

Recent Developments in Multilateral Agricultural Trade Negotiations

Presented by

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Outline

- The importance of protection/distortions in global agricultural trade
- Putting agricultural trade negotiations in an historical perspective
- What's currently on the table?

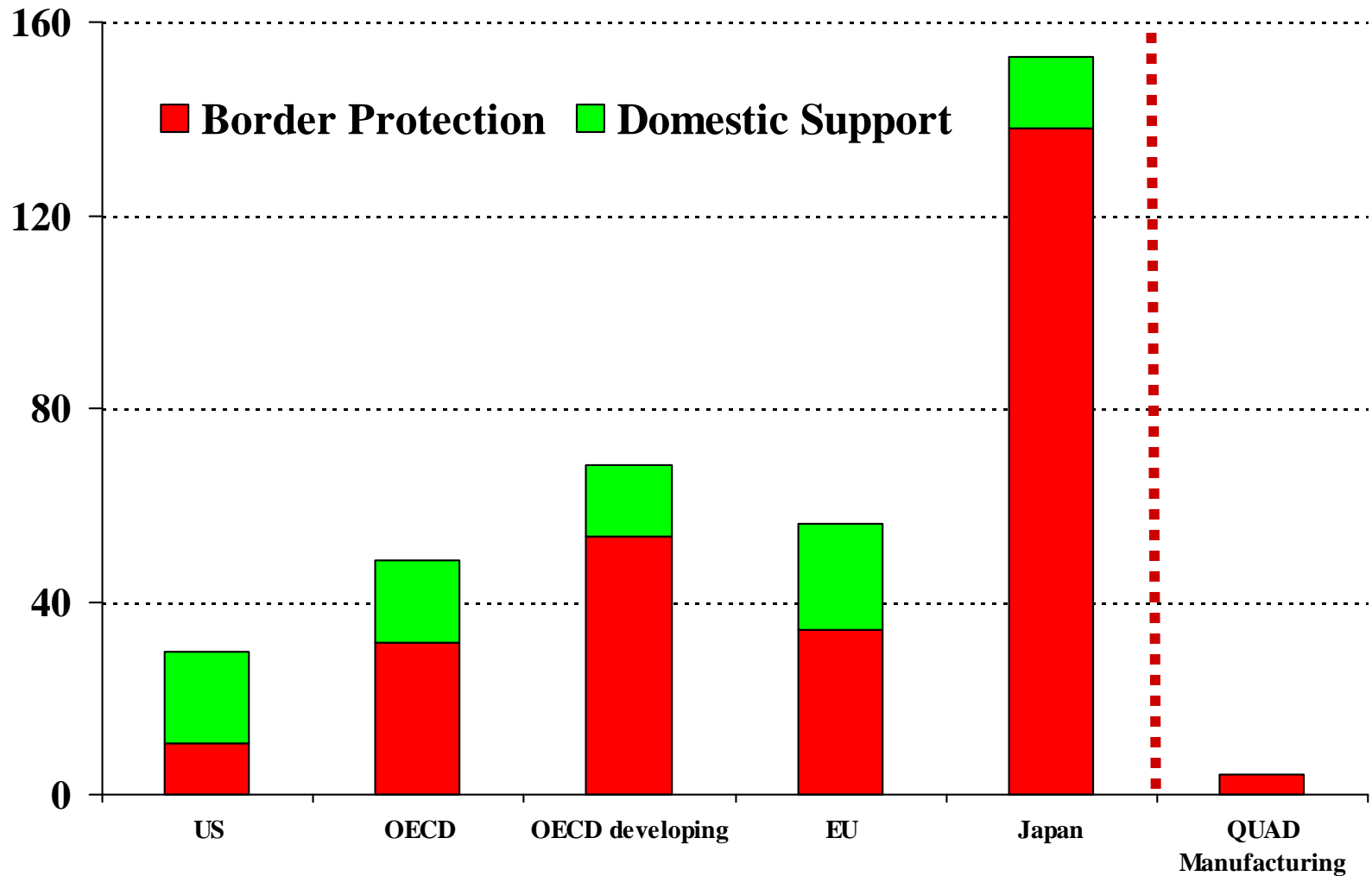
Patterns of Agricultural Protection/Distortions

Types of instruments that distort agricultural trade

- **Market access:** These include import tariffs and quotas that protect local producers from competing imports. Protection induces local production to be higher than would be the case at market prices, at the expense of international producers and exporters.
- **Export subsidies:** These include government payments that cover some of the costs of exporters such as marketing expenses, special domestic transport charges, and payments to domestic exporters to make sourcing products from domestic producers competitive.
- **Domestic support:** These include direct support to farmers linked to the type, price, and volume of production. Depending on the level of support, local production is usually higher and competing imports lower than in the absence of subsidies.

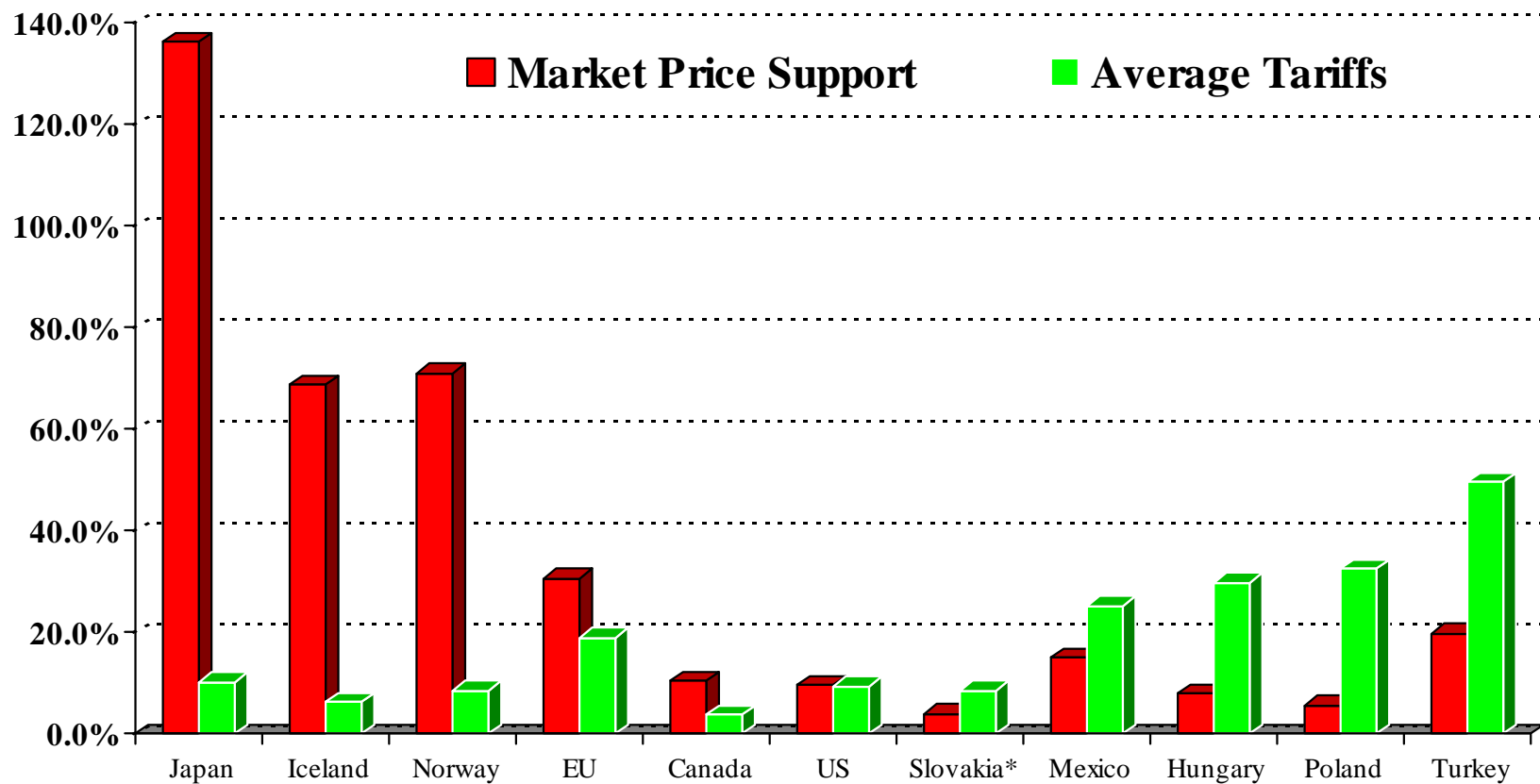
Protection is Still High and Mostly at the Border

