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TRADE LAW MEMORANDUM

THE DOHA ROUND -- DECONSTRUCTING AGRICULTURE

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DOHA ROUND AND AGRICULTURE

There is growing concern over the future of the Doha Round of WTO trade negotiations. The talks seem to be in difficulty. The question is whether the forthcoming Cancun, Mexico, trade ministers' meeting in September will be able to move things forward.

A restricted meeting of ministers in Sharm-el-Sheikh, Egypt, in June was supposed to cut through some of the problems in the lead-up to Cancun. It ended on a disappointing note. Another meeting will be held on Montréal later in July. One of the main stumbling blocks is agriculture.

Further reform of agriculture trade is major unfinished business left over from the Uruguay Round. Agricultural subsidies are the core problem. But getting agreement on reducing subsidies has been bedeviling WTO members since the Doha Round was launched in 2001.

For those not deeply immersed in this subject, here is an overview report on the core Doha round agriculture issues. We attempt to explain these complex matters as simply as possible.

URUGUAY ROUND COMMITMENTS

Under the Uruguay Round, governments committed to three things in agriculture. First, they agreed on **improved market access**, through tariff reductions and expanded quotas. This included a process of “tariffication”, whereby import quotas and the like were converted into tariff equivalents, which were then subject to annual reductions.

Second, they agreed on **reductions in domestic support**, meaning cutting government subsidies to farmers. Domestic support is in the so-called “Blue Box”. Staged over 1995-2001, Blue Box reductions were geared to something called the Aggregate Measurement of Support or “AMS” for each WTO member. AMS required annual reductions during this 6-year period.

There were broad exceptions to these Blue Box commitments, however, particularly for income support that was “decoupled” from production volume of specific crops. Decoupled support is known as “Green Box” subsidies (non-trade distorting, non price-supporting and decoupled from production levels) and was excluded from Uruguay Round reductions.

Third, governments agreed to **reductions in export subsidies**, that is, governmental payments contingent upon exporting a particular foodstuff. Reductions were geared to a base period of 1986-1990 and were to begin in 1995 and end in 2001.

POST-URUGUAY ROUND CONCERNS

These were solid achievements of the Uruguay Round. But when the Round ended in 1994, it was recognized that these commitments only went part way. Further work was needed on market access issues (i.e., reducing tariffs and expanding quotas, where they existed).

Moreover, notwithstanding the Uruguay Round, both the U.S. and the E.U. continued to massively subsidize the agriculture sector, the U.S. most recently through the 2002 Farm Bill and the E.U. through its ongoing Common Agriculture Policy or “CAP” funding. So renewed commitments on subsidies reduction was seen as a major priority, including capping levels of Green Box support.

Canadian farmers are at the mercy of distortions in international farm trade resulting from these subsidies, which sluice large volumes of under-priced products onto world markets. So Canada, in league with other members of the Cairns Group of agricultural exporters, seeks new commitments on subsidies reduction as a top priority in the Doha Round.

CRITICAL MASS NEEDED

Because Uruguay Round agriculture commitments were incomplete, governments agreed to resume negotiations in 2001. Since agriculture talks alone would not achieve the critical mass needed for bargaining and because of other unfinished business, it was agreed to include industrial tariffs, services, investment, government procurement and some other issues in the negotiating agenda. The package became known as the Doha Round. But the centrepiece of the Doha Round is agriculture.

THE “MODALITIES” ISSUE

The failure of the Sharm-el-Sheikh meeting last month comes of the heels of the earlier failure of WTO members to agree on a set of “**modalities**”, or conditions, for the agriculture negotiations in the three areas of market access, export subsidies and domestic support.

These modalities are critical because they will guide the substantive negotiations during the remaining two years of the Round. For example, quite apart from the extent of individual country commitments on market access, what precise formula should be used for achieving tariff reductions? What should be the formula for phasing out export subsidies? What should be the base period? Should reductions be accomplished by across-the-board percentage cuts or other means?

So far, there is no consensus on these modalities, which are complex in the extreme. The chair of the WTO Agriculture Committee issued a fairly pessimistic report on July 7th, outlining all of the difficulties in getting agreement and implicitly issuing a call for renewed commitment at the political level to get talks back on the rails.

DEADLOCK OVER DECOUPLING

The main stumbling block in the subsidies area has been on **decoupling**, that is, cutting the direct link between production volumes and subsidy amounts. This linkage has been the backbone of European Union’s CAP since the 1950s and has been strongly supported by France and Ireland and smaller E.U. members. Without agreement by the E.U. to break this linkage in a meaningful way, the Doha talks might go nowhere.

Shortly after the Sharm-el-Sheikh meeting, E.U. Agriculture Commissioner Franz Fischler announced that the E.U. had agreed to the principle of decoupling and accepted changing the CAP to achieve this. Under the announced changes, European farmers will receive income support based on the **size of their farms** and not the volume of their production.

Some important exceptions will still apply to cereals and beef, among other products, that will benefit from so-called **set asides**, so that a given volume of their production will not be decoupled and will continue to qualify for support. There will also be dispensations for certain European **special regions** heavily dependent on agriculture. In spite of these exceptions and shortcomings, it will be important to see whether these CAP changes can help renew the momentum at Cancun.

OTHER CONTENTIOUS ISSUES FACING CUNCUN

An additional problem is the Doha Round commitment on **special and differential treatment** for developing countries. These countries argue that improved access to their own markets must correspond to real commitments from industrialized countries to reduce subsidies and domestic support. They seek **safeguard protection** for “sensitive” agricultural products, to guard against surges of imports resulting from reduced tariffs and **more lenient phase-in obligations** for other commitments.

Geographic indications (or “GIs”) are another emerging problem facing the Cancun meeting which is basically related to agriculture trade, although it goes beyond farm products alone. The GI problem has pitted “new world” countries, like the U.S., Canada and Australia, against “old world” countries, like France, Italy, Switzerland and others.

The old world group wants trade protection (now available for wines and spirits) extended beyond the WTO Intellectual Property Agreement (TRIPS), to cover a whole slew of **distinctive food products** such as cheeses, hams, beer and even non-agricultural items, such as Persian carpets. They argue that traditional trademark protection is just not satisfactory.

CAUTIOUS OPTIMISM

Reaction in Canada to the recent E.U. announcement on decoupling has been positive but guarded. While not downplaying the improved tone this will set for the Cancun meeting, Canadian farm groups are still concerned about the sheer size of E.U. support to farmers, even when decoupled from production.

And the US\$180 billion, ten-year subsidy program under the U.S. Farm Bill remains a significant problem affecting the Round. As the summer proceeds, it will be critical to get U.S. agreement on significant reductions to this program. The July meeting of trade ministers in Montréal will grapple with these issues and could well be a measure of the chances of success at Cancun.

In the meantime, the Chair's report is out there. It lists all of the non-agreed areas and provides a good menu of where agonizing choices and compromises will be required in the weeks ahead if Cancun is to be a success.

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