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From the Director's Desk

Dr. Surajit Mitra

In the on-going Doha Development Round of trade talks, agriculture by far remains a critical area for negotiations. Since its inception in 2001, the issue has raised many concerns. Developing countries argue that continuous domestic subsidy given by USA and EU to their farm sector is not only creating distortions in their markets but also resulting in world agricultural trade distortions by artificially influencing the commodity prices. Therefore, opening up the sector to global competition will make developing countries globally uncompetitive. Developing countries suggest that such asymmetrical nature of agricultural trade needs to be corrected through some measures if Doha Development Agenda (DDA) is to succeed.

Two-third of WTO member countries belong to developing countries whose food security and livelihood are critically dependent on agriculture. They have a defensive interest in agriculture and propose measures that should help them to protect their agriculture as well as prepare them to remain unaffected by the onslaught of world competition. Measures that are proposed by developing countries are the Special Safeguard Mechanism (SSM) and identification of 'Special Products' (SPs). SSM would help them to defend their triple concerns of food security, farmers' livelihood and rural development in the event of agricultural trade liberalization as vigorously pursued by USA and EU. It would enable them to raise their tariffs above the bound rates in the event of a fall in price of the imported product or an increase in volume of the imported product, beyond certain levels. The SSM, therefore, would be an effective instrument to provide contingent protection to poor farmers in developing countries from negative shocks to import prices or from surges in imports. The other measure initiated by developing countries to regulate agricultural import surge is the concept of Special Products (SPs). SPs are a set of products that directly concern their food security and livelihood, and therefore should be subjected to no or low tariff reductions in the Doha programme.

Inclusion of such provisions, developing countries feel, will allow them to address concerns of food security, livelihood and rural development as most of their agricultural products will be outside the ambit of onerous trade liberalization and secondly will help them to increase their food production. It will remain relevant with the current crisis in food prices as subsistence in food production will provide food security and they won't rely on imports when there is a world shortage or increased prices.

The group leading the advocacy for SSM and SP is the Group of 33, which comprises significant number of developing countries in WTO whose economic and social security are dependent on agriculture. Although all WTO members have in principle accepted that an SSM would be established, some developed countries particularly USA and some developing countries with an export interest in agriculture have sought to restrict the use of the SSM, for example by limiting the number of times it can be used, and by limiting the remedy i.e. the degree to which the SSM import tariffs can be raised.

Agriculture Negotiations in WTO

Critical Issues and Concerns

Rohit Sinha* *and* ***Geethanjali Nataraj****

The Doha Development Round is currently engaged in a series of negotiations to rationalize the agricultural farm sector by undertaking substantial tariff reduction programme. There has been some movement towards rationalization. However, developing countries argue that in the event of whole hearted liberalization, most of the developing countries are going to experience significant losses in world trade as they are not able to compete in world economy due to domestic subsidy and export competition measures provided by developed countries.

The paper makes an attempt to suggest how measures like SSM and SP can be effective for developing countries in the wake of agricultural trade liberalization. It analyzes and informs that developing countries as an effective group have the ability and capacity to argue out their case in the coming Ministerial conference which can deliver some concrete results.

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Introduction

THE Doha Development Round, which began in 2001, still remains unresolved missing its official deadline of 2005. This latest Round of trade talks has become one of the most contentious and prolonged Rounds in the history of global trade talks and has been facing a roadblock since July 2008 when the talks failed in Geneva.

In the previous historic trade talks, namely the Uruguay Round, which led to the creation of the World Trade Organization (WTO), one of the core objectives was to liberalize the international farm trade, rationalize it on the ground of creating a level playing field for all WTO member countries to compete freely and fairly in world market. To implement this balancing act, the WTO brought out a proposal exclusively with farm trade, called Agreement on Agriculture (AoA). The WTO Agreement on Agriculture (AoA) was aimed to bring about a structural change in the global agricultural trade and create a parity among efficient agricultural producers who would benefit from the liberalized trade.

Despite the intentions and successes of the Uruguay Round of talks, the implementation experience of the AoA shows that the agriculture sector continues to remain distorted. Developed countries' protectionist measures through heavy subsidy that they extend to their farmers and the high import restrictions that developing countries pursue have gone against the principles of creating a free and fair farm trade in world economy. Such policies pursued over more than a decade since Doha Round in 2001 have immensely distorted the farm trade and resulted in a deadlock over Doha Development Agenda.

The results of liberalized agricultural trade have not achieved its desired outcomes. Developed countries feel there is much to be gained through a more liberalized trade regime while developing countries fear that opening up the agriculture sector would expose their domestic markets to volatility of international commodity prices.

In the current scenario, one can notice a rise in trade protectionism. Many countries feel that protecting fragile domestic industries is in greater national interest than participating in multilateral agreements that would allow them little benefit. For developing countries, agriculture is a sensitive sector. It's being the main source of livelihood for majority of the population in less developed countries, external stimulus to trade liberalization is generally counter-intuitive. Outside pressure only serves to increase the resistance to liberalization.

Given the importance of agriculture in developing countries and the prevalent distortions in international farm trade, the need to create a framework to enable these countries to tackle their trade concerns was created. These principles were officially recognized in the Doha Round of negotiations[1]:

1. For developing countries, non-trade concerns like food security, livelihood security and issues related to rural development should be given priority over trade liberalization.
2. Developing-country members should be allowed to maintain an appropriate level of tariff protection for some agricultural commodities – including some key staple foods – since exposing farmers to the artificially cheap exports of developed countries can have disastrous consequences for domestic agriculture. In the Doha Round of trade talks, it has been decided that developing countries will have the flexibility to designate an appropriate number of products as 'Special Products' (SPs), which will be eligible for more flexible treatment. The SPs will be chosen by the developing countries themselves (self-designation) based on relevance of these products to food security, livelihood security and rural development.
3. A Special Safeguard Mechanism (SSM) will be made available to developing and least developed countries (LDCs) to temporarily protect their domestic agriculture from international commodity price volatility and import surges.

Suggested Defence Instruments

The SSM is one of the two new instruments that many developing countries with mainly defensive interests in agriculture are advocating to defend their triple concerns of food security, farmers' livelihood and rural development. The other is the concept of Special Products that proposes to create a separate list of products that directly impact concerns of developing countries and should not be subjected to tariff reductions under the Doha talks.

The SSM is a tool to enable developing countries to raise their tariff above the bound rates in the event of a fall in price of the imported product or an increase in volume of the imported good, beyond certain levels. The idea behind such a safeguard is to allow a country to insulate its domestic agriculture market from short-term fluctuations in international commodity prices.

The increase in tariffs is meant to result in maintaining the import price (or at least ensure that the increase will be moderated) so that the local agricultural products will not be adversely affected (or at least not affected to a full degree if no action is taken). It is important to note that the safeguard mechanisms are not intended to protect a country from the price signals emanating from long-run or secular movements of commodity prices.

Paragraph 7 of the Hong Kong Ministerial Declaration states:

"*Developing country members will also have the right to have recourse to a Special Safeguard Mechanism based on import quantity and price triggers, with precise arrangements to be further defined. Special Products and the Special Safeguard Mechanism shall be an integral part of the modalities and the outcome of negotiations in agriculture.*"

What this means is that a WTO member country will have the right to impose SSMs if it finds that imports are increasing to the extent that local markets are being disrupted (a 'volume' trigger) or if there is a collapse of the international price of that commodity which undermines or threatens to undermine the otherwise viable domestic production (a 'price' trigger).[2]

Although all WTO members have accepted in principle to put in place an SSM, some developed countries (particularly the United States) and some developing countries with an export interest in agriculture (such as Thailand, Paraguay, Argentina, Uruguay) have sought to restrict the use of SSM, for example by limiting the number of times it can be used, and by limiting the remedy (i.e. the degree to which the SSM can be used to raise tariffs).

Several countries have vehemently put forth their voices concerning these issues. The leading bloc arguing for SP and SSM is the Group 33 or G33, which comprises more than 40 developing countries, including India and China, with mainly defensive interests in agriculture. The G33 is supported in principle by other groupings of developing nations, such as the ACP Group, the African Group and the LDC Group. Together these groups form majority of the developing countries in the WTO.

It is important to note that safeguards have always existed, though differing in scale and scope of measures. There are three types of trade protection measures taken by the WTO members, alongside anti-dumping and countervailing measures. Table 1 gives a glance at the varying measures.

Similar to the SSM, the Special Safeguards (SSG) was established under the AoA in the Uruguay Round. It was available to countries which went for the tariffication/Tariff-Rate Quota (TRQ) route in the market access negotiations of the Uruguay Round. Currently, 39 out of the 149 WTO members have access to the SSG. Most developing countries, including India, took the ceiling binding approach (or the bound tariff route) in the AoA; the SSG mechanisms were not available to them.

The SSM is a suggestion to create a framework that would allow developing (all) countries to insulate its domestic agricultural markets from import surges or depressed international commodity prices.

The Need for A Special Safeguard Mechanism

The G33, which comprises over 40 developing countries have mainly defensive interests in agriculture. In order to enable these countries to insulate their domestic markets from variations in the international market, there is a renewed argument to establish a safeguard mechanism. The continued effort led to the WTO member countries to adopt, in principle, an SSM that would be available to all developing and LDCs. The main justification behind this argument is that international commodity prices have remained extremely volatile during the WTO implementation period. Given this high volatility, an effective measure to insulate the domestic economy of a member country is of critical importance.

In the ongoing Doha talks, ambitious tariff reduction proposals are being negotiated. Developing countries are worried as these proposals reduce their ability to protect their domestic agriculture sector. During the Uruguay Round negotiations this concern was not paramount because at that time the general perception was that liberalization of agricultural trade would raise international commodity prices and that developing countries, as

TABLE 1

TYPES OF SAFEGUARDS

	GATT Safeguards	**Special Agricultural Safeguards (SSG)**	**Special Safeguard Mechanism (SSM)** ***(Details still being negotiated)***
Which products?	All, including agricultural	Agricultural, if "tariffied"	Agricultural
Which countries?	All	Developed and Developing countries if "tariffied"	Only developing
Trigger	Import surge with price fall	Import surge or price fall.	Import surge or price fall.
Constraint/Condition	Show injury or threat of injury, negotiate compensation	Only products "tariffied" in Uruguay Round.	*For import surge –* (a) Limit on %tage of products in a year. (b) Ceiling on tariff at or above pre-Doha rate. (c) Minimum surge for tariff exceeding pre-Doha rate?
Expiry of Mechanism?	Permanent	Expires or reduced post-Doha	Undecided

Source: *WTO.*

low-cost producers of agricultural goods, would emerge as viable exporters of these items. As a result, many countries did not opt for the SSG option in the Uruguay Round. However, as support and subsidy policy of developed countries continue to operate, the developing countries feel they would be at a great disadvantage should they choose to open their economies without adequate protection mechanisms.

