

## **Agriculture Talks: Empty promises to the South**

By Aileen Kwa\*

*As the WTO majors - the European Union and the United States – increase the pressure to reach a “framework” agreement in the agricultural negotiations by July, it now appears clearer than ever that the current trade distortions, endorsed by the unfair agreement on agriculture (AoA) rules, would be accentuated. In the following piece, Aileen Kwa argues that if a July framework comes together under the present conditions, all developing countries would lose out.*

Both US trade representative Robert Zoellick and EU Trade Commissioner Pascal Lamy are serious about engineering an agreement on a framework in agriculture and other negotiations by July. To this end, they have come up with the contours of a package. This is contained both in Lamy’s letter of 9 May to all WTO Members, as well as in talks between 29 WTO members at the mini-ministerial held in Paris on 14 May.

### **Lamy’s “Hearts and Minds” Strategy**

Commissioner Lamy’s “offer” was timed just before the Paris meeting to soften the Africans and least developed countries (LDCs) and to break the coalition of developing countries, in this case, the G90 from the G20. The EU is also known amongst trade negotiators to be adept at the “hearts and minds” game. They lead you to your grave whilst duping you into feeling utterly grateful. This is what Lamy has proposed to the G90:

#### ***No tariff reductions in agriculture***

This is misleading. G90 countries may not be asked to take on tariff reductions in agriculture in the WTO, but they will be part of their regional economic partnership agreements (EPAs) with the EU. Developing countries instead should take the legitimate high ground, point out that the EU and US are distorting world trade and should be the ones to adjust these distortions, with developing countries not having to make tariff reductions. In fact, they should use the argument of “parallelism” used by Lamy and put up their tariffs according to the subsidy levels of the US/EU.

By receiving the EU’s offer as a “concession”, they would have missed out on the opportunity to insist on real domestic supports reduction.

Hence, whilst it is couched as an “offer”, it is in fact an attempt by the EU to get the G90 to continue to endorse the distorted AoA paradigm, with the EU knowing that they will have their market access through other means. In addition, they will get the developing countries to give in on the other parts of the Doha Round which until now has been stalemated – non-agricultural market access (NAMA), General Agreement on Trade in Services (GATS) and the “Singapore Issues” (trade facilitation, transparency in government procurement, investment, and competition).

#### ***No tariff reductions in NAMA but developing countries asked to increase “their tariff bindings to a reasonable level”.***

Taking on tariff bindings is a major concession on the part of developing countries. Most G90 members have not bound or locked in their tariffs on industrial goods.

Kenya has 1.6 per cent of its industrial tariff lines currently bound, Nigeria, 1.4 per cent. Other G90 members may not even have any tariffs bound. In the draft Cancún declaration (13 September Derbez text), countries which have less than 35 per cent of their tariffs unbound are not asked to implement a tariff reduction formula. However, they are asked to bind their tariffs up to 95 per cent (Annex B, para 4 and 7b). Going from 1.4 per cent to 95 per cent tariff bindings is very drastic.

And the crunch: they should bind their tariffs not at a level they freely decide, but at an average level that does not exceed the overall average of bound tariffs for all developing countries after full implementation of the current Round. This developing country “average” bound tariff level would not be very high. If the Derbez text is anything to go by, it will be guided by an earlier article in that text (Annex B, para 4), where all countries with more than 35 per cent of their tariffs bound will have to bind the rest of their tariffs at levels which are twice the applied rates of the base year (2001 was suggested). Most developing countries already have very low applied rates due to structural adjustment conditionalities. Lamy’s call on the G90 to lock in these low rates is paraded as an “offer”.

Before Cancún, African delegates said that these articles in the draft declaration - inserted by Chairpersons and which did not reflect the sentiments of the majority - would create “industrial graveyards” in their countries.

And in exchange for his “generosity”, Lamy is backtracking on his promises made in Cancún, where he offered to drop three of the Singapore issues entirely - investment, competition, and transparency in government procurement.

