



COMMITTEE ON COMMODITY PROBLEMS

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MULTILATERAL TRADE NEGOTIATIONS IN THE WORLD TRADE ORGANIZATION (WTO)

1. This Committee has in its previous sessions reviewed developments in multilateral agricultural trade negotiations in the WTO, as well as related topics on agricultural trade and food security. This document provides a brief update on developments in the Doha Round of WTO negotiations on agriculture, essentially the position as of end-January 2010. Any recent developments will be reviewed in a further document when the Committee meets. This document also highlights the work of the Secretariat in supporting member countries in the negotiations and seeks the Committee's guidance on the work programme.

I. Progress in the negotiations towards a modalities text

2. Since July 2004, when a "Framework Agreement" was reached, the Doha Round has focused on negotiating modalities, numerical targets and other details that reflect the objectives of the Round and determine the shape of its final outcome. The first draft modalities paper was produced by the Chair of the agriculture negotiations in July 2006. Five revisions have been released since then, four of them in 2008 alone. Each new version reflected the progress made towards convergence in positions, parameters, and refinements in language on specific rules. The draft modalities set out the Chair's own judgement of the convergence reached on individual components, but these are not formally agreed by parties to the negotiations until the entire package of modalities is agreed. For example, while there is broad agreement on modalities related to the elimination of export subsidies, these will not be reflected in changes to trade rules until agreement is reached on modalities falling under the market access and domestic support pillars.

3. The latest serious effort to finalize the modalities was the Mini-Ministerial meeting held in Geneva during 21–29 July 2008, which used the draft modalities of 10 July 2008 as the basis for the negotiations. Following deadlock at this meeting, negotiations resumed in September 2008 with small-group meetings on various topics. Reflecting some progress made in the latter part of 2008, a revised draft modalities paper was issued on 6 December 2008. This remains the latest

draft (as of end-January 2010). During 2009, technical work was undertaken by WTO members and small-group negotiations continued.

4. A WTO Ministerial Conference took place in Geneva during 30 November–2 December 2009. This was, however, not billed as a meeting for negotiating the Doha Round, but was intended to review the WTO's activities and discuss the institution's role in aiding recovery from the global economic crisis. At that meeting, Ministers reaffirmed the need to conclude the Round in 2010 with a stocktaking exercise to take place towards the end of the first quarter of 2010. Within that period, senior officials are scheduled to meet in Geneva to chart a course towards concluding the negotiations in 2010.

II. Positions and implications in key negotiating issues

5. The protracted phase of negotiating modalities reflects the widely different objectives of different member countries in respect of changes to the rules governing trade in, and support to the production of, agricultural goods.

6. The mandate for the Doha Round is to establish a fair and market-oriented trading system through a programme of fundamental reform, reducing all trade-distorting policies and measures in the three main pillars of market access, domestic support and export competition. However, it is also recognized that agriculture is of critical importance to the economic development of developing countries, and that these countries must be able to pursue agricultural policies that are supportive of their development goals, poverty reduction strategies, food security and livelihood concerns. Fundamental differences in opinion remain over (i) the role that agricultural trade and related policies can play in supporting these goals, (ii) the implications of changes to trade rules for countries' ability to use trade and related policies, and (iii) the potential impacts of these policies on trading partners.

7. In agriculture, a number of issues remain particularly divisive in this respect. In addition to restrictions on the use of domestic support measures which are considered on the basis of their potential to distort trade, these issues mainly concern the extent to which different countries will need to reduce their barriers to imports of different agricultural goods. This paper outlines the key points of division on both the specific modalities and the arguments behind them. Although not comprehensive of all modalities upon which convergence is still to be reached, they are considered to be illustrative of the main issues under discussion.

8. Under the Agreement on Agriculture, **domestic support** to agriculture is disciplined with a view to reducing the potential negative impact of this support on international trade. In essence, the disciplines agreed under the Uruguay Round were designed to encourage a shift in the types of support measures that are not linked to production, or are non-distortionary. While farm policies have undergone substantive changes over the years along these lines, the potentials for providing large amounts of distorting subsidies remain high. Reducing those potentials effectively was essentially left for the Doha Round.

9. The latest modalities reflect an agreement to reduce the overall trade-distorting domestic support (OTDS) (sum of the three categories of trade-distorting support measures – Amber Box, *de minimis* and Blue Box) by 80 percent for Members with the highest level of support in the base period, and in the range of 70 percent and 55 percent respectively for the other two tiers with lower levels of support in the base period. Likewise, base period Amber Box support was to be reduced by 70, 60 and 45 percent in the three tiers. Other proposals included capping product-specific support and tighter monitoring and surveillance of the support measures.

10. Cotton, which receives significant support in some OECD countries, has been the focus of particular attention in the negotiations, recognizing the importance of cotton for many developing countries, especially LDCs. Although cotton has appeared in draft modalities in all three pillars, discussions on the treatment of cotton have been most prominent in the domestic support pillar.

