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Options for Agriculture: From Framework to Modalities in Market Access/ Domestic Support/Export Competition

MARKET ACCESS

by
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Trade Policy Issues Paper #2 - 2005

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From Framework to Modalities
In Market Access/Domestic Support/Export Competition

Market Access

The International Agricultural Trade
Research Consortium
&
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Preface

This paper was authored by Mario Jales, ICONE – Institute for International Trade Negotiations, São Paulo, SP 05465.070, Brasil (mjales@iconebrasil.org.br); Tim Josling, Institute for International Studies, Stanford University, Stanford, CA 94305, USA (josling@stanford.edu); Andre Nassar, ICONE – Institute for International Trade Negotiations, São Paulo, SP 05465.070, Brasil (amnassar@iconebrasil.org.br); and Ann Tutwiler, International Food and Agricultural Trade Policy Council, 1616 P Street, NW, Suite 100, Washington, DC 20036, USA (tutwiler@agritrade.org) as part of a project commissioned by the International Food & Agricultural Trade Policy Council, and funded by the German Marshall Fund and the William and Flora Hewlett Foundation.

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Market Access

Mario Jales, Tim Josling, Andre Nassar and Ann Tutwiler

July 2005

EXECUTIVE SUMMARY

The negotiation of improved market access in agriculture is crucial to the success of the Doha Round. The depth of tariff cuts will be the main indication of the level of ambition of the agricultural talks and hence the Round as a whole. Agricultural tariffs remain five times higher than tariffs in industrial goods, and account for the bulk of the distortions in agricultural trade. Recent analysis indicates that 92 percent of the global gains from trade liberalization in agriculture result from removing market access barriers.

The July Framework reaffirmed the objective of substantial improvements in market access. This is to be accomplished by a single approach, a tiered (or banded) formula for tariff cuts, with the higher tariff rates being subject to the highest cuts. Negotiations have centered on how many bands to select, where to place the thresholds, and how progressive to make the band-specific reductions. The issue of whether to impose a tariff cap was left undecided in the Framework Agreement. Tariff caps have the advantage of reducing tariffs that are so high that they are little different from an import ban. If the cap is set at a low enough level, real trade improvements may follow.

The Framework Agreement specifies that each Member may identify in the schedule a number of products as “Sensitive Products.” However, analysis has shown that even exempting as little as two percent of tariff lines from formula based cuts would substantially reduce the expected gains from market access improvements. This points up the need for significant increases in TRQs for Sensitive Products to achieve significant improvements in market access. All tariff lines subject to TRQs, whether or not they are classified as Sensitive Products, should be subject to quota volume expansion.

Improving the administration of TRQs and reducing in-quota tariffs are both important objectives for the Doha Round. There is considerable scope to improve the efficiency and transparency of quota regimes.

The continued availability of the Special Safeguard for Agriculture by WTO members “remains under negotiation.” But abuse of such a safeguard in order to protect domestic producers thwarts the objective of improved market access. Some limitations will need to be introduced if the safeguard is to be continued under the new agreement.

The Framework Agreement emphasizes that Special and Differential Treatment is to be an integral part of the market access outcome. This can be ensured by several provisions. Developing countries can specify a number of products as Special Products, based on criteria of food security, livelihood security and rural development needs. The difficulty is in devising concrete criteria for selecting these products. The Framework Agreement also endorses the creation of a Special Safeguard Mechanism for developing countries.

Tariff cuts in the Doha Round can erode the value of preferences and can have important consequences for some countries. Preference-granting countries could offset the declining value of those preferences either through financial transfers or additional market access for all products from the current preferred exporters. Least Developed Countries (LDCs) should not be required to undertake any reduction commitments, though they might wish to do so for their own economic advantage. Developed countries should provide duty- and quota-free access to LDCs to encourage full integration into the trade system.

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INTRODUCTION

The negotiation of improved market access in agriculture is crucial to the success of the Doha Round. Without significant tariff cuts in agricultural import markets it is improbable that significant liberalization will occur in other areas of trade. The depth of tariff cuts will be the main indication of the level of ambition of the agricultural talks and hence the Round as a whole. Though it is possible that the negotiations could still survive with modest ambitions, such as cuts of 20-30 percent, the likelihood is that the political support for such an agreement would quickly fade. By contrast, **cuts of the order of 50-60 percent would indicate a serious attempt to bring agriculture under the relatively liberal trade regime enjoyed by manufacturing sectors since the Kennedy Round almost 40 years ago.**

Market access is also among the most sensitive of the agricultural issues. Whereas export competition is of considerable interest to competitive exporters, the use of export subsidies and equivalent measures is confined to a handful of countries. Domestic support is also concentrated in a small number of developed countries, and probably has less impact on developing countries than the policies that they themselves pursue. But the negotiation of improvements in market access affects all countries, whether exporters or importers of agricultural goods, and the scheduled reduction of tariffs is likely to be closely scrutinized by domestic interest groups.

Reductions in agricultural tariffs are vital, because agricultural tariffs remain five times higher than tariffs in industrial goods, and account for the bulk of the distortions in agricultural trade. As a recent analysis demonstrates (Anderson and Martin) the major gains from trade liberalization come from reducing tariffs and other market access barriers. Their analysis indicates that 92 percent of the global gains from trade liberalization in agriculture result from removing market access barriers, while only 6 percent of the gains come from eliminating domestic subsidies and 2 percent from eliminating export subsidies. Rhetoric aside, most of the gains to developed countries come from reducing their own tariff barriers, not from gaining access to developing country markets. Similarly, developing countries gain proportionately more from reducing their own barriers, largely because of the growing importance of South-South trade.

Of the three pillars of the agricultural negotiations, market access is also the least developed in the Framework Agreement. It is true that the modalities for reductions in total trade-distorting domestic support, and the date for elimination of export subsidies and parallel measures has yet to be decided, but the Framework is quite explicit on many of the aspects of these two pillars. By contrast, many gaps have yet to be filled in the market access talks and the way in which these missing pieces are put in place will have a major impact on the success of the talks. Most important perhaps is that **the level of ambition on the formulas and bands for tariff reductions will be intricately related to the designation of Sensitive Products. It will be difficult for countries to know what they can concede on tariffs if they don't know the flexibility they will have on Sensitive Products.**

The Market Access Working Group has attempted to address the issues that remain to be decided in this area of the talks. We have stayed strictly within the Framework Agreement but have explored the most significant problem areas within the compass of market access. We have attempted to (a) explain what is at stake, (b) discuss the options available, and (c) indicate which options would appear to further the broad objectives of economic growth and development and reduce costly distortions in international markets.

