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PACIFIC ECONOMIC COOPERATION COUNCIL



WTO Agriculture Negotiations: A Proposal for Progress

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About this Issue

This **ISSUES@PECC** is a study by the Agricultural Trade Study Group (ATSG) of the PECC Trade Forum. The ATSG is comprised of agricultural trade specialists from six PECC member economies. To produce this study, each member of the ATSG first produced an individual paper on possible reforms of agricultural trade in the current WTO negotiations. The group then drew on this material to produce the present proposal for a possible consensus package.

The PECC Trade Forum draws on a network of trade policy specialists from around the region to provide in-depth analysis of key trade policy issues. PECC's tripartite character facilitates the establishment of dialogue with business and government on these issues and enables the Trade Forum to act as a catalyst in the regional policy making process by helping to build a consensus around new policy initiatives.

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1. Purpose of the Proposal

The WTO negotiation based on the Doha Development Agenda was launched in January 2002. A wide variety of negotiation issues are on the agenda to be concluded within three years. The APEC/PECC member economies, both individually and as a group, have been supporting the WTO liberalization process through the conclusion of the Uruguay Round and the launch of the current round. However, on individual negotiation issues there is a diversity of interests among individual members, especially between exporting and importing economies. While sharing the same general objective, members experienced conflicts over their differing interests. A tough set of talks is anticipated in the agricultural negotiations, with the negotiators facing a major challenge to reach a consensus agreement in the face of the diverse interests of all exporting and importing countries.

The PECC Trade Forum brings together private sector experts interested in the WTO negotiations. Its Trade and

Investment Taskforce aims to monitor and study the negotiations, to disseminate relevant information to the public and to emphasise the importance of a successful conclusion; thereby encouraging our negotiators. We do not represent the interest of any particular member economies but strive for an efficient and sustainable trading regime in the APEC/PECC region and for the world as a whole. We have produced this proposal with the aim of finding a consensus outcome to the WTO agriculture negotiations that accommodates different member interests.

For this purpose we have organized an Agricultural Trade Study Group (ATSG) comprised of experts from six PECC member economies representing different interests in agricultural trade; (China, Japan, Korea, New Zealand, Thailand, and the United States).

The first task undertaken by the ATSG was to gain an overview by studying position papers submitted by the six members and identifying common

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interests and conflicts among them. Secondly, we searched for a possible consensus package of liberalization and regulatory reform which may not fully satisfy every member but may be agreeable to all members. This may be regarded as a naïve academic attempt and may not be of much assistance to our negotiators since we are aware of neither their trump cards in negotiation nor their negotiation tactics. Nevertheless, it will enable us not to be constrained by individual members' specific interests and instead, allow us to gain a bird's-eye view of the agricultural trade negotiation from the perspective of a possible outcome serving the overall interest of PECC members. It will help the public to assess the final result of the negotiation against the standard of an efficient and sustainable regime of agricultural trade.

We circulated our draft PECC Position Paper to all PECC national committees for their comments and presented it for further discussion to the PECC Trade Forum in Washington D.C on April 23 and Pukhet, Thailand on May 25, 2003. We have now finalized it. Our aspiration is that it will be submitted to

WTO Ministerial Meeting by the PECC Standing Committee.

2. Diverse Interests among PECC Members

The United States and Cairns Group propose drastic improvements in market access over a five year period, adopting the Swiss formula of reducing higher tariffs and all tariffs down to less than 25%; and increasing tariff-rate quota quantities by 20% of current quota (US proposal) or of current domestic consumption (Cairns Group proposal). With regards to domestic support, AMS shall be reduced, substantially with more than 50% down payments in the Cairns Group proposal and down to 5% of agricultural output in the US proposal. Export subsidies shall be removed within three to five years.

Japan emphasizes the importance of non-trade concerns such as multi-functionality and food security and insists on flexibility in tariff reduction. The EU proposes a gradual liberalization along the UR linear reduction formula, which both Korea and Japan support. Importing

economies seek to maintain the current framework of amber, blue and green box while agreeing on further reductions of AMS but at a tolerable speed. Japan agrees on gradual reduction of export subsidies but at the same time stresses the need to discipline export controls and suggests their tariffication.