*Now he is also asking for an agreement in trade facilitation as part of the single-undertaking (that is, in the Doha Round) and the possibility of an agreement on transparency in government procurement – also as part of the single-undertaking.*

In the 9 May letter, Lamy says investment and competition are outside this round. However, he did not specify that these should be dropped completely from the WTO. Another document which Lamy circulated to several African Ministers in late April entitled “Possible G90 Platform for DDA [Doha Development Agenda] Modalities” in fact suggested the revival of the investment and competition working groups, and that these plurilateral negotiations should take place at the same time as the current negotiations. It says:

“Investment and Competition: The G90 could put forward a “declaration on investment and competition” to the effect that it is understood that they are out of the Doha Round and out of the single undertaking as a result, at the same time WTO Members should not stop WTO negotiations/work on these issues on a plurilateral basis. The EC would be willing to accept this. Even if the discussions on these two issues are plurilateral and there is no requirement for Members to join them, we do still hope that G90 members would participate as members or observers to these negotiations, so as to bring to them a stronger development dimension. It will however be a matter of choice.”  
(Informal communication to some African Ministers from Pascal Lamy, “Possible G90 Platform for DDA Modalities, 22 April 2004.)

Developing country members therefore should not be blinded into believing that the European Commission has given up on pursuing investment and competition in the WTO. Developing countries have already explicitly stated that negotiating these issues as plurilateral agreements is a slippery slope. They will either be pressured into joining later, or these plurilateral agreements would invariably find their way into the Round. The time to insist that these two issues are dropped permanently from the WTO agenda is now.

There already exists a plurilateral Transparency in Government Procurement agreement. All efforts should be made to keep this out of the Round / single undertaking.

Most developing countries are also very concerned about the costs involved in a new agreement on Trade Facilitation. Accelerated customs procedures works for the developed world, but not for developing countries since there is higher likelihood of leakage.

**Developing countries should still:**

- 1) Try to drop trade facilitation from the Doha Round.
- 2) If not possible, it should be excluded from dispute settlement understanding (DSU) rules.
- 3) Since other more pressing development needs would be put in jeopardy, countries should argue that implementation would only be in accordance to the level of grants (not loans) provided by the developed countries. Developing countries should make it clear that they cannot take on the financial responsibility of implementing this agreement
- 4) Use it to leverage the best *quid pro quo* possible. There should not be any agreement on this until the end of the Round and only if there are real gains in agriculture – in terms of ending dumping.

**G20 Endorses a Transatlantic Alliance for Perpetual Agricultural Distortion**

The countries at the 14 May Paris Mini Ministerial were Argentina, Australia, Bangladesh, Botswana, Brazil, Canada, Chile, China, Costa Rica, the EU, Egypt, Guyana, Hong Kong, Iceland, India, Indonesia, Japan, Kenya, Malaysia, Mauritius, Mexico, New Zealand, Norway, Pakistan, Singapore, South Africa, South Korea, Switzerland, and the United States.

From various press reports on the direction of negotiations, it is now clearer than ever that a July framework would not correct the current trade distortions endorsed by the unfair agreement on agriculture rules, but would in fact accentuate these distortions by the US and EU.

*What seems to have been agreed in Paris includes:*

**Domestic Supports Pillar:**

- The expansion of the Blue Box to include US' counter cyclical payments approved in the May 2002 US Farm Bill. These payments are mainly provided in eight sectors (all sensitive crops in developing countries): cotton, wheat, corn, soybeans, rice, barley, oats and sorghum.
- Payments to be provided in the Blue Box could have product-specific caps.

- No overall cap on the Green Box.

Shockingly, this enlarged Blue Box seems to be increasingly acceptable to the G20. The idea of expanding the Blue Box to include the US' subsidies first emerged in the 13 August pre-Cancún US-EU text. It was one key element that contributed to the furore before Cancún, and the coming together of the G20, which vehemently opposed this since it allows the US to reduce subsidies in the "trade-distorting" Amber Box, and shift these into the new Blue Box. This was even criticized by Brazil's Celso Amorim in his article in the Wall Street Journal, "The Real Cancún" (25 September 2003).

In this article, Amorim explains why no outcome was better than the possible outcome they were faced with in Cancún:

"The question here is not whether a modest outcome would have been better than the absence of result. The real dilemma that many of us had to face was whether it was sensible to accept an agreement that would essentially consolidate the policies of the two subsidising superpowers – with very modest gains and even some steps backwards (the new broader definition of "blue box" subsidies to accommodate the US for instance)...".