(rate of protection, percent)



Source: OECD

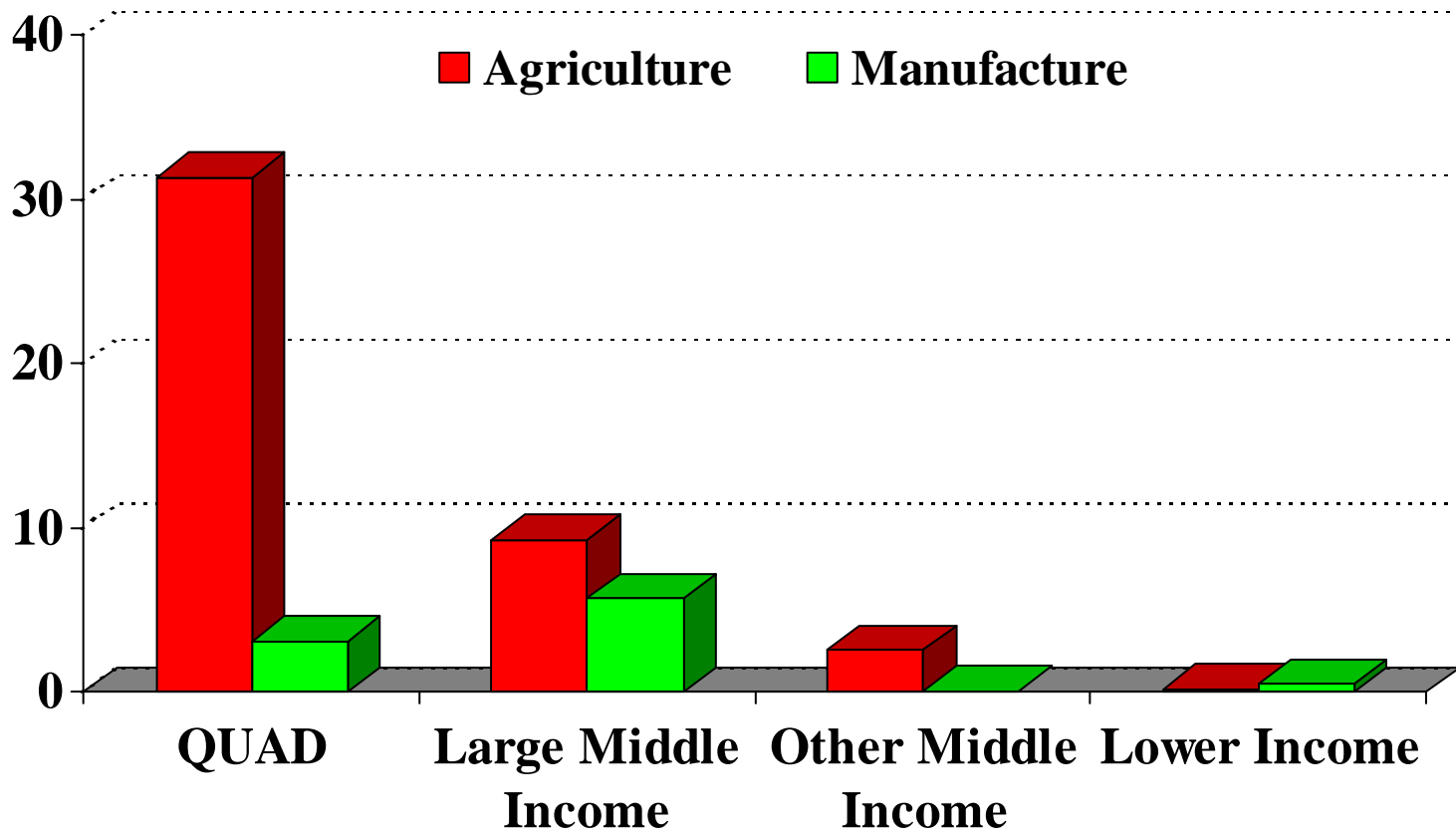
Average tariffs mask the protection in industrial countries and overstate in developing ones (percent)



Source: OECD and WTO IDB (MFN applied tariffs)

Note: MPS figures are calculated using 2000 and 2001 average except Slovakia

Border Protection is non-Transparent (Tariff lines that are not Ad-Valorem, percent of total tariff lines)