Korea proposes that it should be allowed to apply the developing country provisions for the next ten years during which it will make a full-fledged effort for agricultural reform. China proposes more special and differential treatment to be given to developing economies with a view to ensuring food security and increasing income and work opportunities for low income people and resource-poor farmers in the rural areas. China also emphasizes that it has made substantial tariff reduction commitments in its accession negotiation and argues that the new WTO members should be exempted from making further tariff reductions. Both Thailand and China argue that while developed economies utilize both border measures and domestic support to help domestic production, developing countries cannot

afford to resort to domestic support due to budgetary constraints and still require special safeguards or other border restriction. Thailand complains that ‘unrealistic’, stringent SPS standards by some developed countries tend to impede its export of agricultural products.

3. Basic Stance for Drafting a PECC Position

3.1 General elements

The purpose of the UR negotiations on “Bringing Agriculture into the GATT,” was to establish disciplines and rules on agricultural trade which were much more consistent with GATT/WTO disciplines. Implementation has been completed but the export volume of some agricultural product groups has not increased much under the new system. It is found that the Agreement on Agriculture fails to ensure the expected level of competition. The purpose of the current negotiations on agriculture can be described as “Bringing Agriculture into Competition,” by applying more appropriate rules in agricultural trade and trade policy.



Competition, however, should promote structural reform of agriculture in food importing countries, increase competitiveness, eliminate uncompetitive production and shift production in the direction of comparative advantage. However, importing economies should be encouraged to make their reform efforts widely known so as to justify a gradual approach to reducing protection.

Developing economies are handicapped in market competition and need to be given flexibility in implementing liberalization commitments but not in a manner admitting of double standards. In the current Doha Development Agenda, least developed economies have already been exempted from liberalization commitment without any time limit. However, many developing economies of APEC have experienced a decade-long rapid growth and will outgrow developing economy status in near future. There is a widely observed tendency that as an economy develops, income disparity develops between agriculture and industrial sectors and agricultural protection is introduced to reduce the gap. Current developing economies would be

better advised to introduce market competition as they approach graduation to developed economy status. Developing economies should strive to reach the position of being able to apply the same reduction commitments as developed economies.

3.2 Multi-functionality of Agriculture

The specific content of the concept of multi-functionality varies according to the history and national conditions of each economy. The following functions may be considered as major elements: (1) land conservation including preventing floods, preventing soil erosion, and preventing landslides; (2) conservation of water resources; (3) preservation of the natural environment including management of organic waste, resolution and removal of polluted substances, air purification, and maintenance of bio-diversity and preservation of wildlife habitat; (4) formation of scenic landscape; (5) transmitting culture; (6) rural amenities; and (7) maintaining and revitalizing the rural community. Most functions are so-called externalities created by agricultural activities.

Recognition of multi-functionality of agriculture itself is an important step in evaluation of agricultural activities, especially from an environmental viewpoint. But what needs to be asked is how to maximize the net benefits from the multi-functions of agriculture, taking account of the costs of maintaining agricultural operations. We have to estimate the marginal loss (gain) of the social value caused by multi-functionality as agricultural production shrinks (expands), if multi-functionality is to be a central plank in proposals for the agricultural trade negotiations.

However, the relationship of multi-functionality with agricultural production is not straightforward. There are many alternative levels of production and many combinations of products to achieve a certain level of social value created by agricultural activities. The role of WTO negotiations is to discuss the levels of support and protection that affect trade and production. Thus, quantitative assessment of multi-functionality in terms of agricultural production is necessary. However, multi-functions of agriculture are not the targets that agricultural production directly aim to hit. They are

not necessarily efficient to fulfill the social needs. These complexities and ambiguities in the relationship of multi-functionality with agricultural production make it difficult to provide the quantitative assessment and the scientific evidence for multi-functionality. Instead, countries can directly subsidize, via the Green Box, conservation, water, environment, culture and other multi-functional values of rural areas.

3.3. Food Security and Safety

Food security is defined as a situation in which all households have both physical and economic access to adequate food for all members and where households are not at risk of losing such access. We have two options on how to achieve food security at the national level. One is the pursuit of food self-sufficiency and the other is food self-reliance. Food self-sufficiency means meeting food needs as far as possible from domestic supplies and minimizing food imports. But there is a risk in relying predominantly on domestic production. On the other hand, food self-reliance means maintaining a level of domestic production but relying also on

international trade to meet the food needs of the population. Which strategy a country should take depends on the relative benefits and risks.

Food security is an important issue in countries whose food self-sufficiency rates are very low. In Japan, the food self-sufficiency ratio has dropped to 40 percent on a calorie basis, which is the lowest among the developed countries. Some people are very much concerned about this low level of self-sufficiency from the food security viewpoint. Ensuring food security is one of the basic roles that the government should play. MAFF has set a target level for the food self-sufficiency ratio of 45% as a guideline for public efforts to raise the food self-sufficiency ratio to that level by 2010.

