

Doha Mandate

"Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the Schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture."

(Paragraph 13 of the Doha Ministerial Declaration)

Agriculture

One of the key reasons for the collapse of the Cancun Ministerial Conference was profound disagreement on agriculture, which remains the cornerstone of the Doha Round. It took ten months of fitful negotiations for the WTO General Council to muster consensus on the 'July Package' that finally allowed the process to move forward. Agreement on agriculture provided the glue that allowed Members to clinch the overall deal.

Agriculture and the sectoral initiative on cotton were among the four key issues discussed in informal meetings in the immediate aftermath of Cancun (the other two were industrial tariffs and the Singapore issues). Progress was vague and unsubstantial until more structured negotiations resumed in spring 2004. Several high-level political initiatives contributed to this thaw in the negotiating climate. Among others, WTO Director-General Supachai Panitchpakdi, US Trade Representative Robert Zoellick and EU Trade Commissioner Pascal Lamy visited a number of capitals to build momentum; several mini-ministerials were held; and the African, Caribbean and Pacific Group of States (ACP), as well as the African Group and the full G-90 (comprising the ACP, least-developed countries and the African Union) convened meetings.

Agriculture was among the most challenging issues in the negotiations that preceded the adoption of the July Package (W/L/579) in the early hours of 1 August 2004. Annex A of that document contains a 'framework for establishing modalities in agriculture', which presents broad parameters for further negotiations, but is vague enough to leave all key battles to be worked out further down the road. The cotton initiative was integrated into the agriculture talks, but a separate sub-committee was established to deal with the issue.

Discussions are now underway on the Annex's technical details. The agriculture weeks held once a month since September 2004 have been conducted at three levels: (i) informal session open to the full membership, allowing for general statements and a first reading of

issues under review; (ii) more focused open-ended 'technical consultations' that delve deeper into the issues that have undergone the first reading; and (iii) small group consultations involving technical experts to flesh out further details.

Overall, political momentum remains limited and delegates expect serious negotiations to begin only well into 2005, with the Hong Kong Ministerial looming towards the end of the year. Some Members have expressed their commitment to achieving full-fledged agricultural modalities by then.

Mandated deadlines

- Conclusion of negotiations as part of the single undertaking agreed in Doha.

Background

Agriculture and services are the only areas where negotiations on further trade liberalisation were mandated in the WTO Agreements themselves. Talks within those parameters started on schedule in 2000, but no noticeable progress was made until broader negotiations were launched in November 2001 at Doha. At Doha, ministers struggled to find a compromise acceptable to all WTO Members, who were (and continue to be) utterly divided over the general direction to be taken in the agricultural reform process. At Cancun, negotiations failed in part due to the perception that key developed countries had wielded too strong an influence on the agriculture text under negotiation (see Doha Round Briefing Series Vol.2).

Cancun changed the dynamics of the agriculture talks: gone are the days when the 'Quad' comprising the EU, the US, Canada and Japan could call the shots. The G-20 group of developing countries – formed just before Cancun and comprising powerhouses such as Brazil, China, India and South Africa – has been consolidated, and has become a major player in the negotiations. In the lead-up to the July Package, the Group of Five – the US, the EU, Brazil, India and Australia – hashed out a first deal among themselves.

Agricultural Domestic Support Categories

Domestic support measures fall into three categories - commonly referred to as 'boxes' of different colours - according to their potential to distort agricultural trade.

The Amber Box includes most domestic support measures that are considered to distort production and trade. These measures are slated for reduction, with some Members pushing for their complete elimination.

Green Box measures should not have distorting effects in agricultural markets; at the very worst, their effects must be minimally trade-distorting. They include funds for research, allow for the promotion of food security stocks, direct payments to producers that are decoupled from current prices or production levels, structural adjustment assistance, safety-net programmes, environmental programmes and regional assistance programmes. These measures, which tend not to be aimed at particular products, must be funded from government revenue, and must not involve price support. The amount of Green Box subsidies is currently unlimited and no reduction commitments are required.

Blue Box measures are an exemption from the general rule that all subsidies linked to production must be reduced or kept within defined minimal (*de minimis*) levels. The measures typically include production-limiting programmes, i.e. payments made according to acreage - for instance, compensation for leaving part of the land fallow - or animal numbers on condition that milk/meat production quotas are not exceeded. The only Members that have notified Blue Box measures to the WTO are the EU, Iceland, Norway, Japan, the Slovak Republic, Slovenia and the US, which no longer provides Blue Box support.