Given these reasons, most developing countries have expressed concern about non-trade issues associated with agriculture and have opined that unless a safeguard mechanism is allowed for these countries, it will be difficult for them to participate in further tariff liberalization. This concern is evident in India's submission to the WTO where it says:

"*Given the volatility of agricultural commodity markets and the inability of farmers in developing countries to bear risks arising out of violent fluctuations in international prices, an effective safeguard mechanism for preventing a surge in imports becomes absolutely essential for preserving the livelihood of farmers.*"

(WTO Document No. G/AG/NG/102).

Import Surges

As part of the "FAO Import Surge Project", evidence has suggested the significant impact of import surges on developing economies. Under this project, Nigris (2005) studies the frequency of import surges across various countries and commodities for the period 1984 to 2003. The author has defined import surge as a "*30 per cent positive deviation from a three-year moving average of import data and, alternatively, as one standard error above the moving average.*"[3] His findings show that import surges have occurred more frequently in the post-1994 period with only a few exceptions. As far as countries are concerned, the results show that though most countries have experienced import surges, some were affected more than others. According to the findings, import surges were more frequent in India, Bangladesh, Zimbabwe, Kenya, Nigeria, Ghana, Malawi, Ecuador and Honduras.

The import surges documented by FAO also listed a number of case studies where import surges have negatively affected domestic production.[4] There have been cases of permanent damage to the production of rice in Haiti (in the late 1980s) and the Honduras (in the early 1990s). According to Sharma (2005), this situation is known as 'material retardation' where imports prevent the revival of the industry following a shock.

The FAO report states that: "*Indeed, import surges seem to be more common in product groups that are subject to high levels of subsidies in exporting countries, notably dairy/livestock products (milk products, poultry parts), certain fruits and vegetable preparations and sugar.*"

Action Aid has pointed out that more developing countries have moved from being net exporters to becoming net food importers. According to its study, developing countries had an overall trade surplus of US$7 billion. With imports rising, the surplus fell to US$1 billion in the 1970s. This turned into a deficit of US$11 billion in 2001. By 2030, the FAO predicts, the developing world will import US$50 billion of food.[5]

Volatile International Commodity Prices

As has been argued in the India's submission to the WTO,[6] the continued volatility of international commodity prices has forced the group of developing countries to ask for a safeguard mechanism. The reasons for this volatility are both demand and supply side. Indeed, the distinguishing feature of the international agriculture trade is that only a limited number of exporting countries dominate international trade. The small number of suppliers tends to have an exaggerated reaction on the commodity prices at the international level.

The problem of commodity price instability was recognized during the Uruguay Round and one of the major objectives of the AoA was to reduce the instability of international agricultural trade. The Ministerial Declaration launching the Uruguay Round says:

"*There is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions including those related to structural surpluses so as to reduce the uncertainty, imbalance and instability in world agricultural markets*".

Studies show that there has been no systemic decline of volatility in the post-WTO period. In fact, in the post-Uruguay Round period, price has gone up for a number of agricultural commodities. In the backdrop of high instability in commodity prices and possible threats associated with it, there is a strong case for a SSM for developing countries.[7]

Special Circumstances in Agriculture Compared to Industry

Unlike in industry, the production cycle in agriculture does not allow for sudden stopping and restarting of production. If agricultural production is halted or reduced because of a fall in sales, the demand picks up only after some time when normal safeguard action remedy is applied. The farmers have to wait till the next planting season to expand output. Moreover, if decrease in demand persists for some time, the farmer may be forced to switch to another crop. Therefore, it would be difficult for him to return to the original crop even after normal safeguard is applied – resulting in permanent damage to production of the particular crop.

Additionally, if demand for a domestic product is reduced (because of increased inputs), the small farmer in developing countries finds it difficult to increase storage of his product due to lack of storage facilities and to the perishability of agricultural products (unlike in industry, where the factory can increase its inventory, and can save for another day). Thus, normal safeguards would not be sufficient to address the problem and thereby the need to incorporate an SSM.

Points of Contention

As mentioned earlier, there are various differing views on the scale and scope that the SSM is allowed to operate in. The professed aim of the SSM is to prevent or treat injury to producers in developing countries, caused by import surges or depressed import prices. Therefore, the design and operation of the SSM must be in tune with this aim, and the remedy should be such that it adequately deals with the problem.

More than just the question as to why the SSM is needed for agriculture, there are several aspects under contention in the WTO negotiations. These points have been raised by countries that have export interests in agriculture and feel there must be restrictions placed on SSM and its use. Many of the issues have been discussed in draft by the Chair of the agricultural negotiations at the WTO, the New Zealand Ambassador, Crawford Falconer.

The following are some of the points of contention:

1. Number of times the SSM can be revoked by a Developing Nation

Experience with the SSM shows that developing countries which are eligible to use it, in fact seldom make use of it. Of the 22 developing countries that can use the SSG, only six countries used it, according to the UN Food and Agriculture Organization (FAO). These countries made use of the SSG only 5 per cent of the total number of times they could have applied under the SSG rule in the period 1995-2004.

Developed countries fear that developing countries would abuse the SSM system and lead it to become a permanent protectionist device. Developing countries wish to have the encumbered right to raise duties to the level it deemed necessary to protect the livelihood conditions of its farmers, while many developed countries feel that this would represent a step backward from the hard-won liberalization gains of the Uruguay Round of negotiations.

2. Volume and Price Triggers and Remedy

The crucial issues of the volume and price triggers and the extent of the remedy (i.e. by how much the additional duty can be raised) are dealt with in the Chair's paper (paragraphs 108 and 109). The Chair's paper asks if the remedy for the price factor should be the full difference between the benchmark price and the import price (paragraph 109).

The answer to this is yes, if the remedy is to be adequate and effective in resolving the problem (which should be the general principle), and thus, it should enable the developing country experiencing a price depression to raise the import duty to the level that allows for a full offset. This is required to safeguard the producers from import surge.

The G33 proposal on price trigger and remedy for the price factor in fact puts forward such a full-offset scheme, in which the SSM additional duty would enable the depressed import price to be raised back to the reference price (or the average price of the most immediate three-year period).

It has been argued that a safeguards rule based solely on changes in the quantity of imports is seriously flawed. This approach does not distinguish between import increases due to increases in supply from foreign countries or increases touched off by a decrease in domestic production and rise in domestic price. In the latter situation, imposing additional tariffs on foreign imports and thereby raising agricultural prices would further erode living standards of consumers. Providing subsidies to domestic producers to compensate for their income losses is a much preferred policy option. Moreover, before allowing for the volume trigger rule, it is necessary to take into account the size of the domestic market for a product in addition to the increase in imports.[8]

3. Duration of the SSM

In paragraph 110, on the duration of use of the SSM, the chair's paper seems to suggest that when it is triggered, the SSM can be applied only to the end of the calendar or financial year. The G33 position is that when the trigger applies, the SSM can be applied for a 12-month period.[9]

4. SSM and Bound Rates of the Uruguay Round

One of the most contentious issues in the negotiations is whether the SSM should be restricted so that new duty cannot exceed the Uruguay Round level. The Chair's paper (paragraph 111) seems to be supporting this restriction, which is proposed by countries that are not in favour of a strong SSM. The G33 position is that there should not be such a restriction.

The purpose of the SSM is to protect developing countries from depressed prices or import surge. Being allowed to raise the duty to only the Uruguay Round rate would mean that in many cases, the developing country would be able to offset the price decline to only a very limited and inadequate extent, and thus, the whole aim of having an SSM would be defeated. Moreover, the existing Agreement on Safeguards does not have such a restriction, i.e., it does not state that members can only raise the duty up to the level of bound rates of the previous negotiating round. Neither does the SSG clause figure in the AoA.

Developed countries which favour this restriction have argued that raising the SSM duty above the Uruguay Round rate would be a retrograde step, as the Uruguay talks had assured a certain level of market access in the developing countries, which should not be reduced under the current Doha Round.

Way Forward

The way forward appears to be complex as both the developed and developing countries are unwilling to move from their established positions. A compromise formula cannot be worked out unless both the parties agree to dilute their positions to a certain extent. The objective of the Doha Round focuses on the developmental aspirations of the developing and LDCs countries. They joined the WTO to benefit from trade gains which would integrate themselves with world economy. Therefore, overall development process needs to be met and not merely allowing developed countries to have market access to developing countries' markets.

For developing countries in general and India in particular, it remains critical that the trade distorting subsidies and protection provided by a few developed countries are eliminated and a level playing field established. In order to meet the objective of the development dimensions of the Doha Round, trade distorting and domestic support have to be substantially reduced by all member countries.

Agriculture supports and provides livelihood to the bulk of the farming community in the developing world. The viability and dynamism of India's agriculture sector remains essential to secure success in India's poverty alleviation strategies and also to the developing world. For India, it would be difficult to accept proposals that would have the potential to disrupt India's social and economic fabric. For developing countries and India, satisfaction on appropriate number of special products and special safeguard mechanism with price and volume triggers are absolutely essential. There is a need to agree that any linkage between sensitive products and special products, either in selection or number or treatment cannot be established. Sensitive products are sensitive commercially; whereas special products are special because they deal with the food & livelihood security of millions of poor people.

In sum, the next ministerial at Bali in December 2013 expects this issue to be discussed at length. It is crucial that some progress on the AOA is required to keep the hopes and aspirations of developing world alive in the WTO. It is important to bridge the gaps in positions of the developed and developing countries on SSM. The onus, however, remains on the developed countries to move and to meet the aspirations of developing countries. Developing countries and India including the G33 have made it amply clear that they are willing to work with other countries with a view to delivering pro-development outcomes and balanced progress on all issues under negotiations.

ENDNOTES

1 See the Doha Ministerial Declaration 2011, the July Framework 2004 and the Hong Kong Ministerial Declaration 2005.

2 Sharma (2005) defines import surges as: '*…the term "import surge" is used in a general sense to indicate the two external shocks mentioned in the AoA. One is the phenomenon of volume surge – for whatever reason, a country finds that imports are increasing to the extent that local markets are disrupted or are threatened. The other is depressed import prices, mostly due to movements in world market prices, which undermine or threaten to undermine otherwise viable domestic production."*

3 Sharma 2005.

4 In Sri Lanka, vegetable-producing sub-sectors like onions and potatoes have suffered from import surges. In 1999, an import surge of onions and potatoes resulted in a decline in the cultivated area of these crops and affected the livelihood of approximately 300,000 people involved in their production and marketing.

