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WTO Agriculture Negotiations

Outstanding Issues for Developing Countries

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Executive Summary

This report outlines the key issues in the WTO agriculture negotiations, what has been agreed and what remains to be negotiated. It considers the main stumbling blocks to the negotiations, the important areas for developing countries, and some ideas of possible opportunities for compromise. Although there has been progress in some areas of the current phase of negotiations, important differences of positions and views remain in some important areas.

Table 1 sets out the key issues that remain under negotiation under each of the three pillars. In general, the most important issues for most developing countries include:

- **Tariff reduction formula.** This combined with tariff simplification is probably the most important issue for most developing countries, although offensive interests differ significantly amongst the developing countries, partly depending on whether or not they are significant preference receivers.
- **Tariff simplification.** If agreed, this could significantly improve market access for many developing countries and enhance the level of transparency on border protection measures.
- **Sensitive and Special Products.** Developing countries keen to maintain high tariff rates for sensitive products will see agreement of concessions through these mechanisms as extremely important. The interplay between each will determine the level of S&DT in this area. Major exporters that do not receive preferential access have interests in minimising the degree of concessions for both mechanisms.
- **Special Safeguard and SSM.** It will generally be in the interests of developing countries for the existing special safeguard to be revoked and for a strong SSM to be designed.
- **Domestic support.** This is largely an offensive issue for developing countries. They therefore have interests in securing substantial reductions in overall levels of domestic support, particularly for products of export interest, and in ensuring that disciplines limit the scope for 'box-shifting'.
- **Export competition.** The key issue for developing countries is to secure the elimination of export subsidies at as early a stage as possible.

Regarding the likely timing of an agreement, it is important to remember that agreement is necessarily political and is as likely to be shaped by events external to the WTO as it is by the content of the technical discussions in Geneva. Furthermore, the agriculture negotiations cannot be considered in isolation and agreement will require compromise between members across the whole agenda for the Doha Round.

The political pressure for negotiations to progress is likely to intensify as the Hong Kong ministerial gets closer and the need for greater consensus on modalities in advance of the meeting becomes more urgent. Although no formal goals have been set for making agreement on modalities at Hong Kong, this will be required if the Doha Round is to be concluded in 2006.

A large amount of progress will be required over the coming months for agreement at Hong Kong to be achieved. In particular, increased political will amongst the key WTO members is needed.

The members that are hindering progress the most in the agriculture negotiations are the G10 and the EU. For progress to be made at the technical level, key members will need to provide concessions in some areas to these members. It is therefore important that developing countries weigh up their priorities – i.e. consider the areas where they may be willing to compromise and the areas where their position is more fixed. The market access pillar is the area where developing countries will in general have the most to gain or lose and the area where they should concentrate their negotiating capital. Showing flexibility in other areas, for example, the end date for export subsidies or limiting flexibilities under the Special Products modality, could provide some impetus towards compromise.

Table 1: Summary of main remaining issues under negotiation

Issue/Action	Key areas for negotiation
MARKET ACCESS	
Tariff reduction formula	<ul style="list-style-type: none"> • Number of bands • Formula for reduction within bands • S&DT for developing countries • Whether formula should be agreed before or after non-ad valorem tariffs are converted
Tariff conversion and simplification	<ul style="list-style-type: none"> • Price information used for conversion • Whether tariffs should be bound at ad valorem rates
TRQ expansion and administration	<ul style="list-style-type: none"> • Level of tariff quota expansion • Detailed rules on TRQ administration
Sensitive Products	<ul style="list-style-type: none"> • Number of products that may be selected • Degree of flexibility provided
Special Products	<ul style="list-style-type: none"> • Number of products that may be selected and criteria for selection • Degree of flexibility provided • Whether SSM can be applied on Special Products
Special Safeguard and SSM	<ul style="list-style-type: none"> • Whether or not existing special safeguard should be retained • Design of SSM, including triggers, product coverage, response measures and administration
Preference erosion	<ul style="list-style-type: none"> • Whether it is possible to address preference erosion and if so, how
Sectoral initiatives	<ul style="list-style-type: none"> • Whether these should be part of the tariff reduction negotiations
DOMESTIC SUPPORT	
Formula for reduction	<ul style="list-style-type: none"> • Overall level of reduction and whether sharper cuts should be applied to larger levels of support
Amber box	<ul style="list-style-type: none"> • Methodology for establishing amber box caps (including base period)
Green box	<ul style="list-style-type: none"> • Whether or not the green box should be reformed, implying new disciplines on some measures
Blue box	<ul style="list-style-type: none"> • Measurement of Blue Box measures for cuts • The nature of new disciplines for Blue Box measures

Issue/Action	Key areas for negotiation
EXPORT SUBSIDIES AND COMPETITION	
Elimination of export subsidies	<ul style="list-style-type: none"> • Date for the elimination
Export credits and insurance programmes	<ul style="list-style-type: none"> • Technical details over what should be permitted for programmes of 180 days or less • S&DT for developing countries
Food aid	<ul style="list-style-type: none"> • Role of international organisations in disciplines • Whether food aid should be in fully grant form
State trading enterprises	<ul style="list-style-type: none"> • Definition of entities covered • Specification of trade-distorting practices • S&DT for developing countries

Abbreviations

ACP	African, Caribbean and Pacific
AoA	WTO Agreement on Agriculture
AMS	Aggregate Measure of Support
AVE	Ad Valorem Equivalent
CARICOM	Caribbean Community
EU	European Union
G10, G20, G33	See Annex 2 for list of country groupings
LDC	Least Developed Country
MFN	Most Favoured Nation
NFIDC	Net Food Importing Developing Country
S&DT	Special and Differential Treatment
SP	Special Product
SSM	Special Safeguard Mechanism
TRQ	Tariff Rate Quota
US	United States
WTO	World Trade Organisation

1. Introduction

This report outlines the key issues in the WTO agriculture negotiations, what has been agreed and what remains to be negotiated. It considers the main stumbling blocks to the negotiations, the important areas for developing countries, and some ideas of possible opportunities for compromise.

The remainder of the report is structured as follows. Section 2 provides a brief background to the WTO agriculture negotiations process. The report then considers the details of the negotiations under each of the three pillars of the AoA (Sections 3-5). Section 6 considers the interests for developing countries in the negotiations. Section 7 concludes with an assessment of what will be required for a successful agreement.

2. Background

The Uruguay Round Agreement on Agriculture (AoA) set up a framework of rules and started reductions in protection and trade-distorting support. But this was only the first phase of the reform. Article 20 of the AoA committed members to start negotiations on continuing the reform at the beginning of 2000. Those negotiations are now well underway.

The negotiations are difficult because of the wide range of views and interests among member governments. They aim to contribute to further liberalisation of agricultural trade. This will benefit those countries which can compete on quality and price rather than on the size of their subsidies. That is particularly the case for many developing countries whose economies depend on an increasingly diverse range of primary and processed agricultural products, exported to an increasing variety of markets, including to other developing countries.

The negotiations are now in their fifth year, but under a reformulated mandate: the Doha Declaration, issued in November 2001. Negotiators missed the 31 March 2003 deadline for producing numerical targets, formulas and other modalities for countries' commitments. A revised draft modalities paper was put on the negotiating table in March 2003 and although it was not agreed, it was used to discuss technical details in subsequent months. A number of framework proposals dealing with main points of the modalities were submitted and discussed before and during the Fifth Ministerial Conference in Cancún in September 2003, but it was not until 1 August 2004 that a framework was agreed.¹

The framework has settled some political questions, such as whether to negotiate the end of export subsidies. In many other issues, it gave broad political direction to the negotiations, such as an outline of the approach for cutting tariffs. Many technical details now need to be sorted out so that members can move to the next set of political decisions to be taken later in this phase, and agree on full modalities. Work resumed in October 2004 on discussing full modalities, which will in turn be used to work out the final agreement on revised rules, and individual countries' commitments.