The latest proposal is to reduce trade-distorting support (the Aggregate Measure of Support (AMS)) for cotton with a formula that results in deeper subsidy cuts for cotton than for other products, for example, by about 84 percent if the reduction rate for other products is 70 percent. Blue Box subsidy limits for cotton will also be lower than for other products.

11. The negotiations under the **market access** pillar have been a major focus of attention for all countries, both importers and exporters of agricultural products. While initial focus in the negotiations was on the extent to which tariffs in general should be reduced by different categories of countries, the current impasse is more to do with modalities concerned with exceptions to these reductions and with mechanisms to safeguard against the potential negative effects of tariff reduction.

12. The most recent modalities reflect a general framework for reduction that foresees a minimum average cut on final bound tariffs for developed countries of 54 percent, to be implemented over five years. The reduction rate for the highest tier, namely, products with bound tariffs above 75 percent, would be 70 percent while the reduction rates for the second to fourth tiers would be 64 percent, 57 percent and 50 percent respectively. For developing countries, the maximum overall average cut would be 36 percent, using the rule of a two-thirds cut relative to those agreed for the developed countries. Tariff cuts for small, vulnerable economies would be lower, while least-developed countries (LDCs) are exempt from making any cuts.

13. However, both developed and developing countries seek exemptions from the full cuts foreseen under this framework. In this respect, there has been particular difficulty in negotiating three components of the modalities: sensitive products, special products and the Special Safeguard Mechanism (SSM).

14. One longstanding demand of several WTO Members has been the designation of some products as sensitive in order to address non-trade concerns (such as environmental preservation). Although this exemption is available to all Members, the sensitive product provision has been particularly attractive to a number of OECD countries with high tariff bindings on a relatively small number of products that are considered sensitive to significant import liberalization. Members had agreed that these products would not be subject to the full tariff cuts but that this exemption would have to be offset substantially through provision of additional import quota. There were two main issues to be settled. One was the number of sensitive products, where the latest proposal was up to 4 percent of tariff lines, considerably narrowed from the early positions of [1-8]¹ percent. The second issue was the size of the additional quota, where the latest proposal was “no less than 4 percent of domestic consumption”, with some adjustments depending on current bound tariffs and the extent to which the tariff cut for a sensitive product deviates from the general reduction rates.

15. In the first half of 2008, considerable technical work was done by a group of WTO Members in establishing a method for determining additional quota at the level of tariff line. There was apprehension about the actual level of market access for sensitive products that this methodology would yield *vis-à-vis* the level that would result from the general tariff cut. Rules on sensitive products are seen as an important and divisive element of market access because this flexibility could potentially cover many important agricultural products for which significant barriers to trade exist, such as dairy products and sugar.

16. Special products (SPs), a provision also allowing less than the full cuts foreseen under the framework, but for which additional import quota would not be required, and which is only available to developing countries, has become a divisive issue because negotiators view the rationale for, and potential use of, the instrument very differently. The proponents view the provision as a key development instrument for ensuring food security, rural development and

¹ This indicates that a consensus has not been reached on a specific number within this range. Similar ranges also appear in several other places in the draft Modalities.

livelihood security, by allowing a continued level of protection of domestic production that would be uncompetitive with imports, but upon which significant numbers of poor households are dependant and/or which have a key role to play in ensuring that processes of structural transformation and development are beneficial in terms of improved food security status at the national and household levels and enhanced livelihood opportunities. On the other side, many, both developed and developing country Members with export interests, argue that the SP provision could potentially block a significant share of their exports and that the key parameters should reflect this.

17. The three particularly divisive issues on this topic are: i) the total number of tariff lines that can be designated as SPs; ii) the number of SP tariff lines requiring no tariff cuts; and iii) the tariff reduction rate for the remaining SPs. The original position of the G33 Group of negotiators was for at least 20 percent of the tariff lines to be self-designated as SPs, with half of these exempt from tariff cuts, the remaining quarter having a 5 percent cut and the remaining quarter having a 10 percent cut.

18. During the 2008 July Mini-Ministerial meeting, several compromise proposals were tabled in succession. In a proposal by the WTO Director-General, the total number of SPs was set at 12 percent of the tariff lines, of which 5 percent would have no tariff cut, but the overall average cut for all SPs would have to be 11 percent. The G33 objected to this because *inter alia* it implied a 19 percent overall average tariff reduction for the remaining 7 percent of tariff lines, which was considered too high. In turn, the G33 proposed 15 percent of tariff lines for the total number of SPs, of which 5 percent of lines would have no tariff cut while the overall average cut would be 9 percent for the rest of the SPs. The December 2008 Modalities carried forward the above proposal by the WTO Director-General, but with a footnote that a number of developing country Members have expressed reservations concerning the numbers specified in that paragraph.

