

A Primer on Trade and Development



Rice Watch and Action Network



East Asia Rice Working Group

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MODULE 1

Key Economic Concepts and Terms That Governs Global Trade

1. Why is Trading Between and among Countries Happening?

According to classical economics, trade and growth go hand in hand. Just as human beings have to depend on other people in order to grow, a country depends on other countries for many goods and services it needs. This basically guides the concept of free trade. **Free trade** refers to unhampered trading of goods and services between and among countries. Free trade according to economists is better because prices of goods will be cheaper and the life of the people would be generally well-off if the barriers to trade are eliminated.

Even rich countries like the US or Japan or those in the Western Europe engage in trade. Trade happens because of the reality that no country can produce everything for itself, or even if it can, it is still better off importing goods and services that are more efficiently produced by other countries and export those that they are good at producing.. The US for example, may be at the forefront of technology and it may have the latest machines to produce other machines. However, it may not have the computer micro chips that the Philippines produces or it may be too costly to produce this computer part in the US.

This essentially explains the **theory of comparative advantage**. Comparative advantage only means that some countries can produce some goods and services more efficiently than others. Countries tend to export those that they are good at producing and import those that they can do less.

2. How do consumers and producers benefit from trade?

If country A produces rice at \$ 1,000 per ton while country B produces it at \$2,000, then this would mean that country A has a clear comparative advantage over country B as far as rice production is concerned. Country A may have lower price of rice because it can produce rice more efficiently and the cost of production is much lower. Therefore, it can sell its rice to consumers cheaper than country B. A cheaper price of rice is, of course, favorable to consumers.

There will be greater demand for country A's rice because it is cheaper. Because of greater demand, more jobs are created in the rice industry sector and allied industries in country A. The banks financing the export will employ more people; more seamen will be hired to operate the ships carrying the rice load to country B; more stevedores will have jobs to bring the goods to the port and shores; and more drivers are needed to bring the rice to individual consumers.

3. Are there disadvantages and losses from trade also?

Yes, local producers may be harmed by a policy of greater trade openness. There are cases where governments allow uncontrolled importation of goods that compete with local products. They let these products come in more freely into the local economy and reduce the **tariffs or duties/taxes** imposed on these products, hence bringing down also the cost of these imports.

For example, country B's rice producers may suffer from greater rice imports from country A or anywhere else. Consumers in country B will likely buy the cheaper imported rice instead of the locally grown rice. If this happens, then local rice producers may be forced to sell their rice at a level that is not enough to recover the farmers' costs in order to compete with the cheaper rice imports from country A. If this happens, the farmers will no longer plant rice because rice farming has become a losing enterprise for them.

This case clearly shows that local producers suffer from **competition** with imported rice.

4. Do all countries agree to freer trade?

Countries have different positions with regard to freer trade depending on how liberalized trade has affected them. If this trade policy

benefits the local economy and the people's incomes, then there is a greater chance of this government and its people favoring greater trade openness. However, if it hurts local incomes and livelihoods, then, the government and its people will most likely reject such market openings.

5. What are the trade policy instruments that are being removed to achieve freer trade?

A QUOTA is known as a quantitative restriction or QR. It is a form of non-tariff barrier. It limits the quantity of goods that can be imported into the country. Using the above example, country B wants to protect its local rice farmers from losing their livelihood as a result of uneven competition with imported rice from country A. The government of country B can impose a quota to limit the quantity of imported rice from country A.

The quota then works to protect an industry from some amount of import competition, just like a tariff does. In the World Trade Organization (WTO), QRs are replaced by tariffs that are meant to be reduced.

Meanwhile, a tariff is a tax that is levied on an imported good. Thus, just like any tax that is passed on to consumers wholly or partly, the tariff tends to raise the price of the imported good in the importing country. Tariffs are reduced to achieve freer trade.

7. How are countries negotiating trade between and among countries?

Currently, countries are negotiating trade rules bilaterally, regionally and multilaterally.

Bilateral trade negotiation is the process of negotiating trade agreements between two countries. For example, in an effort to achieve greater market access between Japan and the Philippines, the governments of the Philippines and Japan forged a bilateral trade agreement—otherwise known as the Japan-Philippine Economic Partnership Agreement (JPEPA).

Regional trade agreements are forged between and among a group of countries bonding together based on some commonalities, such as, geographical, language, historical affiliations and the like. The agreement will foster greater trading and promote a sense of mutual growth among its members. An example of this is the Association of Southeast Asian Nation (ASEAN).

The WTO is an example of the multilateral trading system. It is said that a multilateral trading system is better than bilateral trade agreements because rules are more transparent, equal and followed by all. Bilateral trade negotiations will more likely favor the nation that is stronger than the other trading partner.

8. How is the GATT-WTO formed?

Before WTO, there is the General Agreement on Tariffs and Trade (GATT). This agreement was formed back in 1947 in Bretton Woods, simultaneous with the birth of the World Bank and the International Monetary Fund.

