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AGREEMENT ON AGRICULTURE: SPECIAL AND DIFFERENTIAL TREATMENT AND A DEVELOPMENT BOX

PROPOSAL TO THE JUNE 2000 SPECIAL SESSION OF THE COMMITTEE ON AGRICULTURE BY CUBA, DOMINICAN REPUBLIC, HONDURAS, PAKISTAN, HAITI, NICARAGUA, KENYA, UGANDA, ZIMBABWE, SRI LANKA AND EL SALVADOR

The concept of Special and Differential Treatment (S and D) is a fundamental building block of the multilateral trading system. It was conceived in acknowledgement of the fact that developing countries have very different economic, financial, technological and development circumstances as compared to developed countries. Special advantages and flexibility must therefore be given to developing countries to take into account their different needs and position.

S and D provisions are therefore crucial for developing countries. Real, robust and operational S and D provisions in agriculture are even more critical, firstly because food security is integrally related to broader security issues and secondly, because of the special place of agriculture in most developing countries' economies.

1. Food Security, National Security, Political and Economic Stability

For reasons of national security, economic and political stability, S and D provisions giving more flexibility in agricultural trade policies must therefore be allowed to developing countries. Key products, especially food staples, should be exempted from liberalisation, and the domestic production capacity of developing countries must be encouraged and helped along to become more competitive, rather than destroyed on the basis on non-competitiveness.

Under GATT Article XXI, national security issues may be exempted from WTO trade disciplines. Food security is also inextricably connected to national security and political sovereignty. Chronic food insecurity puts national security in jeopardy by placing at risk, the health of a large number of people, and also because it incites internal turmoil and instability.

The other dimension is political independence and sovereignty. Countries in dire need and dependent on other countries for something as basic as food are politically weakened because they have little choice but to accept the conditions which may be imposed on them by the lending agencies or countries. Indeed, past history has instructed us that food has been used as a tool many a time to gain political and also economic stronghold over a country.

2. Special Place of Agriculture in Developing Countries

The FAO in a recent paper¹ on agricultural development and food security makes the observation that for a large number of developing countries, the agricultural sector remains largely underdeveloped in production both for domestic market and for exports. At the same time, in most of these countries, the agricultural sector lies at the center of their economies. Agriculture, it says,

- accounts for a large share of Gross Domestic Product (GDP),
- employs a large proportion of the labour force,
- represents a major source of foreign exchange,
- supplies the bulk of basic food and provides subsistence and income for large rural populations.

It concludes that '*significant progress in promoting economic growth, reducing poverty and enhancing food security cannot be achieved in most of these countries without developing more fully the potential capacity of the agricultural sector and its contribution to overall economic development*' (our emphasis, FAO, 1999).

Agriculture in developing countries is therefore not just another sector of the economy, but one that has far-reaching implications on people's livelihoods and employment, food availability as well as a countries' balance of payment situation.

S and D provisions and policy flexibility must therefore be provided to increase the domestic capacity in the production of food in developing countries. From the view point of some, encouraging developing countries to increase domestic food production may not seem to be market efficient. However, if all the benefits are taken into account – agriculture as the sole source of employment for the majority of developing countries; domestic production especially of key staple products as the most accessible source of food for the majority – then clearly, these benefits outweigh the supposed 'economic costs'.

This type of flexibility, however, *must* be differentiated from exporting developed countries' provision of supports in order to gain markets abroad.

Unequal Trade Rules

The WTO's trade rules should therefore support developing countries' agricultural production capacity. However, the existing AoA rules seem to bestow special and differential treatment on developed rather than developing countries.

The following points will briefly highlight these unequal rules:

- (i) Overall levels of subsidies have increased rather than decreased in OECD countries since the base year 1986-88, from US\$247 billion in 1986-88, to US\$274 billion in 1998. In contrast, developing countries which have traditionally not provided subsidies have not been allowed to do so.
- (ii) While the S and D subsidies allowed to developing countries are highly specified and limited to only input and investment subsidies, developed countries have recourse to the blue box and the very broad and vaguely defined green box. Since the AMS had

¹ FAO 1999 'Issues at stake relating to agricultural development, trade and food security', FAO Symposium on Agriculture, Trade and Food Security: Issues and Options in the Forthcoming WTO Negotiations From the Perspective of Developing Countries'. 23-24 September.

to be disciplined, subsidies shifted into the green box. Furthermore, its use is not subject to limits and it is even given maximum protection under the due restraint clause.