Imports and stockpiling as well as domestic production are acknowledged as policy measures for food security. However, excessive dependence on imports is considered to have the following problems: (a) the world food supply may become unstable in the short term and may become tighter in the medium to long term; (b) agricultural

trade has potential features that could give rise to instability, such as the relatively low portion of output currently being exported and the fact that major agricultural products are exported by only a limited number of specific countries, and (c) large purchases by an economically-dominant country at a time of food shortage may have a negative impact on the international market. Stockpiling is only a short-term measure because of the cost and the problem of loss in quality of stockpiled food.

Policy measures for food security differ according to the types of crises being considered. The predictions on future world market conditions depend on the assumptions and forecasts of exogenous variables. It is important to prepare policy measures at a minimum social cost for different possible food security risks. In addition, the volatility of world food market prices arises as a result of the intervention of governments endeavoring to insulate domestic markets from international trade, which makes the world market smaller than it would be without intervention. If all domestic markets are integrated to international trade, poor or rich harvests in some areas

can be easily absorbed into the world market. Therefore, limiting trade for food security purposes is not the correct policy measure to achieve its purpose.

Full regard should be given to consumers' concern about food safety as well as prices and availability (security). Exporters should cooperate fully with importers to eliminate pesticide residues and causes of disease in foodstuffs. However, it is necessary to warn that too strict a standard and testing requirement adopted in the name of safety will impede food trade. WTO's Agreement on Sanitary and Phyto-sanitary Standards (SPS) sets an international standard and requires that SPS measures be well grounded in sound science and based on proper risk assessment. Importing economies should also be encouraged to assist exporters, especially from developing economies, to enhance their capacity to comply with the SPS measures.

4. Proposal for a Possible Package Deal

4.1 Market access

Tariffs

A flexible approach shall be established combining the Swiss formula

and the Uruguay Round approach. One example is to apply the formula proposed by the Cairns Group for developing countries to all member countries. It consists of three types of reductions as follows:

- (a) initial tariffs falling in the range of 0-50 per cent inclusive shall be reduced using the Swiss formula with a coefficient of 50;
- (b) initial tariffs falling in the range 50-250 per cent shall be reduced by 50 per cent;
- (c) initial tariffs that exceed 250 per cent shall be reduced to 125 per cent.

This formula is illustrated in Fig.1 Current tariffs are measured on the horizontal axis and the curve allows the corresponding new tariffs to be read from the vertical axis. This formula requires a deeper cut (down to 125%) for all very high tariffs such as the tariffs of over 300% on rice by Japan and Korea. Reductions should be from final bound tariffs and be phased-in over five years for developed countries and nine years for developing countries.

Another example is to make a down payment in the first year of



implementation equivalent to 50 per cent of the final bound commitment levels and then to reduce the tariffs on a simple average basis by 50 per cent with a minimum reduction rate of 25 per cent under the UR formula over the remaining four years (eight years for developing countries).

These are examples of compromise between the Cairns Group position requesting drastic tariff reductions and the Japanese position that is very conservative against tariff reform. The modality of tariff reduction is crucial to the negotiations. It is important to correct the dirty tariffication introduced in the UR implementation. At the same time, it is necessary to provide importing countries with opportunities of structural reform in domestic agriculture while liberalization proceeds.

Tariff quotas

The expansion of import volumes under existing tariff quotas is an essential element of further market access commitments but this issue cannot be seen in isolation from the size of the tariff reductions which are to be negotiated. A

possible example of the expansion formula is that all tariff quota volumes in member economy markets shall be increased from their final bound levels by 20 per cent over a 5-year period.

Minimum access commitments shall be abolished and integrated into the commitments of general access opportunities to avoid the creation of managed trade. Expansion of minimum access shall be under the same formula as for the other access opportunities rather than based on domestic consumption. In the future, all tariff quotas shall be abolished and border protection shall only be by tariffs.

All methods of quota allocation shall enable business decisions to be based on commercial considerations and shall not operate to restrict market access. The administrative decisions shall reflect as closely as possible those that would be made under a tariff-only regime.