The modalities phase deals with one of the most critical stages of the agriculture negotiations. It aims to set modalities or targets (including numerical targets) for achieving the objectives set out in the Doha Ministerial Declaration: "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". It will also include some rule making. This stage will therefore determine the shape of the negotiations' final outcome. The modalities will be used for members to produce their first offers or comprehensive draft commitments.

The final deadline for completing the negotiations, 1 January 2005, was officially postponed on 1 August 2004, without a new date set. Members have suggested the negotiations might unofficially aim to complete the modalities by the Hong Kong Ministerial Conference in December 2005, which would allow them to finalise the Doha Round of trade liberalisation talks in 2006. For this to be achieved, WTO Director-General Supachai Panitchpakdi, has said that there would need to be broad agreement on "elements of the potential outcome product... by early July." Members have largely concurred with this timeline, but no formal commitment has been made.

¹ See Annex 1 for the text of the agriculture component of the framework.

Although there has been progress in some areas of the current phase of negotiations, important differences of positions and views remain in some important areas. With these differences, it looks as if there will be an uphill battle to make enough progress in time for the Hong-Kong Ministerial Conference.

3. Market access

3.1 Key issues

The most important part of the package of modalities, and the most difficult to negotiate, is that of significant opening-up of markets to competitive imports. As the agriculture negotiations chairperson Tim Groser has pointed out, all countries have market access barriers, whereas only some have export subsidies or Amber or Blue Box domestic supports. Therefore the range of interests involved in the market access side of the negotiations is more complex. Most governments are under pressure to protect their farmers, but many also want to export and therefore want to see others' markets open up.

Among developing countries, some are less confident about importing and exporting and take a defensive position, while others are more confident and want to see more South-South trade as well as increased exports from poorer to richer countries.

Key issues under this pillar of the negotiations are:

- The type of **tariff reduction formula** that would produce the agreed result of "substantial improvements in market access" and how tariffs will be converted for the purpose of reduction.
- How countries' **sensitive products** might be treated.
- How developing countries might be given further flexibility for their **special products**.
- The use of **special safeguard** actions to deal with surges in imports or falls in prices.
- How to deal with conflicting interests among developing countries over **preferential access** to developed countries' markets.
- The size of **quotas**, the way they are administered, and the tariffs charged on imports within the quotas.

3.2 What has been agreed

Tariff Reductions

Tariff reductions will be made through a 'tiered formula'. The framework states that the formula must take account of member's different tariff structures (for example some have tariffs that vary widely from product to product, others have more homogeneous rates), and it spells out key principles for the formula, aimed at expanding trade substantially:

- **Single approach:** everyone except least-developed countries has to contribute by improving market access for all products.
- **Tiered and progressive:** the formula will be based on tiers so that tariffs in higher tiers have steeper cuts.
- **Reductions from bound rates,** rather than the applied rates, which in developing countries in particular, are often lower, sometimes considerably.

- The framework endorses the Doha round mandate of “**substantial improvements**” in market access for “**all**” products, which would probably allow countries to protect individual tariff lines from substantial market access concessions, since there are often several tariff lines within each product definition.
- **S&DT** will be integral to the formula.

TRQs

Some most-favoured nation TRQ expansion is required as a contribution to increasing market access.

Sensitive Products

All members will be allowed to designate an “appropriate number” of tariff lines to be treated as sensitive. For these products, although tariff reductions will be lower than for other products, “substantial improvement” in market access must still be provided, through a combination of tariff quota commitments and tariff reductions.

Special Products

Developing countries will be given the flexibility to designate an “appropriate number” of special products, which will be eligible for more moderate treatment.

Special Safeguard Mechanism (SSM)

An SSM will be established for developing countries.

Special and Differential Treatment

S&DT for developing countries will be applied to the tariff reduction formula, the number and treatment of sensitive products, the expansion of TRQs and the implementation period.

Preference Erosion

...will be addressed.

3.3 What remains to be negotiated

Although there has been some preliminary agreement over the establishment of some modalities, the details of how these will work remain to be negotiated. The key issues still under negotiation under the market access pillar include:

Tariff Reduction Under the Tiered Formula

Although there is agreement that tariff reduction will be made through a tiered formula, there is still no agreement on the number of bands, the thresholds for defining the bands, the type of tariff reduction in each band or the timeframe for tariff reduction. This also has implications for how **tariff escalation** will be addressed: the framework paper states that this will be tackled “*through a formula to be agreed*”.

In the informal negotiations since the conclusion of the July 2004 framework paper, there have been large differences in approach on the formula to be used for tariff reduction, primarily regarding how steep reductions will be.

New Zealand and Australia have argued that the tiered approach should have a harmonising effect on members' agriculture tariff profiles and result in greater market access for all products. They have argued that a Swiss formula should apply where there are few bands, and other formulas could be used when there are more bands. This is because if there are many bands, the tiered approach would as a whole increasingly resemble a Swiss formula.

The need for a non-linear formula has also been argued by other countries, such as the **US** and the **G20**. The G20 has argued that the tariff reduction formula must contain:

- **Progressivity**: deeper cuts to higher bound tariffs.
- **Proportionality**: developing countries making lesser reductions than developed countries and neutrality in respect of tariff structures.
- **Flexibility**: to take account sensitive products, without undermining the objective of the reduction formula and ensuring substantial improvement in market access for all products.

The concept of progressivity has been opposed by the **G10 and EU**. The EU has instead argued for average linear reductions (Uruguay Round-style) in each band.

In addition, the **G20** and the **US**, have argued that non ad-valorem tariffs (tariffs based on factors other than price, such as volume) must be converted into ad valorem (tariffs based on price) equivalents before the final formula can be agreed (see below). The **EU** and the **G10** have disagreed, arguing that this would slow down the process too much.

Ad Valorem Equivalents (AVEs) and Tariff Simplification

Tariffs expressed, for example, as dollars per tonne are called 'specific duties'. Some tariffs are more complex: for example, they combine specific rates with percentages of the price (ad valorem). The US, EU, Switzerland, Norway, and Bulgaria are the WTO members with the most specific tariffs on agricultural imports. All of these have to be converted to ad valorem rates if they are going to be reduced according to the tiered formula. Without this calculation, it would not be possible to put products charged at specific duties into their appropriate categories.

This highly technical issue has attracted great controversy in the negotiations and has proved to be one of the most difficult areas to secure agreement. In March 2005, talks were suspended because members failed to come to an agreement. Pressure is building because the impasse over this is preventing members from launching serious talks on the tiered tariff-reduction formula they agreed to as part of a framework deal. This means that the deadline of finalising a tariff reduction formula in time for the Hong Kong ministerial is becoming increasingly tight.

Discussion has focused on the method of conversion and has postponed negotiation of the more political question of whether the tariffs should all then be bound as ad valorem rates ('tariff simplification', which the framework says is under negotiation) - as pushed by Brazil and other **Latin American countries**, or whether the

conversions should be limited for use in the tariff-cutting formula, as favoured by the **EU**.

