# Prospects for Canadian Agriculture in the WTO Doha Round – A Message to the Canadian Delegation

**A SPECIAL REPORT**

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## 1.0 Introduction

When representatives of 22 developing nations walked out of the WTO's Cancun meetings last fall, it was hard to imagine that much would come of the current (Doha) round of the agricultural negotiations. However, the US and EU seem to have had second thoughts about the benefits of trade liberalization, and the 147 countries have been called back this week to try and forge principles for a new deal. It is widely recognized that if the formula for further disciplining agricultural trade cannot be agreed before the end of July, then the process will drift into the new-year, after the US election and after the appointment of a new European Commissioner.

Members, Canada included, have long since submitted their individual proposals on what their priorities for agriculture are, and on what shape they want any new Agreement on Agriculture to take. A number of "consensus" proposals have also been tabled, attempting to bring these various individual proposals together into a framework within which Members might negotiate a final agreement. The task facing delegates in the next few weeks is to adopt one of these consensus frameworks, or to design an alternative framework that is specific enough to clearly lay out the road ahead, while still enabling Members' disparate priorities to be realized. Assuming that this process is successful, Members will then be faced with a framework within which they will be able to negotiate specific numerical targets for a final Doha Round Agreement on Agriculture.

What is already clear is that any framework for a new deal on agriculture that emerges this month will follow the same basic "three pillars" approach as the Uruguay Round agreement. Market access will be increased, export competition enhanced, and domestic support subjected to further disciplines. Canada's agricultural sector does not generally benefit from particularly high tariff protection, from export subsidies, or from large domestic support payments, but must compete with foreign producers who do benefit from substantially greater protection and subsidies. At the same time, Canada's agri-food sector is largely export-dependent and needs market access for growth.

Canada's approach throughout the negotiations has, therefore, been to push for significant further liberalization and the dismantling of trade barriers. At the same time, Canada' dairy and poultry are trade sensitive industries. The country's negotiating position reflects this fact, arguing for flexibility in the implementation of market access commitments, retention of the right to provide certain domestic support programs, and the right to maintain a supply managed system of production and single desk selling.

The purpose of this paper is to analyze the main consensus proposals being considered by Members in Geneva with respect to how they meet Canada's stated priorities, and to move toward defining an optimal outcome for this country's agricultural sector.

## 2.0 Current Proposals.

There are currently four main consensus proposals under consideration, referred to as the Harbinson Proposal, the EU-US Joint Framework, the Perez del Castillo Annex and the Derbez Text. The first of these proposals, drafted in early 2003 by the Chair of the agriculture negotiations, Stuart Harbinson, proposes both a method for defining further disciplines and numerical targets. The three subsequent proposals put forward a framework, or method, but no specific numerical targets. Furthermore the three later proposals all adopt a similar method to one another, but one quite different to that proposed by Harbinson. There thus emerge two basic models for consideration, one proposed by Harbinson, the other proposed by the EU and US and supported by Perez del Castillo and Luis Derbez.

All of the models contain provisions for improving market access, reducing export subsidies, and reducing domestic subsidies to farmers. Provisions of each on these three elements are outlined below.

### 2.1 The Harbinson Model

#### Market Access

- **Tariffs**. Harbinson proposes a modified version of the Uruguay Round formula (a simple average reduction with a minimum reduction per product) whereby the Uruguay Round approach would be used but would be applied in bands, with steeper cuts at higher levels. Tariffs in the highest band (those over 90%) would face average reductions of 60% over five years, in equal installments, with a minimum reduction of 45% on each tariff line. Those in the lowest band (below 15%) would face an average reduction of 40% and a minimum per tariff line reduction of 25%. Those in the middle band would face an average reduction of 50% and a minimum reduction of 35%.
- **Tariff Escalation**. Tariffs on processed products that are higher than those for the product in its primary form would be subject to a rate of reduction equivalent to that for the primary product multiplied, at a minimum, by 1.3.
- **TRQ's**. Tariff rate quota volumes would be increased to 10% of current (1999-2001) domestic consumption over five years. The draft also proposes measures to increase the transparency and fairness of TRQ administration and allocation.

