



# Negotiations on Agriculture<sup>1</sup>

## The Background

The negotiations principles to guide the remainder of the Doha Round trade negotiations are set out in the July Package. With regard to agriculture negotiations, the July Package sets out that the formula for tariff reduction in agriculture should be a tiered formula, applying both to developed and developing countries. Some sensitive products and special products in the case of developing countries would be exposed to a lower tariff reduction than under the normal formula. The July Package excludes LDCs from reductions. 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.

The July Package raises the fact that 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. 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.

## What options for Africa in Agriculture Modalities?

In the Tunis Roadmap<sup>2</sup>, the African Group Negotiators have raised several critical questions that require further investigation in order to inform the options that Africa could present in the on-going negotiations on modalities in the Doha Round. In this brief, the following four pertinent issues identified as important to informing African countries' positions with respect to the Agriculture Negotiations in the Tunis Roadmap are addressed:

- (a) What is an appropriate tiered formula that would take into account Africa's tariff structure and their development concerns;
- (b) What are the African products that face tariff escalations and peaks, and what are the mechanism to address this issue in the market access pillar;
- (c) What is the impact of preference erosion on Africa's exports;
- (d) What does unrestricted market access for Africa's agricultural exports imply.

### *An appropriate tiered formula (point II-2 (a) of Tunis Roadmap)*

African countries have repeatedly called for a formula that ensures both improved market access for African agricultural exports (raw and processed ones) and one that leaves African countries with enough flexibility to maintain some policy space on selected products. The formula should also “address tariff peaks and tariff escalation” on products of Africa’s interests while taking into consideration the concerns of preference receiving countries. Reaching simultaneously these two last objectives will be difficult and certainly requires an analysis tariff line by tariff line.

In a recent technical paper<sup>3</sup>, the Economic Commission for Africa (ECA) has designed a formula proposal, which could take into account more deeply the interests of developing countries. The authors have proposed a common formula for developed and developing countries. The only difference is that developed countries have to implement an adjustment coefficient that is different to the developing countries. More precisely, the proposed formula for tariff reduction is as follows:

$$t_1 = (1 - a) \times t_0 \times \Phi$$

Where  $t_1$  = new tariff rate;  $t_0$  = old tariff rate;  $a$  = tariff reduction rate; and  $\Phi$  = adjustment coefficient.  $\Phi = 1$  for developing countries and  $\Phi = \frac{a}{(1-a)(a+t_0)}$  for developed countries.

### *How the formula deals with tariff escalations and peaks (point II-2 (d) of Tunis Roadmap)*

The ECA’s analysis and that of other similar studies shows<sup>4</sup> that protection is concentrated on a few products (beef, rice, sugar, cereals). For Africa overall, the choice will be between trying to maintain preferences on these goods for its member states that benefit from them, or to set easier market access conditions to developed countries.

ECA’s research clearly shows that for the African continent as a whole, the most advantageous formula would be one that applies a harmonizing (Swiss) formula on developed countries exports. A Tiered harmonizing formula that includes the coefficient  $\Phi$ , that make it similar to a linear formula for developing countries when set to unity, as it leaves them with more scope to protect their national producers if needed.

ECA’s results show also that the question of sensitive products will be at the heart of the Agricultural Market Access Negotiation. Indeed, various simulations carried out tend to show that there is substantial binding overhang in agricultural tariffs: the average bound rate in developed countries is almost twice as high as the average applied rate, and in developing countries the ratio is even greater.

Thus large reductions in bound rates are needed before it is possible to bring about *any* improvements in market access. To bring the global average actual agricultural tariff down by one-third, bound rates would have to be reduced for developed countries by at least 45 percent, and up to 75 percent for the highest tariffs, under a tiered formula (see also Anderson and Martin, 2005).

The ECA results also show that *even large cuts in bound tariffs do little if “sensitive products” are allowed, except if a cap applies*. If Members succumb to the political temptation to put limits on tariff cuts for the most sensitive farm products, much of the prospective gain from Doha for Africa could evaporate. Even if as little as only five percent of HS-6 agricultural tariff lines in developed countries are classified as sensitive, the effects of the negotiations could be very limited. Anderson and Martin (2005), have arrived at a similar conclusion whereby in their study they show that an even narrower definition of sensitive products at the level of two percent of HS-6 agricultural tariff lines in developed countries, the effect could be shifted.

The degree of ambition is the most important criterion so that Africa can benefit from the liberalization. More precisely, it seems that the differentiation between developed and developing countries would bring the most important gains for African countries. So, this differentiated formula  $t_1 = (1 - a) \times t_0 \times \Phi$  with  $\Phi = 1$  for developing countries and  $\Phi = \frac{a}{(1-a)(a+t_0)}$  for developed countries offers the best perspectives for the continent. Besides, the question of sensitive products has to remain a central concern for African countries. Indeed, as indicated above, their inclusion would have an *annihilating effect* on the earnings that African countries could gain in as far as they maintain tariff peaks.