The GATT was established to help achieve progressive reductions of trade barriers through regular negotiations called rounds that took place between 1948 to 1995. These negotiations shaped and developed the agreement in important ways and led to the eventual creation of the WTO.

The WTO is a body that governs the multilateral trading system today. It was formed during the Eighth Round of Negotiations that was held in Punta del Este in Uruguay. This round is aptly called the Uruguay Round. With its establishment, the GATT is concluded and replaced by the WTO.

It is also during the Uruguay round of negotiations that the talks covered an extensive list of agreements, composed of 17 in all:

Agreements related to trade in goods

- Agriculture
- Sanitary and phytosanitary measures
- Textiles and clothing
- Technical Barriers to Trade
- Trade related Investment Measures (TRIMS)
- Anti-dumping
- Customs Valuation
- Pre-shipment Inspection
- Rules of Origin
- Import Licensing
- Subsidies and Countervailing Measures
- Safeguards

Separate Trade Agreements

- General Agreement on Trade in Services
- Trade related Aspects of Intellectual Property Rights

- Plurilateral Trade Agreements on Trade in Civil Aircraft, Agreement on Government Procurement, International Dairy Agreement, International Bovine Meat Agreement

Mechanisms

- Dispute Settlement Understanding
- Trade Policy Review Mechanism

9. What are the basic features of membership in the WTO?

The basic principles that apply to the whole membership of the WTO are the principles of the **Most Favoured Nation (MFN)**, **national treatment** and the principle of single undertaking.

Under the **MFN** principle, all member countries are expected to use the same trade rules to any member of the WTO. This means that trade policies being applied by Philippines to the US should also apply to any other WTO member. Philippines cannot play favorites with any of its trading partners unless it is non-WTO member.

The MFN principle is said to be the key in globally implementing a standard trade policy in a multilateral trading system.

Meanwhile, the principle of **national treatment** ensures that domestic policies of a member are attuned with the policies applied to WTO trading partner. For example, if the Philippines prohibits the entry of products with high aflatoxin component, then it should also prohibit its local farmers from producing products with the same aflatoxin.

The principle of **single undertaking** meanwhile, means that countries cannot opt to stay out of one agreement even if the country doesn't see any use or benefit from it. With single undertaking, members commit to all agreements that will be forged under the WTO.

WTO recognizes the fact that governments have different levels of development and resources available to them. Hence, the WTO also subscribe to a policy of **Special and Differential Treatment**. This only means that richer countries pay more or suffer bigger cuts and follows shorter implementation schedules in terms of tariff reductions. Small, vulnerable and developing economies are given extra consideration through lower cuts and longer implementation schedules.

MODULE 2

Issues on WTO's Agreement on Agriculture (AOA)

1. What are the basic provisions of the WTO's AOA?

The WTO Agreement on Agriculture has 3 main pillars or concerns—market access, domestic support, and export competition. The main issues for each pillar are discussed below:

Market access

Replacing QRS with Tariffs or "Tariffication"

Because WTO's main objective is to promote freer trade, it is pushing that all existing quantitative restrictions are to be replaced by tariffs. Tariffs are believed to be better than quotas because they are more predictable tools of trade.

The removal of QRs is tantamount to allowing imported agricultural products to enter the local market as long as the exporters are willing to pay the right tariffs.

In this case, the tariffs become the last protective measure of the importing country against the unimpeded entry of imported products

Tariff Reductions

After replacing the quota or quantitative restrictions with tariffs, the countries are now committed to reduce their tariffs over time. Developing countries are scheduled to trim down their tariffs from 10 to 24 percent in a period of 10 years while developed countries are expected to reduce their tariffs by 15 to 36 percent in a period of 6 years.

Each country follows a certain schedule of commitments for tar-

iff reductions of agricultural products. In this schedule, there is the beginning rate or bound rate which refers to tariffs that can be used at the beginning and final year of implementation of the AOA. Meanwhile, there is also the applied tariff rate. This refers to the actual tariff rate used by government. The applied rate is normally below the bound rate (see box 1).

Box 1.

In the Philippines, for example, the government unilaterally liberalized the agriculture sector even before the WTO's tariff reduction schedules are set. This came from the belief early on that the Philippines would gain a lot from early liberalization.

For example, the bound rate of the Philippines for vegetables under the WTO is 40 percent tariff but the Philippines' applied rate is only 7 percent.

Tariff Rate Quota (TRQs) and the Minimum Access Volume

The tariff rate quota refers to the volume of products that a country can import at lower tariffs called **in-quota rates**. All other imports will be subjected to normal tariff rates called **out-of-quota rates** that are normally higher than in-quota rates.

This mechanism is also interchangeably referred to as the **Minimum Access Volume (MAV)**. The initial determination of the volume of products that can be imported under the MAV equals to 3 percent of the nation's consumption of that product from 1986-1988.

