



# RESULTS OF THE SIXTH WTO MINISTERIAL CONFERENCE ON AGRICULTURE IN THE AMERICAS, HELD IN HONG KONG<sup>1</sup>

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## I. Introduction

The results of the Sixth WTO Conference were, indeed, modest, as had been predicted in the forecast on the eve of the Hong Kong meeting<sup>3</sup>. A failure was however averted, one that would have had highly negative consequences for the future of negotiations and for the credibility of multilateralism and the very World Trade Organization.

The Ministerial Declaration agreed upon on December 18, 2005 incorporates some concrete results achieved during the week of negotiations. Noteworthy among these are: i) the 2013 date for the elimination of all forms of export subsidies on agricultural exports ii) commitments on certain aspects of negotiation on cotton, and iii) the granting of access to the markets of developed countries – duty and quota free – for some 97% of products from the least developed countries (LDCs).

Predictably, it was impossible to iron out the major and politically more sensitive discrepancies that persist in the three fundamental pillars of this agricultural negotiation. The Ministers therefore incorporated into the Declaration certain guidelines and pointers for resolving some of the pending problems and set April 20, 2006 as the deadline for establishing the modalities of the new commitments to be adopted in agriculture (structure of the formulas and specific levels for tariff reduction, domestic support and subsidies). They also committed themselves to submitting by July 31, 2006 the draft schedules based on these modalities. The Ministers renewed their political commitment to successfully conclude this Round of negotiations by the end of 2006.

Essentially, the muted outcome reflects little progress in the negotiations launched in Doha four years ago. Nonetheless for those of us who always maintained that what was

<sup>1</sup> This document is the second part of the paper “The Agriculture of the Americas in the context of the Doha Development Agenda”, prepared for IICA by Carlos Perez del Castillo in November 2005, and presented by IICA at the Sixth WTO Ministerial Conference on December 13, 2005 in Hong Kong, in cooperation with Arnaldo Chibbaro, Regional Specialist at IICA in Trade Policy and Negotiation..

<sup>2</sup> The views expressed in this document are those of the author and do not necessarily represent the views of the Inter-American Institute for Cooperation on Agriculture (IICA).

<sup>3</sup> See “The Agriculture of the Americas in the context of the Doha Development Agenda”, Carlos Pérez del Castillo, IICA, November 2005. (InterCambio Electronic Magazine IX-2005. Available in <http://Infoagro.net/Comercio>.)

important was not what happened in Hong Kong – which is only one stage in the negotiation process – but rather what we could expect at the end of the Round, these results may be perceived as a step –albeit a tenuous one – in the right direction. In fact, this Conference gives renewed political impetus to the negotiation process which had been stymied; it does not sacrifice to any degree the ambitious forecast in the original negotiation mandate agreed upon by the Ministers in Doha; it sets very ambitious deadlines for achieving results on the many pending issues and it reaffirms the commitment to conclude the Round by next year. It is therefore a road map enabling us to move forward.

Undoubtedly, the agreed objective poses a huge challenge for all Members. Personally, I continue to be cautiously optimistic about the possibility of achieving a satisfactory result by the end of 2006, early 2007.

This means that the negotiation process must resume in Geneva immediately and that on the basis of the results and directives of the Sixth Conference, as well as the excellent Report by the Chairman of the Special Session of the Committee on Agriculture to the TNC, published as Annex A to the Ministerial Declaration, we keep the impetus, dynamics and pace of the negotiations going, as we seek areas of understanding and converging positions, without which there can be no outcome. The Chairman of the General Council and the Director-General of the WTO would also have to structure a horizontal modality of negotiations in the various areas that make up this Round so that we can move forward in step in all fields. This would make it easier to strike a balance in the global context of the negotiation and not exclusively in any one area or sector.

As for the possible outcome of these negotiations, I believe that the document submitted by IICA to the Sixth Ministerial Conference, “The Agriculture of the Americas in the context of the Doha Development Agenda” continues to be fully valid and could be a useful point of reference for designing the modalities

## ▶ II. Evaluation of the results

Our evaluation of the specific results achieved in Hong Kong may be summarized as follows:

### A. Export competition

For purposes of the negotiation, this topic has four components that need to be addressed: i) export subsidies; ii) export credit; iii) food aid; and iv) export state trading enterprises. In addition to this, there is the issue of special and differential treatment for developing countries.

The first result emanating from the Hong Kong Ministerial Declaration is the reinforcement of the need for the parallel elimination of all forms of export subsidies referred to earlier. All export measures that could involve elements of subsidization, or that have an equivalent effect, will be eliminated or subject to disciplines in a process to be completed by the end of 2013.