19. The third difficult element in market access has been SSM. Under this provision, users of the SSM would be allowed to raise tariffs above the bound rate in the event of an import surge and depressed import price. The rationale is to prevent potentially detrimental effects on domestic production. The SSM attracted the most attention in the July 2008 Mini-Ministerial meeting, with the negotiations collapsing at this point in the agenda. Moreover, the SSM is also a subject that has continued to elicit many compromise proposals. There are sharp differences in views on all three components that make up the SSM: i) the threshold level for triggering volume-based SSM; ii) the level of remedy; and iii) the frequency with which it can be used.

20. On the first point, positions have ranged from a 40 percent threshold (where the SSM would only be triggered when import volumes exceed an established benchmark import level by 40 percent) to a 10-15 percent threshold. Proponents of the 40 percent threshold argued that below that level, market access would be seriously compromised. Those arguing for a 10 to 15 percent threshold stressed the fact that smallholder based agriculture is highly vulnerable to shocks for which producers lack alternative risk mitigating instruments, so only a low threshold would safeguard these farming systems and associated livelihood opportunities from import surges.

21. On the remedy, the fundamental difference in positions was about whether the total duty (base plus SSM duty) should exceed the pre-Doha bound tariff level. One side argued that exceeding this level would undo past negotiations on market access. The other side held that SSM is a safeguard, and like other WTO safeguards (including the Uruguay Round's Special Agriculture Safeguard), the level of the remedy should be linked to the problem at hand and so the issue of exceeding the bound tariff was not a relevant consideration.

22. Compromises are being negotiated on the extent to which the above total duty could exceed the pre-Doha bound tariff. One proposal is to allow countries to exceed that limit by a relatively small margin, but limit such cases to far fewer products. The latter position reflects apprehension that countries would automatically trigger SSMs whenever the trigger conditions

are met. The other side has argued that there is no such precedent (with other existing safeguards) nor is it practical or feasible to resort to SSM in that way. The negotiating difficulties have also been compounded by proposals for double-checking, namely, that the volume SSM should only be triggered when there is also evidence of falling prices in the domestic market. The G33 and others have argued that the double-checking requirement goes beyond the originally agreed concept of an SSM and should not be imposed as it would significantly reduce the effectiveness of the instrument.

23. A fourth issue relating to the tariff reduction formula concerns the treatment of tropical products, particularly those with longstanding preferences. Under the Doha Round, there is a commitment reached to effectively address the full implementation of the liberalization of trade in tropical and diversification products.² At the same time, there is also a commitment to address the issue of longstanding preferences, many of which are also extended to the tropical products, resulting in a potential conflict with respect to the degree of tariff cut. Negotiations have focused on the listing of these two categories of products with a view to avoiding the overlap. Although the July 2008 modalities paper reflects divergence, there has been significant movement in the meantime, particularly in the light of the agreement between the EU, ACP producers and Latin American exporters of bananas with respect to the longstanding dispute relating to preferential access for ACP exporters to EU markets.

III. FAO technical assistance

24. FAO has continued to provide technical assistance to its member countries in the area of multilateral trade negotiations on agriculture, as well as in fisheries and forestry. The general objective of this programme has been to support member countries, particularly developing countries and countries in transition, allowing their active and effective participation in the negotiations. FAO also provides technical assistance in broader, trade-related development areas such as implementation of current agreements, sanitary and phytosanitary aspects of trade and trade policy analysis and capacity building.

25. FAO's analyses of negotiating issues and support to member countries respond to specific needs as per the developments taking place in the WTO agricultural negotiations, with a particular focus on informing constructive debate on the issues where agreement has proved difficult. Support to member countries on the ongoing Doha Round negotiations in particular, and on trade issues in general, was delivered in various forms:

- *Technical notes and briefs on negotiating issues.* Responding to the requests from FAO Members, including from trade negotiators in Geneva, FAO continued to prepare analyses on various negotiating issues. Recent contributions have covered such negotiating issues as special products, special safeguard mechanism, sensitive products, tariff escalation, tropical and diversification products, preference erosion, commodity-focused issues, as well as WTO rules in the context of the food crisis.
- *Regional clarification workshops.* These are held from time to time in different regions, depending on demand and on the availability of extrabudgetary resources. Among other topics, these meetings discuss analyses of WTO negotiating issues.
- *Presentations in Geneva.* FAO trade policy experts continue to visit Geneva to make presentations on negotiating issues on which the Secretariat has undertaken analysis. The seminars are often organized together with Geneva-based agencies and target trade negotiators.
- *Technical assistance to member countries.* Responding to requests from member countries, FAO provides technical assistance to policy-makers and negotiators as well as civil society organizations in countries. In some cases, these activities are

² For details see *Trade Barriers Faced by Developing Countries' Exporters of Tropical and Diversification Products*, ICTSD-FAO Information Note 5, March 2008.

implemented through specific projects and in others through presentations in national seminars and training workshops.

- *Expert consultation.* These consultations are periodically held on various themes by bringing together experts to analyse specific issues on which analytical results differ, with a view to improving the analytical evidence base upon which negotiating parties draw.