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From euphoria over Doha talks, to ‘ownership’ and advocacy?

Chakravarthi Raghavan

If developing country ministers, senior officials and ambassadors seemed somewhat euphoric when (capping a week of day and night negotiations - in and outside the WTO premises, in green rooms, ‘blue’ rooms and dark rooms) the WTO General Council agreed after midnight of 31 July-1 August on a decision of hortatory exhortations and a package of frameworks for hard negotiations, it was an understandable reaction.

For, agreements in Geneva, in today’s world of internet and weblogs and instant reactions, not only from transnational media (purveyed by courtesy of the WTO in its daily clippings journal) but also other stake-holders and activists, have to be ‘sold’ by governments in countries, and by others to their constituents, to explain or defend the outcome.

However, there is a danger, when some key negotiators of the developing world, begin to feel a sense of ownership and move to advocacy. The outcome could be adventurist (in the true Marxian dialectical meaning of that abused term) and may prove no different than the old IMF/World Bank Structural Adjustment Programs and conditionality loans to the early and later versions of the Poverty Reduction Strategy Papers (PRSPs) that countries supposedly evolve themselves to get funds from the IMF and the World Bank, and then implement and take ownership and blame at home.

The most successful of the outcome in Geneva, according to public pronouncements of Third World protagonists, has been the Annex A (the framework for agriculture) which at best contains a series of objectives and principles that have to be further negotiated in great detail. Nevertheless, negotiators from the developing world, including the leadership of the G20, would

find themselves in the weeks ahead, facing some well-informed critiques by activists who have been looking at and drawing their data from US government websites which (even under the George W Bush administration) contains a lot of data and statements of intentions.

The EC is more opaque, even to its own citizens and even governments and parliaments. These studies by today's civil society groups in the South or the North are in fact better than many official studies by sometimes second or third rate economists. Civil society now is better equipped in knowledge of political economy, econometrics and analysis of data, and look for empirical evidence of assertions and are confident enough to announce, if no evidence is found, that the emperor has no clothes. They are also willing to pose publicly clear policy questions and demand answers, and they carry weight in their own constituencies.

Two such studies, one from India and another from European activists, and whose initial outlines and data we have seen, show that the 'ambiguities' in Annex A are such that the US and EC could easily manipulate their WTO notified data, to arrive at a "Final Bound Total Aggregate Measure of Support" that could be higher than the bound total AMS at end 2003, the end of the current implementation period under the Agreement on Agriculture (AoA) under the Marrakesh Treaty, and start their new cuts (including the initial down payments) over the new implementation period, from a much higher level.

True, the key negotiators from the South - Brazil and India in the talks on behalf of the G20 with the United States and the EC, and later at the WTO green rooms - have put in words and phrases that they could use to set other criteria than the US and EC envisage for increased ceilings. But this is not certain at all - given the turnover in delegations, as well as in the capitals.

But when a sense of 'ownership' takes over and key Third World capitals begin

to advocate what they have agreed to reluctantly, and forget about their own starting points from which compromises have been clinched, when the majors have no such hesitancy - there are dangers ahead not only for their own leaderships, but also for the WTO and its claims to be a multilateral system that delivers.

An example of majors bringing up old demands is the Trade Facilitation question - where some of their demands during the Tokyo Round on customs valuations that the TNCs data about imports of subsidiary from parents should be accepted (but turned down in the customs code agreement), and again brought up but rejected during the Uruguay Round talks for the Agreement on Implementation of Art. VII of GATT (on customs valuation) has now been resurrected for Trade Facilitation, with more demands for infrastructure facilities by governments to facilitate TNCs.

A series of future articles in the SUNS would address the agriculture issue in depth. However, some ongoing studies by civil society activists, based on published and available data of the US and EC (but not necessarily notified to the WTO) suggest that the ceiling from which the US cuts could begin when a new agreement is reached could be as high as 18-20 billion dollars or even more annually (compared to actual authorization for about \$16 billion as counter-cyclical payments).