5 ActionAid 2007.

6 WTO Document Number G/AG/NG/102.

7 Pal and Wadhwa 2006.

8 Consider, for example, a sector in which production is equal to 95 per cent of consumption, exports are equal to 5 per cent of consumption, and imports are equal to 10 per cent of consumption, i.e. C = P– X + M = .95C – .5C + .1C. In these circumstances, a 10 per cent increase in imports represents only a 1 per cent increase in the quantity of the good supplied to the domestic market (0.01 = .1 x .1C/(.95C - .5C + .1C)). Even with the typically low elasticities of demand for agricultural products, it is unlikely that a 1 per cent shift in supply would affect food security or the livelihood conditions for poor farmers sufficiently to warrant a protectionist response. In contrast, suppose imports initially equal 90 per cent of a good's domestic consumption, domestic production equals 15 per cent, and exports equal 5 per cent. In this case a 10 per cent increase in imports represents a 9 per cent increase in supply of a good to the domestic market (0.09 = (.1 x .9C)/(.15C - .05C + .9C)) or an increase much more likely to threaten the livelihood of poor farmers. A low trigger level is necessary to ensure that all agricultural sectors deserving a safeguard mechanism are selected, but this low trigger will also select many sectors in which the livelihood of farmers is not endangered or threatened by surges in imports. A trigger mechanism based on the change in import penetration in a domestic market, i.e., an increase in imports divided by the level of consumption, would not have this drawback.

9 For example, take two hypothetical cases of application under the chair's proposal: *one*, where the trigger goes off on 1 January in a particular year, in which case the SSM can then operate for the whole year; *two*, where the trigger goes off on 1 December, in which case the SSM can operate only for 30 days. In situation *two*, the SSM can hardly be used at all. It would then be a matter of luck as to when the trigger goes off. It is more logical, and would also more adequately satisfy the aim of having an SSM, if the SSM can be applied for a period of 12 months following the triggering of the price or volume factor.

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NEWS
(NATIONAL/INTERNATIONAL)

EU Threat to Indian Farmers

THERE is now a looming threat to Indian agriculture from the Free Trade Agreement (FTA) with the European Union. The smoke signals have already started blowing from Brussels. The 27-nation block of the EU, which has a notorious record of extravagant subsidies dished out to the Union's farmers, set aside a big chunk of its new 7-year budget to support its agriculture, precisely, •363 billion, that works out to approximately to ₹26 lakh crore, of the total •900 billion (approximately ₹69 lakh cr.), a whopping sum at that, for the Union's farmers, giving in to strong political pressure from France, the Union's major agricultural partner.

The sum is approximately 38 per cent of the EU spending for the agriculture sector of the 2014-2020 budget. This decision was not in consonance with the views of other EU nations, which wanted more money from the budget to be diverted to spur the growth of the EU and create new jobs.

What Does this Mean to Indian Farmers?

Simply put, Indian farmers will face new threats to their livelihood, once India signs on the dotted line on the FTA with EU in the coming weeks. Ironically, while Brussels was finalizing its contentious budget, in India, our commerce and industry minister went on record to say that the FTA with EU was India's "most ambitious trade and investment agreement". This article examines the implications of this far-reaching assessment.

The EU FTA, known officially as the "Bilateral Trade and Investment Agreement", is shrouded in secrecy. In addition to agriculture, production of generic medicines in India will be most hard hit.

The FTA provision of bringing down India's import tariff level to zero or near-zero will dramatically increase India's agricultural trade deficit. Are farmers being unnecessarily alarmist? An analysis done by Misereor and Heinrich Boll Stiftung of Germany and four other international institutions confirms that Indian farmers are bound to heavily lose once EU FTA comes into force. This will oblige India to eliminate more than 90 per cent of all (agricultural and non-agricultural) applied tariffs towards EU within seven years. Besides, a "standstill clause" might cap the tariffs even for the remaining sensitive products at the level currently applied, and, more worryingly, the goods chapter could impose discipline on export tariffs that are currently used by India to contain price volatility.

A UNDP 2005 report warns the main issue affecting agricultural trade is the massive subsidies applied by developed countries to their production and export. India will have no other option except to drastically slash duties on more than 92 per cent of its agricultural goods export. It is important here to note that the EU tariffs are already much lower and cannot offer India additional market access. Export of Indian products like the famous Malabar pepper, Basmati rice, Darjeeling tea, Banares silk, whose production and export are not subsidized, will most severely be affected.

Most worryingly, the EU FTA trade pact has the "conflict of interests" scenario where EU wants India to do away with its export measures, which would imply that India has to give up export bans on food (wheat and rice), which the country uses strategically to ensure its food security. Ironically, at WTO-level meetings, India fought hard to safeguard its right to use export measures and tariffs on agricultural products!

Of all the Indian sectors, the dairy sector will be most adversely affected. Dairy co-operatives like the Gujarat Co-operative Milk Marketing Federation, the producer of the famous Amul, generate employment for about 15 million dairy farmers in rural India, spread across 140,000 villages. Amul, studiously built by late Verghese Kurien, India's "milkman", is possibly the most valuable and well-known brand in the dairy sector, and, expects a turnover of more than ₹14,500 crore this financial year, which is a huge jump from the ₹11,668 crore recorded last year.

The protective cover given to the EU products under the Geographical Indication (GI) tag, with over 3,000 registered GIs, of which 130 are for dairy products, will make things worse for Indian dairy products. A 2010 study conducted by the European Commission revealed that 2,768 GIs had yielded revenue amounting to more than •20 billion, a colossal sum of money and a great advantage which it is pursuing to preserve in its trade agreements. EU is also seeking "extra extensive protection" of its GIs.

There are 3.2 million dairy farmers in Gujarat whose livelihood would be directly impacted. India's dairy sector is not subsidized as the European. Non-tariff barriers like the stringent sanitary and phytosanitary standards (SPS) will make things worse for Indian dairy products export. Opening up of the dairy sector to European corporate will make India's dairy farmers extremely vulnerable to dumping of dairy products on Indian soil.

Under WTO rules, India can impose high bound duties (the maximum tariff) of 113 per cent on a number of food items, although its applied duties or actual tariffs stand at an average of 31.4 per cent. Bound rates give India the flexibility to increase duties if a spike in imports is found to be damaging its domestic sector through the special safeguard mechanism. The FTA will erode these protective measures. The case with imported cheese is a classical example on this count.

Additionally, Amul's two manufacturing units in Europe which sell its cheese using the European tag (Gouda and Emmantel) will be obliged to cease production and marketing using these brand names.

Trade asymmetries show India has but little to gain in agricultural trade in absolute terms. While EU will gain US$321 million in agro food products, India will get US$83 million. Similarly, India's cereals market will earn EU US$133 million, while India gains only US$7 million. The disparity is most marked in primary products in which EU gains US$5,128 million, while India can hope to get a business of just about US$39 million. In short, the EU FTA will be a "no win" pact for India. While this happens, our agricultural minister, trade and commerce minister, and even the prime minister have preferred silence to action.

(*New Indian Express*, 3 July 2013)

India Plans Safeguard Duties on Iron, Steel Items from China

THE Directorate General of Safeguards under the Finance Ministry has initiated an investigation on impact of large scale import.

India plans to impose safeguard duties on some iron & steel pipes, tubes and profiles to protect domestic producers from a flood of imports from countries like China and Italy.

The Directorate General of Safeguards under the Finance Ministry has initiated an investigation on impact of large scale import of seamless pipes, tubes and hollow profiles of iron or non-ally steel from countries such as China and Italy.

"It has been found that prima facie increased imports of seamless pipes and tubes have caused and are threatening to cause serious injury to the domestic producers... And as such it has been decided to initiate an investigation in the matter," it said in a notice.

It sought comments from interested parties by May 21.

The application for imposition of restrictive duties was jointly filed by Jindal Saw Ltd and Indian Seamless Metal Tubes Ltd and was supported by Maharashtra Seamless Ltd. The applicants account for more than 50 per cent of the total domestic production of seamless pipes and tubes in India.

The DGS will investigate imports between 2009-10 and 2012-13.

"The imports have increased from 307,581 tons in 2009-10 to 373,777 tons till 2012-13, recording an increase of 22 per cent," it said adding even though there was a decline in 2012-13 over the previous fiscal, but quarter-wise analysis showed a sharp rising trend from Q2-Q3 on absolute basis.

In view of surging imports and loss of market share, the inventories with the domestic industry have also increased significantly – 5,691 tons in 2009-10 to 14,170 tons in April-December 2012-13 fiscal.

An immediate safeguard duty is being sought for a period of four years.

(*Business Standard*, 2 May 2013)

India, China Defend Right to Set Farm Duties

INDIA and some other developing countries have rejected a proposal to restrict their ability to impose stiff duties to protect farmers in the case of sudden surges in imports of farm goods at the ongoing talks for opening up global trade in goods and services.

Costa Rica's proposal was backed by other big exporters of farm produce such as Australia and Thailand and had suggested that the use of such safeguard measures in the case of import surges should be circumscribed with additional clauses to restrict their use.

"We are categoric about not making the special safeguard mechanism too restrictive as we have the responsibility of protecting livelihoods of our millions of farmers," a government official told *ET*, reflecting the views of the 43-member group of developing countries (G-33) with defensive interest in agriculture in the WTO negotiations.

The agenda of the contentious and stalled Doha Round of the WTO includes creation of a special safeguard mechanism, or SSM, for use in the case of sudden increase in imports or drop in prices, essentially allowing developing countries to temporarily increase their customs duties over and above the ceiling rates.

But the big agricultural producers fear the proposal could reduce their export opportunities. Costa Rica, a big exporter of coffee and plantation crops such as bananas, sugar and cocoa, has made a formal submission to the WTO saying that the proposal should consider the views of developing country exporters as well.

It cited a study that shows nearly a quarter of its exports could have been affected in 2009 if the SSM measures were allowed in their current form. Interestingly, Costa Rica recently bought dollars to curb the appreciation to its currency to bolster exports.

But the hard line taken by India, China and other members of the G-33 puts more pressure on the WTO committee on agriculture struggling to strike a compromise between members taking opposite stands on the issue of special safeguard mechanism, or SSM.

One of the reasons the negotiations on the on-going Doha Round grinded to a halt at the last meeting of WTO trade ministers in July 2008 was disagreement between India and the US over SSMs.

The differences largely relate to the price trigger for the use of these safeguard measures. The US has also argued that countries should not be allowed to increase their tariffs beyond the levels committed to in the Uruguay Round that preceded the ongoing Doha Round.

Costa Rica has added another string that farm products that are designated as special products under the on-going Doha development round that are to be shielded from formula tariff cuts should not have the protection of safeguards.

This means that if India has a fruit, say oranges, that it designates as a special product, it will not be able to take the recourse of SSMs if imports of oranges rise sharply and domestic prices fall because of it.