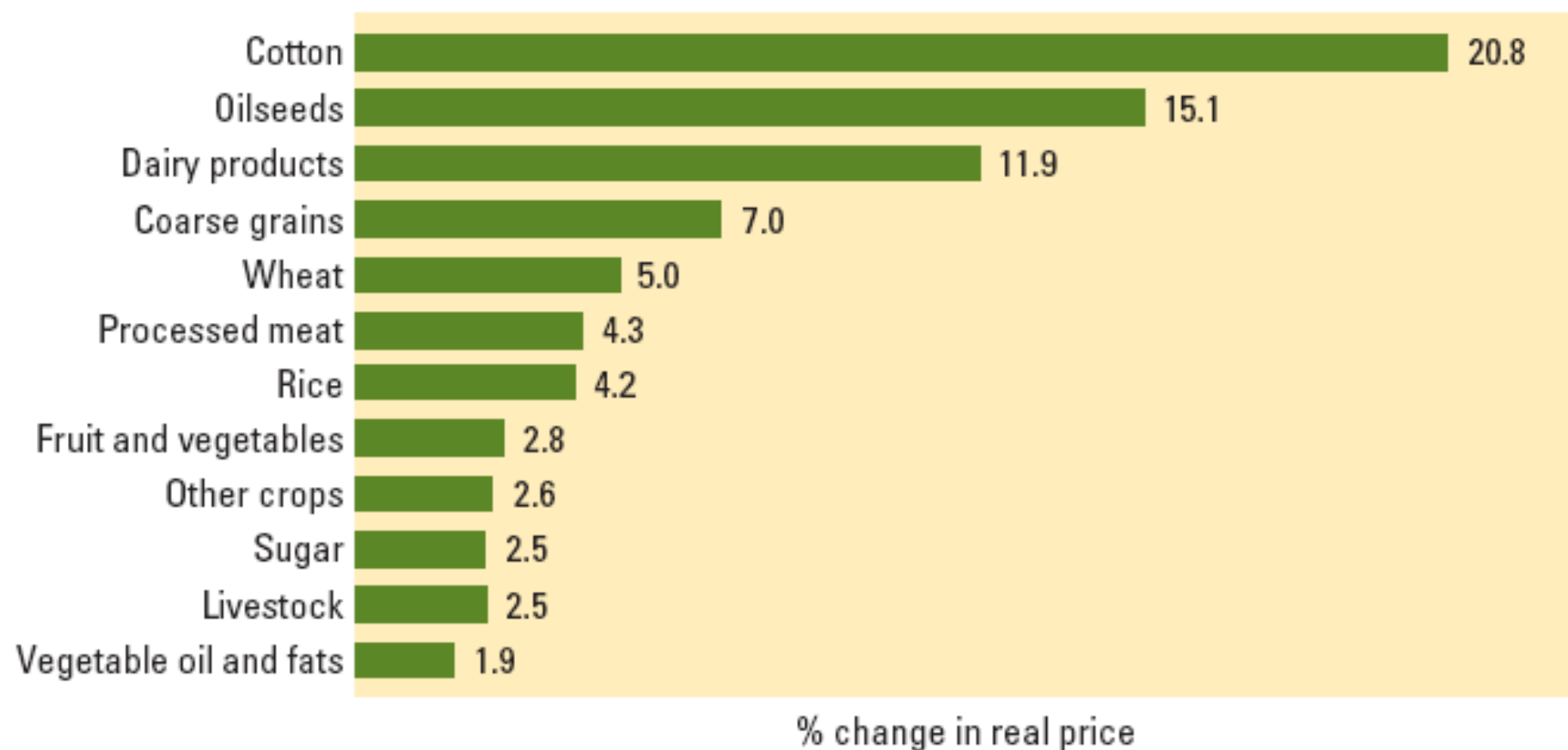


Sources of cost to global economy

<i>\$ billion due to policies in:</i>	Agric & food	Textiles clothing	Other merch.	TOTAL
High-income countries	135	15	9	159 (55%)
Developing countries	47	23	58	128 (45%)
All countries' policies	182 (63%)	38 (14%)	67 (23%)	287 (100%)

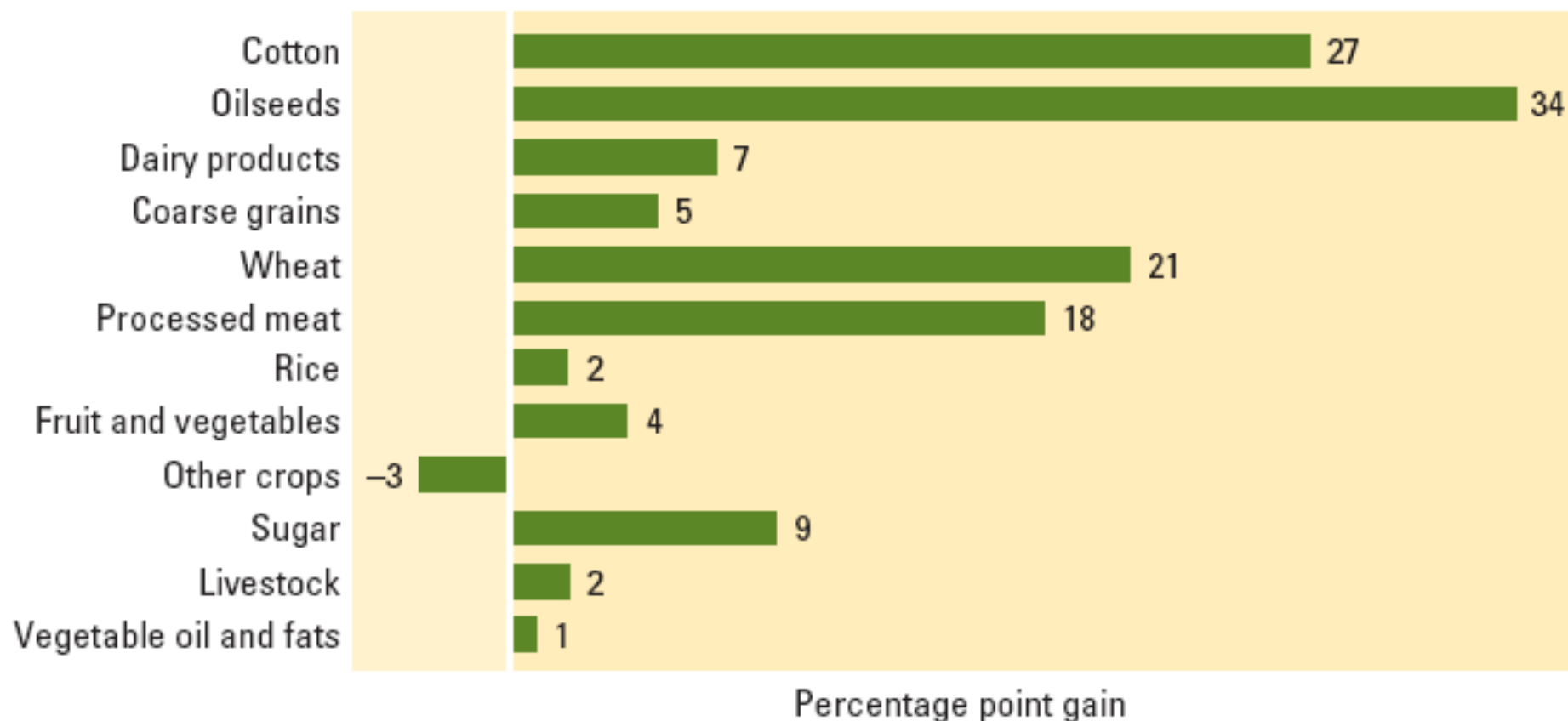
Source: Anderson, Martin and van der Mensbrugge (2005)

Figure 4.6 Estimated real international commodity price increases following complete trade liberalization



Source: Anderson, Martin, and van der Mensbrugghe 2006a.