#### I. Export subsidies

The agreed decision to set 2013 as the date for the final elimination of all export subsidies is undoubtedly the most concrete result of this Sixth Ministerial Conference.

By and large, the developing countries as well as the developed countries in the Cairns Group had staunchly defended the need to eliminate these subsidies by 2010. The finally agreed date is a commitment to address the difficulties of the European Union. In fact, the 2003 reform of the Common Agricultural Policy visualizes the elimination of most of these subsidies by 2013.

The noted tendency in the last decade is towards a decline in export subsidies worldwide, and specifically at the European Union which accounts for more than 90 per cent of the total. In fact, it is estimated that, in recent years, these subsidies have



varied between US\$2.3 and US\$3.4 million and have concentrated on a few products, especially, sugar, milk products and meat.

The Declaration recognizes, however, that the modalities to be agreed upon must specify that a substantial part of the elimination of subsidies must be concluded by the first half of the implementation period. Without question, the elimination of export subsidies on agricultural products will be a significant step forward in including agriculture in the same norms and disciplines as the other tradable goods at the WTO. It bears recalling that more than 40 years ago, the GATT prohibited export subsidies for industrial products. This outcome is therefore fair and equitable.

In light of this, it might well have been more logical and reasonable to agree upon a closer date for the elimination of subsidies. However, this outcome will be important for agriculture worldwide and, especially, for those countries that are efficient producers of certain agricultural products that have been displaced from their traditional markets and that have experienced a drop in world prices as a result of the application of these subsidies by developed countries. Also, many developing countries that clearly have the potential to produce agricultural products, but that had been discouraged by the entry on their markets of highly subsidized products with which they could not compete, will now be encouraged to engage in agricultural production in the medium term.

## 2. Export credits, export credit guarantees and insurance programs.

The purpose of these negotiations is to eliminate concealed elements of subsidization in these operations which, like export subsidies, represent unfair competition.

The Declaration notes emerging convergence on some elements of disciplines with respect to export

credits, export credit guarantees or insurance programmes with repayment periods of 180 days and below.

The Ministers agreed that such programmes should be self-financing, reflecting market consistency, and that the period should be of a sufficiently short duration so as not to effectively circumvent real commercially-oriented discipline.

The Declaration agreed that the disciplines on these measures, used for the purpose of improving their competitiveness in exporting agricultural products (the United States is the country that has most used these practices), should be completed by April 30, 2006 as part of the modalities to be negotiated.

To ensure the progressivity and the parallelism agreed upon for the elimination of export subsidies, these disciplines will ensure the elimination of all elements of subsidization of export credit, guarantees and insurance programs by 2013 as well.

## 3. Food Aid

This topic provoked a lengthy debate at the Hong Kong Conference, particularly between the two major trading partners, the United States and the European Union. The European Union considers the use of food aid as a means of placing surpluses or developing new markets has the equivalent effect of subsidies.

The Declaration reconfirms the commitment to maintain an adequate level of food aid and to take into account the interests of the food aid recipient countries. To that end, it will provide a “safe box” for bona fide food aid to ensure that there is no impediment to dealing with emergency situations.

Effective disciplines will also be agreed upon on in-kind food aid, monetization and re-exports so that there can be no loop-hole for continuing export subsidization

The Members of the WTO must also agree to disciplines on food aid by April 30, 2006 as part of

the modalities to be negotiated by that date. These disciplines will ensure the elimination of all elements of subsidies that food aid operations could conceal, which should be completed by early 2013.

#### 4. State Trading Enterprises

This was also a polemic issue at the Conference since the major countries using these enterprises, especially, Canada and Australia, felt that the monopolistic character of these enterprises and the distortion of trade by virtue of the rights and privileges granted to them had not been demonstrated, a view that was not shared by other countries.

As a means of ensuring that trade-distorting practices of STEs are eliminated, disciplines relating to exporting STEs will extend to the future use of monopoly powers so that such powers cannot be exercised in any way that would circumvent the direct disciplines on STEs on export.

These disciplines must be completed by April 30, 2006 as part of the modalities to be negotiated by that date. The measures must be implemented in such a way that the process is completed by the end of 2013. The purpose here is to promote a more conducive climate so that these enterprises open themselves up to competition and their operations fall in line with market practices.

### B. Domestic support

Few were the results agreed upon with respect to this pillar of the negotiation. It should be noted that it is precisely to this area that most of the official aid received by the producers in the developed countries is channeled.

Noteworthy among the results of the Sixth WTO Ministerial Conference was the decision whereby there would be three bands for reductions in Final Bound Total AMS and in the overall cut in trade-distorting domestic support, with higher linear cuts in higher bands. In concrete terms this means that

the European Union would be in the top band, the United States and Japan would be in the middle band and all other Members, including all the developing countries, would be in the bottom band. Developed countries, like Switzerland, which have high relative levels of AMS, but which are in the bottom band, will make an additional effort in AMS reduction.

