products, including internal transport and freight charges on export shipments.

⁹ See FAO Trade Policy Technical Note No. 4 on Export Competition for more detailed discussion of this issue, at http://www.fao.org/trade/policy_en.asp.