(*The Economic Times*, 11 October 2010)

Trade Safeguards Would Hurt, Not Help, Developing Countries

ALLOWING developing countries to increase import tariffs based on price and supply triggers under proposed World Trade Organization rules would actually harm those countries, according to a Purdue University economic analysis.

A major factor in the breakdown of the Doha Development Agenda, which aimed to set new rules for agricultural trade under the WTO, was disagreement over whether a special safeguard mechanism should be included to allow developing countries to increase tariffs if imports surged or world prices dropped past certain trigger points. Developing countries lobbied for those safeguards, believing the measures would protect producers from cheap commodities flooding their markets.

But Thomas Hertel, a Purdue distinguished professor of agricultural economics and executive director of the Global Trade Analysis Project, said those safeguards actually would increase price volatility with developing countries faring the worst.

"Rather than stabilizing domestic producers' incomes, it could destabilize them. It would also raise food prices faced by the poor," said Mr. Hertel, who ran an economic analysis on the effects of the proposed safeguards. "The analysis shows this is a really bad idea."

Mr. Hertel and his co-authors, Will Martin of the World Bank, and Amanda Leister, a USDA National Needs doctoral fellow in international trade in Purdue's agricultural economics department, used world import and export data in Purdue's GTAP model to evaluate the impacts the safeguards would have on developing countries using wheat as a model. The results were published in the current issue of the journal *World Bank Economic Review*.

If developing countries implement higher tariffs when domestic supplies fall and there is an import surge, prices in those countries would rise. That would raise food prices for the poor and, if many countries do so, it would destabilize prices globally.

Mr. Hertel said that developing country exporters are particularly vulnerable to the special safeguard price trigger. This is because their products are already priced below the world average, so a modest decline in world prices tends to trigger safeguards against their products.

"In general, this just isn't achieving the things the developing countries are trying to achieve," Hertel said.

Mr. Hertel said future work would evaluate long-term implications of the safeguard proposal on developing countries. The World Bank funded his research.

(http://www.purdue.edu/new 7 September 2010)

Special Safeguard Mechanism Could 'Seriously Impede' Normal Farm Trade, Say Exporters

A NEW informal paper from Canada and Australia argues that an unconstrained agricultural safeguard mechanism for developing countries could "seriously impede" normal trade, if stripped of various proposed curbs on its use.

The paper has received a cool reception from the G-33 developing country group, which favours a simple, easy-to-invoke "special safeguard mechanism" (SSM) to enable developing countries to raise duties beyond bound ceiling levels to protect farmers in the event of a surge in import volumes or a price depression.

"It's re-packaging", said one G-33 delegate, who suggested that the paper essentially re-stated ideas from an Australian paper circulated last December.

The new submission warns that an "unconstrained SSM" could be triggered on "a large majority" of tariff lines. Unless it is targeted to "a specific problem of import surges", normal trade growth could be seriously impeded, the sponsors argue. They further claim that "for some agricultural products… an SSM could trigger almost every year."

The latest draft WTO farm trade deal and an accompanying paper by the chair of the agriculture negotiations, both of which date back to December 2008, include a raft of proposed constraints aimed at curbing potential abuse by import-sensitive developing countries. These would condition the imposition of safeguards on the co-existence of a volume surge and price depression, for example, or limit the number of tariff lines on which safeguard duties can be imposed in any given year. The exporters' latest draft examines how the safeguard might affect trade in the absence of these constraints.

"They're assuming that the SSM is one hundred per cent effective, but it's not", cautioned one G-33 negotiator, who pointed out that, even if additional safeguards duties are "triggered" by higher-than-average import volumes, they may still be insufficient to raise import prices to levels that are close to domestic prices. WTO members are also negotiating over the maximum size of additional safeguard duties that countries will be allowed to impose under the SSM.

Soybean, Palm Oil, Bananas

The Canadian-Australian paper simulates the possible effect of applying safeguard duties to soybeans, palm oil and bananas, and concludes that "the SSM could trigger every year and result in significant trade losses". The exporters examine how often import duties would be imposable if the safeguard were triggered by import volumes that are 10, 20 or 40 per cent higher than average levels in the preceding years.

According to the paper, for India between 2003 and 2008, a 20 per cent increase threshold could have triggered SSM duties covering 40.2 per cent of tariff lines and some 57.9 per cent of farm imports. Over that period, 85 per cent of tariff lines could have been triggered at least once.

In comments to *Bridges*, G-33 officials questioned why these high-growth products had been selected for the analysis. They suggested that sustained high domestic demand for these commodities would make them unlikely candidates for safeguard duties.

"These are highly-traded products - ones that exporters are most concerned about", retorted an official from an exporting country. Rules to prevent abuse needed to be built into the planned safeguard, said the negotiator, who warned that exporters could not simply be expected to 'trust' that developing countries would only apply the extra duties in particular circumstances.

Growth in normal trade would be maintained, argue G-33 representatives: according to the group's proposal, safeguard duties would only be applied if import volumes exceed a threshold that is higher than the previous three-year rolling average. Furthermore, imports would continue to enter the developing country concerned in the period up until safeguard duties are actually applied.

Exporting countries nonetheless warned that, unless the calculation of average import volumes is 'pro-rated' so as to discount months in which safeguards had been imposed, the SSM could still affect growth in normal trade. The G-33 had previously argued against pro-rating import calculations in this way.

(http://ictsd.org, 26th May 2010)

G33 Takes Offensive in WTO Battle on SSM

THE G33 tabled a paper at the World Trade Organization (WTO) on January 28 on the Special Safeguard Mechanism (SSM) that brings the central issues of food security, livelihoods and rural development back to the negotiating table of a Round that is supposed to be geared towards development.

These concerns have been brought "back" because the original G33 concepts for the SSM to be "special" (because existing WTO safeguards do not adequately address price declines and import surges), effective and "easy to use" are not operationalized in the current negotiating draft for agriculture, i.e. the draft of the Chair of the agriculture negotiations of December 2008, called the "December text".

Since May 2008, the text on SSM has been the subject of controversy and opponents of the SSM have also proposed new and increasing conditions on how, when and for how long developing countries can use the SSM.

The price-based SSM has barely been discussed; while much of the emphasis has been on volume "triggers" that would activate the SSM and on measures called "remedies" that developing countries could take to counteract import surges that threaten farm livelihoods and local food production.

The G33 paper entitled "Refocusing Discussions on the Special Safeguard Mechanism: Outstanding Issues and Concerns on its Design and Structure" brings the focus back to the real purpose and necessity of such a mechanism for developing countries.

The G33 is a group of 46 countries characterized by large agrarian populations and food security concerns, and that take a defensive position in the WTO's agriculture negotiations.

For months now, agriculture-exporting countries (both developed and developing) have been demanding that the G33 table reasons and evidence of the need for an SSM that is not as circumscribed as the one proposed in the December text (including some of the text that is in brackets).

The exporters are seeking assurance that their own exports under "normal" conditions will not be impeded. In meetings, this has been referred to as "normal trade flows," although exporting countries have yet to clarify whether normal trade refers to their own average exports or whether they mean "normal" global agriculture trade flows.

However, it is widely acknowledged by agriculture experts that global agriculture markets and trade are complex and far from "normal". They are characterized by price volatility, high incidence of import surges, oligopolistic behaviour, imperfect information and supply chains - all leading to widespread market distortions.

At a minimum, an effective SSM, in the absence of predictability of prices and volumes and any significant change in dumping practices of developed countries, would be a tool to protect developing countries where the majority of the population depends on farming as a way of life.

Food security, special and differential treatment towards developing countries and "correcting... distortions in world agricultural markets" were some of the key principles of the WTO's Agreement on Agriculture (AoA). And Article 20 of the AoA was meant to review the progress Members were making in reducing trade distortions and ensuring that food security was not undermined.

But after eight years of negotiating the Doha Round, and after a global food crisis and a financial crisis in recent years, the WTO Members once again find themselves with an agriculture draft that allows developed countries with massive domestic support programmes to "shift boxes", i.e. adjust their trade-distorting programmes and shift them to a category of support called the "Green Box" so that spending can continue with hardly any restraint or disciplines.

In fact, just a day after the G33 tabled their SSM paper, news broke that the European Union (EU) is increasing its subsidized sugar exports by an additional 500,000 tonnes. According to news reports, this would be 576,500 tonnes more than what the EU is allowed to do under its WTO commitments.

This is following from the expansion of the EU's dairy quota in recent years that has not only dumped dairy on the world market, but forced small dairy producers in the EU out of business when there was oversupply and global prices went down.

Meanwhile, the US continues to defy WTO judgments on its subsidized cotton exports. And US President Barack Obama faces a tough Congressional fight in making any changes to the 2008 Farm Bill that actually increased US domestic agriculture spending for its agri-lobbies.

According to Senator Blanche Lincoln, a Democrat from Arkansas, who now heads the Senate Agriculture Committee, "The Farm Bill is a contract with our famers that they depend on to make business decisions. Changing the rules in the middle of the game would be detrimental to their operations and would cost us even more jobs in rural America."

The Doha Ministerial Declaration's Paragraph 13 formally brings G33 concerns into the negotiations "to effectively take into account [developing countries'] development needs, including food security, livelihood security and rural development." Yet, the notion of an effective and simple SSM and why the G33 are demanding it is being questioned.

The G33 have responded by tabling their "political" paper which is the first of a series of several papers they are tabling on the SSM. Two other papers on "seasonality" (the use of the SSM on "seasonal" products) and "cross check" were also circulated to Members on 5 February.

The cross-check paper challenges the idea proposed in the December text that the volume related SSM can only be used if the price is also declining and conversely that a price related SSM can only be used if there is also evidence of a volume increase. The G33 has asked that the conditionality of a "cross check" be eliminated in the negotiating draft.

The seasonality paper discusses the notion of "seasonality" and whether a shorter time limit for an SSM can be imposed on so-called "seasonal" products given that the Northern and Southern hemispheres have opposite seasons and some countries produce certain products all year; while the same products can be considered seasonal in a specific country.

A G33 paper on the price-based SSM is to be expected for the informal agriculture session on Friday, 12 February. On 11 February, a meeting was planned to be held at the New Zealand Mission of some G33 Members, some developing and developed country exporters and the agriculture negotiations Chair, Ambassador David Walker of New Zealand.

A few more G33 papers are expected before the end of February and in time for the next two-week agriculture negotiating session on 1-12 March.

The exporting countries have not made any formal remarks on the "Refocusing" paper, but criticism from some exporting country officials has been reported. It is expected that some discussion on this paper as well as the two technical papers will take place shortly.

From the exporters' side thus far, Australia has presented a modeling exercise that makes the case for the December text; while Uruguay, Brazil and the US tabled short papers in the week of 7 December.

Meanwhile, the South Centre, a Geneva-based think tank that supports developing country governments, has published a series of policy briefs and analytical notes on the SSM.