For the European Community, the ambiguity in wording means that the EC ceiling (taking account of its blue box and the single farm payments etc) from which cuts would begin could be as high as 25-26 billion euros. And at the end of the new implementation period (say of 6 years, as in the AoA for the first one, from the time the new agreement is made effective), the 'Final Bound Total AMS' could be the current bound total AMS - 'keep running to stay in the same place'.

Agriculture negotiators - of Brazil, India and other G20 and G33 and other developing country coalitions - perhaps are fully aware and would try to plug the

loopholes in agreeing on the details. But very hard negotiations are ahead, where there will be strains among groups and within groups. But developing country public can't take this for given and the subject left merely to the tactical skills of their negotiators. Too much would be at stake for their farmers and development.

And, there is a need to remind oneself at every stage, that all this fight has merely been to set right a totally erroneous interpretation and decision of the GATT panels, and the GATT Contracting Parties of the 1950s, when the intended meaning of 'primary' products in Article XVI.3 of the GATT 1948 (an exception to the general rule of Art. XVI.1 against subsidies in exports), was perversely interpreted by panels and accepted, first in the wheat flour dispute (between US and EC) and then the Italian pasta case - so that such processed products could be treated as primary products subject to no disciplines.

Those two decisions in time has brought the world agriculture trade, to the point where as now all kinds of domestic support and border protections can be provided by the rich to their agriculture sector, while the rich nations breaking down market barriers abroad for corporate, dumped agriculture exports.

The Doha negotiations on Agriculture, and any new agreement and rules for 'reform' won't even take the trading system to the position intended by those who put together and agreed to bring into force the GATT 1948, as a provisional arrangement, until the Havana Charter and the International Trade Organization (including its special provisions on commodity trade) could enter into force.

Constructive ambiguity was useful to reach agreements which governments bona fide agree to put into practice, but cannot be so in the face of the determination of the rich and powerful to maintain their domination of the WTO, to massive subsidies in agriculture to advance the interests of their corporations while claiming to act for their farmers, and break open Third World markets for such dumped corporate exports. But when that

'constructive ambiguity' is subject to the WTO Star Chamber processes, the WTO may end up in the same way as its equivalent in English Constitutional history and law making.

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South short-changed in agriculture by US, EC sleight of hand?

Jacques Berthelot

A preliminary analysis of the domestic supports component of the 'Framework for Establishing Modalities in Agriculture' adopted by the WTO's General Council on 31 July suggests that the United States and the European Communities may have done a sleight of hand as a result of which, at the end of the negotiations, they would have a higher level of authorized domestic support (than in fact they now provide) and begin reductions from these higher levels of support. The developed country farmers, and the agri-corporations will continue to get trade-distorting subsidies, enabling the dumping of agricultural products on the developing world.

This prodigious sleight of hand of developed countries has been rendered possible by using four mystifying means, taking advantage of the lack of technical knowledge on the part of developing country negotiators who are also handicapped by lack of up to date and full data.

The methods used are:

- * Playing on the distinction, misunderstood by non-specialists, between authorized levels of supports and actual applied (or notified) supports;
- * Box-shifting from the amber box (of total AMS and *de minimis*) to the blue box and then to the green box, which has been made possible by the following point;
- * Playing on the distinction, even more misunderstood by non-specialists,

between the words 'support' and 'subsidy' and, more precisely, between the 'market price support' (MPS) component of most product-specific AMSs and actual subsidies; and

* Hiding that domestic subsidies are the most protectionist way of supporting farmers since they substitute to the other two pillars, replacing export subsidies in so far as they give benefit to exported products and replacing tariffs since they compensate farmers for the reduction of domestic farm prices to their world level so that agri-food industries no longer have any incentive to import.

On the other side, developing countries who have no means to provide domestic support, and can provide protection only through tariff and border measures, have to undertake further reductions in import protection.

This preliminary analysis is made in technical terms and focuses only on two points:

the multiple ambiguities of a still very vague language used and which is full of contradictions, and the foreseeable consequences of this on the agricultural policies of the European Union (EU-15) and the USA. Many of the figures used for the future are rough estimates, based on assumptions, and should not be taken as actual data.