The technical discussions surrounding this include: methods of calculation for the tiered formula; data requirements; and verification procedures. Other controversies relate to how detailed product categories should be, and which periods should be used as the base.

WTO members generally agree on the formula that will be used for this conversion, but disagree on which price information to use for the imports. The choice of the price is critical because a low one generally results in a higher ad valorem tariff while a higher price would result in a lower ad valorem equivalent.

Because the conversion is an imprecise exercise, many countries², in particular developing, want to minimise the amount of flexibility. They say they do not want a repeat of some of the manipulations that they say characterised calculations (particularly tariffication) in the Uruguay Round negotiations. They are concerned that a loosely defined method of calculation would allow the developed countries which apply specific tariffs to manipulate the figures for the subsequent formula for tariff reduction to the disadvantage of the developing countries. A loose method of calculation could enable the developed countries to systematically under-estimate the ad valorem equivalent of their existing specific tariffs, producing a lower tariff base from which they would then make only modest tariff cuts. By contrast developing countries tariffs, which are largely ad valorem, would figure directly in the formula.

Others (particularly the **EU** and **G10**) stress the need for a degree of flexibility (avoiding a uniform, detailed and excessively rigid method). They argue that lack of flexibility would amount to "excessive" challenge and verification, arguing that their tariffs are a highly sensitive political issue. Many accept the need for at least some kind of multilateral verification of the calculation.

Another critical issue is when countries would have to convert specific tariffs to ad valorem equivalents. The **EU** and **G10**, have argued that the conversion should not take place until after there are agreed modalities for the agriculture negotiations. **Developing countries** have said the conversion should take place before members agree on specific modalities, including the number of tiers in the tariff-reduction formula, the range of tariffs that would be placed in each tier and the percentage cuts subject to each tier. Developing countries have argued that they need to know the ad valorem values of products imported by developed countries, such as sugar, if they are to effectively participate in the negotiations on modalities. They argue that it would be difficult to agree to modalities without knowing the values for such imports to the EU as sugar and bananas.

Rules for TRQ Expansion and Administration

The framework text leaves open the issue of how much countries must increase their market access by tariff-rate quota expansion if they shield a product from major tariff cuts, saying only that it will be determined later in the negotiations. The final text also reflects one of the market access demands of the **G10**, by deleting a sentence calling for a minimum cut in out-of-quota tariffs. Without such a cut, it is likely to remain

² Including China, Brazil, the Philippines, Indonesia, Peru, Uruguay, Argentina, India, New Zealand, Thailand, Costa Rica, Chile, and Nicaragua.

difficult for importers to sell in excess of a TRQ limit, although the framework retains language on a possible ceiling on high tariffs.

Regarding TRQ administration, the framework simply states that the negotiations will seek to achieve “operationally effective improvements in tariff quota administration for existing tariff quotas so as to enable members, and particularly developing country members, to fully benefit from the market access opportunities under tariff rate quotas”.

Broadly, the membership continues to debate whether tariff quotas are an opportunity to trade or whether the way they are administered creates an obstacle, the latter complaining about low fill rates, one even proposing a formula that would require the quota to be replaced by a tariff-only method if the fill rate is low. Various members support some or all of a list of principles, including using methods that do not discriminate, are simple and practical, are predictable and transparent, and do not hinder commercial transactions.

Sensitive Products

The number of sensitive products each government may select remains under negotiation, as does the market-opening obligations for these products. Even for these products, there has to be “substantial improvement” in market access, which can partly be achieved by creating or expanding tariff quotas. The fine print carefully strikes a balance between different positions by saying the final result should also reflect “the sensitivity of the product”, and it sets some criteria for negotiating the expansion of tariff quotas that are open to all members (MFN-based, as distinct from quotas that are set aside for selected members).

Many developing countries, including the **G20**, are concerned that the use of the sensitive products category should not result in the developed countries escaping from opening their markets in key agriculture products. This is a genuine fear as it is likely that the products which developing countries currently protect the most through market access barriers (such as sugar, dairy products and beef in the EU) are the products that will be selected as sensitive products by these countries. The **G10** argue that greater market access for sensitive products can only be achieved through tariff quota expansion and not via reduced tariffs. The **US** argues that the number of such products should be limited and must still deliver on the objective of greater market access.

The **G20** argues that the number of sensitive products can only be determined after the tariff reduction formula has been developed. They assert that this puts limits on the number of tariff lines that can be designated as 'sensitive', in particular in the upper bands of the tiered formula. They further assert that according to framework, the selection and treatment of sensitive products should not undermine the overall objective of the tiered approach. Nonetheless, they recognise that sensitive products will be permitted more flexible treatment than that arising from the tiered tariff reduction formula. However, they argue that the greater the deviation from the formula, the greater the TRQ expansion required.

The position of the **G10** countries on sensitive products is important for developing countries. On the one hand, it could be argued that it is in developing countries' interests for the flexibilities for sensitive products to be as limited as possible and to retain significant flexibilities for developing countries only under the special products modality (see below). On the other hand, whatever protection developed countries negotiate for their sensitive products will be seen as a baseline for special products,

meaning that greater flexibility under this modality will result in a more generous special products modality.

Special Products

Negotiations continue to discuss the criteria for the selection of special products (SPs) and the flexibilities that will be provided to developing countries for these products. There has been very little technical discussion within the negotiations of this issue. However developing countries continue to assert that this modality carries stronger justification than the sensitive products modality because it is required to protect and enhance developing countries' domestic food production and to sustain and enhance the employment, food security and livelihood opportunities of the rural poor.

The **G33**, which represents the main proponents of special products, point out that the framework clearly provides that:

- Developing countries shall have the flexibilities to decide themselves the products they consider as SPs.
- Selection of SPs is to be made on the basis of an appropriate number of products, and not tariff lines.
- Criteria for selection must be based on food security, livelihood security, and rural development.
- Treatment of SPs must be more flexible compared to the treatment of other products including sensitive products. In this regard the **G33** maintains its position that SPs must not have tariff reduction or new commitments on TRQs, and must not be excluded from the coverage of the SSM.

The **G33** maintain that SPs are detached in the framework from the tariff reduction formula and other market access provision such as TRQ and sensitive products. SPs are an additional S&DT for developing countries, outside the traditional S&DT to be given to developing countries on the tariff reduction formula, the number and treatment of sensitive products, expansion of TRQ, and the implementation period.

However, the **US** has indicated it is against the flexibility asked for by the G33 in treatment of SPs. The US want this category of products to be "extremely limited" and defined on the basis of "very strict criteria." The **EU** is more explicitly supportive, recognising the need for special products for developing countries.

Outstanding questions that have not been addressed in the negotiations regard the technicalities of how SPs will be nominated: whether developing countries will be free to select the products, and how their number will be limited, if there will be strict criteria, or whether the products selected will be subject to negotiation and 'request and offer'. Linked to another area of the negotiations, there remains disagreement over whether or not developing countries will be able to apply the SSM on SPs. Moreover, there is still no agreement over whether developing countries will be absolved from any market access commitments for SPs, or whether there will be some commitments (still undetermined) which are less stringent than for other products.

Special Safeguard

The future of the SSG (Article 5 of the AoA, which is primarily used by developed countries) after the conclusion of the Doha Round remains under negotiation. Although its duration under the agreement is limited to the implementation of the Uruguay Round, members have agreed to allow for its continuation during the Doha negotiation period.

The **Cairns Group** and the **G20** have called for the elimination of the SSG. The **EU** and **Japan**, the main users of the SSG have strongly argued for its continuation.