Figure 4.7 The corresponding gain in the estimated trade shares of developing countries



Source: Anderson, Martin, and van der Mensbrugge 2006a.

Effects of global lib'n on cotton in DCs

(\$billion)

	Cotton output	Cotton value added	Cotton exports
SSA	2.2	1.1	1.9
Other DCs	3.0	1.0	2.3

Relative importance of 3 agric pillars

<i>Welfare effects from:</i> <i>% for:</i>	Agric market access (tariffs)	Agric domestic support	Agric export subsidies	All agric policies
Developing countries	109	1	-10	100
World	93	5	2	100

Putting Agricultural Trade Negotiations in a Historical Perspective

Overview

- Post war negotiations
 - The International Trade Organization failure
 - The GATT in 1947 (23 countries including 12 industrial countries)
- Negotiation Rounds
- Countries negotiate reciprocal concessions
 - Offers and requests
 - Formulas

Agriculture was included in the negotiations late

Place / Name	Year	Participants	Topics
GATT	Oct 1947	25	Gatt treaty
La Havana	March 1948	53	Project of the ITO
Geneva	1947	23	Tariff reduction
Annecy	1949	33	Tariff reduction
Torquay	1951	34	Tariff reduction
Dillon	1960-1961	35	Tariff reduction
Kennedy	1964-1967	48	Tariff red. + anti dumping
Tokyo	1973-1979	99	Tariff red+ NTB + Agreements (subsidies, TBT, Public procurement, aeronautics)
Uruguay	1986-1993	120	Tariffs, NTBs, Agriculture, Services, IPR, rules, Dispute settlements WTO

GATT outcomes

- Tariff reductions and bindings
- A club for “rich countries” that has delivered a strong liberalization in non agricultural products
- Interests of developing countries neglected
 - Agriculture
 - Textile, clothing
- Difficulties to solve dispute
- Strong dynamic effects and attractiveness
- > WTO and the Marrakech agreement (1994)

The WTO: Established January 1995

- To Promote economic growth through trade liberalization
 - Cooperative setting
 - Locking mechanism
 - Dispute settlements
 - Only governments participate to negotiations
 - “Enlightened mercantilism” ...
- To Continue GATT efforts
- To provide special treatments and assistance to Developing countries

WTO achievements

- Increasing number of members
- Strength of the multilateral framework
- Efficiency of the Dispute Settlement Body
- “democratic” system

⇒ *One of the most efficient multilateral institutions*

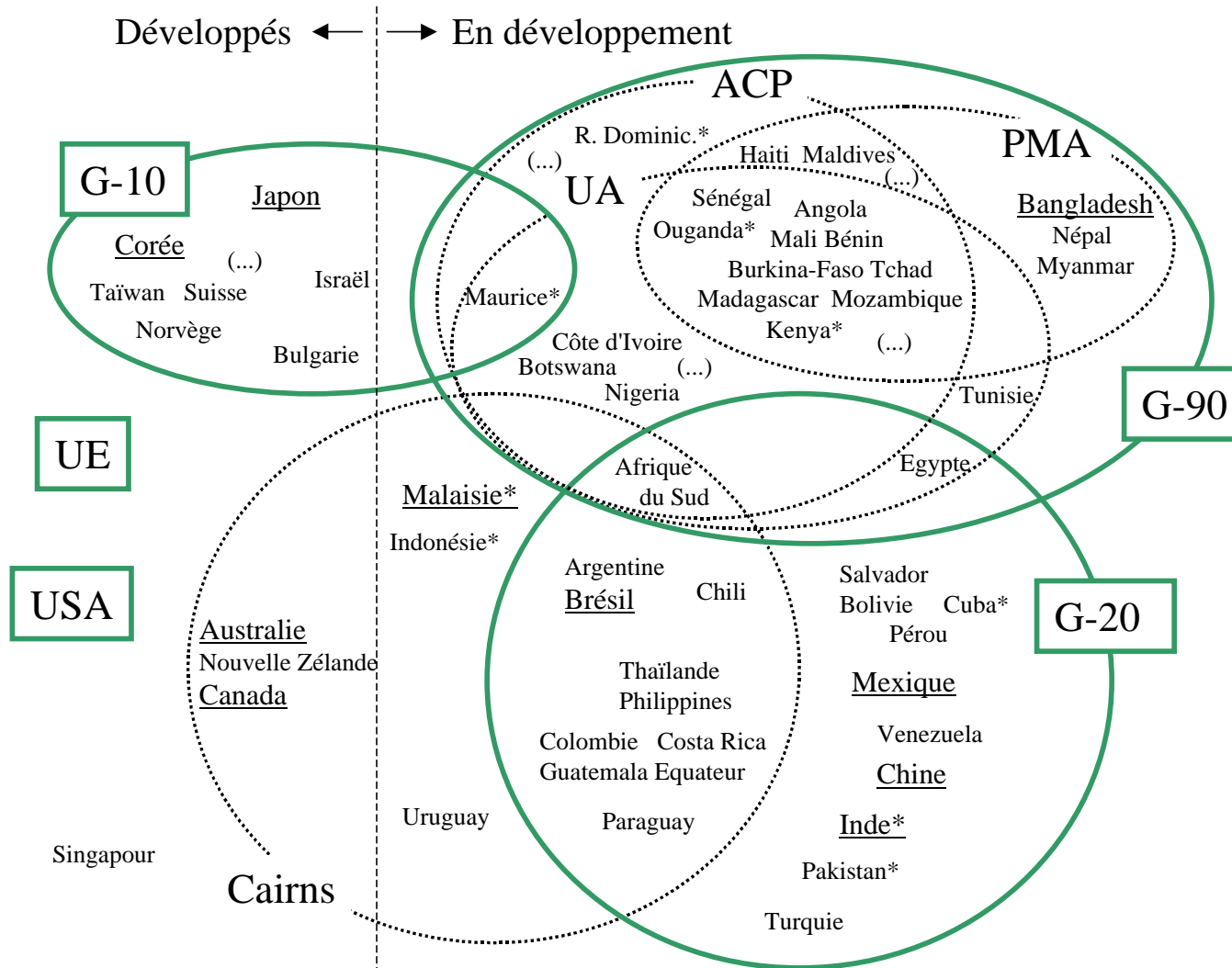
But

- The MFN rate is less and less relevant
- Poorest countries still have difficulties to participate
- Complexity to deliver new trade liberalization