Special Safeguards

The Agreement on Agriculture also has a Special Safeguards Mechanism that allows countries to provide temporary protection for their local producers in the event of an import surge. Countries are allowed to temporarily raise tariffs in the event that the level of imports has breached the trigger volume and trigger price. However the additional duties that can be added are also subject to the WTO formula.

Developed countries, on the other hand, also have the same safeguard through the SSG.

Reduction of Domestic support

Domestic support refers to the total subsidies given by a particular government to its agricultural producers (see boxes 3 and 4). This is divided into different boxes to classify the different support given by governments.

Box 2.

A good example is the price support mechanism in European countries under the Common Agricultural Policy (CAP). The EU buys agricultural products from producers whenever their prices fall below specified support levels. Support prices have been set so high that agricultural producers tended to produce more than what the consumers want to buy. The EU has promised to buy the surplus in the producers supply through the price support.

Box 3.

Sugar Imports under EU's Common Agricultural Policy

Farmers and processors are paid four times the world market price for sugar, generating a 4 million ton surplus. That surplus is then dumped in the world markets with the help of more than 1 billion in export subsidies paid to a small group of sugar processors.

Meanwhile, the United States has a similar subsidy program for its farmers called the US **Farm Bill**.

The Amber Box

The **Amber Box** refers to all the support that distorts trade or impacts on agriculture production. This is also called the **Aggregate Measure of Support or (AMS)**. An example of such is the price support as discussed above. Another case of support that falls under this category is the production incentives that reward the farmers as they produce more.

Countries are expected to reduce their amber box subsidies as earlier agreed to in the AoA.

Blue Box

The Blue box refers to production-limiting programs of a country. These are programs that are intended to limit the production of a certain product. Some countries have "land set aside programs" where government pays the producers not to plant. This is done to ensure that the price of that product does not go down as a result of over production.

This form of subsidy is also set to be reduced.

Green Box

Green box refers to subsidies that have no direct effect on production and trade. This normally refers to the over-all programs of a country on the development of agriculture. This type of government support to farmers is classified as non-trade distorting and therefore an allowable form of support. For instance, the government may grant support to agriculture production in the following forms:

- Research
- Disease control
- Infrastructure
- Food security

Also allowed are certain payments that may not stimulate production such as assistance to help farmers in agricultural restructuring and direct payment under environmental and regional assistance programs

De Minimis Subsidy

The **de minimis subsidy** is the support given by a country to its producers based on the total value of domestic agriculture production. There are two types of de minimis support—product specific and non-product specific.

For non-product specific, developing countries are allowed to provide subsidies of about 10 percent of the value of total agricultural production. On the other hand, developed countries are allowed 5 percent of their total value of agricultural production.

Just to illustrate, if country A's value of agricultural production is P10 billion pesos then it can give P1 billion pesos in support for its agriculture producers since it is a developing country.

The product-specific *de minimis* is support for a particular product based on its contribution to the total value of agriculture production. For example, country A's total value of corn production is P5 billion, then country A can give around P500 million in support for corn producers.

Eliminating Export Competition

Export Subsidies

Export competition comes from the **export subsidies** that developed countries give to the producer of an export good.

It is a **direct or indirect compensation** by government to private commercial firms to promote exports of agricultural products. Export subsidies are financing for exports, export promotion, tax benefits and other forms of assistance that may lead to lower than normal costs for exported products.

The CAIRNS Group, for example, is asking for the elimination and prohibition of export subsidies in agriculture. This group thinks that export subsidies depress international market prices of agriculture products and thus reduce the incomes of farmers, contributing to the poverty among the rural folks. Moreover, depressing prices harms domestic food production in importing countries and reduces the incentive of producers. The removal of export subsidies may lead to the rise in international prices of agriculture products.

Food Aid

As the name suggests, **food aid** is normally an assistance given by rich developed countries to supposedly help out poor and developing countries. It may seem to be a philanthropic act, but in reality, food aid has been criticized for also causing loss of livelihoods in agriculture in the receiving country. This is mainly criticized as an unfair competition with local agriculture and a mechanism for developed countries to dump their production surplus elsewhere.

There are two types of food aid. One that is given for free and with no strings attached while the other type is in the form of a loan with softer terms than usual. An example of the latter type of food aid is the Public Law 480 of the United States. The Philippines is

accessing this program by importing corn, rice or soya from the United States and is paid in a period of 20 years.

The Philippine government sells these imported products in the domestic market and uses the proceeds of the sale to finance local projects. This opportunity to monetize food aid imports pushes the Philippine government to eagerly access PL 480 even if the local supply is sufficient.

Aside from the harm done on local producers, food aid is very controversial because of the actual use of the funds that came from the monetization of this food aid.