Special safeguard measures

The special safeguard measures were provided to facilitate adjustment to the new system by those member

economies newly tariffing under the UR Agreement. It is considered a temporary measure for the producers who had been protected by non-tariff barriers. After the adjustment period to the new system, the special safeguard shall be abolished. However, some commodities may be still undergoing a reform process and will need to remain subject to the special safeguard. If this is the case, the reform program shall be notified and member economies shall monitor the reform process.

Importing state trading enterprises

Members undertake to notify, on an annual basis, the following information with respect to imports of agricultural products by state trading enterprises: the volume, price and origin of imports; the domestic sales price; and the basic elements of the annual business plans made by state trading enterprises in connection with imports. All WTO members should be encouraged to set a timeframe for shifting both purchasing and selling STE's to a system whereby agricultural transactions are handled by competing private sector entities.

4.2 Domestic support

Green box

The basic criterion of the items in the green box shall be re-examined to ensure that the support in question shall not have the effect of providing production support or price support to producers. At the same time, some modification is necessary for decoupled and safety net programs in step with the rate of tariff reduction. Expenditures on structural adjustments shall be monitored in terms of the degree of adjustment achieved and shall be abolished within a fixed term of period.

Blue box

Blue box was a creature of the Blair House Agreement between the U.S. and the EU. It is anomalous and shall be eliminated.

Amber box

It is reasonable to use the Uruguay Round formula to reduce the total AMS with flexibility. The reduction of tariffs to implement under the market

access commitment is automatically accounted for in the calculation of the current AMS. Therefore, the commitment of reduction shall exclude the amount due to tariff reductions. It shall be reduced by say 20 per cent from that level over 5 years for developed countries and 9 years for developing countries.

Importing economies should be encouraged to make their reform efforts transparent internationally so that the aims and tools of their reform policy are correctly understood. For example, Japan is implementing the policies indicated in “Farm Policies Aimed at Promoting Structural Reforms in Agriculture” compiled in August 2001. The policies are promoting structural reform through the measures that concentrate on and give priority to “eligible farmers”; and that emphasize making use of creative ideas, building a system for securing the confidence of consumers and developing a safety-net for farmers attempting to restructure. In addition, Japan is reducing the degree of intervention in agricultural markets by, for example, abolishing the deficiency payment system, reducing administered prices, and introducing market-oriented farm management

stabilization policies. International announcement of such measures will serve as an external commitment and help governments break through domestic resistance.

4.3 Export competition

Export subsidies

Scheduled outlays and quantity commitments shall be reduced to zero through equal instalments over five years. The subsidy element implicit in export credits shall be determined and subject to reduction commitments comparable to those that will apply to export subsidies.

Exporting state trading enterprises

Quarterly notification requirements shall be made an integral part of the Agreement for all export state trading enterprises. Notifications shall cover the volume and average price of exports to respective trade partners, average procurement prices and average domestic sales prices and volume of domestic production.

Food aid

Strengthened rules and disciplines on providers of food aid are required to ensure that disposal of food surpluses do not displace normal commercial imports nor act as a disincentive to domestic production in recipient countries (as food aid is not used to circumvent export subsidy disciplines and commitments), do not displace normal commercial imports nor act as a disincentive to domestic production in recipient countries; while at the same time avoiding reductions in the availability of genuine food aid to meet humanitarian needs on a full grant basis.

Export restrictions

Following consultations with other members, export restrictions and/or prohibitions shall be quantified and converted into export taxes that shall be bound in members' schedules and subject to reduction commitments. Bound rates of export taxes for all agricultural products based on risks and other factors obtained from past experiences shall be established in members' schedules and subject to a progressive reduction in a

similar manner to either one of those mentioned in the tariff reductions.

4.4 Special and Differential Treatment of Developing Economies

Subject to appropriate graduation conditions, developing economies shall be excluded from the disciplines to be established unless they are net exporters of the foodstuffs concerned.

A wide range of flexibility should be given to developing importing economies with regard to the rules and disciplines on border measures and their application, in order to ensure their food security.

Flexibility should also be given to developing importing economies concerning the rules and disciplines on domestic support and their application, in order not to affect the support necessary to increase food production for domestic consumption.

When strengthening the rules and disciplines on exports and state trading, measures to exempt or ease obligations should be provided so as to avoid causing

an excessive burden on developing economies.

The idea of a possible framework for international food stockholding should be examined in order to complement existing bilateral and multilateral food aid schemes and to enable loans of food in the case of temporary shortage.