The Doha Round

- First round of negotiations of the WTO era
 - A test for the institution
 - More than 20 different subjects
- Started in 2001... April 2009, “draft” modalities still under development (see WTO website):
 - AMA: Agricultural Market Access
 - NAMA: Non Agricultural Market Access
 - 3 pillars: market access, domestic support, export subsidy
 - Domestic support: colored boxes
 - Rules: Subsidies and Anti-dumping
 - Services ??? (contrasted interests of players)

Coalitions in Cancun, 2003



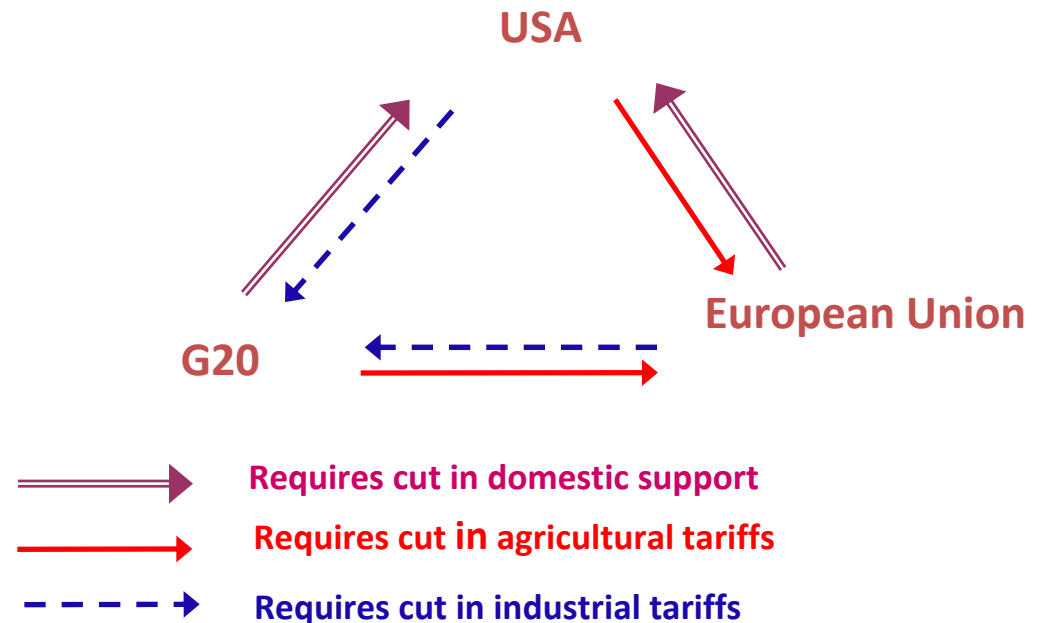
Source: Fontagne and Jean, 2004

Countries and Coalitions

- US (plus Canada and Mexico on many issues)
- The EU (plus Switzerland and Norway on several issues)
- G-20 (Brazil, India, China, RSA, *et al*)
- G-90 (ACP and LDCs)
- G-10 (High cost importers)
- Africa Group (includes cotton exporters)
- FIPS - Brazil, US, India, Japan and EU

Explaining difficulties

- Many countries, Many issues
- The Quad (US, EU, Canada, Japan) do not define the rules anymore. Coalitions of developing countries have appeared (Cancun 2003)
- China in the WTO: new challenges
- The main oppositions:

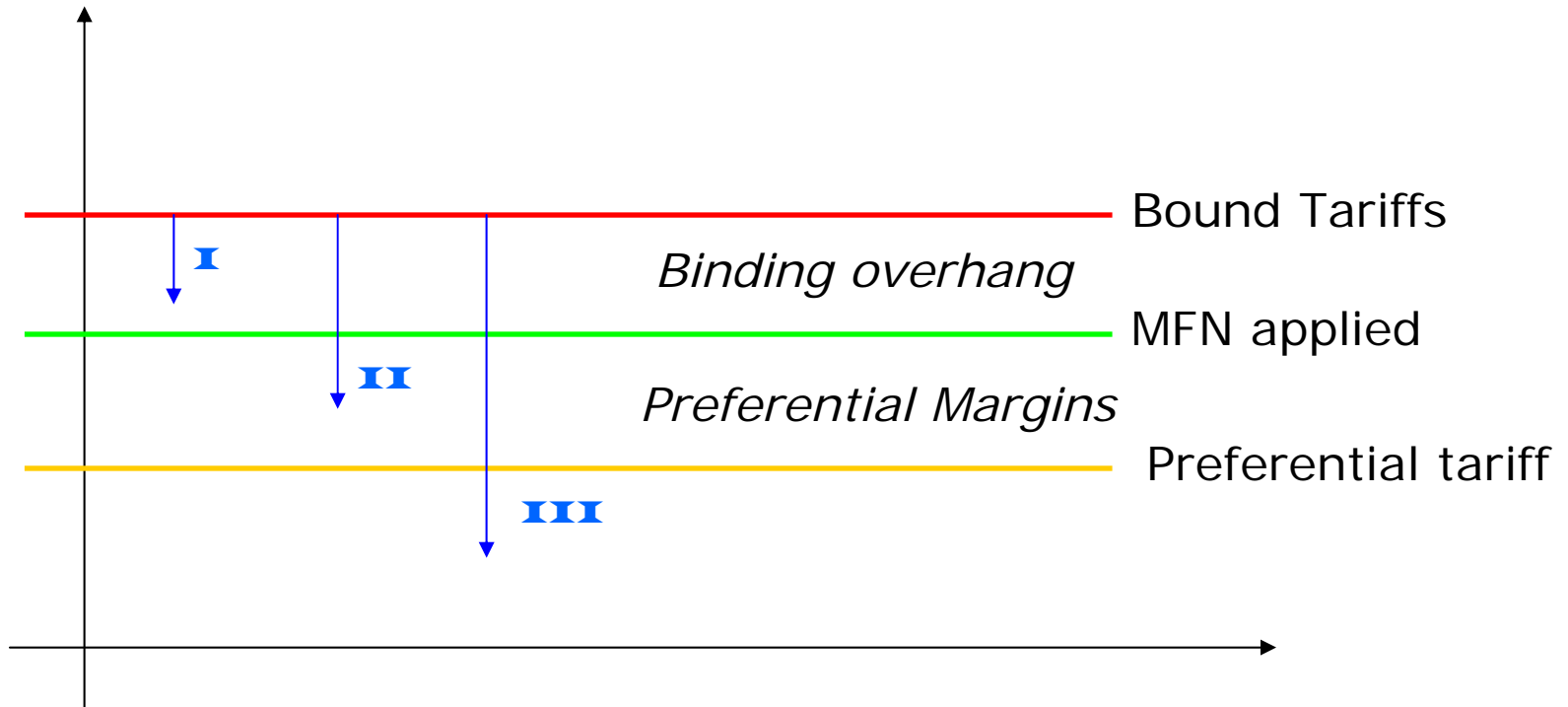


What's on the table?