Some suggestions are also made so that in the next stage of negotiations, developing country negotiators may be fully aware of the sleight of hand being done, and provide against it in the detailed negotiations ahead on the domestic support pillar provisions.

Paragraph 7 of the Annex A states: "The overall base level of all trade-distorting domestic support, as measured by the Final Bound Total AMS plus permitted *de minimis* level and the level agreed in paragraph 8 below for Blue Box payments, will be reduced according to a tiered formula. Under this formula, Members having higher levels of trade-distorting domestic support will make greater overall reductions in order to achieve a harmonizing result. As the first

instalment of the overall cut, in the first year and throughout the implementation period, the sum of all trade-distorting support will not exceed 80 per cent of the sum of Final Bound Total AMS plus permitted *de minimis* plus the Blue Box at the level determined in paragraph 15."

A first ambiguity in the above relates to the concept of 'Final Bound Total AMS'. Contrary to what we might think, it does not relate to the level of the Bound Total AMS (Aggregate Measure of Support) at the end of the implementation period of the new AoA - presumably, like that for the first implementation period under the AoA, the period for the new AoA could also be 6 years for developed countries and 10 years for developing countries, starting in 2007 (or July 2006) - since paragraph 9 states that "Final Bound Total AMS will be reduced substantially, using a tiered approach. Members having higher Total AMS will make greater reductions... Product-specific AMSs will be capped at their respective average levels according to a methodology to be agreed".

This means that this 'Final Bound Total AMS' can only relate to the present Bound Total AMS at the end of the present AoA implementation period. Furthermore, the mention of 'base level' confirms this interpretation. Let us assume that the same 20% reduction already used for the AoA would again be applied.

A second ambiguity lies in the 'permitted *de minimis* level' since to its present 5% level of the agricultural production value for the non product-specific AMS, we can add the same 5% level of the agricultural production value of each product to be deducted from the product-specific AMSs, even if this possibility has almost not been used by the EU and only to a very low level by the US. We can stick to the *de minimis* related to the non product-specific AMS.

If the present 'permitted *de minimis* level' represents 5% of the agricultural production value, paragraph 11 states that "Reductions in *de minimis* will be negotiated". Given that the US has almost

no room for manoeuvre to reduce this percentage, it is highly unlikely that it will be reduced significantly, the more so since paragraph 14 states that "Any new criteria to be agreed will not have the perverse effect of undoing ongoing reforms". In that case, *de minimis* exempted payments could increase in absolute value with the foreseeable increase of the agricultural production value. However, if we assume that the *de minimis* exempted payments would be reduced by the same 20%, it will then be 4% at the end of the implementation period.

A third ambiguity relates to the blue box. Paragraph 8 states that "The base for measuring the Blue Box component will be the higher of existing Blue Box payments during a recent representative period to be agreed and the cap established in paragraph 15 below"; this paragraph 15 states that "Blue Box support will not exceed 5% of a Member's average total value of agricultural production during an historical period...This ceiling will apply to any actual or potential Blue Box user from the beginning of the implementation period".

Since the 26.1 billion euros in blue box payments appropriated in the EU agricultural budget for 2004 represent 9.1% of the level of the agricultural production value (286.372 billion euros in 2002), it is difficult to see how, at the same time, this EU higher level of 9.1% could be retained and still capped at 5%! Besides, the wording "potential Blue Box user" could open the door to increases in the blue box payments, even for the already current EU user. However since paragraph 8 uses the word 'base' and refers to paragraph 15, we are justified in interpreting this obvious contradiction as meaning that the base for the first cut will be the higher present 9.1% level, the 5% cap being reached at the latest at the end of the implementation period.