These papers cover various aspects of the SSM, including the incidence of import surges, trends in actual price declines and volume surges, an assessment of the proposed price-based SSM, why the volume-based triggers of the December text would be inadequate in dealing with actual import surges and a comparison of the Special Safeguard Provision (SSG) primarily used by developed countries with the proposed SSM.

One G33 official said that the SSM is meant to be used by many different countries with very different conditions. The official said, "We cannot just limit our debate to specific products and specific countries. It is an instrument meant for all developing countries."

(http://www.twnside.org., 17 February 2010)

Tariffs: WTO Talks Collapse after India and China Clash with America over Farm Products

LAST-DITCH talks to salvage a deal in the seven-year Doha Round of global trade negotiations broke down dramatically in Geneva, after India, China and the US fell out over measures to protect poor farmers.

As recriminations began, the head of World Trade Organization, Pascal Lamy, warned that the wrangling among the organization's leading members had allowed a package worth more than $130bn (£65bn) a year in tariff savings to "slip through their fingers".

Clinching a deal would have provided a powerful vote of confidence in globalization from the WTO's 153 members, in the face of the world economic slowdown. But after nine gruelling days, Mr. Lamy was forced to accept that the US, China and India were still too far apart for a deal.

Negotiators from the major trading blocs were already blaming each other for the failure. Brazilian foreign minister Celso Amorim suggested particular individuals within the G7 group were responsible for the failure. "If I were the coach, I would replace the players, and see if a different result was possible."

The US trade representative, Susan Schwab, said it was "unconscionable" that developing countries were insisting on shielding their farmers. "In the face of the food price crisis, it's ironic that the debate came down to how much and how fast could nations raise their barriers to imports of food."

She suggested that if India and China had got their way "we could have come out with an outcome that rolled the global trading system back three years, or five years, or 30 years: 30 years of progress."

Shri Kamal Nath, India's commerce & industry Minister, said he was representing the position of all the G33 members, who were "concerned about the livelihood of poor and subsistence farmers", and said he hoped the talks could eventually be revived.

EU trade commissioner Peter Mandelson said it was "heart-breaking" that the talks had failed because of a "small gap in numbers" over when protection for farmers could be triggered. "But I'm afraid that on this subject, an irresistible force met an immovable object and the rest is history."

The US objected to the details of a "special safeguard mechanism", designed to protect farmers in the developing world against temporary surges in cut-price imports of cotton and rice.

This safeguard mechanism has long been a key demand of the G33 - a group of countries including Indonesia, India and China, concerned about the livelihoods of their subsistence farmers.

Trade officials scrambled to draw up a compromise that would satisfy both sides. But America insisted the issue was a matter of principle. "We're committed to not going backwards," a US source said. Ms. Schwab has faced fierce political pressure from Capitol Hill to secure fresh markets for America's rust-belt manufacturers.

Mr. Mandelson had also come under intense political pressure over promised reforms to Europe's lavish common agricultural policy.

France's President Nicolas Sarkozy had demanded an immediate meeting with Mr. Mandelson, and rallied a cohort of other countries including Italy and Greece to say they might reject the deal in its current form.

The Doha Round, which was launched with great fanfare in the Qatari capital in the aftermath of the terrorist attack on the World Trade Center in 2001, was billed as a way to make world markets fairer for poor countries.

Failure of the Geneva talks is a severe personal blow to Mr. Pascal Lamy, the WTO's director general, himself a former EU trade commissioner, who had staked his reputation on securing agreement. Mr. Lamy said he had spent 60 hours trying to reconcile the Indian and American positions. "What members have let slip through their fingers this time is a package worth more than $130bn a year in tariff savings by the end of the implementation period."

(*http://www.guardian.co.uk*, 30 July 2008)

SSM should be Available to All Agriculture Products: G-33 Ministers

G-33 Ministers and High Officials present in Geneva met to evaluate the state of agricultural negotiations in the Doha Round.

Ministers welcomed recent developments that foreshadow strengthening of the political will to conclude the Round by the end of the year and the ongoing intensive efforts to bridge divergences among members in all pillars of agriculture centered on the multilateral process in Geneva.

This is imperative to ensure transparency, inclusiveness, and a bottom-up approach, as well as the legitimacy of the outcome of the process, said a press release.

In this connection, they urged developed country members to demonstrate leadership by translating their political commitments into tangible results and movements in their negotiating positions.

Recalling that the Doha Declaration, the Framework Agreement of July 2004 and the Hong

Kong Declaration contain a clear mandate to WTO members to secure the needs and interests of developing countries, Ministers reiterated that a key measure of the success of this Round would be the substantial positive impact on the welfare of resource-poor and vulnerable farmers in developing countries across the globe.

The Ministers affirmed the view that the food security, livelihood security and rural development needs are vital human concerns.

Ministers emphasized the devastating effect of huge trade distorting subsidies and market access barriers in developed countries to developing world farmers.

Therefore, it is essential that the outcome of the negotiation upholds the proposals of developing countries, resulting in real and effective substantial reductions of the overall trade distorting domestic support backed up by meaningful disciplines, together with developed Members elimination of all forms of export subsidies and their substantial improvement of market access for exports from developing countries.

Ministers reiterated their readiness to contribute and to engage constructively towards making the necessary decisions to achieve a fair and balanced result in agriculture.

They once again emphasized that early convergence on the critical instruments of Special Products (SPs) and Special Safeguard Mechanism (SSM) was a key element to delivering on the development goals and aspirations of the majority of developing countries and who account for more than two-thirds of the WTO membership.

While expressing their readiness to be responsive to significant movements in the positions held by the developed countries and contribute to the successful conclusion of the Round, Ministers underscored that the mandate on Special Products does not require developing countries to provide any compensation including through tariff quota commitments.

Ministers were firm that some SPs shall be exempted from tariff reduction, while others shall have lesser cuts.

While the G33's proposal remains on the table, Ministers also welcomed the readiness of developed members to discuss, in greater detail, the Indicators that will guide the self-selection of Special Products.

They reiterated that the revised list of Indicators discussed in the last G33 Ministerial in Jakarta and which was supported by the ACP, Africa and SVE groups, should serve as the basis for these discussions.

The Ministers also reaffirmed that the Special Safeguard Mechanism remained an integral part of the modalities of the WTO agriculture negotiations.

They underscored that, in the absence of safety nets in developing countries, an effective and operable Special Safeguard Mechanism (SSM) would be the only instrument, which can cushion developing country farmers against import surges or price declines.

They emphasized that SSM should be available to all agriculture products and that the import price and import volume triggers, applied separately, should alone determine which product needs the invocation of the SSM at any given time.

They reiterated that to uphold the integrity of special and differential treatment the terms and conditions of the mechanism should be more favourable than the existing provisions of Article 5 of the Agreement on Agriculture.

Ministers reaffirmed the Jakarta Communiques and the unity of the G33 and their common committment to engage constructively with other developing country alliances and all WTO members to secure an ambitious and balanced outcome that addresses the development, food security, livelihood security and rural development concerns of small, poor and vulnerable farmers worldwide.

(http://paktribune.com/news, 21 July 2008)

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BOOKS/ARTICLES NOTES

ARTICLES

A Special Safeguard Mechanism for Agricultural Imports and the Management of Reform by J. Michael Finger, Policy Research Working Paper 4927, The World Bank Development Research Group, Trade and Integration Team, May 2009, http://elibrary.worldbank.org

WTO Director-General Pascal Lamy, in announcing the failure of the July 2008 ministerial meetings, reported that of a to-do list of 20 topics, 18 had seen positions converge but the gap did not narrow on the 19th – the special safeguard mechanism for developing countries. The author examines the proposed SSM against the experience of the international community with other GATT/WTO safeguard provisions.

1. Objectives, Perspective and Content of this Paper

In this paper the author examines the proposed special safeguard mechanism for agriculture (SSM) against the experience of the international community with other GATT/WTO safeguard or flexibility provisions. Primary objectives of the paper are to identify what in the existing safeguard/flexibility provisions has made them useful, and what this tells us about how the SSM might be made useful. As to perspective, while there has been considerable research on such instruments, virtually all of it views them as devices for creating protection rather than for defending the long-run viability of reforms. The author wants to apply here a more positive perspective – how a safeguard can support policy managers in their objective of managing agricultural trade policy as a part of long-run program of modernization and reform. This sense of 'useful' recognizes that reform is an inexact science; it also recognizes that the correct decision will sometimes be to impose a restriction.

The overall conclusion the author reaches is that the effectiveness of GATT/WTO safeguard or flexibility provisions to sustain long-run liberalization programs stems from their requiring objective, transparent and participatory national decisions on the application of new/exceptional import restrictions. Their usefulness does not stem from the 'formulas' they have provided, e.g., injury or injurious dumping.

Applying this perspective to the proposed SSM, it includes no procedural requirements; it defines by mathematical formula when a Member may impose a new import restriction. Results reported here suggest that the principal impact of the formulas is to expand Members' scope for unilaterally imposing restrictions but that they provide a poor guide as to when it makes economic or political sense to do so. Simulations indicate that the formulas frequently prescribe action when it is not needed, and frequently fail to prescribe action when it is appropriate.

If the SSM discussion is about supporting members to make good policy decisions, then it should be about process that will help a government to reach a correct decision and to sustain that decision among its various constituencies. Judging from past experience, a key element will be to identify the domestic "interested parties" affected by a decision to restrict or not to restrict imports, to give them voice in the decision.

If that discussion is about the SSG formulas or those proposed for the SSM, then it is about defining the scope of unilateral action that Members retain, not about when it makes sense to take – or not take – action.

As to how the discussion proceeds, Sections 2, 3 and 4 look into how GATT/WTO safeguard or flexibility provisions have functioned and evolved, the characteristics that made them supportive management tools. The author examines in Section 5 the special safeguard provisions (SSG) of the Uruguay Round Agreement on Agriculture. It and the proposed SSM have similar structures; hence how the SSG has operated will provide valuable insight into how the SSM might operate. Sections 6 and 7 examine the proposed SSM. The author pays particular attention to the mechanism as a decision mechanism; if the proposed "triggers" will allow import restrictions when they are appropriate, not allow them when they are not. Section 8 looks briefly at interactions between the SSM and the current state of negotiations on tariff reductions, Section 9 offers conclusions and comments.