Special Safeguard Mechanism

The details of the design of a Special Safeguard Mechanism (SSM) for developing countries remains under negotiation.

The **G33**, which are the main proponents of the SSM have noted that existing safeguard provisions have been inadequate to address the concerns of developing country members related to stabilising domestic markets and avoiding sudden increases of imports that threaten to disrupt domestic production and employment. They therefore argue that the SSM must be an improvement upon existing safeguards. They assert that this should include a relaxation of the rigorous procedures currently required to invoke existing safeguards and problems for developing countries attached to the need for proof of injury. They argue for the following general parameters for negotiations on SSM modalities:

- The safeguard measure should be automatically triggered.
- It should be available to all agricultural products.
- Both price and volume-triggered safeguards should be considered.
- Both additional duties and quantitative restrictions should be considered as response measures.
- The mechanism should be simple, effective and easy to implement.

This has been supported by other developing countries, including Kenya, the Philippines, China and Brazil.

The **EU** and the **US** have stated that they do not support the extension of the SSM to all agricultural products, preferring to negotiate criteria to for how to limit its coverage to staple food products or products necessary for food security, or alternatively products that already have low tariffs.

Indonesia (coordinator of the **G33**) has proposed that the initial work on SSM should be on how the new mechanism should be designed. Other countries such as the **US**, **Costa Rica**, **New Zealand**, **Malaysia** and **Argentina** have argued that they find it difficult to proceed in the discussions on the SSM without first having a clearer picture of how the market access pillar is going to be fleshed out. Some members such as the **US** have pointed out that the nature of the SSM should be tied to the depth of the tariff reductions made and that without deep tariff cuts, a safeguard would be pointless.

Malaysia wants the interests of exporting countries to also be taken into account. **Croatia** has made the point that recently acceded members of WTO should also have the right to use the SSM.

Addressing Preference Erosion

The issue of how to address preference erosion has proved controversial in the negotiations, although there has been little discussion of the specifics of how this issue should be addressed. The framework simply says that the issue of preference erosion will be addressed. The reality is that as MFN tariffs are reduced, the opportunities for retaining significant preferences will also be reduced.

The main groups represented in the WTO that have argued for this issue to be seriously addressed are the **Africa Group**, the **LDCs**, the **ACP** and **CARICOM**. They have all drawn attention to the need to adopt practical measures in the market access negotiations to address this problem. The **Africa Group** has proposed the establishment of an adequate timeframe and support mechanism for preference-receiving countries to adjust to the situation that will be created by the erosion of preferences (it is difficult to conceive of what an “adequate timeframe” for adjustment to preference erosion would be, or whether the establishment of such a timeframe would result in a need to delay tariff reductions in certain products where the effects of preference erosion are likely to be most severe). In addition, the group has asserted that it will be equally important to guarantee that the capacity of these countries to benefit from these preferences is improved. These concerns have been countered by several **Latin American** countries who have argued that the continuance of preferences would undermine the key WTO principle of non-discrimination.

The **EU** and the **G10** have shown sympathy to the concerns of preference-receiving countries and promised to look at the issue carefully. The **US** has said that preference erosion is inevitable, and the key to an appropriate solution is in a transitional mechanism.

Sectoral Initiatives

Sectoral initiatives aim to reduce tariffs to zero for the same products when imported into all major importing countries. Advocates say this kind of agreement proved useful in the Uruguay Round and it should be explored again in the current agriculture negotiations. They add that it could also be combined with eliminating tariff quotas and domestic supports on those products. Several countries oppose the idea outright on the grounds that it would distract attention away from more comprehensive liberalisation, and that it would undermine special and differential treatment. Some say they are unconvinced but will continue to look at the prospects.

In a proposal submitted in March 2005, the **US** supported the sectoral approach for cutting both tariffs and subsidies. Products listed were beef, pork, poultry, oilseeds, barley, fruits and vegetables, distilled spirits, and some processed products. **Colombia** and **Costa Rica** have also called for a sectoral initiative focusing on flowers, which they argue would mainly benefit developing countries.

4. Domestic support

4.1 Key issues

Although progress under this pillar of the negotiations has been faster than under the market access pillar, a large amount remains under discussion. The Doha declaration calls for “substantial reductions in trade-distorting domestic support”. It is this that the negotiations are aiming to achieve.

Key issues in the negotiations relate to:

- The **formula** for the reduction in domestic support.
- The overall **level of reduction** of domestic support.
- The methodology for establishing **Amber Box** caps.
- Future disciplines for support provided under the **Blue Box** and **Green Box**.

4.2 What has been agreed

Overall: tiered formula with downpayment

For the overall level of support (Amber Box, de minimis and Blue Box combined), a tiered formula for reductions will be used. This will be designed so that higher levels of support (those in higher tiers) will have steeper cuts. On top of that, in the first year, each country’s ceiling of permitted overall support will be cut by 20%. This will mean that the EU will have to reduce its domestic subsidies by about US\$30 billion in the first year, while the U.S. will have to reduce its farm payments by US\$10 billion.

Amber Box: tiered formula with caps on specific products

Amber Box (final bound total AMS) supports will also be cut using a tiered formula, so that higher supports have steeper cuts. There will be limits on supports for specific products – product-specific AMS will be capped – in order to avoid shifting support between different products. Since the tiered formula applies to the total of support on all products, the text also says that the result will be cuts in support specified for some products.

De Minimis

Currently, developed countries are allowed a minimum amount of Amber Box support (de minimis). For support that is not given to specific products, this is defined as 5% of the value of total agricultural production. For support given to a specific product, the limit is 5% of production of that product. Developing countries are allowed up to 10% for each of these. Under the Uruguay Round, the de minimis subsidies were capped, but not subject to reduction commitments, as they are proposed to be under the new framework, which says that de minimis will be reduced by an amount to be negotiated, with special treatment for developing countries, which will be exempt if they “allocate almost all de minimis support for subsistence and resource-poor farmers”.

Blue Box

Blue Box supports, currently unlimited, are to be capped at no more than 5% of the value of a country's agricultural production (which is about \$10 billion in the case of both the U.S. and EU) over a period that still has to be negotiated. Some flexibility will be allowed for countries whose Blue Box supports are an exceptionally large proportion of their trade distorting subsidies.

The definition of the Blue Box will be changed to include direct payments that do not require any production, provided the payments are based on certain fixed production conditions (related to acreages, yields, numbers of livestock, or historical production levels). But new criteria will also be negotiated to ensure the Blue Box really is less trade-distorting than Amber Box measures.

The new Blue Box could face additional disciplines in future negotiations as demanded by the **G20**. The final text includes language that states additional disciplines on the use of a new Blue Box for domestic subsidies will be negotiated.

Green Box

Criteria for defining supports as Green Box will be reviewed and clarified to ensure that the supports really do not distort trade, or do so minimally. At the same time, the exercise will preserve the basic concepts, principles and effectiveness of the Green Box, and take account of non-trade concerns such as environmental protection and rural development.

Special and Differential Treatment

Longer implementation periods and lower reduction coefficients for domestic support will be provided to developing countries. In addition, there will be continued access to the provisions under Article 6.2 of the AoA, which allows developing countries to exclude from their AMS calculations a variety of assistance and subsidy measures.