In the light of this, the G20s current climb-down is incomprehensible.

The US currently does not currently provide supports under the Blue Box. This Box was created in the Uruguay Round to cater to the needs of the European Union. It was a category of supports that was supposed to be "production-limiting" in effect – that is, would decrease supply. In this Round, it seems that the Blue Box is again being reinvented, to pander to US needs. The US is doing away with the "production limiting" criteria and wants to include in the Blue Box direct payments to producers based on fixed areas and yields in reference to past production, as provided in their new counter-cyclical programmes. It will allow the US to house about US\$9-10 billion a year of their Farm Bill supports.

The US is justifying this box-shifting by arguing that the counter-cyclical payments are non-trade distorting, since they are direct payments given to producers de-linked from production. They are also trying to soothe the G20 by arguing that the supports will have product-specific caps on them (that is, supports on specific products will have a ceiling level). This is cold comfort since calculations for these ceiling amounts are likely to be based on a recent year where prices were low and subsidies high. Furthermore, counter-cyclical payments are price related. Direct payments kick in when market price falls below a certain level. This is no less distorting than price-support Amber Box payments.

To add insult to injury, the G20 seems to have forgotten one of the most important components of their original (20 August) proposal – capping or setting a ceiling level for the Green Box, without which there will be no effective way to ensure that US/EU subsidies in fact decrease.

**Export Subsidy Pillar: No Elimination in Sight**

The EU has promised to eliminate all export subsidies, on condition that this is paralleled by similar elimination of other forms of export subsidies, principally by the US.

That is, the US needs to address their export subsidisation programmes such as export credits and credit guarantees, food aid, and the so-called “monopoly activities of state trading enterprises”. In particular, the conditions target the \$3.2 billion the EU says the US spends on credit programmes to support export sales of US farm goods.

The important missing detail: the EC has provided no end date for the elimination of export subsidies.

Developing country negotiators are aware that this is yet another EU strategy of not doing much. After the framework is agreed upon, they will then avoid elimination by putting the blame on the US for failing to move satisfactorily in reforming its export subsidy programmes. Developing countries in need would also have a difficult time insisting on an end to subsidised food aid. There is also no agreement in the WTO about what to do with state trading enterprises (STEs). For many developing countries, STEs play a role controlling domestic supply and prices, as well the level of imports entering the country – all very critical for food security.

#### **Implementing AoA II – Same or Even Higher Levels of US / EU Subsidies**

The EU has no intentions of reducing supports. They may reform the CAP many times over, but the overall level of supports EU will pay to producers was agreed in a deal struck between French President Chirac and Germany’s Chancellor Schroeder in October 2002, thus freezing overall EU supports for 2007-2013 at the 2006 level. From now until 2006 the EU, by incorporating ten new members, will increase supports from 43 billion to 50 billion euros a year. Whatever the AoA rules negotiated, at least 50 billion euros will go to EU producers until 2013.

The US, too, increased support spending by 63% or \$73.5 billion with the Farm Bill. The new AoA rules – drafted to dupe the rest of the world – will be a box-shifting exercise for the Americans. It will look something like this:

#### **Domestic Support (excluding the Green Box) in US\$ billion**

	US – current supports	US – AoA II
Blue Box	0	10
Amber Box (assuming that AMS is reduced by 30/40 – 60%)	20	12-14
De-minimis (assuming it is reduced by 50%)	10	5
<b>Total</b>	30	27-29 (Additional subsidies are provided in the Green Box)

## **Market Access**

The G20 continued to reject the US / EU blended formula in Paris. However, blaming the G20 for dragging their feet, the majors have asked them to come up with an acceptable formula by early June, at the next agriculture negotiating session in Geneva.

## **GATS**

As if allowing the US and EU to get away with murder in agriculture is not enough, Pascal Lamy's letter suggests that the G90 and all WTO members would have to provide a "significant level of new and substantial commitments" on services.

There is nothing in the GATS agreement that obliges countries to table offers. It is entirely voluntary.

## **Conclusions: What Do Developing Countries Pay and Get in Return?**

Developing countries made positive gains in Cancún. By asserting their voices, they made it clear to the major powers that they were insistent on having a fairer deal. We are now at a cross-roads in the negotiations – a package is on the table, put forward by the EU and US. Should developing countries take it or leave it?