What's on the table? Market access

- Four tiers of tariffs
- Highest tiers will have the largest cuts
- Need to convert specific tariffs (15 USD per Kilogram) in ad valorem tariffs (X %)
 - reduce average bound agricultural tariffs by nearly half,
 - average applied tariffs would be cut by nearly 40 percent
 - cuts are sharply reduced by the presence of flexibilities
 - In Developed Countries, extremely large cuts in (bound and applied) agricultural tariffs
 - In Developing Countries, substantial cut in bound tariffs (flexibilities reduce this sharply) and much smaller cuts in applied rates (binding overhang)

Tariff cut



The tiered formula for agricultural tariff cuts

	Developed		Developing	
<i>Band</i>	<i>Range</i>	<i>Cut</i>	<i>Range</i>	<i>Cut</i>
A	0-20	50	0-30	33.3
B	20-50	57	30-80	38
C	50-75	64	80-130	42.7
D	>75	70	>130	46.7
Average cut	Min	54%	Max	36%

Source: Laborde, Martin and van der Mensbrugghe (2010)

Developing country exceptions

- No cuts in for least-developed countries (30 members)
- Smaller cuts in small & vulnerable economies (around 50 SVEs)
 - Cuts [10%] smaller
 - Additional flexibilities
- Regional agreements
- Recently Acceded Members (RAMs)
 - Very RAM : no cut
 - Other RAM (inc. China) Cuts 7.5 percentage points smaller & an extra 2 years to implement
- Only 40 WTO economies under “normal” discipline (including special and differentiate treatment).

Why flexibilities?

- Formula-based negotiations generally involve flexibilities
 - Typically most of the negotiations are about these flexibilities
- Can probably achieve more liberalization with some flexibilities than without
- But it is hard to know what is the right amount of flexibility
 - Too much and there is no market access gain.
 - Too little and there may not be an agreement

What flexibilities are likely available?

- Sensitive Products
- Special Products
- Special Safeguard Mechanism
 - A very conflictual issue in the negotiations
 - Triggers
 - Discipline

Sensitive products

- Likely to be 4 or 6 % of tariff lines
 - 1/3 more for developing countries
- No. of tariff lines provides little discipline
 - Depth of cut is a more important discipline
- Cuts on sensitive products linked to Tariff Rate Quotas (TRQ) expansion
 - 1/3 < formula if TRQ increase is 3/5% consumption
 - 2/3 less than formula if TRQ increase 4/6%
 - Opens options for tactical behavior
 - Makes them unsuited for developing countries

Special products for developing countries

- Completely understandable that developing countries seek flexibilities
- Products to be chosen based on criteria of food security, livelihood security & rural development
 - At least 12 percent of tariff lines
 - With small reductions in tariff bindings
- Likely that countries will choose their own special products
- A concern: If these products are chosen & protection option is used, impacts on poverty could be adverse
 - Subsistence farmers don't benefit
 - Poor consumers spend 75% of their income on staples

Special Safeguard Mechanism

- Elimination or sharp reduction of use of the Special Safeguard (SSG-- currently permits many developed countries to impose duties above their Uruguay Round bindings)
- New Special Safeguard Mechanism (SSM) with both price and quantity triggers for developing countries.
 - Import duties of up to 25 percentage points could be imposed when imports exceeded 110 percent of a three year moving average
 - A price-based measure could be invoked if the price of imports falls below 85 percent of a three-year moving average of import prices, with a duty up to 85 percent of the gap between current import prices and the three year moving average.

Table 1. Weighted Average Applied and Bound Rates Levied by WTO members

	Applied Rates			Bound rates		
	Base	Formula	Formula plus flex	Base	Formula	Formula plus flex
Total	%	%	%	%	%	%
All countries	3.7	2.5	2.9	9.9	5.7	6.9
High income countries	2.5	1.4	1.7	5.2	3.1	3.8
Developing - non LDC	6.9	5.3	6.2	21.8	12.6	14.4
LDCs	11.1	8.7	11.1	na	na	na
Agriculture						
All countries	14.5	8.9	11.8	40.3	20.7	29.9
High income countries	15.0	7.5	11.0	31.9	13.5	20.2
Developing- non LDC	13.4	11.5	13.3	53.9	33.0	45.4
LDCs	12.5	12.2	12.5	94.1	51.6	94.1
NAMA						
All countries	2.9	2.1	2.3	7.8	4.7	5.3
High income countries	1.7	1.1	1.1	3.5	2.5	2.7
Developing- non LDC	6.4	4.8	5.6	19.1	10.9	11.8
LDCs	10.9	8.0	10.9	na	na	na

Source: Laborde, Martin and van der Mensbrugge (2008). Note: Country groups defined using World Bank and UN definitions.