Developing countries were not wholly enthusiastic, however, with smaller and weaker countries saying they were not appropriately represented. The G-33, including Indonesia, the Philippines and a number of African, Caribbean and Pacific countries, only hovered at the sidelines of the talks in July. This group focuses on securing the designation of effective Special Products and a Special Safeguard Mechanism for developing countries in order to protect their vulnerable small farmers and rural livelihoods. The G-10 - comprised of developed country net agricultural importers such as Japan, Switzerland and Norway - also complained about being excluded from the process. The Cairns Group of agricultural exporters (which partly overlaps with the G-20) held a low profile for some time, but was back in the game by July 2004 with Australia as a Group of Five member.

Other elements affecting the post-Cancun dynamics are the expiry of the so-called Peace Clause and two major dispute settlement cases successfully launched against EU sugar subsidies and US cotton subsidies. Under the Peace Clause (Article 13 of the Agreement on Agriculture) WTO Members agreed not to challenge certain agricultural subsidies until 2004. Widespread speculation that its expiry at the end of 2003 would trigger a flurry of new cases against developed country subsidies has not proven true so far.

Market Access

As negotiations picked up again in late March 2004, talks started off with a strong focus on market access (i.e. tariffs), which had been the most challenging element of the agriculture talks. Members sought to move away from the 'blended' formula set forth as a compromise between the US and EU in the lead-up to Cancun. The blended formula combined elements of the so-called Uruguay Round (UR) formula, which set an average reduction with a minimum reduction per tariff line to be applied to certain 'import sensitive' products, and the Swiss formula, which would bring down all tariffs horizontally to a maximum ceiling. While Cairns Group members felt that the US/EU approach was not ambitious enough, the G-10 found it too much so.

The Cairns Group instead supported the 'banded' formula proposed by Chair Harbinson in 2003. Under this approach, the UR formula would be applied across-the-board, but very high tariffs would be subject to much deeper average and minimum cuts than low ones. The EU, Canada and the G-10 opposed this approach, which did not effectively protect their sensitive sectors.

In June 2004, the G-20 tabled a new proposal on market access, which, rather than go into specifics, set out the basic concepts and principles for a future reduction methodology. These principles were: 'progressivity', i.e. higher tariffs being cut more than lower ones; 'flexibility' for both developed and developing countries to take into account certain sensitivities; 'neutrality', meaning the formula should not be biased against the tariff structures of certain Members; as well as 'proportionality', meaning less than full reciprocity between developed and developing countries along the lines of the approach used during the Uruguay Round.

Negotiations became more intense as the end-July deadline for a package deal approached. The Group on Five were at the core of the talks. The US at this time proposed combining the 'banded' approach with elements of the 'Swiss' formula, integrating the concerns of the EU and G-10 for 'sensitive' products by applying only moderate tariff cuts to them. However, the proposal also called for 'effective' market access for sensitive products outside the formula, i.e. through tariff rate quota (TRQ) expansion. The paper received mixed reactions. India was critical of the proposal because it included the Swiss formula, which requires steeper cuts for higher agricultural tariffs. The G-10 was critical about the paper's limited exceptions for sensitive products.

In the July Package, Members agreed to use a tiered formula, which classifies tariffs into various bands for subsequent reduction from bound rates, with higher tariffs being cut more than lower ones. The actual modalities - the number of bands, threshold for defining bands and type of tariff reductions within each band - remain subject to negotiation. Overall, the negotiations must lead to 'substantial improvement' in market access for all products. For a more details on the July Package Annex on agriculture, see the Overview of this series of Doha Briefings.

Sensitive Products

The July text provides for the designation of an 'appropriate number' of tariff lines to be treated as sensitive without "undermining the overall objective of the tiered approach". This compromise was struck between the G-10, for whom recognition of sensitive products was of absolute priority, and countries looking for significant new market access, such as the Cairns Group. Both developed and developing countries will be able to designate sensitive products. Despite the requirement for substantial improvement in market access for each sensitive product, the text provides for flexibility in tariff cuts and tariff-quota expansion for such products. Specific rules and criteria

are to be developed in future negotiations. The text also leaves tariff escalation and tariff simplification to be addressed by future negotiations.

Special Products and Safeguards

Special and differential (S&D) treatment will be provided to developing countries through measures such as longer implementation periods and smaller cuts. In addition, only developing countries will be able to designate Special Products (SPs) for more flexible treatment, based on criteria of food security, livelihood security and rural development needs. They will also have recourse to a Special Safeguard Mechanism (SSM) to take measures against sudden import surges. The inclusion of these concepts was a key priority for G-33 countries. On selection criteria for designating SPs, the July Package merely notes that they will be fleshed out later. The same goes for the SSM. According to the G-33, the products should be self-designated, as determining criteria that would cover the widely differing countries would be neither practical nor feasible at the international level.