The report follows broadly the outline of the Framework Agreement, from tariff cuts and quota issues to Sensitive and Special Products to safeguards and preferential access. A brief comment on the issue of Geographical Indications is included in the last section.

MARKET ACCESS

Paragraph 27 of the Framework reaffirmed the objective of substantial improvements in market access. This is to be accomplished by a single approach, applicable to all countries except least developed countries (LDCs), albeit with different tariff cuts, band structure and time periods for developing countries. The impact of such an approach on real market access depends on the magnitude of the cuts and the exceptions that are negotiated to such cuts. Hence the agreement on the modalities of the tariff reduction formula and of the provision for Sensitive and Special Products is central to the market access component of the talks. Other aspects are likely to fall into place once this has been settled.

Tariff Reduction Formula

The Framework Agreement mandates a tiered (or banded) formula, with the higher tariff rates being subject to the highest cuts.[1] This was preferred to the cafeteria (or blended) approach where countries place commodities in different categories each using different tariff-cutting methods.[2] The tiered approach ensures some degree of harmonization of tariff levels, whereas the blended approach gave countries the possibility of avoiding such harmonization. (Language allowing countries to select Sensitive Products that would not be subject to the formula approach has re-inserted some degree of flexibility.) But even the tiered approach requires decisions on which formula to use within each band. And if too many exceptions are granted, the Doha Round will not deliver on the goal of substantial improvement in market access for all products (declared in paragraph 29 of the Framework)

The choice of formulas is critical to the ambition of the Round. The FAO recently analyzed various tariff-cutting formulas for four Asian countries (Indonesia, Pakistan, Sri Lanka and the Philippines). The analysis assumed a linear cut of 15% on Sensitive Products combined with a 30 to 40% linear cut on non-sensitive products, or a 50% Swiss Formula cut, or a 25% Swiss Formula cut. The analysis indicates that **because many countries maintain high bound tariffs, they could reduce tariffs with a 50% Swiss formula cut, with virtually no impact on trade.**

The choice of tariff reduction methods within the bands is broadly between: (a) an across the board cut or (b) a Swiss Formula cut.[3] The advantage of an across the board cut lies on its straightforwardness. The benefit of the Swiss Formula is that it brings down high tariffs at a much greater rate. But as **the tiered approach performs the same function, it is doubtful whether a series of Swiss Formula cuts specific to each band makes much sense.** It would leave tariffs grouped around certain levels determined by the coefficient used in the formula. Hence, a series of percentage cuts increasing with the height of the initial tariff is a more likely outcome.

However, a Swiss Formula on the highest level of tariffs, say above 100 percent, could potentially be useful. It would deal with the wide range of the levels of mega-tariffs. On the other hand, many of these products are likely to be designated as Special or Sensitive, so the formula would have less bite. A Swiss Formula approach to the lowest tier of tariffs could also be defended, as it could act the same way as an elimination of tariffs below a certain level (including nuisance tariffs). However, the lowest tariffs are unlikely to be the subject of much controversy.

Paragraph 28 of the Framework requires the tiered formula to take into account the different tariff structures of member countries. The appropriate tariff reduction method should reflect the

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[1] The "First Draft of Modalities for Further Commitments," presented in February 2003 (and revised in March 2003) by the former chairman of the Special Session of the Committee on Agriculture, Stuart Harbinson, also proposed a banded formula for tariff reduction. See WTO (2003) for the Harbinson band proposal.

[2] This was the method included in the joint EU-US proposal of August 2003 and endorsed in the various draft Cancún texts.

[3] These two approaches were detailed in "A formula for Success? Potential Approaches to Market Access Negotiations, J. Francois and A. Martin, 2002, and "Tariff Negotiations in Agriculture, A Dynamic Blended Formula", Panos Konandreas, June 2004.

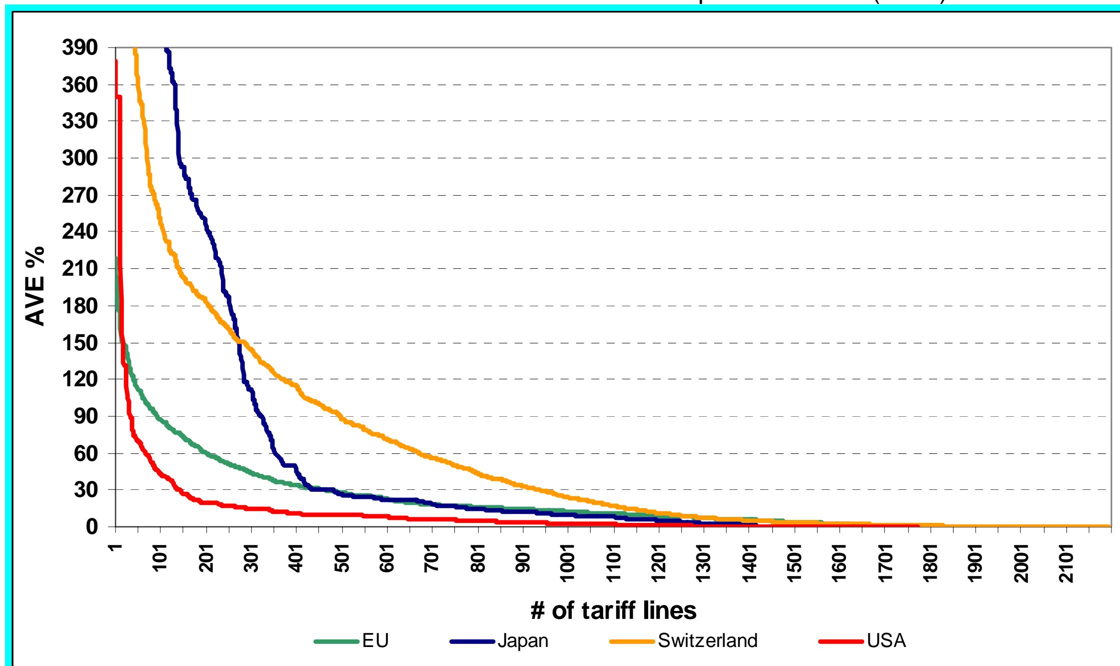
intrinsic characteristics of the different types of tariff distribution. Figures 1 and 2 and Table 1 demonstrate that tariff structures in developed countries are substantially different from tariff structures in developing countries. While tariff distribution in the former tends to follow a curved path, in the latter it is either a straight line or a set of consecutive straight lines in a "staircase" format.

Developed countries such as the United States and the European Union have a significant number of very high tariffs and a considerably larger number of low tariffs. As a result, they have a low median tariff, a relatively low mean tariff, but a very high degree of tariff dispersion. In contrast, tariff structures in developing countries are generally characterized by low tariff dispersion. Nonetheless, significant diversity also exists among developing countries. While Brazil has low mean and median tariffs, India has high mean and median tariffs. The case of Kenya is particularly interesting: all agricultural tariffs were bound at the same level. Therefore, the country's tariff structure has no dispersion and a very high mean tariff rate.