Conclusions and Comments

The strength of traditional GATT/WTO flexibility provisions is that they have allowed adjustment within a system that provides for general pressure toward liberalization – flexibility to take restrictive action within a system that provides general discipline not to do so. The effectiveness of GATT/WTO safeguard or flexibility provisions to sustain long-run liberalization programs stems from their requiring objective, transparent and participatory national decisions on the application of new/exceptional import restrictions. Their usefulness does not stem from the 'formulas' they have provided, e.g., injury or injurious dumping. The proposed SSM (like the existing SSG) includes no procedural requirements; defines by arithmetic formulas when a Member may impose a new import restriction. The formulas expand Members' scope for imposing restrictions but they provide a poor guide as to when it makes sense to do so. Simulations indicate that the formulas frequently prescribe action when it is not needed, frequently fail to prescribe action when it is appropriate. To the extent that the proposed SSM is more than a defense of Members' latitude to unilaterally increase their tariff rates, it is bad guidance on when to do so – or not to do so. Even without the proposed SSM, the tentatively agreed flexibilities to name special and sensitive products provide great scope to avoid the tariff reductions the agricultural formula would otherwise imply. Such modalities suggest lack of agreement rather than agreement on what liberalization Members will undertake. Failure to agree on the additional flexibilities the SSM would provide is part of this broader lack of agreement.

The current pause in the Doha Round negotiations provides an opportunity to think farther about what the negotiations are about. In the spirit of general commitment to policies that will support development, the author offers two comments. The *first* is to remind all of researchers, analysts and negotiators, that the objective of a safeguard provision is to support good choices over bad rather than to support restriction over liberalization, or *vice versa*. In the mercantilist environment of a trade negotiation it is easy to slip into a mercantilist perspective. While the author has used Montemayor's (2008) results to gauge how well the SSM triggers would separate appropriate action from inappropriate, the criterion he himself applies is how often developing countries would be allowed to impose additional duties, e.g., 'slightly higher volume and price thresholds ... would not seriously compromise access rates.' (p. 11) By this standard, the ideal parameters are those without limit on magnitude of remedy or on when remedy can be applied. The criterion of accuracy – how often the SSM as a decision rule would indicate the correct *versus* the incorrect decision – slips out of consideration. The exchange of SSM proposals in Geneva has been captured by the same mentality: exporters submitting proposals that would allow fewer SSM restrictions, importers submitting proposals than would allow more. Functionally speaking, this is part of the market access negotiations – agreeing the limits beyond which each government reserves the right to unilateral action – rather than an attempt to design a policy decision mechanism.

If the SSM discussion is about creating an effective safeguard mechanism then it should be about creating a good management tool. That management tool should help a government to reach a correct decision and to sustain that decision among its various constituencies. This suggests that the discussion should be about process rather than about criteria/formulas, particularly about finding a role for interested parties so that they have a sense of ownership/acceptance of whatever decision is reached.

A *second* comment relates to the number of objects at play relative to the limited policy instrument the SSM mechanism will provide.

The SSM negotiations reflect a multiplicity of concerns/objectives; among them:

- Allowing policy response to departures from trends but not to trends,
- The length of departures from trends,
- Allowing policy response to random short-term variations but not to regular or seasonal short-term variations,
- Food security,
- The pace of shifting resources from agriculture to other sectors,
- The wisdom of imposing year-to-year adjustments on resources that have comparative advantage in agriculture.

Viewed from an unflattering perspective, the SSM negotiations are an attempt to reduce the set of management tools needed address these concerns to an arithmetic formula for tariff rates. This view brings forward the SSM negotiations as an example of a problem that Aaditya Mattoo and Arvind Subramanian (2009) have presented in a broader context: the Doha Round has taken on an agenda trivial to the problems the international community now faces. The tool set to which the negotiators have limited themselves may be inadequate to manage the issues, complications and interactions at hand – an attempt to control the side effects of remedies not outlined for problems not taken up.

Potential Implications of a Special Safeguard Mechanism in the WTO: The Case of Wheat

by Thomas W. Hertel, Will Martin and Amanda M. Leister, The World Bank, Development Research Group, Agriculture and Rural Development Team, June 2010, http://econ.worldbank.org

THE Special Safeguard Mechanism (SSM) was a key issue in the July 2008 failure to reach agreement in the WTO negotiations under the Doha Development Agenda. It includes both price and quantity-triggered measures. This paper uses a stochastic simulation model of the world wheat market to investigate the effects of policy makers implementing policies based on the Special Safeguard Mechanism rules. As expected, implementation of the quantity-triggered measures is found to reduce imports, raise domestic prices, and boost mean domestic production in the SSM regions.

However, rather than insulating countries that use it from price volatility, it would actually increase domestic price volatility in developing countries, largely by restricting imports when domestic output is low and prices high. This paper estimates that implementation of the quantity-triggered measures would shrink average wheat imports by nearly 50 per cent in some regions, with world wheat trade falling by 4.7 per cent. The price measures discriminate against low price exporters—many of whom are developing countries—and tend to increase producer price instability.

The Case of Wheat

The SSM was a key issue in the July 2008 failure to reach agreement in the WTO negotiations under the Doha Development Agenda. The draft agreement would allow members to impose specified additional duties when the total volume of imports of an agricultural product exceeds a specified trigger level, or when import prices from a particular supplier fall below a trigger price. Given the substantial potential gains available under these negotiations, the fact that the negotiations were unable to proceed for lack of consensus on this issue highlights its importance to many WTO members. Wolfe attributes the breakdown of negotiations on this issue primarily to inadequate analysis of its operation and its implications. The availability of analysis based specifically on the proposed measure was certainly limited by the fact that the proposed SSM is one of the most technically complex aspects of the entire modalities; that it attempts to deal with variations in prices, rather than—as with tariffs—merely their level; and that it was presented to Ministers only days before the meeting. Agricultural producers in developing countries are vulnerable to shocks both domestically —particularly from weather-related shocks to output—and from shocks to international markets. However, it must be remembered that consumers in developing countries are also particularly vulnerable to shocks to food prices, given that the poorest people spend as much as three quarters of their incomes on food. Policy measures that raise the price of food by imposing an import duty may help farmers whose incomes have fallen due to a harvest shortfall, but will do so at the expense of net buyers of food — including many farmers — as they will be hurt by the increase in the price of food. If farmers are isolated from world markets by poor infrastructure and communications, an even worse possibility emerges in which protection raises the cost of food to poor consumers linked to world markets, while providing little or no benefit to producers in more isolated locations. This highlights the need for careful analysis of the impact of special safeguards taking into account the potential differentiation between imported and domestic goods.

It is important to consider the implications of the measure for global markets since the SSM would apply to all developing countries, which now account for two-thirds of the value of world agricultural production. Accordingly, the purpose of this paper is to assess the global implications of the proposed price- and quantity-based SSMs for a key agricultural staple, wheat, taking into account not just its direct impacts on import prices but also the resulting impacts on world prices when the measure is used by many developing countries at the same time. Author's analysis also traces through the resulting impacts on key variables such as the volume of imports, domestic producer prices and the returns to land on which the incomes of many farm households depend. They consider the impacts of the SSM on the average level, and the volatility, of these variables, since part of the motivation for the measure appears to be to reduce the volatility of outcomes by offsetting shocks from international markets.

Countries are allowed to use just one of the P-SSM and Q-SSM measures in any given year. While it would be interesting to consider a situation in which countries choose between the price-based and quantity-based measures at each point in time, it is not clear which option policy-makers would choose when both are available. Therefore, the authors focus on the important prior objective of assessing the P-SSM and Q-SSM taken separately.

The paper begins by examining some of the key prior contributions to the literature on the use of special safeguards; then the nature of the specific proposals under consideration. The authors follow this with a diagrammatic assessment of the qualitative effects of such interventions, including an analysis of the extent to which it might be used. Finally, an empirical model is used to estimate the potential implications of the SSM for global and domestic markets.

The paper concludes that the SSM has been a controversial feature of the recent WTO negotiations under the Doha Development Agenda. Some advocates argue that the SSM is necessary in order to protect low-income domestic producers from the vagaries of world markets. However, economic principles suggest that widespread use of the SSM could destabilize world prices as well as deny domestic consumers access to affordable imports in the case of domestic shortages. This paper investigates the key components of the SSM proposal in the draft WTO Modalities of December 2008. It includes provisions for both quantity-based and price-based safeguard measures and shows that these safeguards operate in very different ways.

The empirical analysis in the paper is conducted by stochastically simulating a model of the world wheat market. The findings also suggest that, as specified, the Quantity-based SSM (Q-SSM) is an order of magnitude more damaging to world trade than its Price-based counterpart. Implementation of the Q-SSM policy reduces imports, raises domestic prices, and boosts mean domestic production in the SSM regions. Rather than insulating countries that use it from price volatility, this measure could actually increase price volatility in developing countries by restricting imports when they would otherwise alleviate the adverse impacts of harvest shortfalls. The paper estimates that implementation of the Q-SSM, by using the specified triggers and duties, would shrink the expected value of wheat imports by nearly 50 per cent in some regions, with overall world wheat trade falling by 4.7 per cent. A more restrictive scenario under which the full permitted duty is used whenever imports have reached the trigger in the past twelve months could result in even larger reductions in imports and greater volatility.

The price-based regime (P-SSM) is less damaging to world trade, as it is applied on a bilateral basis and most countries import wheat from a variety of sources, thereby diluting the impact of a safeguard tariff on some of its suppliers. As a result, the reduction in world trade is far less than under the Q-SSM regime. The same is true of the P-SSM impacts on prices and production. The results in the paper suggest that the P-SSM would actually increase the volatility of producer prices in seven out of the nine developing countries considered, with trading partners potentially applying the P-SSM when the country has a good season and increases its exports.

Part of the rationale for the SSM is a concern that shocks from world markets could have adverse impacts on vulnerable producers and consumers in developing countries. However, by imposing the duties permitted under the SSM, developing countries are likely to increase, rather than decrease, the volatility of prices in domestic markets. If the flexibility provided under the SSM to raise protection to agricultural products is to be used, it is important to consider very carefully the actual impacts of such duties on domestic outcomes, rather than to mechanically implement the duties provided for under the SSM proposal.

Unfortunately for those developing countries opting not to use the SSM, they may see the volatility of their producer prices increase as a result of greater world price instability induced by the countries employing the SSM measures. This is particularly troublesome if one believes, as many feel is likely, that increased greenhouse gas concentrations in the atmosphere will give rise to greater climate volatility and hence greater volatility in the production of staple food products (Ahmed *et. al*, 2009). While closing, the authors note that many of the main arguments in favour of the SSM focus on the well-being of vulnerable agricultural producers. Yet many rural residents in poor countries are net purchasers of food, and in many countries, urban poverty is growing ever more significant. In this context, the potential for policies based on the SSM rules to lessen poverty vulnerability seems very questionable. Future work should take into account the poverty dimension of the SSM as well as the broad dynamics considered in this paper.