**Export Competition**

- **Export subsidies**. Harbinson proposes reducing the value of subsidies and the quantity of goods eligible to receive them to zero over nine years, with 50% of these goods having their export subsidies eliminated within the first five years.
- **Export Credits**. Export credits, credit guarantees and insurance programs should not be provided on other than market-related terms and conditions.

**Domestic Support**

- **Green Box**. Retain the Green Box (i.e. the list of policy instruments that governments may use without fear of trade action) but define more precisely what programs qualify.
- **Blue Box**. Cap and bind Blue Box (i.e. special accommodations for US and EU programs) supports at the most recently notified level and then reduce them by 50% over five years. Remaining Blue Box payments to be included in a Member's Current Total Aggregate Measure of Support (AMS) limit.
- **Amber Box**. The Amber Box contains those policy instruments that can be used only with limitations, as defined by the 1995 WTO. Harbinson proposes limiting expenditures on total AMS by 60% over five years. Furthermore, he proposes amending Article 6.3 of the Agreement on Agriculture to ensure that the AMS for individual products (rather than total AMS) does not exceed the respective average levels of such support provided over the period 1999-2001 (rather than Uruguay Round bound levels).
- ***De minimis***. Reducing the 5% exemption provided for in Article 6.4 (a) of the Agreement on Agriculture by 0.5% per year for five years.

## 2.2 The EU-US, Perez del Castillo, and Derbez Models

**Market Access**

- **Tariffs**. The EU-US joint proposal advocates a 'blended approach', whereby tariffs on some products would be reduced as per the Uruguay Round formula, tariffs on some products would be reduced via the Swiss Formula[1] and for other products, tariffs would be eliminated altogether. The proposal does not state what percentage of tariff lines would be disciplined by each formula, what the

Swiss Formula: A harmonizing formula, intended to significantly narrow the gap between high and low tariffs. A key feature is the Swiss Formula "coefficient", which determines the maximum final tariff rate. The Formula is $Z = AX/(A+X)$, where X is the initial tariff, A is the coefficient, and Z is the final, reduced tariff. The Swiss formula with a coefficient of 25 (as proposed by the US) would reduce tariffs of 150%, 75% and 10% to 21.4%, 16.7% and 7.6%. The UR formula with an average reduction of 36% (as per the UR) would reduce these same tariffs to, respectively, 96%, 48% and 6.4%.

percentage reductions would be, or what the Swiss Formula coefficient would be. It does state though that tariffs that exceed some maximum would either be reduced to that maximum level, or would see their TRQ volumes increased.

The Perez del Castillo and Derbez proposals mirror the EU-US proposal in this area, with the exception that the Derbez text, in addition, proposes that the simple average of the tariff reductions realized under the blended approach should not be less than some set (but unspecified) percentage. Derbez also carries forward the Harbinson proposal that tariff escalation be addressed by applying some multiplicative factor to the tariff reduction of processed products in cases where that product's tariff is higher than the tariff for the product in its primary form.

- **Tariff Rate Quotas (TRQ's).** The Derbez Text proposes a percentage reduction in in-quota tariffs and notes that the terms and conditions of any TRQ expansion remain under negotiation.

**Export Competition**

- **Export subsidies**. All three proposals call for the elimination of export subsidies for a specified (but yet to be determined) list of products of particular interest to developing countries and reductions for other products. Perez del Castillo and Derbez also propose that Members negotiate a date by which all export subsidies be eliminated.
- **Export Credits**. Eliminate and reduce in parallel with export subsidies.
- **Other**. Disciplines on food aid are also proposed, as are disciplines on single desk sellers, including on price pooling.

**Domestic Support**

- **Green Box**. All three EU-US Model proposals agree that Green Box criteria need to be reviewed, but then leave this area for future negotiation.
- **Blue Box**. The Blue Box should be redefined, capped and reduced such that payments do not exceed 5% of the total value of (2000-02) production by the end of the implementation period. Perez del Castillo and Derbez propose, in addition, that Blue Box payments be subsequently reduced further by a set percentage over a number of years. Derbez also calls for a substantial reduction, or down payment, in year one.
- **Amber Box**. All three proposals call for a reduction in AMS, but no specific numbers are given. Derbez proposes a substantial down payment in year one.
- ***De minimis***. Reduce the *de minimis* level of exemptions. Derbez proposes a substantial down-payment in year one
- **Other**. The EU and US propose reducing total domestic support (*de minimis*, AMS and the redefined Blue Box) to a level that is lower than the 2004 level. Derbez suggests a similar overall reduction, but with a substantial year one down payment.