Regardless of the tariff reduction method adopted, a practical issue is to determine (1) how many bands to select (2) where to place thresholds, and (3) how progressive to make the band-specific reductions. The more bands used the more "smooth" will be the harmonization. However, too many bands would add little to the outcome and merely complicate the process of verifying schedules. Four bands may be necessary for developed countries to address their more highly dispersed tariff structures.

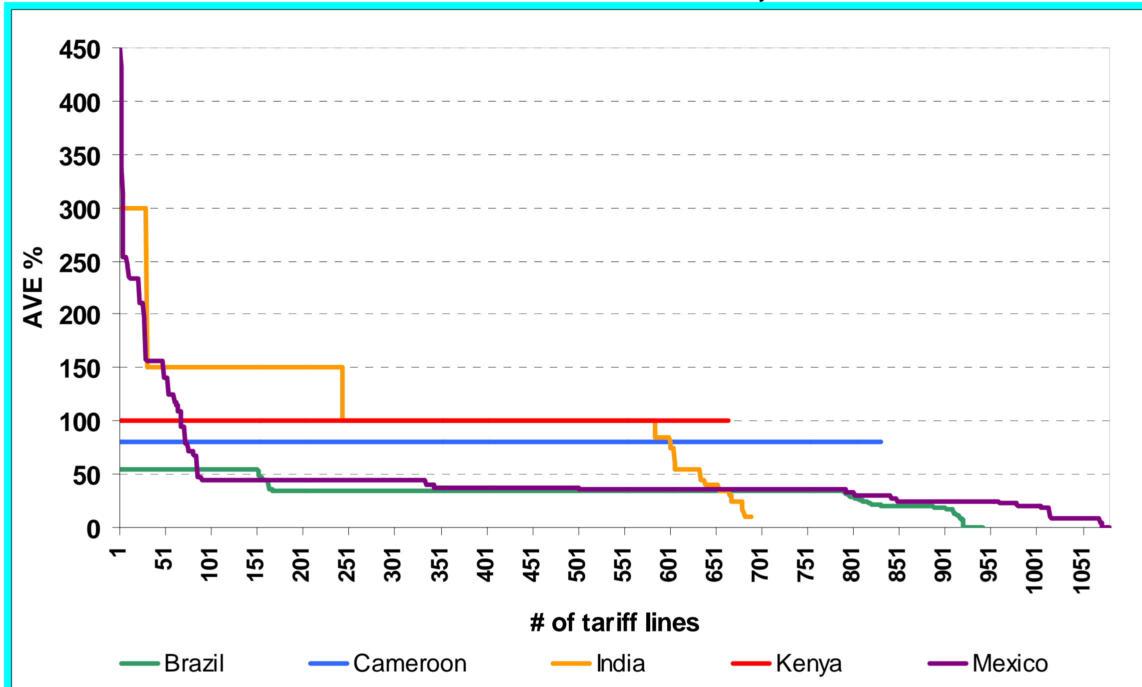
Appropriate thresholds for each individual band are sensitive since they can have disproportionate effects on different countries given the diverse nature of tariff structures. The exact point where bands begin and end can make a big difference for a country such as Kenya, where all agricultural tariffs are bound at the same level. If the highest band (the one with highest cut) begins at a threshold of 100%, Kenya's tariff reduction effort will be significantly greater than if it starts at 101%. The number of bands and the thresholds for defining bands can be balanced by the magnitude of cuts. For tariffs close to the threshold, reductions in the higher band may result in final tariffs lower than tariffs in the lower band. To address this incongruity, it may be useful to adopt an approach similar to progressive income taxes.

FIGURE 1
Bound Tariff Structures for Selected Developed Countries (2004):



Source: Institute for International Trade Negotiations (ICONE).

FIGURE 2
Bound Tariff Structures for Selected Developing Countries (2004):
Brazil, Cameroon, India and Kenya



Source: Institute for International Trade Negotiations (ICONE).

TABLE 1
Bound Tariff Structures for Selected Countries (2004): Key Statistics
Source: Institute for International Trade Negotiations (ICONE).

	DEVELOPED COUNTRIES			DEVELOPING COUNTRIES			
	United States	European Union	Japan	Brazil	Mexico	Kenya	India
Mean tariff	11.9	20.5	80.1	35.6	44.4	100.0	116.0
Median tariff	3.8	10.9	12.0	35.0	36.0	100.0	100.0
Minimum tariff	0.0	0.0	0.0	0.0	0.0	100.0	10.0
Maximum tariff	378.7	218.5	2,553.6	55.0	450.7	100.0	300.0
Std. deviation	33.0	29.4	203.3	11.2	42.1	0.0	52.5
Coef. variation	2.8	1.4	2.5	0.3	0.9	0.0	0.5
# of tariff lines	1,769	2,200	1,806	942	1,080	665	690

At the Dalian Mini-Ministerial meeting, the Group of Twenty proposed a five-banded formula for developed countries, with a cap of 100%, and a four-banded formula for developing countries with a tariff cap of 150%.

Group of Twenty Proposal

	Developed Countries	Developing Countries
Number of Bands	5	4
	0 < 20	0 < 30
	>20 < 40	> 30 < 80
	40 < 60	80 <130
	60 < 80	> 130
	>80	
Tariff Cap	100%	150%

The Group of Twenty proposed that cuts within each of the bands be linear, striking a compromise between the Swiss and the Uruguay Round formulas. This approach was accepted as the basis for further negotiations.

As an illustration, ICONE prepared an analysis of the average cut in bound tariffs resulting from the original Harbinson proposal (which did not include a specific tariff cap but which did include linear reductions with in each band). Japan's bound tariffs would be reduced 75%, the United States and European Union bound tariffs would be reduced by 55%, Swiss and Norwiegen bound tariffs by 70% and Canadian tariffs by 60%. Developing country bound tariffs (India, Brazil, Mexico, Kenya, South Africa, China) would be reduced, on average, by 30%.