### *Overall protection in agriculture (Percent tariff equivalent)*

Type of protection	United States	Canada	European Union	Japan
Tariffs	8.8	30.4	32.6	76.4
Subsidies	10.2	16.8	10.4	3.2
Total	19.9	52.3	46.4	82.1

Source: Cline, 2004

### *Preference and preference erosion for agricultural goods: what should African countries advocate (point II-2 (e) of Tunis Roadmap)*

As indicated above, reconciling the dual objectives of maintaining preferences and obtaining significant reductions in MFN tariffs will not be easy. African countries have continuously stressed the need for taking into account “the importance of preferential access for developing countries”. The July Package also recognizes the importance of the issue of preference erosion. ECA’s research<sup>5</sup>, based on a review of literature tends to show that preferences have in the past been useful to the development of some sectors in some African countries. Moreover, it emerges that the rates of utilization have been much higher than is often thought to be the case. Experience reveals that contingent policies and infrastructures are essential if countries are to take advantages of proposed preferences. This includes policies and measures that will facilitate massive investments by the private sector. African countries may need external help to develop part of the necessary institutional and infrastructure framework necessary to actually use existing preferences. This may include financial support to build new

infrastructure (roads, ports, telecommunications, energy) as well as funding for human capacity building programmes.

Generally, research tends to show that although preferences have had some positive impact, they could and should be made much more effective through simplification and harmonization measures. Preferences are too often undermined by the complex system that rules them, particularly on rules of origin and cumulation. Moreover, each preference providing country sets its own preference system. The multiplicity of preference schemes is an obstacle to a clear understanding and easier utilization of preferences. In addition, African and other developing countries would gain much more from preferences if they were be legally binding. Legally binding preferences would allow for more foreign direct investment and a secure judicial framework to fall back on in case of disagreement.

Therefore African countries should advocate for:

- Maintenance and deepening of preferences, notably by requesting duty free quota free market access to all QUAD countries' markets (see section below on unrestricted market access);

- Simplification, and harmonization across preference providing countries of the various preferences schemes. This should include full cumulation or rules of origin across Africa to boost regional integration on the continent;
- Making preferences perennial and legally binding, for example by having them recognized under the WTO.

Finally, any further preference erosion should be compensated for with new mechanisms developed to offer real compensations.

### *Is unrestricted market access for Africa's agricultural producers still relevant (point II-2 (f) of Tunis Roadmap)?*

The necessity for LDCs to obtain full market access duty and quota free under the WTO negotiations has remained an important commitment in the current negotiations. This in effect would be akin to the extension of the Everything-but-Arms preferences currently offered by the EU to all LDCs countries, under the WTO. In deed, the issue of unrestricted market access especially for sub-Saharan Africa has featured lately in the debate of how to help

### *Effectiveness of Preference Schemes for LDCs as Measured by the Import Coverage, the Utilization Rate and the Utility Rate, 1994-2001*

Country/ Country group	Year	Total Imports (a)	Dutiable Imports (\$million) (b)	Imports Eligible For GSP Preferences (c)	Imports Receiving GSP Preferences (d)	Imports Covered By GSP Scheme (c)/(b)	Utilization Rate of GSP Scheme (d)/(c) %	Utility Rate of GSP Scheme (d)/(a)
Quad	1994	5 347.0	3 917.3	2 071.0	999.0	52.9	48.2	18.7
	1995	6 087.8	4 706.1	2 564.3	1 361.2	54.5	53.1	22.4
	1996	9 956.3	7451.1	2 985.0	1 517.9	40.1	50.9	15.2
	1997	10 634.1	8163.4	5 923.1	1 788.2	72.6	30.2	16.8
	1998	9 795.7	7 915.1	5 564.2	2 704.5	70.3	48.6	27.6
	1999	10 486.5	8 950.4	5 869.3	3 487.5	65.6	59.4	33.3
	2000	13 359.2	11 715.5	7 836.0	4 990.2	66.9	63.7	37.4
	2001	12 838.2	11 167.1	7 185.5	4 919.9	64.3	68.5	38.3
Canada	1994	..	..	...	...	...	...	...
	1995	175.9	41.3	6.4	4.1	15.5	64.1	2.3
	1996	336.9	34.5	6.3	2.9	18.3	46.0	0.9
	1997	205.3	47.3	8.6	4.7	18.2	54.7	2.3
	1998	256.0	92.1	9.8	5.8	10.6	59.2	2.3
	1999	154.6	60.7	8.2	4.9	13.5	59.8	3.2
	2000	180.1	75.9	9.9	7.2	13.0	72.7	4.0
	2001	243.2	44.6	11.4	8.0	12.1	70.2	3.3
EU	1994	2 471.2	1 823.4	1 791.7	748.1	98.3	41.8	30.3
	1995	2 814.6	2 277.8	2 246.3	1 077.6	98.6	48.0	38.3
	1996	3 219.0	2 580.3	2 520.1	1 196.8	97.7	47.5	37.2
	1997	3 614.8	2 926.3	2 888.8	770.8	98.7	26.7	21.3
	1998	3 519.4	2 932.1	2 908.0	761.8	99.2	26.2	21.6
	1999	3 562.2	3 100.9	3 075.2	1 035.0	99.2	33.7	29.1
	2000	4 247.1	3 671.7	3 633.6	1 499.5	99.0	41.3	35.3
	2001	4 372.4	3 958.1	3 935.7	1 847.4	99.4	46.9	42.3
Japan	1994	1 120.5	695.5	211.2	200.5	30.4	94.9	17.9
	1995	1,309.8	912.7	241.9	230.1	26.5	95.1	17.6
	1996	1 504.3	939.8	388.9	269.9	41.4	69.4	17.6
	1997	1 204.9	757.3	306.3	222.1	40.4	72.5	18.4
	1998	1 045.4	643.8	364.0	189.9	56.5	52.2	18.2
	1999	989.0	679.6	366.2	231.9	53.9	63.3	23.4
	2000	1 236.5	881.3	615.3	236.0	69.8	38.4	19.1
	2001	1 001.3	398.1	278.3	228.4	69.9	82.1	22.8
USA	1994	1 755.3	1 398.4	68.1	50.4	4.9	74.0	2.9
	1995	1 787.5	1 474.3	69.7	49.4	4.7	70.9	2.8
	1996	4 896.1	3 896.5	69.7	48.3	1.8	69.3	1.0
	1997	5 609.1	4 432.5	2 719.4	790.6	61.4	29.1	14.1
	1998	4 974.9	4 247.1	2 282.4	1 747.0	53.7	76.5	35.1
	1999	5 780.7	5 109.2	2 419.7	2 215.7	47.4	91.6	38.3
	2000	7 695.5	7 086.6	3 577.2	3 247.5	50.5	90.8	42.2
	2001	7 221.3	6 716.3	2 960.1	2 836.1	44.1	95.8	39.3