The July Package also highlights the importance of addressing the liberalisation of trade in tropical agricultural products and products that substitute illicit narcotic crops. According to the text, the issue of preference erosion, a concern for the ACP group, will be addressed during the course of the talks.

Developments Since July

In late September 2004, Members identified priority areas to be tackled first in the technical talks. The G-20 proposed that Members focus on general rules first, with exceptions being negotiated later. Several developing countries emphasised that S&D should fall into the former category.

Overall, there was broad agreement on the need to equally address all three pillars (market access, domestic support and export competition) in forthcoming Special Session meetings. Ambassador Tim Groser, who chairs the negotiations, clarified that some S&D issues could easily be included in the general rules, while others, such as the SSM, could be 'logically analysed' in the interim.

In October, Indonesia, which serves as the co-ordinator of the G-33, made a proposal on the design of SSM, suggesting that Members discuss: the shortcomings of the current agricultural safeguard mechanism, and how they can be avoided; how the SSM should be triggered; and the functioning and timing of the mechanism. The Philippines, Barbados, India and some other developing countries supported this approach. The US, Costa Rica, New Zealand, Malaysia

and Argentina, however did not yet want to proceed with such detailed discussions, given the many open questions regarding the tariff reduction formula itself. Malaysia added that the interests of exporting (developing) countries also had to be considered.

In November, Costa Rica submitted a proposal on behalf of a number of Latin American countries on market access for tropical products. The submission proposed cutting tariffs on these products, removing tariff peaks, abolishing quotas on the products, addressing non-tariff barriers and providing most-favoured nation (MFN) treatment. It added that the measures should be permanent, and without conditionalities. The submission further noted that Members should not be able to designate tropical goods as 'sensitive products' in the overall agriculture negotiations. Peru characterised the submission as "positive and offensive" S&D as opposed to merely defensive S&D measures, such as providing developing countries with longer time periods for implementing agreements.

The proposal was not welcomed by all Members, however, with some expressing concern that complete liberalisation of trade in tropical products could harm countries dependent on preferences for those products.

The tariff reduction formula is set to be discussed at the agriculture negotiations in December.

Domestic Support

On domestic support, the G-20 and the Cairns Group called for substantive decreases in Blue and Amber Box support, and for tighter disciplines on Green Box support (see sidebar for an explanation of the boxes) in the lead-up to the July Package. The EU and G-10 strongly advocated keeping the Green Box in place as it is.

The July Package includes concrete targets for the reduction of overall domestic support and specifies that Blue Box levels will be capped (see the Overview, page 2). In the first year of implementing the agreement, the text requires Members to reduce by 20 percent their overall trade distorting support, which comprises the final bound total AMS (aggregate measure of support), the permitted 'de minimis' levels and the permitted Blue Box levels. The reduction will be made under a tiered formula that cuts subsidies progressively – higher levels of trade-distorting domestic support are subject to greater reductions. The Annex also caps product-specific AMS at average levels, based on a methodology to be agreed, in order to prevent circumvention of obligations through transfer of subsidies between different support cat-

egories. However, even the 20 percent reduction would not change existing levels of support significantly as the reductions will be made from bound rather than applied levels.

The July Package provisions on the Blue Box payments accommodates US concerns on being able to notify the counter-cyclical payments under the 2002 US Farm Act as Blue Box measures. Under the current proposal, such payments could be scheduled as blue as long they are "unrelated to current production".

Developing countries will have longer implementation periods and lower reduction coefficients. They will also have continued access to provisions allowing the unrestrained use of subsidies for low-income or resource-poor producers. The language on Green Box requires a more transparent process for designating subsidies.

Developments Since July

As Members proceeded with technical discussions following the July Package, disagreement over what the 'review' of the Green Box implied became apparent. While the EU deemed it no more than a 'health check-up', the G-20 and the Cairns Group wanted new disciplines on support programmes, in particular income support programmes. Countries such as Argentina, Australia, Brazil, Canada, Chile, Costa Rica, Thailand, Malaysia and the US argued that the July Package provided the mandate for a revision to ensure that the "Green Box is really green". The G-10, (mainly developed country net food importers) stressed the importance of the Green Box as a tool for the transition out of trade-distorting subsidies. Brazil, on the other hand, underscored the role of income support programmes in helping producers cover risks and general costs, thus indirectly leading to higher production. Australia proposed time limits for direct payments under the Green Box, so that farmers would not make production plans based on expected pay-outs.