## 3.0 Implications for Canada

For Canada's export oriented industries, each of the proposals has different implications:

- The Harbinson proposal would probably provide the least market access for Canadian exporters: the banded approach to tariff reductions would reduce them less than the blended approach of the US/EU et al proposals (with its incorporation of the Swiss formula).
- Also, the nine-year phase out period for export subsidies is longer than many would like. All of the proposals, however, call for the eventual complete elimination of export subsidies. This should be welcomed by the export-oriented industries, and the faster other countries eliminate them, the better.
- At the same time, the banded Harbinson approach <u>does</u> attempt to harmonize tariffs, and the reductions it prescribes for tariff lines in the highest band are significantly more ambitious than those seen in the Uruguay Round.
- The Harbinson model proposes doubling TRQ volumes and addressing tariff escalation, both important concerns for Canadian exporters.
- The proposal to impose a maximum tariff (or tariff ceiling) will also be attractive, as will the idea of a minimum simple average reduction across all tariff lines and the inclusion of a tariff escalation formula. The latter is particularly important because it will provide incentives to move away from commodity production toward value added production – something that is often difficult under current tariff schedules since tariffs tend to be exorbitantly high on end use products and low on raw products.
- All the proposals recommend a reduction in the AMS, but Harbinson recommends reducing it by 60%, while the others are less specific and less aggressive. Given Canada's lower subsidy rate and the effect on world commodity prices of EU and US producer subsidy equivalents of over 25%, Canadian exporters should be pleased with the certainty of a large reduction in domestic subsidies.
- The US-EU continuing reference to further disciplining single desk sellers (including price pooling) will be a flag for many in the Canadian industry. It should be noted that Harbinson is no less sympathetic to the Canadian Wheat Board.

For Canada's import sensitive sectors, some of the considerations are the opposite, but some are the same:

- Harbinson would bring tariffs down by less since he does not propose using the Swiss Formula.
- However Harbinson would require a minimum per product tariff reduction of 45% on tariffs over 90%. This would substantially reduce Canada's protection for dairy and poultry.
- The notion of flexibility in terms of lower tariff reductions on sensitive products proposed in the EU-US model will be important to the dairy and poultry industries.

- The import sensitive industries should find ground for agreement on the reduction of AMS. It will at least be some consolation that if Canada loses part of its protection for dairy and poultry that, at least, there will be a limit on the subsidies received by its competitors.
- As with the export oriented industries, the dairy and poultry industries will likely applaud the fact that both models call for reductions and eventual elimination of export subsidies. One caveat is that, given the recent WTO ruling that Canadian dairy exports receive actionable export subsidies by virtue of the higher domestic prices enabled by the supply management system, the dairy industry may be less supportive than others. Canada has agreed, in response to the WTO ruling, to reduce its dairy exports to a level that brings the subsidy to within Canada's WTO export subsidy commitments. If this export subsidy limit is reduced or eliminated, dairy exports under the current supply management regime will also need to be reduced or eliminated, with attendant consequences for that industry.

## 4.0 What's Likely to Happen?

The single most significant aspect of this report and, therefore, of the current negotiation, is that the US and EU have come forward with a position that can result in significant progress in reducing trade barriers in agriculture. While there remains some vagueness to the proposals because of the lack of numbers, it is clear that their proposal will bring significantly more market access than the previous EU proposal to, essentially, allow the continuance of the Uruguay Round process. The EU's subsequent offer to put the elimination of export subsidies on the table further supports this contention.

None of the proposals go anywhere near yielding complete free trade, so protectionists will have solace. But all of them go far enough that an outcome should result that reduces protection and subsidies enough to cause discomfort for those who are protected (the EU is backing change, but we've still to hear from German and French farm organizations.) Most importantly, it would appear that the proposals go far enough to provide opportunities to developing countries whose farmers need them in order to hope to become developed countries.