Harbinson Proposal

DEVELOPED COUNTRIES		DEVELOPING COUNTRIES	
Tariff Interval	Tariff Reduction Rate	Tariff Interval	Tariff Reduction Rate
T > 90%	70%	T > 120%	40%
45% < T ≤ 90%	60%	60% < T ≤ 120%	35%
15% < T ≤ 45%	50%	20% < T ≤ 60%	30%
T ≤ 15%	40%	T ≤ 20%	25%

Ad Valorem Equivalents. The implementation of the tiered formula will not in itself be easy. The conversion of specific and compound tariffs to ad valorem equivalents (AVEs) was not uncontroversial. After three meetings of the Special Session of the WTO Agriculture Committee dedicated to this subject, countries have agreed to the following conversion methodology:

- The principal method for converting the final bound non-ad valorem duties into their AVEs will be the unit value method based on the Integrated Database (IDB) import data for the 1999-2001 period.[4]
- An alternative method will apply when (i) the IDB data for the tariff line concerned is either missing, contains errors, or is lower than US$2,500 on average for 1999-2001, or (ii) the IDB-based AVE cannot be considered to reflect the true level of tariff protection afforded by the non-ad valorem tariff.
- For the tariff lines that fall into category (i) above, there are four possible alternative methods:
  - Extend the base period 1999-2001 by up to two years at either end;
  - Use the IDB import unit value of a closely related tariff line;
  - Use the IDB import unit value of the tariff line at issue of a near country;
  - Use the COMTRADE unit value.[5]
- The "40/20 Filter"[6] has been developed to determine whether tariff lines fall into category (ii) above. The alternative method that applies to tariff lines captured by the 40/20 Filter varies according to the chapter of the Harmonized System (HS):
  - For HS chapters 1 to 16, and the products in Annex 1 of the Agreement on Agriculture in the HS chapters beyond chapter 24, a 82.5 / 17.5 (COMTRADE / IDB) weighting will apply;
  - For HS chapters 17 to 24, a 60 / 40 (COMTRADE / IDB) weighting will apply;
  - For all tariff lines for raw and refined sugar, world prices will apply, with prices to be agreed.

Table 2 presents the total number of specific tariff lines and the number of tariff lines captured by the 40/20 filters in some selected countries. Table 3 provides examples of AVEs calculated using the methodologies explained above. With the exception of raw sugar in the United States and ethanol in the United States and the European Union, the 40/20 Filter captured all other products in Table 3.

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[4] The IDB (*Integrated Database)* is the official WTO database for trade flows and import duties.

[5] The COMTRADE unit value is the world import unit value obtained from United Nations Commodity Trade Statistics Database.

[6] The tariff line is selected when it is simultaneously captured by the two components of the 40/20 Filter.

TABLE 2. Impact of the 40/20 Filters on Selected Countries

Country	# of specific tariff lines	# of lines captured by the 40/20 filter
Switzerland	1,940	483
European Union	1,010	280
Norway	975	33
United States	757	86
Canada	477	22
Japan	494	268
Mexico	90	18
India	2	0
Brazil	0	0

Source: Institute for International Trade Negotiations (ICONE).

TABLE 3. Ad Valorem Equivalents Based on the Agreed Methodology: Selected Products and Countries

Product	Market	Tariff Line	Specific Tariff Duty	Resulting AVE
Bovine Meat (chilled boneless cuts)	EU	02013000	12.8% + 3,034 €/ton	85%
	Switzerland	02013099	16,012 US$/ton	195%
Swine Meat (frozen boneless cuts)	EU	02032955	869 €/ton	26%
	Japan	020329021	4.217 US$/ton	136%
Poultry Meat (frozen boneless cuts)	EU	02071410	1,024 €/ton	91%
	Canada	02071422	238.3% ou 1,170 US$/ton	420%
Rice (milled)	EU	10063021	€ 416/ton	97%
	Japan	100630090	2,980 US$/ton	778%
Raw Sugar	EU	17011110	339 €/ton	189%
	USA	17011150	338.7 US$/ton	134%
White Sugar	EU	17019910	419 €/ton	184%
	USA	17019950	357.4 US$/ton	151%
Ethanol	EU	22071000	192 €/m^3	42%
	USA	22071060	2.50% + 142.7 US$/$m^3$	57%

Notes:
1. Specific tariff duties were converted into US Dollars using the average exchange rate of the 1999-2001 period.
2. Sugar AVEs were calculated using world prices (NYBOT Contract 11 for raw sugar and LIFEE Contract 5 for white sugar). An additional US$20 per ton was considered in order to express the value on a c.i.f. basis.

Source: Institute for International Trade Negotiations (ICONE).

Further, the issue arises as to how to bind such converted tariffs. If there is agreement on tariff simplification (see below) then the tariff bindings may reflect these *ad valorem* equivalents. But if no mandatory conversion to *ad valorem* tariffs is agreed then the question arises as to whether to bind the tariffs in the form in which they are specified in the tariff schedule or to bind the *ad valorem* equivalent. Given the steady resistance from some countries, the former procedure, as adopted in the Uruguay Round, would seem to be more realistic: **it is difficult to envisage any**

country agreeing to bind a level of protection that varies as a result of events beyond the control of the government.

Although simplifying tariffs and converting tariffs to their ad valorem equivalents are both critical to how many tariffs might be reduced, the negotiating dynamics behind each one of them are rather different. On the one hand, it is in the interest of protectionist countries to understate AVEs for classifying tariff lines in different bands of the tiered formula. On the other hand, it is in their interest to overstate AVEs if they are required to bind the converted tariffs in order to achieve the goal of tariff simplification. Given that the issue of tariff simplification will be discussed after the AVE methodology, the agreement on the simplification will depend on the results of the AVE debate.

A Tariff Cap

The issue of whether to impose a tariff cap was left undecided in the Framework Agreement. Tariff caps have the advantage of reducing tariffs that are so high that they are little different from an import ban. If the cap is set at a low level, real trade improvements may follow. But the likelihood is that the cap would not be set at a level that would encourage much change in trade patterns. Table 4 indicates the total number of tariff lines that would be captured by a cap set either at 50%, 100% or 150%.

TABLE 4

Agricultural Bound Tariff Peaks in Selected

Country	Total # of tariff lines	# of tariff lines >=50%	# of tariff lines >=100%	# of tariff lines >=150%
Developed Countries				
European Union	2,200	259	**69**	16
Japan	1,806	395	**307**	272
Switzerland	2,168	798	**498**	316
United States	1,769	84	**29**	16
Developing Countries				
Brazil	959	148	**-**	**-**
Cameroon	831	831	**-**	**-**
India	690	633	**584**	243
Kenya	665	665	**665**	**-**
Mexico	1,080	84	**67**	48

Source: Institute for International Trade Negotiations (ICONE).

In any case Sensitive and Special Products (see below) might be made exceptions to the cap. So the cap can only be evaluated in the context of the exceptions. Table 3 suggests products that might be captured by a 100% cap, including bovine meat in Switzerland, swine meat in Japan, poultry meat in Canada, milled rice in Japan, and raw and white sugar in the United States and the European Union.