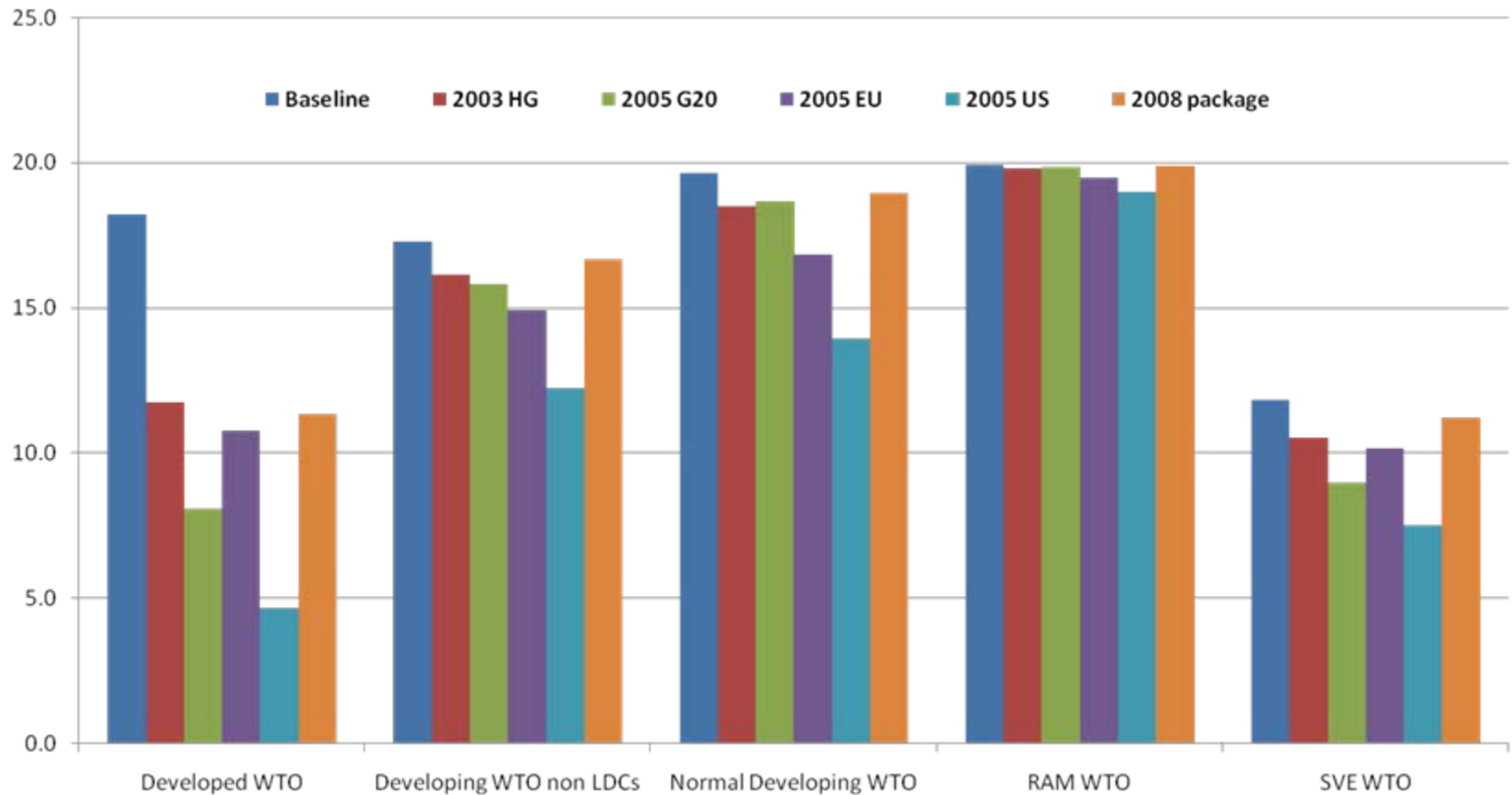
Table 2. Weighted Average Applied and Bound Rates Faced by WTO members

	Applied Rates			Bound rates		
	Base	Formula	Formula plus flex	Base	Formula	Formula plus flex
Total	%	%	%	%	%	%
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High income countries	3.6	2.5	2.9	9.6	5.6	6.7
Developing - non LDC	3.9	2.4	2.9	10.0	5.9	7.3
LDCs	3.3	2.1	2.4	14.5	8.0	10.6
Agriculture						
All countries	14.5	8.9	11.8	40.4	20.7	29.9
High income countries	14.9	9.2	12.1	40.3	20.3	29.1
Developing- non LDC	14.2	8.6	11.5	39.8	20.8	30.4
LDCs	7.4	6.5	7.1	56.8	32.1	45.7
NAMA						
All countries	2.9	2.1	2.3	7.7	4.7	5.3
High income countries	3.0	2.2	2.4	7.9	4.8	5.5
Developing- non LDC	2.9	1.9	2.1	7.2	4.4	5.1
LDCs	2.8	1.5	1.8	8.9	4.8	5.9

Source: Laborde, Martin and van der Mensbrugge (2008). Note: Country groups defined using World Bank and UN definitions.

Eight years of Doha trade talks: where do we stand?

Applied protection in Agric Market Access – different scenarios



Source: Bouet and Laborde, 2009

What's on the table? Export Subsidies

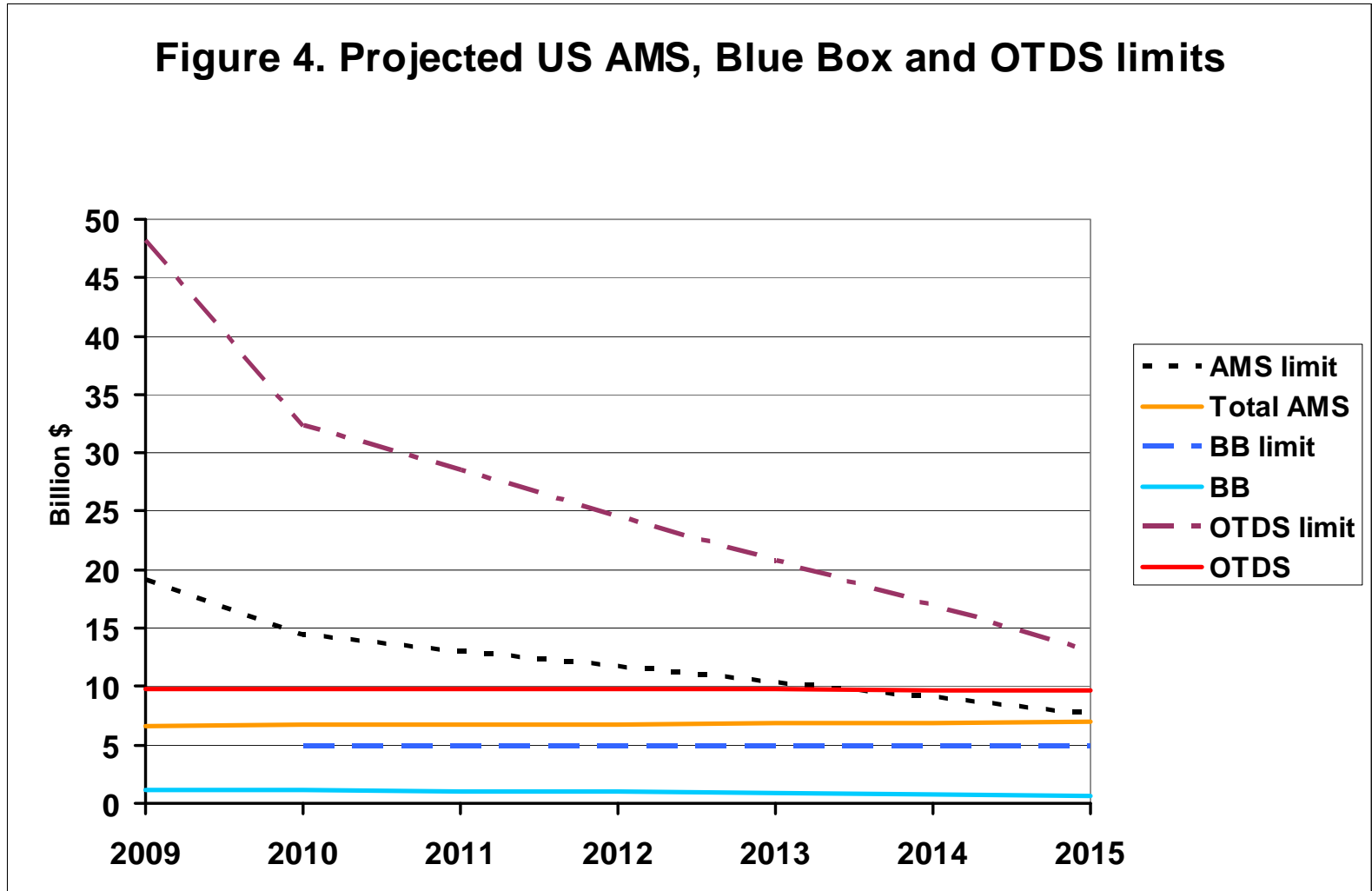
- Draft agreement involves abolition of all export subsidies.
- Very little impact in the short run—because current export subsidy levels are negligible
- Rules out a return to the disruptive situation of the 1980s, when world prices were severely depressed by high levels of export subsidies that displaced efficient producers.
- Will reduce the uncertainty faced by producers in developing countries, and should help promote needed investment.