The issue of food aid is a very big concern for poor and developing countries but unfortunately, WTO still has no stricter discipline on its use.

2. Are all products to be liberalized? Is there no exemption given?

WTO has agreed to exempt from the imposition of tariffs certain products of some countries with Quantitative Restrictions (QR) under the Annex 5 of the Agreement on Agriculture, for justifiable reasons.

The Philippines, for example, was able to maintain its QR for rice for food security purposes. It was supposed to expire in 2005 but was renegotiated successfully until 2012.

3. How come many civil society organizations are raising issues about the WTO?

There are already many issues over in the WTO even before the time of GATT. Many farmers are realizing that the provisions of the Agreement on Agriculture will bring havoc to local agriculture particularly of small, developing economies. They see that there is no way that their agriculture will be able to compete with imports that are heavily subsidized, coming in from countries such as the US, EU and Japan.

A provision for Special and Differential Treatment for small, developing and least developed economies is in place. However, if we look at the existing provisions of the AoA, it is very clear that these still favor the developed economies.

4. What are specific issues raised by civil society organizations?

Extensive market liberalization in agriculture

As discussed above, the main concern of GATT and WTO is to replace QRs with tariffs and then the eventual reduction of these tariffs to promote greater trade openness between and among countries. For countries like the Philippines, it opened up its market even if the local producers, particularly the small producers are not yet ready to compete. It removed the QRs and opted to impose tariffs on about 93 products particularly, vegetables, meat, corn and many others. Filipino farmers have expressed their concerns since then because they know they will definitely lose out to imports because they hardly receive support/subsidies unlike the farmers of these exporting countries.

Countries are required to reduce tariffs over time. Sadly, other rich countries despite these scheduled reductions will most likely not suffer from the impact of tariff cuts. Their existing tariffs are so high that reductions even by half will still give their domestic producers enough protection. Such is the case of Japan, Switzerland and a lot more developed countries that still have tariffs of about 400 percent.

Retention of export subsidies by developed countries

Unequal treatment in the WTO is evident if we use as basis the provisions of the AOA on export subsidies. The AOA allows developed countries to maintain their high level of export subsidies, specifically allowing them to provide export subsidies equivalent to 64 percent of their subsidies during 1986-1990.

It may be true that developing countries are allowed to use 76 percent of their export subsidies in 1986-1990 as part of the special and differential treatment. However, this provision is essentially unfair for developing countries that are hardly giving export subsidies to their farmers for lack of resources.

The EU provides the highest export subsidies. From 1995-2000, almost 92 percent or US\$29.3 billion of world export subsidies came from them. Next to them are Switzerland and Norway which gave US\$1.8 B in export subsidies while the US gave US\$487 million.

23 countries provided a total export subsidies of US\$1.5 B in the same year. This group consists of a few developing countries, such as Pakistan, India, Korea and Thailand.

Lack of disciplines on export credits and food aid

Aside from giving export subsidies, developed countries are legitimately using food aid to enter the markets of developing countries.

An example of this is the US' PL 480. From 1991 to 2001, the total import value that the Philippines was able to access from PL 480 was around US\$190 million worth of corn, rice and soya.

Allowing direct payments to producers under the Green Box

As discussed before, the Green Box allows subsidies under the WTO because it is believed to have no direct effect on trade and production. However, many developed countries are giving direct payments for subsidies, classified under Green Box. Developing countries are opposing these direct payments.

Abuse of phyto-sanitary and sanitary measures by developed countries to prevent entry of exports into their domestic market

One good thing that the GATT/ WTO promised to bring is the greater opening of markets of developed countries. This is supposed to be good news for countries like the Philippines who has exporting interests as well. Developing countries are looking forward to the fact that they will be able to export to a greater number of markets.

Sadly, this promise never came. Although developed countries reduced their tariffs, developing countries are still not able to access these markets as expected because developed countries are using the sanitary and phyto sanitary measures to indiscriminately block the entry of imports from developing countries.

Sanitary or phytosanitary (SPS) measures refer to a country's regulations on entry of imported products. These measures are in place to ensure that imported products carry no disease, chemicals or other harmful contents that could harm local consumers and other domestic industries.

5. What can we therefore conclude out of this?

Proponents of GATT-WTO will argue that the effects of liberalization are difficult to conclude at the moment. According to them, the increase in import and the slow growth of the many industries can be blamed to the inherent weakness of these industries and not to market liberalization.

In the case of the Philippines, the economists revealed that the inability of the farmers to compete is enough reason for the government to give this ample attention. Meanwhile, local civil society and farmers groups agreed with the government in giving priority to increase the competitiveness of the agriculture sector. In fact, this has been their call even before the GATT ratification. They said that without this support, the government has no right to even liberalize the market and remove the very little protection for their livelihood.