The practical implication of such a cap on tariff reductions is that it acts as a somewhat drastic "formula" cut for tariffs above that level. It therefore has to be considered as a part of the formula for the tiers, in essence a top tier. One possibility therefore may be to delay its

implementation until the end of the transition, thus allowing Members to anticipate the cap at their own pace. A tariff cap of 100 percent, for instance, could be introduced in the tenth year of the agreement, allowing countries a long time period over which to reduce mega tariffs. A tariff cap could also be blended in with the operation of TRQs: Members could request consultations with principle suppliers to establish TRQs in lieu of the tariff cap for Sensitive (or Special) Products.

Capping products should prove valuable to developing countries, whose products often face extremely high tariffs once the impact of specific, compound and mixed tariffs are figured (ABARE). Peak tariffs in OECD countries are 40 times higher than average tariffs, while in Africa peak tariffs are five times higher than average tariffs.

Developing countries must also decide whether to accept such disciplines on their own tariffs. But, given the great distortions high tariffs create, if indeed they allow any trade at all, **it is not clear why developing countries should not also accept a tariff cap, knowing that this might increase their influence over the height of the tariff cap for developed countries.**

Sensitive Products

As a condition of agreeing to a formula approach to tariff reductions, the Framework Agreement specifies that each Member may identify in the schedule a number of products that will be treated as "Sensitive Products" and subject to different market access rules.[7] The questions therefore are (a) how to select the products, (b) how to treat them once selected.

The selection of Sensitive Products will be a matter for individual countries. No common criteria can feasibly be developed for selecting these products. They will reflect the internal politics of each country and the domestic vulnerabilities of each sector. The main question then is how many to allow? Should there be a limit on the number of tariff lines selected? Or should the limit reflect the significance of the products to trade? Or should it be related to production? Probably some combination of criteria for limiting the use of the Sensitive product designation will in the end be acceptable. One such combination could be that Sensitive Products could not exceed a certain percent of total tariff line items and a certain percent of total production. This would ensure that the category could not be used for widespread protection. **It is important to recognize that even exempting two percent of tariff lines from formula based cuts would substantially reduce the expected gains from market access improvements.**

A recent analysis by Jean, Laborde and Martin examined the consequences of designating 2 and 5 percent of tariff lines as Sensitive. Assuming a fairly aggressive set of formula reductions (more aggressive than are likely to be achieved), the study notes that applied tariffs (without recourse to Sensitive Products) would fall from an average of 16.3% to 9.5%. With that order of reduction in applied tariffs, only a few countries (Europe, EFTA, Japan and Korea) would reduce their applied tariffs by more than five percentage points. If 2 percent of tariff lines were designated as sensitive (and the analysis assumes that products designated as sensitive would be those with the highest levels of protection under the current system), the cut in the average applied duty drops from 6.5% to 2.6%. **Excluding just 2 percent of tariff lines reduces the benefits of the tariff cut by almost two-thirds.** Interestingly, setting aside 5 percent of tariff lines as Sensitive does not change the outcome markedly.

European Union, members of the G-10 and some large developing countries (such as India and Mexico) are strongly interested in the concept of Sensitive Products. Based on the number of tariff lines above 100% (see Table 4), the European Union may claim that more than 5% of the total tariff positions should be considered Sensitive Products. Japan would probably claim that more than 15% of agricultural tariff lines should be considered as Sensitive. In the cases of India and Mexico, if one considers tariff lines for which applied and bound rates coincide, the number of Sensitive Products would be respectively 5% and 10% of total agricultural tariff lines. On the other hand, for the US and Brazil 2% and 1% would cover products with tariff peaks.

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[7] The Framework (paragraph 31) also allows counties to take into account "existing commitments for these products." This might seem to ensure that sugar be included by the EU, along with bananas, reflecting the commitments to the ACP.

The more products that are labeled Sensitive the more important it will be to agree modalities that will ensure "substantial improvement" in market access for these products. The framework specifies that market access be improved for all products including Sensitive Products, through a combination of TRQ increases and tariff cuts.

For those Sensitive Products already subject to TRQs, these could be increased by a percentage of domestic consumption annually over the implementation period. For products without a TRQ, one could be established at the level of 5% of domestic consumption, increasing by a percentage over the implementation period. Countries should also have to reduce above quota tariffs for Sensitive Products, although by less than the amount required for the tiered formula.

A direct link could be made between a country's willingness to trade off expanded TRQs for lower cuts in over quota tariffs. One proposal would be to calculate the difference between the formula-based requirements for tariff cuts, and the tariff cut imposed on Sensitive Products, and require the TRQ be increased by that amount. For example, if the required tariff cut were 20% and a country chose to implement only a 15% reduction (or ¾ of the commitment) on a Sensitive product, and then it would have to expand its quota by ¼ over and above the minimum.

Ideally, a deal on tariff-cutting formulas would be reached before the definition of conditions for Sensitive Products. The level of ambition on tariff reduction would determine the flexibility on Sensitive Products. One possible solution to minimize the number of tariff lines in the Sensitive category is to conceive reduction formulas with some degree of in-built flexibility, as outlined above. If such an approach is used, care would need to be taken that the average and minimum level of reductions were not too far apart, so that the minimum level of reductions are meaningful.

Tariff Rate Quotas

The Framework Agreement only makes reference to TRQ expansion when it addresses Sensitive Products. However, it is possible that some of the products currently subject to TRQs might not be categorized as Sensitive Products. Given that it is unreasonable to demand that only "Sensitive" Products be subject to quota volume expansion, WTO member countries should promptly address this "gap" in the Framework. All tariff lines subject to TRQs, whether or not they are classified as Sensitive Products, should be subject to quota volume expansion.

For Sensitive Products already subject to TRQs, the TRQs could simply be increased, by one percent of domestic consumption per year over ten years. For Sensitive Products for which a TRQ does not exist, one would be established (say) at the level of five percent of domestic consumption and increased by one percent for ten years. The measurement of the level of domestic consumption is a very important technical issue. In the Uruguay Round, some countries fulfilled the requirement set at 5% of the domestic consumption by assigning quota volumes that were not as significant as if domestic consumption had been measured through an agreed methodology. The new market access opportunities through quota expansion and creation will depend on the correct measurement of the domestic consumption. (In some cases, the level of domestic consumption has declined since the URAA. In those cases, the base consumption level should be updated to reflect current consumption patterns.)

But countries would also have the obligation to cut above-quota tariffs as well as increasing TRQs. These tariff cuts could, for instance, be at the rate appropriate to tariffs on non-sensitive goods.