Here are our thoughts on what's likely in each of the main areas.

### 4.1 Market Access

Our expectation is that some form of blended formula approach to tariff reduction will be adopted as the basis for any final Agreement on Agriculture. This approach will allow Members to realize the maximum possible level of tariff reduction on the majority of products, while still meeting the needs of import-sensitive industries for more gradual transitions. Canada will try to negotiate the inclusion of enough tariff lines in the Uruguay Round formula category to accommodate Canada's key interests, and to negotiate percentage tariff reductions within this category that do not create major threats to supply management. Also, the concept of blending a mixture of tariff reductions and TRQ expansion where industries find it more appropriate. Canada will also want to continue to advocate for sectoral, or 'zero for zero' negotiations, whereby those parties interested in liberalization beyond the scope of any general agreement can pursue such goals on a sector by sector basis.

In addition, in order to accommodate the very real concerns of those developing countries who rely on high tariffs to counter developed country subsidies, some kind of alternative tariff reduction formula may need to be negotiated for developing countries that minimizes the use of the Swiss formula, or which applies a significantly lower coefficient. India and Brazil, in particular, are unlikely to sign any deal that fails to reflect this concern. The G-20 has formally rejected the use of the blended approach, but has not yet proposed an alternative framework of its own.

We expect that any final agreement will require Members to fulfill their existing commitments with respect to TRQ volumes and that in-quota tariffs will be reduced to zero, and we urge Canada's negotiators to press for both of these outcomes. TRQ volume increases will clearly be a more sensitive issue, however.

### 4.2 Export Competition

We expect that export subsidies will be reduced and that a date for their eventual elimination will be agreed. We expect that the subsidy elements of export credits and other export promotion programs will be similarly disciplined. We urge Canada's representatives to push hard for this outcome.

It would appear that there is little support for special treatment of state trading entities. Our position on the effect of the Canadian Wheat Board on value adding in Western Canada was well documented in a report for the Government of Alberta two years ago. However, politically, we believe Western Canadian farmers should have the right to choose (in a *fairly* worded referendum) and that state trading entities and comparable private sector entities should be held to the same business disciplines.

### 4.3 Domestic Support

We expect that the definition of Green Box programs will be clarified and urge Canada's representatives to continue supporting such a move. In addition, we support the proposal to establish a mechanism within the WTO whereby new programs can be assessed for their compatibility with the Green Box ***prior*** to their introduction. This will save a huge amount of uncertainty and dislocation that results from countervail cases against policies genuinely considered by the implementing government to have been within their WTO commitments.

We expect that the Blue Box will be retained in its current form and will be subject to a cap and a schedule of reductions. We further expect that any remaining Blue Box supports will, after some date, be included in the calculation of Members' Total AMS. We support each of these developments.

We expect that Total AMS will be significantly reduced, but not reduced to zero. We also expect to see a reduction in the *de minimis* level of exemptions.

The Peace Clause, under which subsidies provided in accordance with the Agreement on Agriculture are non-actionable even if they violate general WTO rules, lapsed at the end of 2003. Proposals currently under consideration include extending the Peace Clause wholesale, extending it just for Green Box measures, and not extending it at all. We expect there to be strong pressure to retain the Peace Clause, but would urge Canada's representatives to resist this pressure, and to continue arguing for the maintenance of the Peace Clause for Green Box programs only.

## 5.0 Summary

In summary, it is clear that there is a general movement among Members towards some kind of flexible blended approach to market access, substantial reductions in domestic subsidies and a move toward ending export subsidies. These have been goals of both Canadian and developing country policies for many years, and it appears there is a finally a chance that progress will be made. At the same time, the rules appear to leave enough scope for countries to have enough sovereignty to provide a limited amount of protection and assistance for their sensitive products.

It remains to be seen whether the will really exists to make the deal, and then to see whether countries, especially the US and EU, have the will to live by their commitments. The first will be tested over the next few weeks because it is widely believed that if an agreement in principle is not reached by the end of July, then nothing will occur for at least another year.

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