It has been apparent that in the years that passed since joining GATT-WTO, all the benefits that the proponents promised has not materialized. Hopefully, the lessons gathered in the 10 years of implementation of the AOA, will render the Philippine government to exercise prudence in committing to future negotiations in the WTO.

Box 4.
Effects of the Implementation of the
AOA in the Philippines

In 2005, after 10 years of signing and implementing the GATT-WTO in the Philippines, Rice Watch and Action Network (R1) has looked back and tried to take stock of the promised benefits of this agreement.

The government has projected a lot of economic benefits during the deliberations on whether to ratify the GATT agreement or not in the Philippine Senate. According to the government and other GATT proponents, the agriculture sector will surely gain from this Agreement on Agriculture. They projected increased export opportunities for the agriculture products simultaneous with the increased jobs and higher productivity as a result of greater market access abroad. These were their responses to the questions raised by farmers and even some legislators when they stormed the policy makers to raise their concerns.

The farmers knew too well that they will not stand a chance with the farmers in developed countries. The farmers in rich countries are heavily subsidized by their governments. Despite the issues that the farmers and civil society groups raised, the Philippine Senate ratified the agreement clearly favoring the promises made by the government.

However, a look at what happened in agriculture revealed that indeed the Philippine farmers suffered more than benefited. They believed this would happen without a doubt and they were proven right.

From a Positive to Negative Agriculture Trade Balance

The trade balance is the difference between exports and imports. A country is said to have a positive agriculture trade balance if the exports are bigger than imports. A negative trade balance (or deficit) refers to greater imports than exports. The latter only means that a country has imported more than it has exported.

In 1993, just before the Philippines ratified the WTO/GATT, the country has a positive trade balance of \$300 million. Ten years after, in 2003, the country has achieved a negative trade balance or a deficit of about US\$900 million. The country was not able to take advantage of greater market openings for agriculture products as what WTO and the Philippine government have promised.

Imports ballooned from US\$1.6 B to 3.2 B during the same period. Exports barely grew from US\$1.9 B to 2.3 B by 2003.

In addition, there were hardly any job created. The promise was to create 500,000 jobs yearly as a result of the projected increase in the industries with greater export demand. However, the number of employed rose only from 11.14 million to 11.22 million, not in a year but over a span of 10 years.

Box 5. Specific Impacts Per Sector

The impacts of liberalization are quite apparent per sector. The local markets were flooded with imported products after the government has opened up the local market as mandated by GATT.

The stifled growth in agriculture sector, particularly in the cases of hogs, poultry and vegetable industries is shown below:

Hogs Sector

- Importation increased from 38 metric tons in 1997 to 533 metric tons by 2000
- Increase in import growth rate of pork from 7 percent in 1990-1994 to 134 percent from 1995-2000.

Poultry

- Importation of frozen chicken increased from 106 MT in 1994 to 10,830 MT in 2001.
- The over-all growth rate of the sector went down from 11.27 in 1996 to 5.39 in 2000.

Vegetables

- The volume of vegetable importation increased from 42,000 MT in 1995 to 115,000 MT in 2000. This is a 152 percent increase in importation.
- In 2002, prices of potato dropped to P60 pesos, while cabbage prices dropped from P50 pesos to P15-20 pesos per kilo;
- Local production of vegetables also went down from 4.8 million metric tons in 1996 to 3.3 million MT in 2001;
- According to vegetable producers in Benguet—a vegetable growing province in the country, they suffered losses of up to P2 B pesos from July to August in 2002 as a result of liberalization.

6. At this point, what can civil society groups do to ensure that their own trade negotiators do not further compromise the agriculture sector in their respective countries?

Monitoring the government commitments is important. All campaigning efforts to increase agriculture productivity, much more promote food security will all go to naught if the trade policies will not be consistent with these objectives.

7. Is there any provision in the WTO that has the potential of providing a reprieve from liberalization?

Yes. Currently, a proposal from the G33 on **SP and SSM** is under negotiations in the WTO.

The SP and SSM are direct outcomes of developing countries' lobby to address the imbalances of the current agreement and to come up with more meaningful and useful measures of the special and differential treatment.

A key component of this proposal is the exemption of a group of products, mainly food crops, from commitments in market access and domestic support. This is in recognition of the importance of these

crops in addressing the food security objectives of developing countries.

Special Products (SPs) refers to products that are key to a country's food security, livelihood and rural development, hence needing trade protection.

Special Safeguard Mechanism (SSM) is a mechanism that will address a developing country member's susceptibility to import surges. It is accessible to developing country members only and an improvement of the Special Safeguards Duty (SSG).

With the rate of tariff reductions now being proposed in the WTO, it is all the more important for developing countries to demand the SP and SSM facility for agriculture.

As such, the outcome of discussion on the selection, coverage and treatment for SPs as well as the final modalities on SSM will have important implications on the developing country's capacity to safeguard the agriculture sector from trade liberalization. Because of this, it is important that developing countries as well as civil society organizations demand the maximum flexibilities for SP and SSM.