Within Quota Tariffs

The issue of cutting or eliminating within-quota tariffs is introduced in the Framework as a way to "give the flexibility required to reach a final balanced result." This implies that the elimination of such tariffs is still possible, but may have to be "purchased" by less ambitious tariff cuts or TRQ expansion. Given that the level of within-quota tariffs largely impacts the distribution of quota rents between governments and traders, there may not seem to be much advantage to be gained by such tariff elimination. On the other hand, as quotas increase over time, the impact of tariff-free access will also be enhanced. The International Policy Council has previously supported the elimination of "nuisance tariffs".

TRQ Administration

Since 1995, 1400 TRQs have come into effect as a result of the URAA. Approximately 20 percent of agricultural tariff lines are covered by TRQs, but approximately 50% of the value of OECD production is protected by TRQs and approximately 40% of the value of trade. (Kliauga and de Gorter). Given their prevalence, the administration of TRQs becomes an important issue. TRQs are a second-best option for liberalization because they are not transparent and are not efficient ways to increase market access. However, during the URAA they were necessary to convince some countries to reduce their tariffs on politically sensitive products, and they are likely to remain a fixture of the Doha Development Round Agreement. Therefore, improving the administration of TRQs and reducing in-quota tariffs are both important objectives for the DDRA.

Rents generated by TRQs encourage firms to spend resources competing for these rents. No specific provisions were approved in the URAA governing administration of quotas, although relevant WTO rules for import quotas do apply. There is considerable scope to improve the efficiency and transparency of quota regimes.

Approximately half of all quotas are administered with applied tariffs, where no quota shares are allocated, and imports are permitted at unlimited quantities at the in-quota tariff rate. Of the remainder, most are governed by License on Demand, where import licenses are allocated in relation to the quantities demanded and requests are reduced by a pro rata amount if the total request exceeds the quota volume. This system is inefficient because it treats all firms equally, regardless of their cost structures (competitiveness). This system also tends to result in under-filled quotas. Other forms of TRQ Administration include First Come-First Served, historical shares, State Trading Enterprises, Lottery and Auction. Many of these options are wasteful, inefficient and result in substantial quota-underfill. (World Bank Trade Note Sept 10, 2003, De Gorter, et.al.) Recent analysis shows that the systems most subject to under fill (and therefore most in need of some reforms to improve real market access) are license on demand, first-come first-served and historical importers.

Some general guidelines for the administration of TRQs could include

- Auctioning quotas to the highest bidders. This would ensure that companies with the lowest costs (and hence the capacity to offer higher bids for the right to trade) gain this right, and that quotas are filled.
- Allowing quotas and import licenses to be traded among firms. This would have the same advantage as an auction, but might be more practical and easier to administer.
- STE importers could also be disciplined to ensure that their activities are transparent and that they, over time, begin to compete with private entities in their home market.

It is unlikely, and possibly undesirable, to mandate a uniform method of administration of TRQs. Improvements in tariff quota administration could perhaps best be achieved by establishing a register of administration procedures that are acceptable. For example, the many additional regulations that govern TRQs, including time limits on import rights, regulations based on past trading performance, and seasonal limitations, result in under filled quotas. Countries could also agree on a mechanism for encouraging the full use of the market access represented by TRQs by reforming these regulations and outlining preferred methods of quota administration.

TRQ administration could also be geared in part to the encouragement of exports from developing countries. In-quota tariffs could be set to zero for developing countries, though this would require a modification of the notion emphasized in the Framework Agreement that TRQs be MFN-based. (The International Policy Council has recommended elsewhere that in-quota tariffs be reduced to zero over time for all countries.)

Tariff Escalation

Tariff escalation, the application of higher tariffs on processed goods than on the raw and semi-processed commodities that compose those processed goods denies countries the ability to add

value to their raw products. (While this is largely a concern for developing countries, even developed countries face such tariff escalation.) The rationale for tariff escalation is to protect the domestic processing industry by adding a tariff for this industrial protection on top of the tariff for the agricultural commodity itself. (In some cases, such as the European Union, tariff escalation has compensated manufacturers for higher domestic input prices.) One can also argue that Differential Export Taxes act as a mirror image, providing protection to domestic processors in countries that normally might be exporting raw commodities.

To an extent, the progressive tariff reductions explicit in the tiered approach will tend to reduce tariff escalation. But the issue has become an important one for a number of developing countries and will have to be dealt with explicitly. Table 5 illustrates tariff escalation in the soybean sector in five different countries. It shows that the tiered formula alone would not be enough to address the escalation problem in this sector, given that the tariffs on soybeans and crude soybean oil would most likely fall in the same band of the tiered formula.

TABLE 5

Tariff Escalation in the Soybean Sector (bound tariffs)

Product	Canada	China	European Union	Japan	United States
Soybean	0.0%	3.0%	0.0%	0.0%	0.0%
Soy oil (crude)	4.8%	9.0%	6.4%	25.6%	19.1%

Source: Institute for International Trade Negotiations (ICONE).

The Harbinson draft modalities paper contained a suggested method for reducing tariff escalation, ensuring in the specification of tariff reduction schedules that tariffs on processed goods are reduced by some multiple (1.3) of the reduction for raw materials. Whether this amount is too much, too little or just right will probably vary from country to country, and commodity by commodity, but it is unlikely that each country or commodity would be treated differently, so a uniform multiple should probably be agreed.

The Framework Agreement confirms that the issue “will be addressed” by a formula to be agreed. There would appear to be merit in making such a formula simple and avoid commodity-by-commodity negotiations or the complication of addressing tariff escalation in the case of Sensitive Products. Tariff escalation could, for instance, be handled through a provision that requires that the reduction in tariffs on processed goods be one-third greater that that of the principal raw materials incorporated in those goods.[8] The complications would arise in cases where the link between raw product and processed product is unclear, such as when a number of inputs are combined to produce a processed product. Representation by principal suppliers to importers at the time of scrutinizing draft schedules may be the only way to solve such specific problems.

Tariff Simplification

The question of tariff simplification has proved to be a potentially difficult aspect of the market access talks. The issue of how to calculate the *ad valorem* equivalent of specific tariffs is

[8] Tariff escalation is usually considered in the context of developed country imports. Developing countries also tend to exhibit tariff escalation in their schedules. This raises the interesting question as to how tariff escalation will be manifest in Special and differential treatment (SDT). Will developing countries be obliged to make the same efforts to reduce such escalation?

problematic for the process of tariff cuts. But if these *ad valorem* equivalents are going to be bound and used as the actual tariffs applied then the method of their calculation becomes more important.

Ad valorem tariffs have a number of advantages over specific or compound tariffs, including transparency and the fact that changes in world prices are more likely to be reflected in domestic price trends. Thus there is a strong case from the viewpoint of the functioning of world markets to mandate the change at this time. Countries could then move to the use of *ad valorem* tariffs rather than specific or compound tariffs on entry into force of the agreement.