It should be pointed out that the level of cuts in domestic support for each of the bands referred to must be established by April 30, 2006 as part of the modalities to be negotiated.

The Declaration recognizes that there has been some convergence concerning the reductions in Final Bound Total AMS, the overall cut in trade-distorting domestic support and in both product-specific and non product-specific de minimis limits.

The Members commit to ensuring that the overall reduction in trade-distorting domestic support will be equal to or less than the sum of the reductions in the amber, blue and de minimis box. The aim here is to prevent box shifting in any obligations assumed by Members in relation to Domestic Support, without any real reductions in the total amount of trade-distorting support.

Of concern is the fact that the Declaration makes no mention of any criterion or orientation with regard to the Blue Box.

Developing countries that do not have AMS commitments will be exempt from the cuts in the de minimis level and the overall cut in trade-distorting domestic support.

The criteria in the Green Box will be examined to ensure that their impact will have no or minimal effects on international trade and the programs of developing countries will effectively be included in that box.

### C. Market Access

Here too, the Conference yielded less than significant results on this pillar of the negotiation,



which is the area in which trade liberalization would have the greatest benefits for all Members –both developed and developing countries alike – and would have the greatest impact on production and agricultural world trade.

The Members adopted four bands for structuring tariff cuts, recognizing that there is need at this time to agree on the relevant thresholds, including those applicable for developing country Members.

The text of the Declaration mentions, with varying degrees of specificity, some areas of flexibility with regard to market access. It recognizes that the issue of the treatment of sensitive products is still pending, but remains silent on possible increases in tariff quotas, which would be an integral part of the substantial improvements in market access in these negotiations –which should give cause for concern.

The Declaration is not forthcoming on the issue of preference erosion which goes hand in hand with trade liberalization, or other issues such as tropical products and products of particular importance to the diversification of production from the growing of illicit narcotic crops.

It accepts that the developing country mechanisms will have the flexibility to self-designate an appropriate number of tariff lines as Special Products guided by indicators based on the criteria of food security, livelihood security and rural development. It also acknowledges the right that developing countries will have to recourse to a Special Safeguard Mechanism based on import quantity and price triggers, with precise arrangements to be further defined.

With regard to the least developed countries Annex 7 of the Declaration agrees –which could be considered another concrete and important result of this Conference – that developed countries and developing countries that declare themselves to be in a position to do so – would grant duty-free and quota-free market access for at least 97% of products originating from LDCs, defined at the

tariff line level, by 2008, or no later than the start of the implementation period. This latter clarification contemplates a scenario where the negotiations could be delayed after 2008, which could in itself be a bad sign for a commitment to a conclusion of the Round in 2006.

The fact that some developed countries, the United States and Japan, especially, have indicated that they face difficulties in granting access for products originating in the LDCa to their markets and have finally accepted the 97% figure, could give cause for reflection when evaluating the real meaning of this concession. According to some estimates, this 3% reserve could mean that these countries could exempt from this treatment between 250 and 330 tariff lines, including, of course, the more sensitive products, such as textiles and sugar, in the case of the United States, and rice and leather, in the case of Japan. In view of the fact that exports from the least advanced countries are concentrated in a few headings, one might deduce that these exceptions could significantly reduce the value of the commitment assumed.

Finally, with regard to the issue of market access, it would seem that there is a clear awareness among Members that much remains to be done. The Ministers therefore decided to intensify efforts on pending issues in order to establish the modalities in this pillar by April 30, 2006.

### ▶ III. Negotiations on Cotton

In view of the notoriously sluggish progress of these negotiations and the attendant frustration to which this situation has given rise among developing countries in general and, very specifically, among the four African co-sponsors of the cotton initiative, it is no wonder that this topic became a priority at the Hong Kong Conference.

The Ministerial Declaration makes a number of decisions in this regard. First, the countries

undertake to eliminate all forms of export subsidies for cotton in 2006. This measure applies to the United States, especially, since other developed countries do not subsidize cotton exports.

This commitment means that the United States must eliminate its step 2 export subsidy programs as well as any other type of hidden subsidization in the export credit guarantees that the United States extends to its producers. It should be noted that in a recent judgment by the WTO Appellate Body, these programs were considered to be incompatible with the obligations assumed by this country in the WTO and should, consequently, be modified anyhow.

With respect to market access, the developed countries will give duty- and quota-free access for cotton exports from least-developed countries (LDCs) from the commencement of the implementation period. The benefits of this concession, promoted by the United States are relative for the African countries, since they do not export cotton to that market. It could be more important in other markets where they compete with cotton exports subsidized by the United States.