4.3 What remains to be negotiated

Formula for Domestic Support Reductions

Negotiations on this issue have placed the large providers of domestic support against the non-providers. The **G20** has argued that there should be substantial cuts in the levels of domestic support and that larger domestic supports have to be cut more sharply. The **G20** also argues that the sum of cuts in all three relevant components of domestic support - AMS, Blue Box and de minimis - should be such that it will contribute to the attainment of substantial overall reduction in trade distorting domestic support.

Some members have stressed that the 20% cut in domestic support in the first year of implementation will have little impact due to the gaps between countries' allowed support levels and their actual support levels. The **G10** have stressed that these gaps exist because countries have taken unilateral liberalisation measures, and argue that they should not be penalised for having done so by being asked to cut their support more.

Amber Box

There is ongoing discussion of the methodology for establishing AMS (Amber Box) caps. The discussion covers the question of the base period for setting the caps and

whether the approach should be uniform for all. Broadly, some propose basing this on actual supports. Some counter that to be consistent with other pillars, the base should be the final bound rate (the final ceiling on the aggregate AMS).

Green Box

Green Box issues under negotiation include the review and clarification of criteria, special treatment for developing countries, and monitoring and surveillance. The initial discussions are more political than in other areas. The main area of agreement is that the Green Box is defined as supports that do not distort or distort minimally (paragraph 1 of Annex 2 of the Agriculture Agreement), and that the objective of the review and clarification is to maintain this. But opinions diverge on whether this implies reforming the Green Box. Some members³ want to see new disciplines on a number of programmes currently in the box: particularly income supports and similar programmes, if these encourage farmers to produce more because the supports are large enough to cover various costs and risks, or if they are designed in a way that encourages farmers to expect more subsidies in the future, for example because base periods are adjusted. Those keen to preserve the existing Green Box (in particular, the **G10** and **EU**) stress the need to preserve the Green Box as a tool for moving away from other more distorting subsidies.

Blue Box

Issues under negotiation include how to measure the Blue Box component for the overall cut made and new measures contained in the Blue Box.

The **G20** argue that future rules should:

- Ensure that Members will not circumvent their reduction commitments by simply changing the labels of their notifications; and,
- Reflect a real movement away from trade-distorting AMS programmes towards those which are proven to limit production and can be genuinely considered less trade-distorting than AMS measures.

To achieve these critical elements, the **G20** believes that criteria which could be considered, among others are:

- Introduce product-specific caps and reduction commitments, by establishing criteria to disaggregate support at a product-specific level.
- Price linkages should be disciplined to ensure that there is no incentive to increase production.
- To prevent mere shifting of support between boxes without changing its trade-distorting effect, and based on the results of the comprehensive review, disciplines to offset transfers from Amber Box or de minimis to the Blue Box will be necessary.
- The comprehensive review and further negotiation must address the requirements of developing countries in order to ensure that the Blue Box does

³ Including Australia, Canada, Argentina, Costa Rica, Chile, Brazil, Thailand, Malaysia and the US.

not merely provide accommodation for the programmes of some developed countries, as is currently the case.

- The monitoring and surveillance mechanism, (as envisaged in paragraph 48 of the framework agreement), must ensure that Blue Box programmes conform to the criteria to be agreed.

The G20 has also presented proposals seeking to prevent 'box shifting'. They propose that that Amber Box commodity support has to be completely reformed to fit the Blue Box before it can be moved, as the Blue Box has been created to help countries in the transition out of trade distorting subsidies. In addition, the group has called for checks on price-linked support, such as counter-cyclical payments, if these are to be considered Blue Box support measures.

Australia has also proposed additional Blue Box disciplines, including provisions ensuring that, where payments under the new Blue Box vary with prices (i.e. counter-cyclical payments), the extent to which such payments can be provided may not exceed an agreed percentage between the market price and the target price. The idea would be to ensure that counter-cyclical payments are less trade-distorting by allowing for such payments to compensate for some, but not all, of the difference between market and target prices.

Members increasingly see the new Blue Box as a way for the US to avoid reducing its current farm spending as the current framework language would allow the US to shift counter-cyclical payments from the amber box to the new blue box. As a result, the U.S. would be able to agree to deeper reductions in Amber Box payments without actually changing its farm programs.

The **EU** has signalled support for tightening the rules for the new Blue Box, which was established specifically for the US as part of a July 2004 framework for future talks. Virtually every other member of the WTO would support tightening criteria for the new Blue Box, isolating the US on the issue. The has also stated that it would oppose any product-specific caps on Blue Box support, arguing that the framework does not mention this as a possibility.

5. Export subsidies and competition

5.1 Key issues

Since significant progress was made in the Framework Agreement, this is probably the least controversial pillar of the current phase of negotiations. However agreement still needs to be made on:

- The **date for the elimination of export subsidies**.
- Disciplines for **export credits and insurance programmes** of 180 days or less.
- Disciplines on the use of **food aid**.
- Disciplines on exporting **state trading enterprises**.

5.2 What has been agreed

The framework states clearly that all forms of export subsidies will be eliminated by a credible date. The elimination will work in parallel for all types of subsidies, including those in government supported export credit, food aid, and state-sanctioned exporting monopolies. The negotiations will also develop disciplines on all export measures whose effects are equivalent to subsidies.

End Point and Implementation

The negotiated date will mark the end of: export subsidies as listed in members' schedules; all export credits, export credit guarantees or insurance programmes with repayment periods beyond 180 days; those with shorter repayment periods but failing to conform with disciplines that are to be negotiated; trade-distorting practices of state trading enterprises that are considered to be subsidised; and food aid that does not conform with various disciplines, which will also be negotiated.

The reductions will be by annual instalments, with parallel treatment for the different forms of export subsidy, although the details still have to be negotiated. Some leeway in the reduction steps is allowed for coherence with members' internal reform steps. The small print balances the need for transparency with respecting commercial confidentiality.

Special and Differential Treatment

Developing countries are to be provided a longer implementation period for elimination and will be able to continue to subsidise transportation and marketing (Article 9.4 of the AoA) for a 'reasonable' period, to be negotiated beyond the date for ending the main subsidies. At the same time, when members get rid of subsidised components of credit and insurance, they have to be able to avoid harming the interests of LDCs and NFIDCs. Special consideration is given to poorer countries' state trading enterprises whose monopoly privileges aim to keep domestic prices stable for consumers and to ensure food security.

5.3 What remains to be negotiated

Date for the Elimination of Export Subsidies

A date still needs to be agreed for the elimination of export subsidies. There has been little formal discussion of this issue, although the **G20** has called for it to take place in five years.

Export Credit, Guarantees and Insurance

With credit and insurance of over 180 days now to be phased out, the focus of continuing negotiations is on disciplines for programmes of 180 days or less. Topics covered in the technical consultations include: objectives and basic approach; types of support covered; entities giving credit and insurance covered by the disciplines; terms and conditions, such as minimum cash payments, interest payment, repayment of principal, minimum premium requirements, risk-sharing, self-financing of credit programmes, foreign exchange risk, validity period of offers for export financing.

The **LDC group** and some other members⁴ have proposed that longer repayment periods and lower interest rates for credits should be permissible for developing countries, allowing them to receive government-supported credit on their purchases that would normally be outlawed under proposed new export credit rules.

Others have said they are uncomfortable with this because loopholes might be created. The **EU, Australia, Argentina, Colombia, New Zealand, and Brazil** have cautioned that any flexibility should not undermine the agreement to eliminate export subsidies and should not create loopholes. The **EU** has said that its agreement to eliminate export subsidies is on condition that all forms of export subsidies are eliminated ("full parallelism").