The government of developing countries should therefore study and look at the benefits of SP and SSM on their country's interests. They need to identify products that need the most protection and the level of protection they need. This information will help them define the SPs and the applicable treatment for these products.

8. What are the specific things to watch out for in the WTO negotiations with respect to SP/SSM?

Below are the initial positions of G33 as well as some positions adopted by R1 and the G33 CSOs on SP and SSM. The modalities for SP and SSM remain under negotiations. The changes and current proposals on these mechanisms will be discussed later.

- **On Special products**

On Selection of Special Products—Countries should be free to choose the products that should be accorded SP status. This is in recognition of the countries' different development objectives and priorities and should therefore have the flexibility to identify the coverage of products to be declared as SP. This has already been decided in the Hong Kong Ministerial Meeting in 2005 but a reversal is still possible, thus, continuous lobbying is necessary.

Coverage or Number of Products to be Declared as SPs—The initial position of the G33 is to cover a maximum of 20 percent of the total agriculture tariff lines as SPs. In the case of the Philippines which has a total of 802 agricultural tariff lines, 20 percent coverage is about 160__ tariff lines.

Treatment for SPs—The G33 proposed that SPs be exempted from tariff reduction and MAV or TRQ commitments. But beyond this, R1 (spell out) together with G33 CSOs proposed that these products should even be accorded a higher form of market protection by imposing tariffs beyond the bound rates, and allowing the imposition of QRs and application of specific duties. On top of that, SPs should be eligible for uncapped levels of domestic support.

On Special Safeguard Mechanism

On SSM Administration—This should be available to all agriculture products of developing countries and not only to SPs. It should be simple to administer and easy to implement.

SSM Triggers—The G33 coalition proposed the use of volume or price triggers as a way of determining whether import surges or price depression has indeed occurred based on some formula.

Remedies for SSM—Should any of the triggers is breached, the G33's position is to impose additional duties that would allow the import price to equalize with the trigger. However, the G33 CSOs' demand is for developing countries to have the ability to impose tariffs higher than the bound rate.

9. It has been a long time since Cancun when the G33 first proposed SP/SSM. What are the changes in SP and SSM modalities over time?

From the initial G33 submission, more details have been added to SP and SSM. Developing countries have presented their hard line positions against the proposals of developed countries that are meant to slide down on the G33's original proposal.

Special Products

The core issues with respect to special products are:

1. The number of products that will have zero cuts - The initial figures put out by the G7 placed the number of products at 5 per-

cent of total agricultural tariff lines. G33's original position is that 20 percent of total agricultural tariff lines should be exempted from tariff reduction. However, this has since been whittled down to 10 percent and then later to 8 percent.

2. The number of products that will be declared as special products - the figures put out by the G7 was at 12 percent of total agricultural tariff lines. However, the G33 countered that this figure is too small and should be set at 15 percent.
3. Number of tiers for the tariff cuts on special products - the G7 agreed on a single tier, with an average cut of 11 percent. The G33 countered that this figure should be at 9 percent because there is only one tier for tariff reduction. Earlier, the G33 agreed to adopt a two-tier treatment for special products: one with zero cut, and another with minimal cuts.

- **SSM (Special Safeguard Mechanism)**

The core issues with respect to SSM are:

1. Remedies—the major concern is whether or not the remedies should result to tariff levels that will go beyond the Uruguay Round bound rate. The G33 strongly argued for remedies that go beyond the pre-Doha tariff bindings. Argentina, Paraguay, Uruguay (APU), Canada, US and Thailand rejected this proposal.
In the course of the negotiations, the prevailing tacit agreement is that the remedies can go beyond the bound rate. However, opponents tried to limit access to these remedies by setting a higher trigger level of 140 percent. This means that imports will have to increase to 40 percent beyond the trigger level before this remedy can be invoked. This proposal was rejected by the G33. However, the US even proposed that this trigger be further increased to 150 percent.
3. Cross check—the G7 paper proposed that prices should be declining in order to invoke remedy, even if the volume trigger is breached. This will effectively limit the access and use of SSM, because countries will have to fulfill two requirements in order to use SSM.
4. Use of SSM on an MFN basis—This implies that imports under preferential treatment are not considered in declaring import surges. However, this issue was not highlighted during the nego-

tiations because the focus was on the issue of remedies, and later, on the triggers for breaching the remedies.

10. If there are weakening positions, can we still do something?

The fact that despite the number of years of negotiations and no agreement has been reached is a sign that the voices of civil society organizations are making waves and getting heard, however faint.

The developed countries continue to demand a lot in terms of compromises in this mechanism, particularly on the issue of SSM. In fact, some developing countries with exporting interests have as well taken the position of developed countries (i.e. Thailand, Malaysia, Uruguay, Paraguay, Argentina, etc.). The increasing number of SP and SSM opponents all the more compels public support for these safeguards. Without support from civil society to push for maximum flexibilities in SP and SSM, it is not surprising to see the G33 giving in to the demands of the developed countries anytime soon.