We are all the more justified in using this interpretation that whereas, for the Final bound total AMS as for the *de minimis* payments, the Declaration (Annex A of the General Council Decision) states in

paragraphs 10 and 12 that "Members may make greater than formula reductions in order to achieve the required level of cut in overall trade-distorting domestic support", the same statement is not made for the blue box. To the contrary paragraph 13b states that "Members recognize the role of the Blue Box in promoting agricultural reforms", paragraph 14 states that "Any new criteria to be agreed will not have the perverse effect of undoing ongoing reforms", and paragraph 15 states that "In cases where a Member has placed an exceptionally large percentage of its trade-distorting support in the Blue Box, some flexibility will be provided on a basis to be agreed to ensure that such a Member is not called upon to make a wholly disproportionate cut". However, since the EU has just decided to transfer most of its blue box payments to the green box (the Single Farm Payment, SFP), and since its blue box is already much lower than the 5% level, it would be difficult to invoke such a flexibility to maintain it beyond this level.

Indeed, even if the 5% cap should prevail - indeed the present Declaration is only a first step and the whole text could be change during the ensuing negotiations one could fear that this 5% level for the blue box would be highly detrimental to the EU since this would imply a drop from the 26.1 billion euros appropriated for 2004 to 14.319 billion euros. But this would ignore that the new CAP reforms of 2003-04 will transfer to the new green box SFP most of the present blue box payments, so that the foreseeable level of the remaining blue box payments (in EU-15 Member countries which will continue to use 'coupled' blue box payments) would fall to about 6.5 billion euros. Given that the dates of the 'historical period' at which will be fixed these authorized blue box payments would presumably be between 2000 and 2004, i.e. between 25 and 26 billion euros, the EU would in fact have a comfortable leeway to increase them! The more so if the first cut would start from 25-26 billion or say 25.5 billion euros!

A fourth ambiguity relates to the interpretation of the last sentence of

paragraph 7: "As the first instalment of the overall cut, in the first year and throughout the implementation period, the sum of all trade-distorting support will not exceed 80% of the sum of Final Bound Total AMS plus permitted *de minimis* plus the Blue Box at the level determined in paragraph 15". Since the level of the blue box will be fixed in percentage (at 5% of the agricultural production value) and since, as stated in paragraph 15 "This ceiling will apply to any actual or potential Blue Box user from the beginning of the implementation period", but still could increase in absolute value, and since we have assumed that the two other components would be reduced by 20%, clearly that implies reducing one or both of the Final Bound Total AMS or *de minimis* by a little more than 20%. Furthermore use of the words "throughout the implementation period" seems to imply that there would not be any obligation to reduce "the sum of all trade-distorting support" by more than 20%.

However, this contradicts the provision of paragraph 8 stating that the reduction commitment "will not be applied as a ceiling on reductions of overall trade-distorting domestic support, should the separate and complementary formulae to be developed for total AMS, *de minimis* and Blue Box payments imply, when taken together, a deeper cut in overall trade-distorting domestic support for an individual member.

A fifth ambiguity lies in the provision of paragraph 9 that "To prevent circumvention of the objective of the Agreement through transfers of unchanged domestic support between different support categories, product-specific AMSs will be capped at their respective average levels according to a methodology to be agreed".

Admittedly, since the reduction commitments of the present AoA apply only to the bound total AMS and not to each of its components - there is no bound level for each product specific subsidy - these 'average levels' can only refer to their applied (or notified) levels even if the

"methodology to be agreed" will not be a prisoner of the AoA's present provisions, since it is a completely new AoA which will come up at the end of the Doha Round, it could contemplate using bound levels for each product-specific AMS. Let us however assume that the provision of paragraph 9 applies to the applied (and notified) levels of specific AMSs.

On the other hand capping only the specific AMSs and the level of exempted *de minimis* subsidies implies that it would be possible to increase the other third component of the total trade-distorting domestic support, i.e. the blue box so as to use the available margin in the permitted overall level of trade-distorting domestic support, which confirms the absence of cap for the blue box.

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Increasing support ceilings, and then reducing them!

Jacques Berthelot

The many ambiguities in the framework on Agriculture, as pointed out earlier (in the article above) may enable the developed countries, in particular the European Union and the United States to show a higher level of authorized domestic support and then begin reductions from that level.

Using the latest figures available for 2002 and 2003, and on some assumptions,

rough estimations can be made of the impact of these provisions on EU and US trade-distorting support.