### ***For the G90, the price is high.***

AoA: The package deepens the distortions in agriculture, and perpetuates dumping – even in G90 markets.

NAMA: The G90 would pay a very heavy price by having to bind their tariffs in the NAMA negotiations. Tariff bindings at twice the applied rate, as suggested in the Derbez text, would lock countries permanently into very low tariff levels. This would foreclose any future industrial policies countries may want to put in place in order to nurture certain industries as part of their development strategy.

GATS: This is the real agenda of the business community in Europe. The US is equally aggressive. The sectors they want include energy, telecommunications, finance, professional services, transport, distribution and retail services, water, health, etc. With the package couched as an "offer" pressure will be exerted on countries with minimal export capacity to open their markets. Liberalisation would wipe out their fledging domestic service providers. Mode IV of GATS – the movement of natural persons – is an area where developing countries have an interest, however liberalisation in this sector will not materialize in the current political climate of the "war on terror".

The Singapore Issues: These issues will give foreign companies the same rights as local companies. Local companies would have to compete with the big corporations, even on home ground. Having investment and competition as plurilateral agreements is only the first step towards full-fledged agreements in these areas in the WTO.

Breaking and Dividing Developing Countries: Of even greater concern is the fact that this strategy by the EU and the US is a divide and rule game. Developing countries have been resisting the developed countries' attempts to create categories amongst them. For example, in the area of special and differential treatment (S&D), the EU has

been arguing for “differentiation” of developing countries so that not all countries except the poorest, should avail of S&D. Developing countries have resisted this, knowing that unity is their prime capital in the negotiations. (In Cancún, the G20’s strong stance also positively influenced the G90 into a strong position.)

If the G90 accepts this proposal, they would forever be endorsing differentiating amongst developing countries in the multilateral system. This will weaken their negotiating capacity as a collective force.

Are the G90 countries getting anything in return? The only gains for the G90 are in tariff reductions in agriculture. However, this is a false promise since these countries would still be pushed to lower their tariff levels in other bilateral negotiations – such as the economic partnership agreements (EPAs) and in bilateral or regional FTAs with the US. They would have little opportunity, however, in these negotiations, to change the current trade distortions by the US and EU.

### **The US and EU Get Everything They Want**

Whilst the G90 are being asked to pay a heavy price, the US and EU are setting themselves up to get everything they wanted out of the Doha Round: market access as well as progress on “rule-making” or deregulation (beyond the border measures). In addition, the WTO is critical for the US and EU in several ways. Firstly, it is a multilateral legitimization of their dumping in the developing world. Secondly, it gives them a weapon over the biggest developing country markets currently not covered in bilaterals – India, China, Brazil, Indonesia, Nigeria, and Egypt.

And in their latest moves, they have succeeded in isolating India, China, Indonesia, and the Philippines by buying over and neutralizing their natural allies, the G90. In addition, most of the Indonesian-led G33 Alliance on Strategic Products (SP) and Special Safeguard Mechanism (SSM) -- another group of potential allies wanting to defend their markets -- are also part of the G90.

They are also attempting to isolate India *et al* by softening their Latin American allies in the G20, who have been aggressively courted by both the US and EU. The major powers are hoping that by tempting them with sweeteners, they would no longer support India on a less ambitious market access tariff cutting formula, as was the case in Cancun, and that these G20 countries would also go soft on the subsidy issue. The latest EU-Mercusor offer of beef and other quotas may, for instance, be partly responsible for the apparent G20 climb-down on subsidies.

If a July framework comes together under these conditions, all developing countries will lose out: There will be no end to dumping, yet the G90 economies will still be prised open through the bilaterals. India, China and Indonesia (close to half the world’s population) will lose out if they are not able to stop a very ambitious tariff reduction formula from being implemented. Furthermore, all developing countries would lose in the industrial sector and in services.

Developing countries should call the bluff of the US and EU and exert their rights to a fairer trading system. They would gain from being as tough as Lamy and, using his own words, insist on “parallelism” – tariff levels should be put up instead of brought down as US/EU subsidies are retained and even increased.

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