On the Economics of the Special Safeguard Mechanism (SSM) for Imports of Agricultural Products by Donald MacLaren, Department of Economics, University of Melbourne, Australia, https://www.gtap.agecon.purdue.edu

A Special Safeguard Mechanism (SSM) has been proposed in the negotiations on agriculture that are part of the Doha Round in the World Trade Organization. The objective of the SSM from the viewpoint of the G-33 is to provide improved livelihood security for poor farm households in developing countries. The proposed instrument to achieve this objective is an increase in the applied tariff once the import price has fallen below some trigger level or once the quantity imported exceeds some target level. The purpose in the paper is to analyze in this context the effects of market structure and tariffs on the behaviour of prices under uncertainty. The analysis is conducted using Monte Carlo simulation of an n-firm Cournot oligopsony/ oligopoly of intermediaries to evaluate the effects of the tariff on the mean and standard deviation of prices. It is concluded that the objective of the SSM is unlikely to be achieved through the permitted instrument, viz. an increase in *ad valorem* tariffs.

1. Introduction

The negotiations on agriculture in the Doha Round continue to prove difficult to conclude. While there has been some convergence of negotiating positions on modalities for reducing domestic support and tariffs, and there has been agreement to phase out export subsidies entirely, there has been almost no convergence on the modalities for the Special Safeguard Mechanism (SSM). Although the concept of an SSM has been in the background of the negotiations since at least the start of the Doha Round, it was only at the meeting of the World Trade Organization (WTO) in July 2008, when modalities were discussed, that it made headlines. It was the failure to agree to these modalities that was one of the main reasons why the negotiations stalled.

Wolfe, a prominent trade expert, makes the case that the negotiations on the SSM failed, not just because of two very different interpretations of what the SSM is intended to achieve, but also because there had been a lack of prior technical analysis. As a consequence, the negotiators, not understanding the implications of agreeing to the proposed modalities, chose not to agree. One interpretation of the objective of the SSM, and the one advanced by the G-33, is that the SSM is to provide livelihood security for poor farmers in developing countries and to protect them from the vagaries of volatile prices in international markets. Therefore, it would be a mechanism that could be used only by Members of the WTO that are self-designated developing countries and used without restriction on the number of tariff lines affected or on the size of the tariff increase. The second interpretation is that the SSM is designed to provide temporary security as an aid to encouraging trade liberalization, in much the same way that the Special Agricultural Safeguard provided insurance after the implementation of the Uruguay Round Agreement on Agriculture.

The SSM is another example of negotiators making proposals for new trade rules without the necessary adequate technical economic analysis to demonstrate feasibility and to ensure that the objective of the new rule would be achieved. Instead of solving a problem, in this case the lack of livelihood security for poor farmers in developing countries, such behaviour by current negotiators merely creates further problems for a later generation of trade negotiators to solve. Other examples include the introduction of tariff quotas and the treatment of exporting state trading enterprises but not of importing state trading enterprises, both of which can distort international trade. The objective in this paper is to evaluate the extent to which the SSM makes economic sense. If price transmission from the international to the domestic market is less than perfect, if there is substantial water in the tariff, and if domestic instruments further disconnect domestic producer prices from international ones, then what role is there in practice for an SSM?

To undertake this evaluation, a brief summary of the SSM is given as the modalities were proposed in December 2008 (WTO, 2008) (Section 2). To date, quantitative modelling of the SSM has been conducted in either a stochastic partial or stochastic general equilibrium framework but in both approaches, perfect competition has been assumed as well as the absence of intermediaries. The principal conclusions from these models are reviewed (Section 3). The model developed in this paper is a stochastic partial equilibrium model that departs from previous work by allowing for imperfect competition amongst importing firms in a large country. Sales of the imported product compete with sales of domestically produced product. These products are homogeneous (Section 4). The model is calibrated to artificial parameters and the effect of tariffs on price volatility evaluated (Section 5). There follows a discussion of the results in the context of the interpretation of the SSM adhered by the G-33 and the conclusions drawn are summarized (Section 6).

Conclusions

The purpose of the SSM, as advanced by the G-33, is to increase livelihood security for poor farmers in developing countries. When putting this purpose into an economic framework, it becomes less obvious how security is defined and how the proposed price trigger or quantity trigger will achieve the objective. The empirical reality would appear to be that import surges, which presumably are associated with reduced livelihood security, in most cases are not accompanied by a change in the domestic price. For a small country, this suggests that the surge occurs without any change in the world market price. It also suggests that the variability in the import demand function is a more important source of instability and livelihood risk than is the world price. Therefore, a tariff increase will be less effective in moderating livelihood security than a domestic instrument would be. The tariff is a second best instrument if the source of the problem is found in the domestic market. The analysis in section 4.1 has shown that if the government of a small importing country restricts imports using an ad valorem tariff, the effect is not only to increase the mean domestic price but also to increase its variance. This outcome is inconsistent with the objective of the SSM of increasing livelihood security, unless poor farm households are risk loving, which is counterintuitive.

The analysis in section 4.2 has shown that with imperfectly competitive intermediaries, the mean level of the consumer price falls as the number of firms increases and that the procurement prices increase. From the viewpoint of the suppliers of this input, the more competitive the buyers, the better off they are – they sell more and at a higher price. However, the more competitive the buyers, the greater is the variability of the price received by suppliers. Therefore, whether or not they are indeed better off will depend upon their attitude to risk. Again, suppliers of the input in the domestic market may or may not have their livelihood security enhanced by more competitive intermediaries. This outcome may be consistent with the insistence in some countries that importing state trading enterprises are an essential component in market structure.

The analysis in section 4.3 has shown that an ad valorem tariff moves the mean of each price series in the direction expected – the consumer price and the domestic procurement price increase and the import procurement price decreases. It was also shown that the degree of pass-through of the tariff was directly related to the number of firms. The second result from this section is the effect of the tariff on the standard deviation of each procurement price. For the import price, the tariff reduced its variability, which might or not be beneficial to foreign suppliers, recalling that the mean of price is also reduced. On the other hand, the tariff increases the variability of the domestic procurement price. Poor farm households that are net buyers are made worse off with the increase in the mean of the consumer price: poor farm households that are net suppliers may or may not be better off.

The conclusion from this research is that the analysis of the effects of tariffs becomes quite complex once imperfectly competitive intermediaries are introduced in a stochastic environment. However, that complexity provides a richer set of results than those derived under the assumptions of a small country, perfect competition and the absence of intermediaries. This complexity allows for the mean and the variance of prices to be evaluated in the move from free trade to protection by an ad valorem tariff. The analysis has shown that increasing an ad valorem tariff increases rather than decreases domestic price volatility. The sign of the change does not depend upon market structure but the size of change does depend upon the details of the market structure that exists between suppliers, both domestic and exporters, and consumers. On the basis of this analysis, it is concluded that it is highly improbable that the concept of the SSM, let alone the proposed modalities, can achieve the objective set for it by the G-33, i.e., the protection of livelihood security for poor farm households.

The Botched Doha Round Negotiations on a Special Safeguard Mechanism,

http://www.voxeu.org/article, 11 March 2009

THE WTO talks broke down last year over a highly technical issue - the Special Safeguard Mechanism in agriculture. This column highlights a flaw in the proposed mechanism. It also argues that fear of a retaliatory process in today's recessionary climate should drive leading developed and developing trading countries to negotiate new rules aimed at preventing such an outcome. Within this larger framework, the technical sticking points holding up Doha negotiations may be settled quickly.

When the Doha Round negotiations collapsed in July 2008 because of the inability of India and the US to agree on a special safeguard mechanism for the agricultural products of developing countries, there was a widespread belief among WTO negotiators and world political leaders that the lull in negotiations would be short-lived. Because negotiators had already tentatively agreed on dozens of other issues that seemed much more contentious than temporary safeguards designed to protect livelihood and food security conditions for farmers in developing countries, these optimists reasoned that the negotiating failure must be an aberration that could be corrected with a temporary break and renewal of resolve.

The Chair of the Agricultural Committee expressed support for this view by concluding that he saw no alternative "to picking ourselves up, dusting ourselves off, and trying again" (WTO 2008). G20 leaders explicitly supported this approach in their 15 November 2008 declaration on Financial Markets and the World Economy by instructing their Trade Ministers to reach agreement on the key issues in the agricultural and manufacturing negotiations by the end of 2008.[1] The Director-General of the WTO, Pascal Lamy, also initiated extensive discussions with high level officials in India, the US and other major trading nations in the negotiations to determine whether there was a reasonable chance these issues could be agreed upon by the end of 2008 if he scheduled new negotiations at the Ministerial level.

Unfortunately, on 12 December Mr. Lamy finally announced that he had not found the necessary political will among key members to accommodate the demands of others and thereby complete the essential parts of negotiations on manufactured and agricultural products by the end of the year. However, negotiations on other issues on the Doha Round agenda, e.g., services, WTO rules, disputes settlement, etc., continue, as does work of a technical nature in the manufacturing and agricultural committees.

The long-run fate of the Doha Round is unclear. What is very much needed now, however, is a better understanding of just why the special safeguard issue has proved to be so difficult on which to obtain agreement. This column aims to explain the problem.

The flawed decision on safeguards in 2005

In my view the basis for the inability to reach agreement can be traced back to a bungled decision made during the Hong Kong Ministerial Meeting in 2005. The Ministerial Declaration from that meeting states that "Developing country Members will have the right to have recourse to a Special Safeguard Mechanism based on import quantity and price triggers, with precise arrangements to be further defined" (WTO 2005).[2] The quantity trigger rule proposed by the Chair of the Agricultural Committee in the draft modalities paper that was considered by Ministers at their July 2008 meeting permits additional duties to be imposed on imports of agricultural products of developing countries if the volume of imports during any year exceeds 110 per cent of a rolling average of imports in the preceding three years.[3]

Unfortunately, a safeguards rule based solely on changes in the quantity of imports is seriously flawed. It does not, for example, distinguish between import increases due to increases in supply from foreign countries and import increases touched off by a decrease in domestic production and rise in domestic price. In the latter situation, imposing additional duties and thereby raising consumer prices of agricultural products beyond the increases brought about by the decline in domestic production further reduces the living standards of consumers. Providing subsidies to domestic producers to compensate for their income losses is a much preferred policy option.

But even if all import increases were due to increases in the supply curves of foreign exporters, a quantity trigger mechanism would still be seriously flawed. Such a trigger mechanism is by itself unable to distinguish between those instances in which increases in imports do and do not indicate an appreciable worsening of living conditions for farmers in developing countries. To be able to distinguish between these conditions, it is necessary to take account of the size of the domestic market for a product in addition to the increase in imports (See the postscript below for numerical illustrations).