For the EU-15, if the provision of paragraph 9 is not taken into consideration, the first 20% instalment of the overall cut (para 7 of Annex A) will reduce the present EU's Final Bound Total AMS of 67.159 billion euros to 53.727 billion euros. This will be the permitted *de minimis* from the 5% base level of 14.319 billion euros to the 4% level of 11.455 billion euros - which could also be the final rate at the end of the implementation period so that no further cut would be required - plus the blue box payments of 25.5 billion to 20.4 billion euros - or alternatively to 14.319 billion euros if we retain the words to reach immediately the 5% level. Hence, the first cut of all permitted trade-distorting domestic support would bring the EU-15's absolute amount to about 85.6 billion euros, or alternatively to 79.501 billion euros.

Taking into account now the provision of paragraph 9 that "product-specific AMSs will be capped at their respective average levels according to a methodology to be agreed", the effectiveness of this cap depends highly on the period in which the EU product-specific AMSs - which are in fact equal to its total AMS since the EU has an insignificant non-product-specific AMS which is excluded from the total AMS owing to the *de minimis* exemption - will be computed.

They would drop from the 43.654 billion euros notified for 2000-01 to the foreseeable 19.7 billion euros at the end of the new Common Agricultural Policy (CAP) implementation period (from about 2007-08 onwards). They have already dropped to about 30 billion euros since July 2002 - with the elimination of the 11.190 billion euros of bovine meat AMS in July 2002 and of the last 7.5% reduction in the cereals intervention price in July 2001.

In the hardly foreseeable, worst case when the base period determining the level of

specific AMSs would be postponed to 2007-08 (in case of a long delay in the conclusion of the Doha Round), then with a level of applied specific AMSs of 19.7 billion euros, all permitted trade-distorting supports of the EU-15 would then fall to only about 45.5 billion or alternatively to 51.6 billion euros according to the type of blue box reduction.

These levels should be compared with the foreseeable total applied trade-distorting domestic support of 26.2 billion euros: the 19.7 billion euros of applied total AMS plus about 6.534 billion euros of the remaining blue box payments (supposed to be 25% of the direct payments appropriated for 2004), once most of the present blue box payments have been transferred to the supposedly green box Single Farm Payment (SFP) of about 22 billion euros. On the other hand the 537.7 million euros in *de minimis* (non product-specific AMS) would not be included since they are much below the authorized ceiling, even after the initial cut, of 11.455 billion euros. Even if the EU SFP of about 22 billion euros would be ruled as being coupled, the applied total EU trade-distorting domestic support would be only 48.2 billion euros, scarcely higher than the authorized cap of 45.5 to 51.6 billion euros! However, adding the under-notified coupled supports of at least 7 billion euros annually would change completely this optimistic figure.

However it is much more likely that the chosen period to cap the specific AMSs will cover one part or the whole of the 2000-04 years and, assuming the 2002-03 marketing year would be chosen, the applied specific AMSs (or total AMS) of the EU-15 would be capped at about 30 billion euros. In that case the EU-15's total authorized trade-distorting domestic support would increase by 10.3 billion euros and would then be in the range of 55.8 to 61.9 billion euros (according to the type of blue box reduction)! The room for manoeuvre relative to the 26.2 billion euros of applied total trade-distorting domestic supports would then be such that the EU would not even suffer from being

condemned at the WTO to reintegrate in its total applied trade-distorting domestic supports not only its SFP of (about 22 billion euros), but also its about 7 billion euros of under-notified subsidies or incorrectly notified in the green box! And, if it were not prosecuted at all on these two issues - which is unfortunately to be feared - the EU could even increase its blue box subsidies considerably! We will see that the USA has itself a great interest to cap its specific AMSs at a period as close as possible to the year 2000.