Food Aid

The objective of the negotiations is to avoid displacing commercial transactions, i.e. to provide food aid when commercial transactions are not possible; and not to obstruct bona fide food aid. Topics under negotiation include: the role of international organisations in the disciplines such as determining whether there is a need for food aid and in delivering the aid, whether food aid must be in fully grant form or even only as money (which would be used to buy the food locally, regionally or globally), whether the food aid could be sold to raise funds for development (monetisation), the prohibition of tied food aid, not allowing food aid to be re-exported (most agree to this), and transparency.

Many developing countries are calling for binding commitments from donor countries on the amounts they supply, with rising amounts of food at times of high prices, aid supplies in response to demand, technical and financial assistance to help countries develop domestic production instead of relying on food aid, and increased transparency through notifications to the WTO Agriculture Committee. Some developed countries also endorse some of these ideas. Also discussed are ideas for international stock piling and a revolving fund (proposed by some countries in Phase 1).

⁴ Including Mauritius, Barbados, Egypt and Kenya.

Exporting State Trading Enterprises

All agree that the objective is to find disciplines to ensure there are no subsidies. Issues that have not yet been agreed include: the basic approach to disciplines; definitions of entities to be covered; specifying which practices distort trade (subsidies, government financing, underwriting losses, other elements); how to eliminate these (members generally agree that this would parallel phasing out export subsidies); transparency; future use of monopoly power; and special treatment for developing countries. Initially, with the focus on sorting out technical questions, the main differences with political implications have been set aside, although they are mentioned, e.g. practices such as price discrimination (which some defenders of single-desk exporters, say would apply to private companies as well), and monopoly power.

6. Key issues for developing countries

Table 1 in the executive summary provides a summary of the preceding text by setting out the key issues that remain under negotiation under each of the three pillars. It is a trite, but important, observation that all developing countries are different, having diverse needs, interests and aspirations. It follows that generalisations about the interests of developing countries are often so bland as to be devoid of policy relevance, and that within the group dubbed 'developing countries' there can often be conflicting interests, as is reflected by their differing negotiating positions. This problem also threatens to mitigate against the achievement of meaningful special and differential treatment.

Having said this, the most important issues for most developing countries include:

- **Tariff reduction formula.** This combined with tariff simplification is probably the most important issue for most developing countries. It is also the area that is currently stalling the negotiations and that is most likely to hinder agreement at Hong Kong. Offensive interests differ amongst the developing countries, partly depending on whether or not they are significant preference receivers. The same applies to the provision of S&DT for tariff reductions – some countries have applied tariffs that are so far below bound rates that the level of S&DT that they are provided will be of little consequence. For others, this will have important implications for their applied tariff rates.
- **Tariff simplification.** If agreed, this could significantly improve market access for many developing countries and enhance the level of transparency on border protection measures.
- **Sensitive and Special Products.** Developing countries keen to maintain high tariff rates for sensitive products will see agreement of concessions through these mechanisms as extremely important. The interplay between each will determine the level of S&DT in this area. Major exporters that do not receive preferential access have interests in minimising the degree of concessions for both mechanisms.
- **Special Safeguard and SSM.** It will generally be in the interests of developing countries for the existing special safeguard to be revoked and for a strong SSM to be designed.
- **Domestic support.** This is largely an offensive issue for developing countries – disciplines will generally have limited impact on their own policies. They therefore have interests in securing substantial reductions in overall levels of domestic support, particularly for products of export interest, and in ensuring that disciplines limit the scope for 'box-shifting'.
- **Export competition.** The key issue for developing countries is to secure the elimination of export subsidies at as early a stage as possible.

7. Likely timing and requirements for agreement

In attempting to predict the timing and requirements for an agreement, a number of factors must be kept in mind:

- Agreement is necessarily political and is as likely to be shaped by events external to the WTO as it is by the content of the technical discussions in Geneva.
- As this is a single undertaking, nothing is agreed until everything is agreed. Therefore, although it is considered by most to be the most important component of the Doha Round negotiations, progress in the agriculture negotiations cannot be considered in isolation. Agreement will require compromise between members across the whole agenda for the Doha Round.

It is therefore very difficult to make predictions about the timing of an agreement – although technical discussions in Geneva are currently stuck around a few highly technical areas, a new political impetus for progress to be made could easily break this deadlock. The political pressure for negotiations to progress is likely to intensify as the Hong Kong ministerial gets closer and the need for greater consensus on modalities in advance of the meeting becomes more urgent. Specifically, a deadline for agreeing ‘first approximations’ of the modalities in July has been specified by some.

However it must be remembered that no formal goals have been set for making agreement on modalities at Hong Kong. But WTO Director-General Supachai Panitchpakdi has indicated that this will be required if the Doha Round is to be concluded in 2006. Part of the urgency to finish the round by the end of 2006 arises from the fact that the 'Trade Promotion Authority' granted by the US Congress to President Bush will expire on 1 June 2007 (it is highly likely to be automatically renewed this year). After that, the Bush Administration will no longer be able to submit a Doha Round deal to Congress for a yes-or-no vote without the possibility of amendment.

Considerable progress will be required over the coming months for agreement at Hong Kong to be achieved. In particular, increased political will amongst the key WTO members is needed. The deal reached over the July Framework was the easy part, an indication of the really hard bargaining ahead.

Even after modalities are agreed, the negotiations are still not complete. Members will then have to produce country schedules demonstrating how they intend to implement the agreement. During that period, subsets of participants might engage in "request/offer" negotiations to go further than the general agreement, including sectoral initiatives. Finally, a process called reconciliation will take place in which members will scrutinise the schedules of other countries for adherence to the agreement.

The members that are hindering progress the most in the agriculture negotiations are the G10 and the EU. For progress to be made at the technical level, key members will need to provide concessions in some areas to these members. It is therefore important that developing countries weigh up their priorities – i.e. consider the areas where they may be willing to compromise and the areas where their position is more fixed. The market access pillar is the area where developing countries will in general have the most to gain or lose and the area where they should concentrate their negotiating capital. Showing flexibility in other areas, for example in negotiations on the end date for export subsidies, could provide some impetus towards compromise.

Alternatively, where countries see access to third markets as their priority, showing willingness for limited flexibilities under the Special Products modality may provide added pressure for developed countries to provide meaningful liberalisation, particularly for 'sensitive products'.

Annex 1: July framework agreement

Annex A: Framework for Establishing Modalities in Agriculture

1. The starting point for the current phase of the agriculture negotiations has been the mandate set out in Paragraph 13 of the Doha Ministerial Declaration. This in turn built on the long-term objective of the Agreement on Agriculture to establish a fair and market-oriented trading system through a programme of fundamental reform. The elements below offer the additional precision required at this stage of the negotiations and thus the basis for the negotiations of full modalities in the next phase. The level of ambition set by the Doha mandate will continue to be the basis for the negotiations on agriculture.
2. The final balance will be found only at the conclusion of these subsequent negotiations and within the Single Undertaking. To achieve this balance, the modalities to be developed will need to incorporate operationally effective and meaningful provisions for special and differential treatment for developing country Members. Agriculture is of critical importance to the economic development of developing country Members and they must be able to pursue agricultural policies that are supportive of their development goals, poverty reduction strategies, food security and livelihood concerns. Non-trade concerns, as referred to in Paragraph 13 of the Doha Declaration, will be taken into account.
3. The reforms in all three pillars form an interconnected whole and must be approached in a balanced and equitable manner.
4. The General Council recognizes the importance of cotton for a certain number of countries and its vital importance for developing countries, especially LDCs. It will be addressed ambitiously, expeditiously, and specifically, within the agriculture negotiations. The provisions of this framework provide a basis for this approach, as does the sectoral initiative on cotton. The Special Session of the Committee on Agriculture shall ensure appropriate prioritization of the cotton issue independently from other sectoral initiatives. A subcommittee on cotton will meet periodically and report to the Special Session of the Committee on Agriculture to review progress. Work shall encompass all trade-distorting policies affecting the sector in all three pillars of market access, domestic support, and export competition, as specified in the Doha text and this Framework text.
5. Coherence between trade and development aspects of the cotton issue will be pursued as set out in paragraph 1.b of the text to which this Framework is annexed.