- (iii) Import barriers in developed countries have risen, rather than decreased especially on sensitive products. When compared to the non-tariff barriers of the 1990s, an ESCAP study² reveals that the EU's final bindings for the year 2000 are almost two-thirds above the actual tariff equivalent for 1989-1993. For the US, they are more than three-quarters higher. Furthermore, for major agricultural products, developed countries' tariffs are about twice as high as those of developing countries. For 2 major cereals, wheat and maize, the bound tariff rates for developing countries are 94% for wheat and 90% for maize. In contrast, the OECD average in the first year of implementation (1995) was calculated at 214% for wheat, 197% for barley, 154% for maize (FAO 1996).³
- (iv) While dumping is disallowed in the GATT, export subsidies were made legal for agriculture. Furthermore, subsidisation of exports not only takes place via the 'export subsidy' support category, but is also provided indirectly via the other forms of domestic supports. On the other hand, very few developing countries provide export subsidies, for the same reasons that few provide domestic supports. Similar to domestic supports, developing countries are not allowed to increase these negligible levels of export subsidies while developed countries are allowed to maintain 64 per cent of their subsidy outlays in the base level.
- (v) Despite the promises, there has been no political will to activate the Marrakesh Decision in order to address the problems of net-food-importing developing countries (NFIDCs). This had been the avenue developing countries had expected to receive compensation for the negative effects of liberalisation.

Impact of Agricultural Liberalisation on Developing Countries in the Context of Unfair Trade Rules

The results of agricultural liberalisation, and of the implementation of the Agreement on Agriculture have been varied, but in general, the impact has not been positive.

In a study of 14 country case studies, the FAO⁴ makes the following conclusions:

1. Few studies reported improvements in agricultural exports in the post UR period. The typical finding was that there was little change in the volume exported, or in diversification of products and destinations.
2. Food imports were rising rapidly in most cases. Some regions were facing difficulties coping with import surges due to 'detrimental effects on the competing domestic sectors'. On the whole it was observed that while liberalisation brought about an almost instantaneous surge in

² ESCAP 1996 'Agricultural Policy Reform under the Uruguay Round: Implications for Developing Countries of the ESCAP Region', *Asian and Pacific Developing Economies and the First WTO Ministerial Conference: Issues of Concern*, United Nations, New York.

³ FAO 1996, 'Policy Options for Developing Countries to Support Food Security in the Post-Uruguay Round Period', Panos Konandreas and Jim Greenfield. Rome.

⁴ FAO 1999 'Synthesis of Country Case Studies', in FAO Symposium on Agriculture, Trade and Food Security: Issues and Options in the Forthcoming WTO Negotiations From the Perspective of Developing Countries, Geneva, 23-24 September.

food imports, these countries were not able to raise their exports due, amongst other factors, to supply side constraints.

3. There was a 'general trend towards the concentration of farms in a wide cross section of countries'. While the concentration of farms led to increased productivity and competitiveness, in the absence of safety nets, the FAO found that this process marginalised small farmers and added to unemployment and poverty.
4. For many developing countries, key agricultural sectors that were vital for the economy in terms of food supply (i.e. also food security), employment, economic growth and poverty reduction, were being seriously eroded due to the inability to compete with cheap imports.

Therefore, the evidence emerging so far is that developing countries on the whole are not benefiting economically from agricultural liberalisation. In fact, the balance of payments situation has worsened. From a socio-economic perspective, food security, unemployment and poverty seem to have also deteriorated.

These are alarming findings. Article 20 clearly states that a continuation of the programme of liberalisation must take into account the implementation experience including effects on non-trade concerns such as food security. A systematic review of implementation, that seeks to re-balance the rules and implement measures and reforms to address the existing problems and loopholes, therefore, should be part of the present negotiations.

Recommendations

1. A Development Box should be created with policy instruments that aim to
 - (i) protect and enhance developing countries' domestic food production capacity particularly in key staples
 - (ii) increase food security and food accessibility for especially the poorest
 - (iii) provide or at least sustain existing employment for the rural poor
 - (iv) protect farmers which are already producing an adequate supply of key agricultural products from the onslaught of cheap imports
 - (v) flexibility to provide the necessary supports to small farmers especially in terms of increasing their production capacity and competitiveness
 - (vi) stop the dumping of cheap, subsidised imports on developing countries.
2. The instruments in the Food Security/Development Box therefore should include the following:
 - (a) All developing countries should be able to use a positive list approach to declare which agricultural products or sectors they would like disciplined under AoA provisions. That is, only the products which are declared by a country are subject to AoA commitments.
 - (b) Allow developing countries to re-evaluate and adjust their tariff levels. Where it has been established that cheap imports are destroying or threatening domestic producers, developing countries should be allowed to raise their tariff bindings on key products

to protect food security. Furthermore, the OECD countries which continue to have very high tariff peaks and escalations should drastically reduce these tariff levels, specially for products of interest to developing countries.

Flexibility in levels of domestic supports. Developing countries should be allowed an additional 10 per cent on their de minimis support level, i.e. bringing the level from 10 to 20 per cent.

- (c) Prohibit developed countries from the use of the Special Safeguard Clause. This Clause instead should be opened up to all developing countries. Developing countries should be allowed to invoke this based on low prices or excess volume.

3. Dumping in any form *must* be prohibited. All forms of export subsidies (direct or indirect) by developed countries must be eliminated immediately.

Competition policy in agriculture must be addressed in this review. Developing countries must be given an easily accessible mechanism to protect themselves against the abuse of monopoly power and to seek compensation.