What will be the impact for the United States, but without taking into consideration the last preceding provision of paragraph 9? The first 20% instalment of the overall cut will reduce the present US Final Bound Total AMS of \$19.103 billion to \$15.282 billion; the permitted de minimis 5% level of \$10 billion for 2002 (given a total agricultural production value of \$200.903 billion in 2002 according to the OECD) to the 4% level of \$8.0 billion; and assuming that the now empty blue box would be maintained at the 5% authorized level, or at \$10 billion also, this will imply reducing by an additional \$2 billion one of the two (or both) other components of the overall trade distorting support in the first year of implementation.

This will lead to a permitted overall trade distorting support of \$31.3 billion at the end of the first year of implementation.

This is to be compared with the notified total AMS of \$14.413 billion for 2001 plus the negligible \$27.8 million de minimis subsidies of the product-specific AMSs since the notified \$6.828 billion de minimis subsidies of the non product-specific AMS would continue to be exempt - as remaining below the new \$8 billion cap after the initial cut. Adding the new blue box counter-cyclical payments of \$1.9 billion granted in 2003, the total applied last US trade-distorting domestic supports would amount to \$16.3 billion.

This would again apparently give the US a large leeway to expand them after the initial 20% cut in the permitted domestic total trade distorting support.

However, as stated by the cotton panel, even the US direct payments (\$7.7 billion in 2003) are coupled and, since they are non-product-specific, they will be put in the non-product-specific AMS so that, added to its present \$6.828 billion level, the de minimis ceiling would be largely exceeded and consequently non-exempt.

Besides, the US (like the EU) is cheating by under-notifying or not notifying at all some non-product-specific subsidies - particularly \$1.3 billion for agricultural insurance subsidies and \$2.4 billion in tax rebates on agricultural fuel - which would add \$3.7 billion more. So that totals the last US 'trade-distorting domestic supports' amount eventually to about \$34.5 billion, thus exceeding the ceiling of \$31.3 billion of permitted all bound trade-distorting supports after the initial cut of 20% and leaving clearly no room for further cuts.

As for the incidence of capping the specific AMSs, it is all the more in the interests of the US to choose an earlier period to cap its specific AMSs. The USDA baselines for the medium term published in February 2004 estimate that "Direct government payments are projected to fall from over \$18 billion in 2003 to about \$12 billion in 2011-2013. Toward the end of the projections, direct government payments largely reflect direct and counter-cyclical payments under the 2002 Farm Act, payments for the Conservation Reserve Program, and financial assistance for other conservation programs". Since these figures encompass the conservation programs not to be included here (being in the green box), then the US applied product-specific AMSs - which were also equal to the US total AMS since the de minimis payments of the non-product-specific AMS were also exempt, being lower than the 5% cap - would tend to decrease in the future below the \$14.413 billion notified for 2001.

However those projections should be considered with caution since they rely, as usual, on future increases in the agricultural prices level whereas the subsidies decided in the 2002 Farm Bill

have a depressing impact on that level. Nevertheless, given that the level notified for 2000 was \$16.802 billion, this confirms the declining trend in the used specific AMSs (at least from 2000 on) and shows that it is in the interest of the USA to cap its product-specific AMSs in a period as remote as possible of the start of the implementation period (at least from 2000 on), since this cap will allow it to increase its applied product-specific AMS in the future.

To the extent that it is even more in the EU interest to choose an earlier period to cap its specific AMSs which have dropped sharply since July 2000, developing countries will be well advised to prevent such a move, at least until the AoA would be completely rebuilt on the food sovereignty principle.

To conclude on the domestic supports proposals for developed countries, the apparent stringent constraint imposed to the EU total trade-distorting domestic support ends up in offering additional leeway to increase it to a large extent, particularly its blue box, even after the first cut, so that the EU would have nothing to worry about, even if the SFP were put in the amber box! All the more that the US would not really be able to afford additional cuts after the first one. The EU could even restore its own image by recognizing it has cheated up to now and in agreeing to notify correctly its trade-distorting subsidies. That would even allow it to prosecute the US cheatings which do not avail of the same room for manœuvre and would have, on the contrary, to reduce its trade-distorting domestic subsidies. Hitherto, the parallel cheatings of the two accomplices have dissuaded them to prosecute each other at the WTO, according to the old French saying: "I hold you, you hold me, by the goatee." Therefore we understand better why Pascal Lamy, Franz Fischler, Hervé Gaymard and his EU ministers of agriculture colleagues are chuckling with such a high satisfaction about the results of this framework agreement.