What's on the table? Domestic Support

- Traditional Aggregate Measure of Support (AMS) to be reduced using a tiered formula:
 - 70 percent cuts in the EU; 60 percent in members with intermediate amounts of support (including the USA); and 45 percent in other members.
- Additional constraint applied on Overall Trade Distorting Support (OTDS)-- the total of AMS, *de Minimis*, and Blue Box support.
 - cut by between 75 and 85 percent in the EU; 66 to 73 percent in the USA and 50 to 60 percent in smaller industrial economies.
- Blue box support limited to 2.5 percent (5 percent) of the value of production for developed (developing) members.
- Product-specific limits introduced on AMS and on the blue box, with the cap on support to cotton being lowered very sharply and under an accelerated timetable.

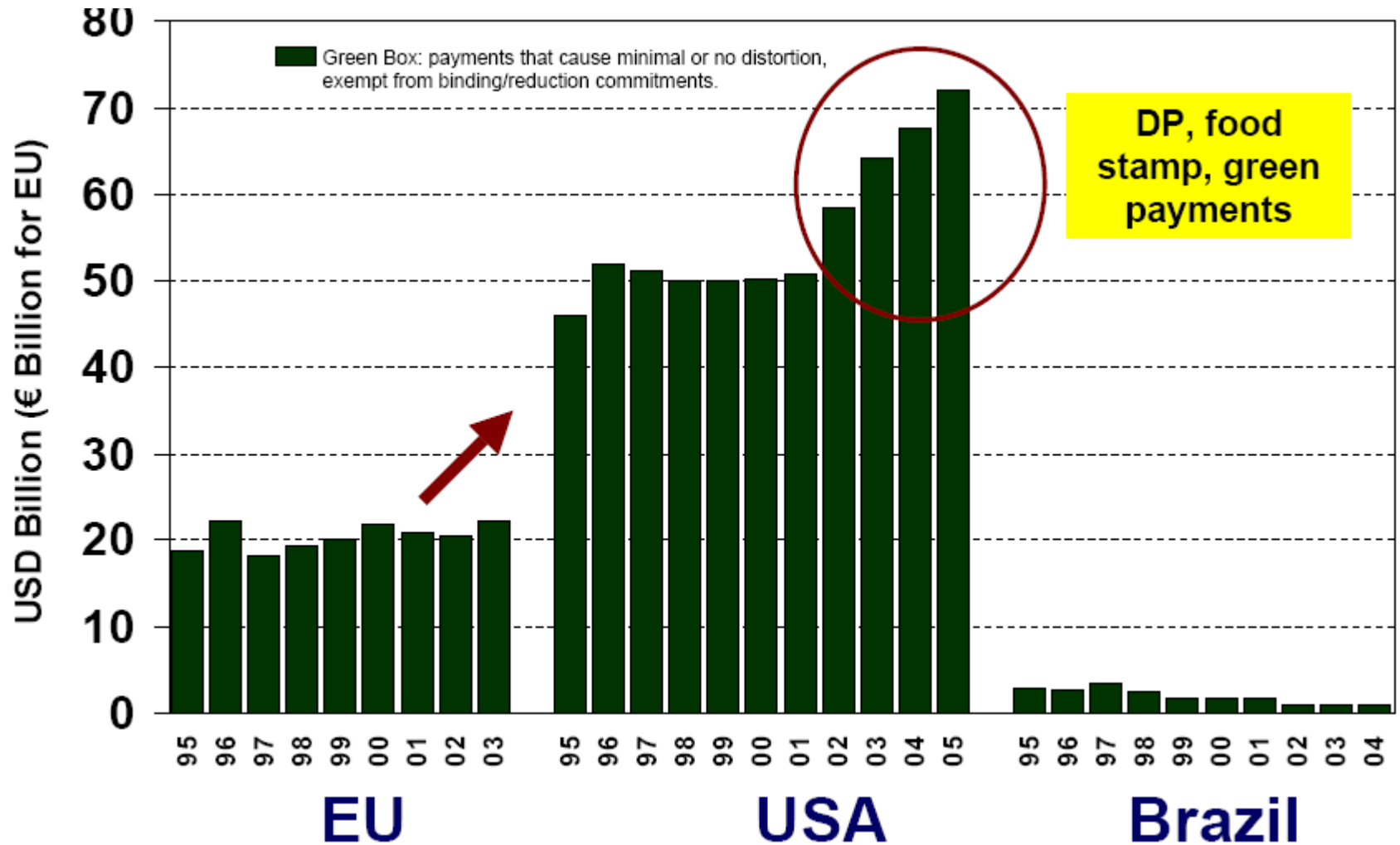
US Domestic support - Projection

Figure 4. Projected US AMS, Blue Box and OTDS limits



From Blandford, Laborde and Martin (2008)

Subsidies move to green box



From Jales, ICONE, 2008

Cotton

- Agreement at Hong Kong to deal with cotton “ambitiously, expeditiously and specifically”
- Export subsidies on cotton will be eliminated
- Cotton subsidies will have to be cut as a priority by more than other products and over a short transition
- Duty and quota free entry should be afforded all Least Developed Countries
- Development assistance for stimulating cotton productivity and export capacity will be given priority.
- The way in which these modalities will be implemented have yet to be finalized.

Geographical Indications

- Negotiations ongoing in the Trade-Related Intellectual Property (TRIPS) Council, as mandated in the Uruguay Round, on the establishment on multilateral list for wines and spirits.
- Discussions have stalled about extension of coverage of “enhanced” protection for other food products.
- Question of the link with the agricultural talks still not settled. The EU has indicated that it needs some concessions on this before agreeing to a deal.
- The US, Australia and Canada are opposed to the concept of a mandatory register and to the extension of protection to other products.

Summary: Conditions for a Successful Conclusion

- Market Access: substantial improvements in access to developed and emerging markets needed
- Domestic support: real cuts in domestic support required
- Export subsidies: all forms of export aids need to be eliminated in parallel
- Balancing issues: some progress needed in these areas, such as GIs
- Equal level of “ambition” in other areas of the talks

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