Source : UNCTAD, 2004

Africa overcome its development challenges through utilization of trade to complement the current heavy dependence on aid.

Analytical work recently conducted by ECA shows that unrestricted access to QUAD markets could greatly improve the situation of Africa. The study assesses empirically the impact of eliminating all tariff barriers faced by all the exports of sub-Saharan Africa to the developed economies of the QUAD, meaning Japan, United States, Canada and the European Union markets. The empirical assessment quantifies the potential benefits for Africa in terms of export growth and welfare, as well as the costs to be borne by developed and other developing economies. The study finds that as a result of unrestricted market access, African exports would increase by US\$ 226 million. This growth will be mainly due to agricultural exports towards European Union and textiles to the United States. However, the results did also indicate that due to supply capacities limitations, the growth in exports to the QUAD countries would be associated with a decrease in exports to other markets, as African producers shift their resources to the benefit of the European and Japanese markets. As a result of the growth of its exports and the associated multiplier effects, sub-Saharan African countries have the potential to benefit from a large growth in their value added. This sudden growth of the economy induces a corresponding increase in welfare of more than US\$ 1.2 billion. Up to 70 per cent of this welfare improvement results from increased demand for the abundant unskilled labour in sub-Saharan Africa. This study clearly demonstrated that such measures could significantly contribute to poverty reduction, notably by increasing sharply unskilled labour demand (employment opportunities for poor and unskilled people) hence hastening the pace for African countries towards the attainment of the MDGs.

Contrary to what might pass as the conventional wisdom, other developing countries also benefit from the privilege granted

to sub-Saharan Africa. They enjoy increased exports to Africa of intermediate and final consumption and capital goods, which more than balance their costs from trade diversion in the QUAD countries. Other developing countries enjoy a slight increase in export. Globally, there are benefits from unrestricted market access in favour of sub-Saharan Africa. The welfare of the whole world including other developing countries increase by US\$ 0.9 billion, in spite of very limited declines in welfare experienced by the producers of some of the QUAD countries.

Yet duty free quota free market can only be meaningful if NTBs including barriers relating to sanitary and phytosanitary (SPS) measures are lifted. SPS often hinder the development of the agricultural sector in African countries and can be disincentives for foreign investment in agriculture.

#### (Footnotes)

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<sup>2</sup> African trade negotiators held a brain storming meeting in Tunis, Tunisia in November 2004. The Tunis Road Map was the output of this meeting.

<sup>3</sup> L'accès aux marchés agricoles : Une perspective africaine, Commission Economique pour l'Afrique, mai 2005

<sup>4</sup> Kym Anderson and Will Martin, Agricultural Trade Reform and the Doha Development Agenda, World Bank, 2005

<sup>5</sup> Trade Preferences and Africa: The State of Play and Issues at Stake, ATPC Work in Progress No. 12, Economic Commission for Africa.

<sup>6</sup> Unrestricted Market Access for sub-Saharan Africa: Important Benefits with Little Cost to the QUAD, ATPC Work in Progress No 11, UNECA.