Given that the final outcome of the last five days and nights of hard work in Geneva has ended up in the blank cheque given to developed countries, and much more to the EU than to the US, to increase their trade-distorting domestic support, developing countries should realize that they have been had completely.

Advantage has been taken of the lack of technical knowledge of developing country negotiators, as also inadequate WTO data. And this prodigious sleight of hand of developed countries has been rendered possible by using four mystifying means:

difference between authorized and applied or notified support levels, box shifting, difference between 'support', and more precisely 'market based support' and actual 'subsidy', and the fact that domestic subsidies are the most protectionist way of substituting for market barriers and export subsidies.

From this can be derived a *contrario* that tariffs and other import protection measures are paradoxically the least protectionist means of supporting farmers all over the world, since they are the only affordable means to poor countries whereas rich countries can more easily replace them by subsidies.

However, the Framework agreement concluded on 31 July 2004 imposes further reductions in import protection to developing countries. And even if LDCs are formally exempt from reduction commitments, they cannot either increase their bound tariffs or use other import measures than tariffs, although these cannot provide sufficient protection in the face of very low and highly volatile world prices. Furthermore, the pressures exerted on LDCs by the IMF and the World Bank have forced them to reduce their applied tariffs much below their bound levels.

Another very important theoretical flaw in the methodology proposed in the Framework is the fact that to add the market price support (MPS) component of the specific AMSs to the actual subsidies of the AMS, of *de minimis* and of the blue

box. It is meaningless to add actual subsidies to what is not even a market price support, since the unit product-specific AMS linked to administered prices has no economic meaning - being defined as the gap between the present administered price and the world reference price of the base period 1986-88. Besides, we cannot impute to the domestic supports the whole MPS of the AMS linked to administered prices, since domestic prices are first and foremost supported by border measures - above all by import protection - and by export subsidies when available - and also by other domestic supports having a supply management impact: production quotas, set aside (blue box), foreign and domestic food aid (green box), and even destruction of surpluses (not ruled by the AoA).

Lacking all these measures, and above all an efficient import protection, the administered prices and the public stockholding going with them would not have any capacity to limit the fall in domestic prices. This is the reason why the sleight of hand by which the EU has eliminated its administered price ('intervention price') of bovine meat on 1 July 2002, reducing at the same time its AMSs by 11.9 billion euros, has not had any significant impact on the domestic price of bovine meat: after the depressive impact of the second BSE crisis in 2000-2001, the farm price has increased by 7.4% in 2002 and by 0.9% in 2003 according to OFIVAL (the French public body in charge of managing the subsidies to cattle producers) which foresees a 4% increase for 2004. Indeed, in May 2004 the farm gate price of bovine meat recovered its 1999 level, i.e. before the beginning of the 20% reduction in the intervention price, which intervened in three steps (July 2000, July 2001 and July 2002) along with the increase in compensatory blue box direct payments. And this price recovery was observed despite the drop in public stocks from 222500 tonnes at the end of 2001 to 169600 tonnes at the end of 2002 and to their almost disappearance (213 tonnes) at the end of 2003. Indeed, this price recovery after the BSE crisis is mostly

attributable (along with the reduction in the meat production due to milk quotas) to the maintenance of significant out of quota applied tariffs since 2001 (after completion of the reduction of the AoA bound tariffs): 63% on live cattle, 66% on fresh boneless meat, 100% on frozen boneless meat and 16.6% on canned meat.

We are not advocating here eliminating intervention prices and public stocks - they are indeed essential components of a supply management policy - but to underline that they cannot be effective without an efficient import protection at the same time.