With regard to domestic support, which accounts for 85 per cent of the official support that producers in the United States receive (close to US\$4 billion in 2004, and which is the measure that most distorts cotton production and trade worldwide, the results were much less significant.

The recognized objective is that, as an outcome of the negotiations, trade distorting domestic subsidies for cotton production be reduced more ambitiously than under whatever general formula is agreed upon and that it should be implemented over a shorter period of time than generally applicable. This means that decisions cannot be taken with regard to the extent and pace of the reductions in domestic aid for cotton until the general modalities for reducing that support for other agricultural products has been established.

With regard to the development assistance aspects of cotton, the Declaration urges the Director General to explore with bilateral donors and with multilateral and regional institutions the possibility of establishing, through such institutions, a mechanism to deal with income declines in the cotton sector; to increase technical and financial assistance, technology transfer and South-South cooperation.

#### ► IV. Banana

This topic is not part of the Declaration. However, it was the focus of much attention and polemical debate at the Conference and could potentially have torpedoed it. It is, moreover, a topic that could not be absent from a document that talks about Agriculture in the Americas, given the enormous interest that this commodity holds for many countries of the region.

The existing disagreement between South American, Central American countries and the United States, on the one hand, and the European Union and the African, Caribbean and Pacific countries (ACP), on the other, is well known and has a long history within the WTO.

The core issue is the transition for the European Union to an import regime with a single tariff of EUR 176 per tonne, to enter into effect on January 1, 2006. The Latin American countries feel that the application of such a high tariff (compared to EUR 75 at present) would have very negative consequences on their current share in the world banana market. On the other hand, the ACP countries, which enjoy free access to the EU market, fear that any reduction in that tariff could affect their interests.

Finally, the parties opted to continue consultations on the topic with the “good intervention” of the Minister of Foreign Affairs of Norway, who was the facilitator in the conflict in Hong Kong.



## ► V. The Issue of Coherence and its Link to Aid for Trade

The document “The Agriculture of the Americas in the Context of the Doha Development Agenda”, prepared prior to the Hong Kong meeting and submitted by IICA at the Sixth WTO Ministerial Conference, makes some preliminary reflections—which coincide with what we have been saying for over a year—regarding the need to take this concept of coherence and coordination among international organizations to a more operational phase so as to more effectively meet the trade needs of developing countries. The document suggest that any future Agreement on Agriculture that emerges from the current negotiations could serve as an experimental platform to develop this new concept. If successful, this experience could then be extended to other spheres of the negotiation.

In this regard, one cannot help being pleased with the Ministerial Declaration with regard to Coherence, Aid for Trade and the Integrated Framework. Undoubtedly these initiatives could be a valuable complement to the objectives for more effective growth and development and a more effective footing for the developing countries in the world economy.

We need however to insist on the need to be more single-minded and effective if, indeed, the aim is that these negotiations should take fully into account the specific needs, problems and conditions of the developing countries to enable them to develop competitive agriculture and participate increasingly in international trade.

As maintained in that document, clearly the WTO does not have the competencies, or the capability

to be able to address and solve on its own many of the problems that have been posed in the agricultural negotiations.

However, other organizations, such as the FAO, UNCTAD, the ITC, the World Bank, IMF, IICA and many other regional organizations have mandates, human and financial resources and the technical capability to support the developing countries’ efforts to find solutions to the complex problems and challenges they face. The time has come to take advantage of the clear complementarities that exist among these organizations so that they can propose a coordinated response and engage in joint action.

What this new operational concept of “coherence” proposes is simply that the Agreement on Agriculture being negotiated in the WTO, with clearly defined objectives and guidelines, should not only reflect commitments, obligations and measures that the WTO is in a position to implement, but rather that these should extend to other international organizations that have competencies and the capability to implement them.

That joint participation in the fulfillment of the commitments agreed upon would not only provide a more effective response to the various problems and concerns relating to the 149 Members that make up that organization, but also would result in increased interest and participation on the part of many countries in the negotiations.

Thus, if these joint efforts on the part of the international and regional institutions lead to the desired objective, they will be contributing in large measure to making this Round qualify justifiably, in the final analysis, as the Development Round.



## What is IICA?

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*Its presence in all of the Member States gives the Institute the flexibility it needs to move resources between countries and regions, in order to design and adapt cooperation initiatives intended to address national and regional priorities, facilitate the flow of information and improve the dissemination of best practices.*

*The Institute has its Headquarters in Costa Rica, and Offices in 34 countries of the Americas, as well as an Office for Europe located in Madrid, Spain. The Directorate for Strategic Partnerships works out of the IICA Office in Washington, D.C.*

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