4.5 Non-Trade Concerns

Non-trade concerns such as multi-functionality, food security and safety mentioned above in 3.2 and 3.3 should be given due consideration. Although it is difficult to quantify them and link them with specific volumes of domestic production or import, exporting economies should show sympathy for these non-trade concerns expressed by importing economies. It will be better addressed by mutual understanding and closer consultations between importers and exporters rather than through negotiations. In 1998, the APEC Business Advisory Council (ABAC) proposed that APEC Leaders should undertake joint actions to develop the APEC Food System by developing more extensive

rural infrastructures, adapting and adopting new farm and food technologies and reducing impediments to food trade. APEC Leaders should give a renewed focus on the ABAC proposal in order to promote agricultural reform and liberalization, while attending to these non-trade concerns.

The same argument can be applied to coverage of agriculture in regional trading agreements (RTAs). RTAs have flourished world-wide since the 1990s but agricultural trade is often excluded in order to circumvent domestic resistance by import-competing farmers. Instead, RTAs can provide a suitable framework within which both exporters and importers understand each other's situation and form an efficient, secure and safe food system. When RTAs incorporate an appropriate food system, the momentum for agricultural liberalization and reform will increase immensely.

Agricultural trade is a major concern of developing economies during the current negotiation. Its liberalization will lead to the development of agriculture and contribute to the reduction

of poverty. This is another type of non-trade concern or objective of the agriculture negotiations. However, liberalization alone cannot achieve this objective. It needs to be complemented by technical cooperation in improving technology, management, and marketing. Developed economies account for almost half of the total agricultural exports (WTO Committee on Agriculture, 2000) and they also gain from agricultural liberalization. They should be encouraged to strengthen their assistance to developing economies' agriculture markets taking advantage of their export gains.

For developing importing countries, the rapid liberalization of their agricultural sector may cause temporary food insecurity and may force the farmers of less competitive crops to switch to non-agricultural activities. Shifting resources into the manufacturing sector will be possible if they are able to export the labor-intensive products to the rest of the world, particularly to the developed countries. The developed countries should not erect trade barriers against manufacturing imports from those countries. In addition, the external shocks may produce serious social disruption

since many poor farmers may not be able to adjust themselves. Establishment of a development fund may be helpful not only to facilitate the process of rural development but also to provide a necessary safety net for the disadvantaged farmers in poor developing countries.

5. Comments on the Harbinson Proposal

The Harbinson paper "Negotiations on Agriculture: First Draft of Modalities for the Further Commitments", was released immediately after we circulated our draft at the Informal WTO Ministerial Meeting in Tokyo on February 14-16. The revised Harbinson proposal was issued on March 19. It contains minor revisions and retains the main contents of the initial demand for reduction of protection levels. The U.S. and the Cairns group claim that it does not go far enough. Japan and the EU also opposed the revision, urging more moderate reductions in protection levels. The WTO had set a deadline of March 31 to establish the modalities and framework for agriculture trade liberalization. However it failed to reach agreement on the modalities by that date.

It seems to require some more time for our negotiators to converge to a consensus package resembling the Harbinson proposal. However, time alone will not resolve the difference between negotiators. Deliberate efforts are needed to urge our negotiators and governments to fill the gaps. Our ATSG proposal is closer to the Harbinson proposal than those of exporters and importers but has a clear logic of reforming the global regime of agricultural products; as shown by the comparison between the Harbinson proposal and our proposal, below.

Tariffs

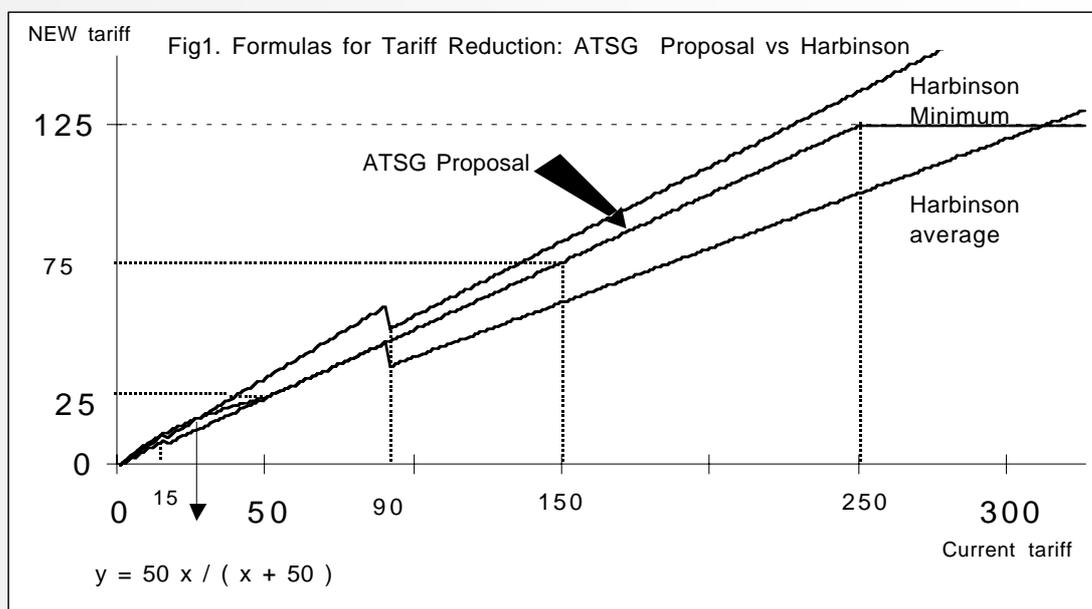
The tariff reductions over the period of five (ten) years shall be as follows for developed countries (figures in parentheses are for developing countries):