DOMESTIC SUPPORT

6. The Doha Ministerial Declaration calls for "substantial reductions in trade-distorting domestic support". With a view to achieving these substantial reductions, the negotiations in this pillar will ensure the following:
 - Special and differential treatment remains an integral component of domestic support. Modalities to be developed will include longer implementation periods and lower reduction coefficients for all types of trade-distorting domestic support and continued access to the provisions under Article 6.2.

- There will be a strong element of harmonisation in the reductions made by developed Members. Specifically, higher levels of permitted trade-distorting domestic support will be subject to deeper cuts.
- Each such Member will make a substantial reduction in the overall level of its trade-distorting support from bound levels.
- As well as this overall commitment, Final Bound Total AMS and permitted *de minimis* levels will be subject to substantial reductions and, in the case of the Blue Box, will be capped as specified in paragraph 15 in order to ensure results that are coherent with the long-term reform objective. Any clarification or development of rules and conditions to govern trade distorting support will take this into account.

Overall Reduction: A Tiered Formula

7. The overall base level of all trade-distorting domestic support, as measured by the Final Bound Total AMS plus permitted *de minimis* level and the level agreed in paragraph 8 below for Blue Box payments, will be reduced according to a tiered formula. Under this formula, Members having higher levels of trade-distorting domestic support will make greater overall reductions in order to achieve a harmonizing result. As the first instalment of the overall cut, in the first year and throughout the implementation period, the sum of all trade-distorting support will not exceed 80 per cent of the sum of Final Bound Total AMS plus permitted *de minimis* plus the Blue Box at the level determined in paragraph 15.

8. The following parameters will guide the further negotiation of this tiered formula:

- This commitment will apply as a minimum overall commitment. It will not be applied as a ceiling on reductions of overall trade-distorting domestic support, should the separate and complementary formulae to be developed for Total AMS, *de minimis* and Blue Box payments imply, when taken together, a deeper cut in overall trade-distorting domestic support for an individual Member.
- The base for measuring the Blue Box component will be the higher of existing Blue Box payments during a recent representative period to be agreed and the cap established in paragraph 15 below.

Final Bound Total AMS: A Tiered Formula

9. To achieve reductions with a harmonizing effect:

- Final Bound Total AMS will be reduced substantially, using a tiered approach.
- Members having higher Total AMS will make greater reductions.
- To prevent circumvention of the objective of the Agreement through transfers of unchanged domestic support between different support categories, product-specific AMS will be capped at their respective average levels according to a methodology to be agreed.
- Substantial reductions in Final Bound Total AMS will result in reductions of some product-specific support.

10. Members may make greater than formula reductions in order to achieve the required level of cut in overall trade-distorting domestic support.

De Minimis

11. Reductions in *de minimis* will be negotiated taking into account the principle of special and differential treatment. Developing countries that allocate almost all *de minimis* support for subsistence and resource-poor farmers will be exempt.

12. Members may make greater than formula reductions in order to achieve the required level of cut in overall trade-distorting domestic support.

Blue Box

13. Members recognize the role of the Blue Box in promoting agricultural reforms. In this light, Article 6.5 will be reviewed so that Members may have recourse to the following measures:

- Direct payments under production-limiting programmes if:
 - such payments are based on fixed and unchanging areas and yields;
or
 - such payments are made on 85% or less of a fixed and unchanging base level of production; or
 - livestock payments are made on a fixed and unchanging number of head.

Or

- Direct payments that do not require production if:
 - such payments are based on fixed and unchanging bases and yields;
or
 - livestock payments made on a fixed and unchanging number of head;
and
 - such payments are made on 85% or less of a fixed and unchanging base level of production.

14. The above criteria, along with additional criteria will be negotiated. Any such criteria will ensure that Blue Box payments are less trade-distorting than AMS measures, it being understood that:

- Any new criteria would need to take account of the balance of WTO rights and obligations.
- Any new criteria to be agreed will not have the perverse effect of undoing ongoing reforms.

15. Blue Box support will not exceed 5% of a Member's average total value of agricultural production during an historical period. The historical period will be established in the negotiations. This ceiling will apply to any actual or potential Blue Box user from the beginning of the implementation period. In cases where a Member has placed an exceptionally large percentage of its trade-distorting support in the Blue Box, some flexibility will be provided on a basis to be agreed to ensure that such a Member is not called upon to make a wholly disproportionate cut.

Green Box

16. Green Box criteria will be reviewed and clarified with a view to ensuring that Green Box measures have no, or at most minimal, trade-distorting effects or effects on production. Such a review and clarification will need to ensure that the basic

concepts, principles and effectiveness of the Green Box remain and take due account of non-trade concerns. The improved obligations for monitoring and surveillance of all new disciplines foreshadowed in paragraph 48 below will be particularly important with respect to the Green Box.

EXPORT COMPETITION

17. The Doha Ministerial Declaration calls for "reduction of, with a view to phasing out, all forms of export subsidies". As an outcome of the negotiations, Members agree to establish detailed modalities ensuring the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect by a credible end date.

End Point

18. The following will be eliminated by the end date to be agreed:

- Export subsidies as scheduled.
- Export credits, export credit guarantees or insurance programmes with repayment periods beyond 180 days.
- Terms and conditions relating to export credits, export credit guarantees or insurance programmes with repayment periods of 180 days and below which are not in accordance with disciplines to be agreed. These disciplines will cover, *inter alia*, payment of interest, minimum interest rates, minimum premium requirements, and other elements which can constitute subsidies or otherwise distort trade.
- Trade distorting practices with respect to exporting STEs including eliminating export subsidies provided to or by them, government financing, and the underwriting of losses. The issue of the future use of monopoly powers will be subject to further negotiation.
- Provision of food aid that is not in conformity with operationally effective disciplines to be agreed. The objective of such disciplines will be to prevent commercial displacement. The role of international organizations as regards the provision of food aid by Members, including related humanitarian and developmental issues, will be addressed in the negotiations. The question of providing food aid exclusively in fully grant form will also be addressed in the negotiations.

19. Effective transparency provisions for paragraph 18 will be established. Such provisions, in accordance with standard WTO practice, will be consistent with commercial confidentiality considerations.

Implementation

20. Commitments and disciplines in paragraph 18 will be implemented according to a schedule and modalities to be agreed. Commitments will be implemented by annual instalments. Their phasing will take into account the need for some coherence with internal reform steps of Members.

21. The negotiation of the elements in paragraph 18 and their implementation will ensure equivalent and parallel commitments by Members.

Special and Differential Treatment

22. Developing country Members will benefit from longer implementation periods for the phasing out of all forms of export subsidies.

23. Developing countries will continue to benefit from special and differential treatment under the provisions of Article 9.4 of the Agreement on Agriculture for a reasonable period, to be negotiated, after the phasing out of all forms of export subsidies and implementation of all disciplines identified above are completed.