This is why the need for civil society organizations from various countries to demand their countries to safeguard their agriculture sector from liberalization is more compelling. They have to call on their governments to conduct internal simulations to determine the need for SP and SSM. At the same time, as developing countries, they have to join the G33 and continue to negotiate for the maximum flexibilities possible.

ANNEX

Major Events, Resolutions and the Major Power Blocs In the WTO

A WTO Ministerial Meeting is supposedly convened every two years to discuss the implementation of the Agreements. WTO has already had several Ministerial meetings-Singapore (1996), Geneva (1998), Seattle (1999), Doha (2001), Cancun (2002), Hongkong (2005).

Seattle Ministerial Meeting

The first public crisis in the WTO was first seen in the Seattle Ministerial Meeting. For the first time, developing countries have expressed disgust over the effects of liberalization to their economies. This is because of the still unfair provisions of the WTO-AoA and its implementation.

Simultaneous with the Ministerial Meeting in Seattle, a huge anti-liberalization civil society protest was happening outside. The protesters included farmers, workers and NGOs from all over the world. The protest turned bloody as the US police tried to foil the protests.

Because of the crisis within and outside of the talks, this Ministerial Meeting was unsuccessful as far as launching another round of negotiations towards a new agreement.

Doha Development Round

After Seattle, the WTO decided to continue the talks in Doha, Qatar. According to the organizers, protests are more difficult to hold here because of a more controlling government.

In this meeting, the WTO successfully launched the Doha Development Round. With the rising protests on liberalization, the development concern was at the heart of this negotiation. It was meant to address the inequalities of the agreement and the implementation issues.

The Doha Development Agenda was launched in this talk. Although development was part of the agenda, it was quite apparent that liberalization was still on top of the agenda, according to NGOs' analysis of the DDA.

Cancun Collapse

The Cancun meeting was expected to extensively discuss the DDA. But this never happened. Instead of addressing the concerns of developing countries, the developed countries defended their interests and disagreed with the major contention of removing their subsidies.

The reduction of subsidies is a major objective of free trade.

Aside from this, the rich countries wanted to include the Singapore issues in the discussion. The Singapore issues cover the following concerns: competition policy, government procurement issues, trade facilitation and others. This was called Singapore issues because these were first raised in Singapore in 1996. Developing countries opposed these during the talks. According to them, these gave the developed countries even more instruments to use for their own benefits.

The lack of consensus in Cancun led again to the collapse of the talks.

Major Power Blocks and their Interests

Power blocs pushing for their own agenda have emerged in every negotiation. In WTO history, these are the formations that were formed with their own interests in mind:

United States

- Aggressive in opening up markets
- Wants to maintain, as much as possible their level of domestic subsidies

European Union

- Very protective of their local market for certain products
- Wants to maintain, as much as possible their level of domestic subsidies

G20

- Removal of export subsidies
- Wants substantial reduction of domestic support in developed countries

- Composed of Argentina, Bolivia, Brazil, Chile, Cuba, Egypt, Guatemala, India, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Thailand, Venezuela, Zimbabwe

G33

- Wants protection for key products that are crucial in their food security, livelihood and rural development interests through the SP and SSM
- Developing countries that are mostly net food importers
- Composed of Barbados, Botswana, China, Cuba, Congo, Cote D'ivoire, Dominican Republic, Haiti, Honduras, Indonesia, Jamaica, Kenya, Korea, Mauritius, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, Senegal, Sri Lanka, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia and Zimbabwe

G10

- Keeps the protection for a few of its sensitive products
- Composed of Bulgaria, Iceland, Israel, Japan, South Korea, Liechtenstein, Mauritius, Norway, Switzerland, Chinese Taipei.

July Framework Agreement

After the Cancun collapse, the WTO saved the discussions by coming out with a document that intended to pursue the talks. This is the July Framework Agreement that contained the basic principles that should guide the upcoming talks.

Contents of the July Framework

Just like the AOA, the coverage also focuses on the 3 main pillars:

1. Market Access

Under the market access provisions of the July Framework, the document reiterated continuing liberalization policy. The July framework however, categorized the products into three.

- **Over all agricultural products**

These are the ordinary products that will be subjected to normal tariff reduction schedules. The paper did not include discussions on actual tariff reductions for these products. But it was clear here that all countries are expected to reduce tariffs for products that will fall under this category

- **Sensitive Products**

This next category of products is composed of agricultural products that are considered sensitive products. The provision for **sensitive products** already included a principle of **substantial improvement** wherein instead of reducing tariffs for this product, the level of minimum access volume (MAV) will be raised or what is called MAV expansion.

MAV refers to the volume of goods that can be imported under a lower tariff or in-quota rate).