Since, as stressed by de Gorter and Ingco, using AMS linked to administered prices is meaningless and imposing WTO Members to pay two or three times for the MPS

- through the reduction commitments of coupled domestic subsidies, tariffs and export subsidies -, the calculation of AMSs linked to administered prices should be eliminated altogether and the AMS should be limited to its actual subsidies component. Indeed this methodology allows developed countries to pretend to reduce their trade-distorting domestic supports when they do not actually. Since paragraph 9 states that "product-specific AMSs will be capped at their respective average levels according to a methodology to be agreed", it is time to change it. This would render much more transparent the actual level of domestic support and at the same time allow WTO Members to continue to use intervention prices and public stocks. More generally all types of domestic subsidies should be allowed, provided the benefiting products are not exported.

Editorial: July WTO General Council meeting setback for Africa

Chandrakant Patel

The recently concluded WTO's General Council's meeting in July is a serious setback for Africa. In putting "back on track" the Doha Round (a Round that most developing countries were forced to accept

under duress soon after the events surrounding September 11), the July outcome now cements and defines the next phase of the negotiations in which developed countries will now enjoy a huge margin of advantage. If Cancun provided some breathing space for the South, the relief has been short-lived as issues of priority for the North, namely safeguarding the iniquitous regime of agriculture subsidies, prying open markets of the South for agricultural exports and for manufactured goods, have been defined in the July framework in a way that assures an outcome at the end of the Doha Round that may be as unjust and unbalanced as the Uruguay Round. What exactly went wrong?

The opaque WTO process for reaching decisions was clearly a factor. Negotiations at Ministerial levels on agriculture involving five countries/groupings (US, EU, Australia (representing the Cairns Group) India and Brazil (representing the G-20) took place at the US Mission in Geneva. Africa was conspicuous by its complete absence from the informal negotiations and decision-making, either on agriculture or on NAMA, two areas of vital concern for Africa. Complaints about the process came from many NGOs and Governments but none more revealing than the remarks by Swiss Ambassador to the WTO who spoke at a media briefing about the 'catastrophic management' and 'scandalous way to negotiate'.

It was also clear that during the many formal and informal meetings during the General Council meeting in Geneva, the EU and the US brusquely ignored the positions that were adopted by the African Ministers in Rwanda and later by the Group of 90 in Mauritius. At the same time, and perhaps more troublesome, was the general silence of the African Group many developing countries, including of the few Ministers who attended the July meetings. Not only did they fail to safeguard their own stated positions on NAMA, agriculture, special products and trade facilitation but they also appear to have accepted vague promises of further

work on special and differential treatment and implementation. Likewise, decision to launch negotiations on trade facilitation appeared to have been entirely predicated on further non-binding promises of technical assistance. Of the 10 paragraphs in Annex D on Trade Facilitation, half are devoted to non-binding exhortations concerning technical assistance and aid.

But the African Ministers themselves had argued that trade facilitation was not an aid or technical assistance issue: in reality it is entirely to facilitate more efficient access to African markets, the cost of which will be borne by Africa's tax payers. Implementation of trade facilitation will now find an active advocate in the PRSPs, ostensibly for poverty alleviation.

The analysis of the agriculture text by Jacques Berthelot and Raghavan clearly brings out the fact that the deliberate ambiguities that have been built into the July text will come back to haunt the South as the negotiations move into technical discussions among smaller and unrepresentative countries led by the US and the EU. Modalities for consideration of matters such as the base year for establishing a cap on subsidies, for calculations of bound AMS and the permitted *de minimis* levels have all been defined in such a way that only the five involved in the agriculture package will have any understanding of the many informal, between lines, agreements. It is entirely possible that at the end of the current negotiations and the subsequent implementation period (itself subject to serious ambiguities), the absolute levels of support extended by EU and the US for their farmers may exceed the current levels.

The marketing of the July package is such that as its "ownership" now advocated by some Southern Governments will require much greater scrutiny and evaluation by national parliaments and the civil society if we are not to repeat the mistakes of the Uruguay Round. Part of the scrutiny and evaluation must include some strategic thinking about how best to

promote Africa's interests, while at the same time maintaining solidarity with like-minded countries of the South. If Africa wishes to influence the outcome, it must insist, at the highest political levels, to be integrally involved in the process.

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