24. Members will ensure that the disciplines on export credits, export credit guarantees or insurance programs to be agreed will make appropriate provision for differential treatment in favour of least-developed and net food-importing developing countries as provided for in paragraph 4 of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries. Improved obligations for monitoring and surveillance of all new disciplines as foreshadowed in paragraph 48 will be critically important in this regard. Provisions to be agreed in this respect must not undermine the commitments undertaken by Members under the obligations in paragraph 18 above.

25. STEs in developing country Members which enjoy special privileges to preserve domestic consumer price stability and to ensure food security will receive special consideration for maintaining monopoly status.

Special Circumstances

26. In exceptional circumstances, which cannot be adequately covered by food aid, commercial export credits or preferential international financing facilities, ad hoc temporary financing arrangements relating to exports to developing countries may be agreed by Members. Such agreements must not have the effect of undermining commitments undertaken by Members in paragraph 18 above, and will be based on criteria and consultation procedures to be established.

MARKET ACCESS

27. The Doha Ministerial Declaration calls for "substantial improvements in market access". Members also agreed that special and differential treatment for developing Members would be an integral part of all elements in the negotiations.

The Single Approach: a Tiered Formula

28. To ensure that a single approach for developed and developing country Members meets all the objectives of the Doha mandate, tariff reductions will be made through a tiered formula that takes into account their different tariff structures.

29. To ensure that such a formula will lead to substantial trade expansion, the following principles will guide its further negotiation:

- Tariff reductions will be made from bound rates. Substantial overall tariff reductions will be achieved as a final result from negotiations.
- Each Member (other than LDCs) will make a contribution. Operationally effective special and differential provisions for developing country Members will be an integral part of all elements.

- Progressivity in tariff reductions will be achieved through deeper cuts in higher tariffs with flexibilities for sensitive products. Substantial improvements in market access will be achieved for all products.

30. The number of bands, the thresholds for defining the bands and the type of tariff reduction in each band remain under negotiation. The role of a tariff cap in a tiered formula with distinct treatment for sensitive products will be further evaluated.

Sensitive Products

Selection

31. Without undermining the overall objective of the tiered approach, Members may designate an appropriate number, to be negotiated, of tariff lines to be treated as sensitive, taking account of existing commitments for these products.

Treatment

32. The principle of 'substantial improvement' will apply to each product.

33. 'Substantial improvement' will be achieved through combinations of tariff quota commitments and tariff reductions applying to each product. However, balance in this negotiation will be found only if the final negotiated result also reflects the sensitivity of the product concerned.

34. Some MFN-based tariff quota expansion will be required for all such products. A base for such an expansion will be established, taking account of coherent and equitable criteria to be developed in the negotiations. In order not to undermine the objective of the tiered approach, for all such products, MFN based tariff quota expansion will be provided under specific rules to be negotiated taking into account deviations from the tariff formula.

Other Elements

35. Other elements that will give the flexibility required to reach a final balanced result include reduction or elimination of in-quota tariff rates, and operationally effective improvements in tariff quota administration for existing tariff quotas so as to enable Members, and particularly developing country Members, to fully benefit from the market access opportunities under tariff rate quotas.

36. Tariff escalation will be addressed through a formula to be agreed.

37. The issue of tariff simplification remains under negotiation.

38. The question of the special agricultural safeguard (SSG) remains under negotiation.

Special and differential treatment

39. Having regard to their rural development, food security and/or livelihood security needs, special and differential treatment for developing countries will be an integral part of all elements of the negotiation, including the tariff reduction formula, the number and treatment of sensitive products, expansion of tariff rate quotas, and implementation period.

40. Proportionality will be achieved by requiring lesser tariff reduction commitments or tariff quota expansion commitments from developing country Members.

41. Developing country Members will have the flexibility to designate an appropriate number of products as Special Products, based on criteria of food security, livelihood security and rural development needs. These products will be eligible for more flexible treatment. The criteria and treatment of these products will be further specified during the negotiation phase and will recognize the fundamental importance of Special Products to developing countries.

42. A Special Safeguard Mechanism (SSM) will be established for use by developing country Members.

43. Full implementation of the long-standing commitment to achieve the fullest liberalisation of trade in tropical agricultural products and for products of particular importance to the diversification of production from the growing of illicit narcotic crops is overdue and will be addressed effectively in the market access negotiations.

44. The importance of long-standing preferences is fully recognised. The issue of preference erosion will be addressed. For the further consideration in this regard, paragraph 16 and other relevant provisions of TN/AG/W/1/Rev.1 will be used as a reference.

LEAST- DEVELOPED COUNTRIES

45. Least-Developed Countries, which will have full access to all special and differential treatment provisions above, are not required to undertake reduction commitments. Developed Members, and developing country Members in a position to do so, should provide duty-free and quota-free market access for products originating from least-developed countries.

46. Work on cotton under all the pillars will reflect the vital importance of this sector to certain LDC Members and we will work to achieve ambitious results expeditiously.

RECENTLY ACCEDED MEMBERS

47. The particular concerns of recently acceded Members will be effectively addressed through specific flexibility provisions.

MONITORING AND SURVEILLANCE

48. Article 18 of the Agreement on Agriculture will be amended with a view to enhancing monitoring so as to effectively ensure full transparency, including through timely and complete notifications with respect to the commitments in market access, domestic support and export competition. The particular concerns of developing countries in this regard will be addressed.

OTHER ISSUES

49. Issues of interest but not agreed: sectoral initiatives, differential export taxes, GIs.

50. Disciplines on export prohibitions and restrictions in Article 12.1 of the Agreement on Agriculture will be strengthened.

Annex 2: Guide to country groupings

African Group (41 countries):

Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo, Congo (Democratic Republic), Côte d'Ivoire, Djibouti, Egypt, Gabon, The Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, Zimbabwe

African Union/Group, ACP, least-developed countries (also known as G90, but with 64 WTO members):

Angola, Antigua and Barbuda, Bangladesh, Barbados, Belize, Benin, Botswana, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Congo, Côte d'Ivoire, Cuba, Democratic Republic of the Congo, Djibouti, Dominica, Dominican Republic, Egypt, Fiji, Gabon, The Gambia, Ghana, Grenada, Guinea (Conakry), Guinea Bissau, Guyana, Haiti, Jamaica, Kenya, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mauritius, Morocco, Mozambique, Myanmar, Namibia, Nepal, Niger, Nigeria, Papua New Guinea, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sierra Leone, Solomon Islands, South Africa, Suriname, Swaziland, Tanzania, Togo, Trinidad and Tobago, Tunisia, Uganda, Zambia, Zimbabwe

ASEAN (members of WTO):

Brunei, Cambodia (from October 2004), Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand

Cairns Group:

Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, Uruguay

CARICOM:

Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Trinidad and Tobago, Suriname

G10:

Bulgaria, Iceland, Israel, Japan, Korea, Republic of, Liechtenstein, Mauritius, Norway, Switzerland, Chinese Taipei

G20:

Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, El Salvador, Guatemala, India, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, Venezuela

G-33 (understood to comprise 42 countries):

Antigua and Barbuda, Barbados, Belize, Benin, Botswana, China, Congo, Côte d'Ivoire, Cuba, Dominican Republic, Grenada, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Korea, Mauritius, Madagascar, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, Senegal, St Kitts and Nevis, St Lucia, St Vincent & the Grenadines, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia, Zimbabwe