- (i) For tariffs greater than 90 (120) per cent the simple average reduction rate shall be 60 (40) per cent subject to a minimum cut of 45 (30) per cent.
- (ii) For tariffs lower than or equal to 90 (120) per cent and greater than 15 (60) per cent the average reduction rate shall

be 50 (35) per cent subject to a minimum cut of 35 (25) per cent. (For tariffs lower than or equal to 60 per cent and greater than 20 per cent the average reduction rate shall be 30 per cent subject to a minimum cut of 20 per cent.)

- (iii) For tariffs lower than or equal to 15 (20) per cent the average reduction rate shall be 40 (25) per cent subject to a minimum cut of 25 (15) per cent.

This proposal on tariff reductions for developed countries is similar to our proposal for tariffs lower than 250 per cent, as shown in Fig.1. The line indicating reductions under our proposal lies between the Harbinson Average and Harbinson Minimum for tariffs up to 312.5 per cent but is much more ambitious for tariffs greater than 312.5 per cent. For example, tariffs on rice in Japan, which is currently equivalent to 490 per cent, would be 270 per cent in this proposal but could not exceed 125 per cent in ours. Harbinson proposes a different scheme for developing countries while our proposal makes a difference only in the implementation period.



Tariff quotas

Tariff quota volumes which are less than 10 per cent of current domestic consumption shall be expanded to 10 per cent. A member may opt for binding a quota at 8 per cent, provided that the volumes for a corresponding number of tariff quotas are expanded to 12 per cent. Developing countries shall not be required to expand tariff quota volumes for SP products. We propose that minimum access commitment shall be abolished and integrated into the commitment of general access opportunities, which shall be increased by 20 per cent. However, the minimum access expansion of at least to 8 per cent may be similar to a 20 per cent expansion for most cases.

Special safeguard measures

Special safeguard provisions shall cease to apply for developed countries at the end of the implementation period or two years after the end of the implementation period. For SP products subject to tariff reductions, developing countries have flexibility to apply a special safeguard mechanism. We also propose that special safeguard measures shall be abolished

Domestic support

Green Box provisions shall be maintained, subject to possible amendments. Direct payments under the Blue Box shall be capped at the average



level notified for 1999-2001 and bound at that level. These payments shall be reduced by 50 per cent (33 per cent for developing countries). The final bound total AMS (Amber Box) shall be reduced by 60 per cent (40 per cent for developing countries). This proposal on reduction of domestic support is an extension of URAA, though the reduction rate is greater than that of URAA. Our proposal requires rather fundamental reform of domestic support including reexamination of the Green Box and elimination of the Blue Box.

Export competition

For a set of products representing at least 50 per cent of the aggregate final bound level of budgetary outlays for all products subject to export subsidy commitments, final bound levels of budgetary outlays and quantities shall be reduced using a formula and at the beginning of year 6 (11 for developing countries) budgetary outlays and quantities shall be reduced to zero. For

the remaining products, at the beginning of year 10 (13 for developing countries) budgetary outlays and quantities shall be reduced to zero. This proposal is in line with ours.²

² On August 13, 2003 EU-US Joint Text on agriculture was published in order to promote a grand compromise between exporters and importers. It has the same motivation as our effort and provides an alternative set of compromises on the three outstanding issues, market access, domestic support and export competition. However, it does not give concrete figures for market access and has a less consistent economic rationale than our proposal.