Export Competition

Export subsidies (an export competition tool mainly used by the EU) are considered the most trade-distorting of subsidies, and have topped the agenda during negotiations. The G-20 and Cairns Group in particular have long demanded that export subsidies be phased out by a specific end date. The EU has maintained that other forms of distorting export support, such as food aid and export credits and guarantees (which are largely employed by the US) as well as state trading enterprises (STEs), must be adequately disciplined in return.

After Cancun, the EU stressed its willingness to phase out export subsidies in areas of export interest to developing countries (although not sensitive commodities such as sugar, dairy and beef), throwing the ball into their court. Developing countries did not respond, and by July 2004, it was clear that export subsidies on all products would have to go. The EU insisted on parallel movement on all export support ('parallelism').

The July Package, in addition to providing for a 'credible end date' for the elimination of export subsidies – to be agreed upon – also includes within its ambit export credits and credit guarantees or insurance programmes. Trade-distorting practices of exporting STEs and the provision of food aid "not in conformity with operationally effective disciplines to be agreed" in order "...to prevent commercial displacement" will be disciplined (the Overview, page x).

S&D will be granted to developing countries, and disciplines on export support will be developed with consideration of the impacts on least-developed and net food-importing developing countries. In terms of disciplines on state trading enterprises, exemptions with regard to their support to preserving domestic consumer price stability and ensuring food security in developing countries will be taken into account in the negotiations.

Development Since July

In the post-July Package discussions, Members generally agreed that much of the technical work on export subsidies and other export support already has been done, and agreed to base further discussions on the pre-Cancun 'Harbinson text'. On food aid, Members have addressed issues such as 'operationally effective disciplines', how to avoid 'commercial displacement', and avenues of communication with other international agencies involved in food aid. While the US, a major donor country, took an active role in the discussions, a number of recipient countries remained rather silent.

Cotton

During informal meetings after Cancun on the initiative to eliminate cotton subsidies – put forth by four West African countries in June 2003 – a majority of Members felt that the issue should be integrated into agricultural talks, but given special attention. However, the *demandeurs* insisted that the issue be kept on a separate track. Members also started drawing a distinction between trade-related and development-related aspects of the cotton issue.

An African Regional Workshop on Cotton was held in Benin on 23-24 March 2004, with the WTO Secretariat, the US, EU, Japan and Canada, as well as inter-governmental institutions including the World Bank and IMF in attendance. The meeting focused on development assistance in this area. The proponents of the cotton initiative however stressed that they were not looking for handouts, but rather for a level playing field and a market undistorted by subsidies in which to sell their products.

A high-level meeting of the G-90 (the ACP, least-developed countries and members of the African Union) underscored that cotton should be treated as a stand-alone issue and not as a part of the overall negotiations on agriculture. Ministers present stated that "The July Package should include a clear commitment to speedily and substantially address both the trade-related aspects of the initiative and their development-related counterparts in a 'fast-track' basis."

During negotiations in Geneva, the US and the countries behind the cotton initiative – Benin, Burkina Faso, Chad and Mali – struck a deal. In the July Package, WTO Members agree to make discussions on cotton an integral part of the agriculture negotiations rather than treating the issue on a separate track. However, in order to address the issue "ambitiously, expeditiously and specifically," a special sub-committee would be established as part of the effort to "ensure appropriate prioritisation of the cot-

ton issue independently from other sectoral initiatives." Singling out a specific commodity within the agriculture talks in such a way was something of a novelty, and the US had previously opposed such an approach. In addition, the Director-General of the WTO was instructed to consult and work with relevant international organisations, including the Bretton Woods Institutions, on the development aspects of cotton.

The sub-committee was established on 19 November 2004, but has not yet begun its substantive work.

Proposals can be searched through codes G/AG/NG* or TN/AG* at: <http://www.docsonline.wto.org>

Please note that during the last three years Members have submitted most of their negotiating proposals as informal 'non-papers', which are not posted on the WTO website. Nevertheless, some Members have made certain papers publicly available, including:

- o the EU at: http://europa.eu.int/comm/agriculture/external/wto/offdoc/index_en.htm;
- o the US at: <http://www.fas.usda.gov/itp/wto/>; and
- o the Cairns Group at: <http://www.cairnsgroup.org/proposals/index.html>.

More information on international agriculture trade and sustainable development can be found at the new agriculture section on the ICTSD website at <http://www.ictsd.org>

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