Based on the **substantial improvement principle**, governments can use a combination of tariff reduction and **TRQ expansion** and **in-quota tariff rate reduction**. Both developing and developed countries can avail of this mechanism.

- **Special Products**

The third category of products is called Special Products. This, together with SSM, is a proposal of the G33.

SPs are products that are deemed crucial to developing countries' food security, livelihood and rural and development. The July text has no clear provisions for this. The details according to WTO are to be decided in future negotiations.

The G33 is advocating that SPs are treated separately from the whole market access agreement. According to them, the SP and SSM are practical applications of the special and differential treatment principle-a right of developing countries under the WTO.

2. Export competition

As a concession to the calls of developing countries, the July framework mentioned the need for an end date to the giving of export subsidies but did not specify. Again, it was a decision point for the next round of negotiations.

The July text mentioned a measure to discipline the export subsidies. In particular, the repayment period should not exceed 180 days. Otherwise, it will be considered a subsidy. Other disciplines on the use of this subsidy were also endorsed for future negotiations.

However, the July framework did not mention any provision on the treatment of food aid although it cited the need to set some rules for it.

3. Domestic Support

- **Reduction of the Over-all Total Trade Distorting Support (OTDS)**

Rich countries are expected to implement a higher rate of reduction.

The OTDS is the result of the combination of de minimis, subsidies under the Blue box and the Amber Box (otherwise known as the Aggregate Measure of Support). According to the July framework, the level of support to be given by a country should not exceed 80 percent of the OTDS in the first and last year of implementation.

It is important to note that the computation of the OTDS is based on bound levels (or the highest possible level of support) that a country can give to its local producers. The usual situation is that bound levels are normally higher than the applied levels of subsidy. Because of this, it would still show that the level of allowable OTDS is still much higher than the actual level of support that a developed country is giving. Thus, this still gives developed countries enough policy space in the future.

The US gave US\$24.6 million while the EU provided US\$73.2 million in subsidies in 2000. Using the formula in the July framework agreement, the US and EU can still raise their domestic support to US\$38.1 M and US\$91.1 M, respectively.

In this case, it is very clear that there will be no reduction in domestic support to speak of and no concrete effort to make trading fair and just.

- **Box shifting through Blue Box expansion**

The reduction in subsidies under the amber box pushes rich countries, including the US, to find other ways of giving subsidies to their farmers. This is the reason why these countries are pushing for the recasting of the Blue Box so that these countries can in effect shift some of the prohibited domestic subsidies in this box.

The Blue Box is the type of subsidy that is given to limit production. But since the US has not been using this type of subsidy, they want to expand its coverage so they can essentially transfer some of the amber box subsidy to the blue box.

The framework agreement also sets that countries can give an additional subsidy of 5 percent of their over all total production value. This in essence, only gave the developed countries an opportunity to have a sort of additional de minimis support of 5 percent.

Because of these new provisions under the July framework, it

gave the developed countries reason not to cut their domestic subsidies.

Hong Kong Ministerial Meeting

In December 2005, the sixth WTO Ministerial meeting was held in Hong Kong to complete the Doha Development Round. It was targeted to define the DDR modalities so that a detailed rule is in place. In particular, the task was to define the substance of the July Framework Agreement.

Here are the crucial elements of the agriculture declaration in Hong Kong:

- Agreed on a 4-tier tariff reduction schedule for developing and developed countries. The details will be discussed in Geneva.
- 2013 is the end date for the application of export subsidies; developing countries pushed for earlier deadline, at 2010;
- Did not give clear disciplines on the trade distorting support especially the blue box;
- Developing countries can self-designate the special products but did not indicate the number of tariff lines that can be covered;
- No clear provision on SSM except that it will allow price and volume triggers.

With this mandate from Hongkong, monitoring of the succeeding talks in Geneva was very critical.

Informal Ministerial Meeting— Geneva, Switzerland, July 2008

The Ministerial Meeting officially broke down on July 29, 2008. The breakdown was caused by the Ministers' failure to agree on the acceptable modalities on SSM, particularly on the triggers to breach and the level of tariff bound rate for the SSM remedies. The US proposed a trigger of 150 percent, even higher than the 140 percent trigger that the G33 has earlier rejected.

Meanwhile, the US offered to cut its over-all trade distorting domestic support (OTDS) to US \$ 15 billion. US OTDS in the recent three years had been lower than this amount, which means that the 15 B subsidy cap is in fact an ineffective cut in terms of actual subsidies. The G-20 acknowledged this movement but urged the US to

undertake further cuts.

The members did not view the US' \$15 billion offer as the final figure as explained by China during the dialogue with the CSOs. Other countries thought that the US could afford more reduction if it is shelling out much less than the \$15 billion in subsidies. This in effect also gives the US a relatively huge policy space in terms of increasing its domestic subsidies.

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