Special Agricultural Safeguards

The continued use of the Special Safeguard for Agriculture (SSG) by WTO members "remains under negotiation." Under the Uruguay Round Agreement, only those countries that had converted their non-tariff barriers into tariffs were eligible for the SSG. In practice, this meant that the SSG was available primarily to developed countries. Arguments for the continuation of the SSG are that it allows reluctant importers to tolerate tariff cuts that would otherwise expose domestic producers to low prices or a surge in imports. It also can allow countries the flexibility to smooth the path of domestic policy reforms. But continued use of such a safeguard in order to protect domestic producers thwarts the objective of improved market access and isolates farmers from long-run changes in world prices and competitive markets. So some limitations may need to be introduced if the safeguard is to be continued under the new agreement.

One approach would be to allow the SSG to continue over the period of tariff reductions for developed countries. The use of the SSG would be limited to products so identified in the Uruguay Round schedules. Restrictions should also be imposed on the frequency of use, so as to prevent countries from using SSGs as a permanent protection against imports. The Committee on Agriculture could then monitor the use of such safeguards and recommend any changes in procedures that may be warranted. The principle of "stand still" should apply to SSGs. The fact that a country has reserved the right to impose an SSG does not guarantee that it should be allowed to use it during the implementation period. If a country did not use SSGs on certain products, it should not be authorized to introduce such SSGs during the Doha Round implementation period.

Another approach would be to limit safeguards to importable commodities with tariffs below some threshold. Under this approach, products covered by a TRQ should not be eligible for safeguards, as the TRQ already provides import protection. Countries could be limited to covering a specified number of products, but not a predetermined list of products. (Note: these recommendations could apply equally well to the Special Safeguard Measure under consideration for developing countries.)

An alternative approach would be to widen the application to all tariff reductions for all countries (subject to the condition that they do not also use the SSM mentioned below). This would require that the reference prices for the price-triggers be linked more systematically with world price movements. This would avoid the problem that such prices are seen as having been decided by the importing country (and notified on their schedules) in a manner that benefits their own producers.

One question facing negotiators is whether the SSG (and the SSM) should offset the entire price depressing effect, or only part of the price depressing effect. One could argue that allowing some of the price depressing impact (when the impact is due to competitive pressures, as opposed to subsidized competition) could be beneficial for consumers (who would benefit from lower prices) and also to producers (who would be exposed to competitive pressures that could encourage efficiencies.)

SPECIAL AND DIFFERENTIAL TREATMENT

The Framework Agreement, in accord with the Doha Declaration, emphasizes that Special and Differential Treatment (SDT) is to be an integral part of the market access outcome and should be

reflected in all relevant parts of the agreement. However, there is some disagreement as to how to balance aspects of SDT that reduce the obligations that would otherwise have to be undertaken by developing countries with those that developed countries accept to give favorable treatment to developing countries. The "reduced obligation" aspect of SDT in the context of market access is primarily through the pace and extent of liberalization and relates to import markets in those countries: the "favorable markets" aspect of SDT is implemented through focusing developed-country tariff cuts on products of export interest to developing countries. In general, the second of these two SDT modalities is likely to be the more constructive in economic terms while the first may be politically necessary. [9]

Under the Framework Agreement, developing countries are entitled to a longer transition period and lower tariff cuts. But if tariff cuts are limited or phased in over a long implementation period, developing countries will lose much of the potential benefit and will have difficulty integrating their economies into the global economy and will continue to place a heavy burden on their own consumers.

One simple way to balancing these two considerations would be to allow developing countries to implement the entire tariff reduction required of developed countries, but over a longer timeframe or to require two thirds of the tariff reduction required of developed countries, but implemented on the same timeframe.

Special Products: Developing countries, under the Framework Agreement, can specify a number of products as Special Products, based on criteria of food security, livelihood security and rural development needs. Tariff reductions for Special Products might only need to be one-half that for other agricultural products. The difficulty is in devising concrete criteria for selecting these products. Several ideas have been proposed.

- The product should contribute more than ten percent of calories or essential nutrients; over ten percent of the farmers in a country produce the product as the major part of their farming activities; and programs recognize and encourage the production of this product for rural development purposes.
- The product should be produced primarily by farmers earning less $2 per day; or products grown in areas where poverty is concentrated due to lack of natural resources or access to infrastructure; or products grown mainly by small holders.
- The products could be selected based on the relative contribution of the product to the national economy either as a function of its contribution to national GDP, employment or the size of its total productive area in the country. These products should also play a prominent role in the national diet.
- The products could be selected based on the share of the product in total agricultural production (a proxy for rural development); the share of the product in total agricultural consumption (a proxy for food security) and the contribution of the product to total agricultural employment (a proxy for livelihood security). However, these objectives are not easily quantifiable, and even if they were, determining the acceptable threshold levels for each of the objectives is not simple, either.
- The products could be those with low tariffs (that would be susceptible to import disruptions), products for which the country is a net food importer, or products for which the country has a small share of the international market. But, these criteria may not capture products that are vital to a small region or group of producers. These criteria also do not capture products that are not traded (e.g. cassava) that may be a local staple that could be displaced by an imported substitute, such as wheat flower.

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[9] Any developing or developed country agricultural sector that requires high tariffs to survive is very likely to be using a greater value of resources than the value added in that sector. The economy as a whole (though not persons in the farm sector) would benefit from the redeployment of those resources.

Special Safeguard Mechanism: Because the creation of the SSG was linked to tariffication, very few developing countries have had access to the measure. According to the FAO, only 22 developing countries have access the SSG, and only six have made use of it. Instead, most developing countries have simply raised applied tariffs close to their bound rates when threatened with import surges. The Framework Agreement endorses the creation of a Special Safeguard Mechanism (SSM) for developing countries (as suggested Harbinson incorporated in the EU-US proposal of August 2003, and included in the Derbez text that survived the Cancun Ministerial). G-20 and other developing countries had accepted this, though the technical details will not necessarily be easy to negotiate.

An SSM is seen as both politically necessary, particularly if there are sharp reductions in bound tariffs, and of potential economic benefit. Small, open economies are particularly vulnerable to changes in world market prices. A simple, transparent mechanism for temporary levies triggered by both price falls and import surges would give countries the security they need to stabilize domestic market without too much of a temptation to protect inefficient sectors in the longer run.

Several issues are still under discussion with respect to the operation of the SSM. One is how wide the commodity coverage should be. From the developing country perspective there would seem to be a benefit from a wide coverage, but this could come at a cost in negotiating terms. Developed countries will see too wide a range of commodities covered by the SSM as a way of avoiding any market penetration, particularly if the trigger price is set high and the trigger quantity set low. Even for some developing countries, wide coverage could be a problem, as intra-developing country trade is 50% of all developing country trade.

The SSM would be modeled as a mechanism less trade-restrictive than the SSG. One alternative would be to allow countries to have only quantity triggers. According to the FAO, the current triggers are biased against developing countries in three ways. The formulae are biased against countries with lower degrees of openness, against countries where consumption is increasing, and against countries where consumption statistics are missing. In this case, basing the volume trigger on import levels removes these sources of bias, and ensures a simpler, more transparent mechanism. There should also be a limit on the length of time the SSG/SSM is in place, to prevent this method of protection from becoming permanent.

To avoid this becoming an additional import restriction, it may be advisable to stipulate that developing countries could make use of the SSG whenever their bound tariff levels had been reduced by a total of one third of the level in 2005. One benefit of the SSM is that it essentially takes the place of the “price band” systems that are in place in several South and Central American countries. Such bands, which trigger additional tariffs, have been ruled contrary to the GATT (at least how they were implemented in Chile.) A WTO-consistent and reasonably uniform agricultural safeguard would simplify trade decisions and lower costs.

Some have suggested that the product coverage of the SSM be linked to Special Products, to smooth the effects of price shocks and import surges. (Others have suggested that countries only protect products subject to deep tariff cuts with SSM, as an incentive to undertake deep reductions. Still others have suggested that the number of products eligible for an SSM be limited to a handful, but it would hard to impose this discipline on developing countries if similar disciplines were not placed on developed countries.) FAO figures indicate that subsidized products are more subject to import surges, so the SSM could be provided for products that are highly subsidized in international markets, to counter-balance the impact of artificially low prices. SSMs could also apply to domestic products characterized by high import penetration.

Tropical and Alternative Crops

The Framework calls for efforts to liberalize tropical products and those representing alternatives to the growing of illicit narcotic crops. At one level this is easily accomplished by reducing tariffs on a specific list of products to be agreed. But in addition, to be of maximum value, developed countries would have to agree not to nominate such products as “Sensitive” for the purposes of market access.

Erosion of Preferential Access

The erosion of preferences is a natural and generally desirable consequence of trade liberalization, at all levels: multilateral, regional and bilateral. The notion of preferences is that particular developing countries should, for a variety of current and historical reasons, be granted preferred (often duty-free) access relative to other suppliers. If the MFN tariff is reduced (but not to zero) then the preference still exists. The importing country could see the reduction of the preference margin as a "contribution" to the liberalization process, which could be taken into account in arriving at a balanced result.

There is increasing evidence, as spelled out in the International Policy Council's recent discussion paper on preferences and on trade reform and poverty (forthcoming), that by and large preferences have not helped developing countries as much as is sometimes assumed. Preferences have locked countries into certain commodities for which they might not have a comparative advantage. Preferences have also shielded producers from competition and many are now so high-cost and inefficient that they cannot compete on world markets. And, importers, not farmers, often capture the economic rents from preferences. Thus, it behooves most developing countries to begin to transition away from trade dependent on preferences and toward a more sustainable and competitive sectors.

However, as has become clear in the recent expiration of the Multifiber Agreement, large and competitive exporters can overwhelm smaller producers who have not or cannot make adjustments that would make them more competitive or that would allow them to shift to other endeavors. Moreover, reducing preferences in a way that causes direct harm (even if only "short-term") to specific developing countries would be politically difficult in the Doha *Development* Round. Given the very real political and economic ramifications, it is important that the Doha Round recognize that the erosion of preference can have important consequences for some countries and for some (politically powerful) sectors. To compensate for the negative impacts of preference erosion on uncompetitive sectors, preference-granting countries could offset the declining value of those preferences either through financial transfers or additional market access for all products from the current preferred exporters.

Market Access and Least-Developed Countries

Least Developed Countries (LDCs) will not be required to undertake any reduction commitments (as agreed in the Framework). It was agreed that developed countries and those developing countries that were in a position to do so, should provide duty- and quota-free access to LDCs. Such concessions to LDCs reflect a widespread view that they are in no position to contribute by opening up markets to imports. In fact, they may well have much to gain by open markets. So it is necessary to provide the possibility that LDCs be allowed the same benefits from bargaining tariff reductions that other countries enjoy. This may have to be on a case-by-case basis, as not all LDCs will be in the same position.

There are other ways of encouraging market access for products from LDCs. Countries with TRQs in products of export interest to LDC, for instance, could provide duty-free access up to the quota and reimburse tariff revenues on imports when the above-quota tariff is in operation.

Though the cotton issue involves more than just LDCs and more than market access, the Framework Agreement ties the cotton question in to the treatment of LDCs. To that effect, the recommendations of the Cotton sub-committee will need to be considered as a part of the obligation to improve market conditions for LDCs.[10]

Market Access and Recently Acceded Members

Recently acceded Members have argued that they should be able to take into account in their tariff reduction schedules any increased market access above that which would have normally

[10] See Sumner (forthcoming) for a fuller discussion of the cotton sub-committee agenda.

been expected to result from previous tariff cuts in Rounds prior to their accession. However, the provision that significant market access improvements should result from the Agreement will apply to these countries as well as to other Members. As a result, it is probably best to avoid any blanket formula for these countries but deal with this in the process of scrutinizing the draft schedules. One possibility would be to provide these countries with some form of credit for concessions made in their accession agreements toward any new WTO commitments stemming from the Doha Round.

Other Market Access-Related Issues

Three Two other issues with implications for market access are mentioned in the Framework: sectoral initiatives, and Geographical Indications (GIs).

Sectoral initiatives are possible within the Framework, and could still be suggested by one or more members at any time. A sectoral initiative might take the form of a more-than-average tariff cut (perhaps to zero) coupled with an agreement to end export subsidies (ahead of the timetable suggested above) and trade-distorting domestic support (over and above the schedules suggested above). Such a sectoral agreement does not help to reduce tariff disparity, but the example of open trading in particular sectors could eventually be encouraging for those sectors not ready for such action.

The EU originally raised the issue of GIs as one element of market access. Failure to protect European GIs was considered to limit the access for European exports in foreign markets. Given that it needs to be addressed somewhere in the talks; this may be a small concession to the EU that is worth making. The United States and the European Union, in a recent dispute on these issues both claimed victory: the United States because the European Union was found not to be enforcing GI's on imported and domestic products equally, and the European Union because the DSU upheld the existence of GI's. The establishment of a multilateral register for wines and spirits is still under negotiation under the TRIPS Council. The Agricultural Committee will consider the results of those negotiations as integral parts of the "agricultural package" though not subject to modification. A similar discussion might be launched under the auspices of the TRIPS Council regarding whether and how such a system might be extended to GI's.

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