The failure to recognize the flaw or utilize the format of the special Uruguay Round agreement on safeguards

Had at the time of the Hong Kong Ministerial Meeting agricultural exporting nations such as the US used common sense economics and historical data to demonstrate forcefully the absurdity of using only changes in the volume of imports to measure the effects of import surges on the livelihood conditions of farmers in developing countries, the current Doha Round special safeguard rule may never have been adopted. But apparently this was never done. The Agricultural Committee's Chair's draft modalities of July 2007 states there is clear agreement that the trigger not be set in such a way to be "literally triggered hundreds or scores of times by developing countries" or be used to disrupt "trade where fluctuations upwards and downwards are the norm."[4] However, in this and other various draft modalities by the Agricultural Chair over the years, there is no indication that any members considered the quantity mechanism to be flawed as a way of distinguishing between import surges that endanger the livelihood of farmers in developing countries and those that do not.

It should be noted that at the outset of the negotiations in 2001, India proposed a special safeguard provision "on the lines of the Special Safeguard provision" included in the Agricultural

Agreement of the Uruguay Round.[5] This measure covers the agricultural imports of both developing and developed countries that agreed in the Uruguay Round to convert quotas on agricultural imports to equivalent tariffs and then to reduce these tariffs. The trigger level for utilizing this provision is "based on market access opportunities defined as imports as a percentage of the corresponding domestic consumption during the three preceding years for data are available."[6] (Italics added.)

It appears that the US and other agricultural exporting nations did not make the case against a quantity trigger at this early stage when the negotiating position of India was more flexible. India and the other developing countries understandably prefer a trigger mechanism based just on changes in the volume of imports because this is more direct and gives them greater scope for raising tariffs. Unfortunately, it now seems too late in the negotiations to be able to replace the current quantity trigger mechanism by one based both on per cent increases in imports and the level of import penetration.

The July 2008 collapse in the negotiations

The key issue over which disagreement between the US and India led to the collapse of the July 2008 Ministerial Meeting involved the extent to which developing countries could raise agricultural duties in response to import surges. India wished to have the unencumbered right to raise duties to the level it deemed necessary to protect the livelihood conditions of its farmers. The US was concerned that this freedom of action would lead to tariffs being raised to levels above those agreed on in the Uruguay Round negotiations and thus would represent a step backward from the hard-won liberalization gains of that Round in agriculture.[7]

In an effort to break the resulting deadlock, WTO Director-General Mr. Pascal Lamy proposed as a compromise that pre-Doha tariff rates could be exceeded if the increase in imports in the current year was at least 40 per cent greater than the average for the preceding three years. Ms. Susan Schwab, the US Trade Representative, accepted this figure as a compromise point (Schwab 2008), but Shri Kamal Nath, the Indian Commerce and Industry Minister, summarily rejected it with the remark: "I reject everything. I cannot put the livelihoods of hundreds of millions of people at risk" (Blustein 2008).[8]

An alternative compromise subsequently put forward would have not limited the ability of developing countries to raise agricultural tariffs above pre-Doha Round levels, provided they could show that imports were causing "demonstrable harm" to their poor farmers, as judged by a panel of neutral experts. India reportedly stated it could go along with this approach but it was rejected by the US on the ground that being "a mechanism to disrupt trade" (Blustein 2008).

An interesting feature of this proposal is that in judging whether poor farmers were being subject to "demonstrable harm", panels of experts would likely give considerable weight in their decisions to the share of domestic consumption taken by the increased imports. This is one of the measures that the general WTO safeguard article (Article XIX of GATT 1994) specifically states should be considered in determining whether increased imports are causing serious injury. Its use under these circumstances would partly compensate for the flawed quantity trigger mechanism.

Prior to the WTO Director-General's December 2008 announcement that he would not be calling for a restart of the negotiations at the Ministerial level, the Agricultural Chair issued still another revised draft modalities reflecting his views concerning a possible compromise on the special safeguard mechanism. The key differences from the proposal put forth by the Director-General at the July 2008 Ministerial were a lowering of the per cent import increase at which pre-Doha Round tariff rates could be exceeded (from 40 to 20%) and the imposition of a limit on the share of tariff lines on which the trigger mechanism could be applied at any one time (2.5%). However, the Director-General's subsequent announcement that he would not be calling for a restart of the negotiations at the Ministerial level indicates that this proposal was also rejected as an acceptable compromise.

Obama's views

The Obama Administration has yet to indicate its views concerning the issues that led to the July 2008 collapse of the Doha Round negotiations. However, given India's great fear that the livelihoods of its hundreds of millions farmers are endangered by import surges[9] and thus its position that its agricultural sector must be protected by a special safeguard mechanism that contains few restrictions on its ability to raise import duties, it does not seem possible to reach an agreement in this sector unless the Indian demands concerning the nature of this mechanism are largely met.

US negotiators, however, recognize that accepting the Indian position would in effect eliminate the credibility of the formula tariff reductions agreed on in the market access negotiations in agriculture and greatly reduce the prospects of significantly increasing agricultural exports to developing countries as their income levels grow. Ambassador Schwab seemed prepared to accept this outcome provided that developing countries such as China were willing to engage in sectoral negotiations in manufacturing that cover such industries as chemicals and machinery. However, China refused to consider further tariff reductions in these industries beyond those already made as part of its WTO accession agreement.[10]

The looming trade war and the safeguards issue

The development most likely leading to a restart of negotiations at the Ministerial level is the increase in trade-distorting measures adopted by both developed and developing countries as means of stimulating national economic recovery from the current worldwide recession. A number of countries have already provided extensive subsidies for particular industries. An almost inevitable response to these measures will be the imposition of countervailing and antidumping duties by other countries on the grounds that the measures unfairly distort trade. Policies designed to increase domestic employment by favouring the purchase of domestic over foreign goods or domestic over foreign investment are also likely to lead to retaliatory actions.

Because of a fear that this retaliatory process will lead to a worldwide trade war in which all countries lose, the leading developed and developing trading countries are likely to call for a WTO Ministerial meeting to negotiate new sets of international rules aimed at preventing such an outcome. Within this larger framework, the special agricultural safeguard issue of the Doha Round may not appear to be so important in the trade agenda of the key participants and thus be settled more quickly.

POSTSCRIPT

This postscript illustrates the logical flaw in the safeguard mechanism using hypothetical data and actual Indian data.

Hypothetical data

Consider, for example, a sector in which production is equals to 95% of consumption, exports are equal to 5% of consumption, and imports are equal to 10% of consumption, i.e., $C = P – X + M = .95C - .05C + .1C$. In these circumstances, a 10% increase in imports represents only a 1% increase in the quantity of the good supplied to the domestic market ($0.01 = .1 \times .1C / (.95C - .05C + .1C)$). Even with the typically low elasticities of demand for agricultural products, it is unlikely that a 1% shift in supply would affect food security or the livelihood conditions of poor farmers sufficiently to warrant a protectionist response. In contrast, suppose imports initially equal 90% of a good's domestic consumption, domestic production equals 15 %, and exports equal 5%. In this case a 10% increase in imports represents a 9% increase supply of the good to the domestic market ($0.09 = (.1 \times .9C) / (.15C - .05C + .9C)$) or an increase much more likely to threaten the livelihood of poor farmers. A low trigger level is necessary to ensure that all agricultural sectors deserving of safeguard protection are selected, but this low trigger level will also select many sectors in which the livelihood of farmers is not endangered or threatened by surges in imports. A trigger mechanism based on the change in import penetration in a domestic market, i.e., the increase in imports divided by the level of consumption, would not have this drawback.

Actual Indian data

The unsatisfactory nature of a quantity trigger mechanism can be further illustrated using actual agricultural data for India. Using Indian import data covering 14 products over the period from 2001 to 2007, the ratio of current year imports to the average of imports for the three preceding years can be calculated for the 14 products for the four years, 2007, 2006, 2005 and 2004. The results indicate that 17 of these 56 ratios or 30% covering 11 of the 14 products equalled or exceeded 110%. Thus, had the Special Safeguard Mechanism been in operation during this period, additional import duties could have been imposed on these products for one year.

Since comparably classified production and export data are readily available for the industries covering 8 of the 17 ratios, it is possible to calculate a measure of the livelihood effects of these import increase on farmers by comparing the per cent import increases in these 8 cases with their respective levels of domestic consumption.

In 4 of the 8 cases this calculation yields ratios of less than 1% – levels at which it seems doubtful that the import increases could have had much effect on the livelihood conditions of farmers. In the one case where the import surge is an appreciable fraction of domestic supply, 7% for wheat, the import increase was the result of a deliberate government action to increase the country's stocks of wheat. Thus, if this sample of 8 cases is representative of all 17, one can conclude for India over this period that the safeguard mechanism would have been triggered a number of cases of dubious merit from the standpoint of protecting livelihood conditions of farmers.

ENDNOTES

[1] In addition to the major developed countries, the Group of Twenty includes the more advanced developing countries such as Argentina, Brazil, China, India, Mexico, and South Korea.

[2] Disagreement on the safeguard issues has arisen mainly over arrangements with regard to the quantity trigger.

[3] The greater the per cent by which the import increase exceeds a three years moving average of imports, the greater the permitted increase in the tariff rate.

[4] These quotations are from paragraphs 104 and 105 of the July 2007 revised draft modalities of the Chair of the Agricultural Committee.

[5] Proposal on Market Access, WTO G/AG/NG/W/102, January 2001. Other developing countries also proposed a special safeguard mechanism for the agricultural products of developing countries.

[6] Uruguay Round Agreement on Agriculture, Part II, Article 5, Paragraph 4. The provision is written such that the smaller the import penetration ratio for a particular product, the larger the per cent increase in imports must be in order to raise import duties on the product.

[7] The July 2008 draft modalities by the Agricultural Chair specified that pre-Doha Round bound rates be respected as upper limits of tariff increases.

[8] This is an especially valuable account of the December 2008 breakdown because Blustein interviewed key participants in the negotiations and had access to their notes on the meetings.

[9] Shri Kamal Nath, the Indian Industry and Commerce Minister, frequently raises the possibility of mass suicide on the part of Indian farmers if imports surges are not curtailed.

[10] China and other developing countries also pointed out that participation in sectoral negotiations is voluntary under the Doha Round mandate

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(Courtsey: Robert Baldwin)

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Introduction

THE need for a Special Safeguard Mechanism (SSM) to enable poor countries to protect their important and vulnerable agricultural sectors has been a key proposals of developing country World Trade Organization (WTO) members since even before the Doha Round of trade talks was launched in 2001.

Having the SSM would help to support the livelihoods of millions of poor farmers who make up the majority of the world's poor but who are currently prevented from earning a stable living and discouraged from profitably investing in their small-holdings because of unpredictable levels and volatile prices.

Yet, negotiations on the Special Safeguard Mechanism have become heavily politicized and used to stall talks when they were not going in favour of major WTO members. Developing country proposals have become so drastically watered down during horse-trading of negotiations that the mechanism would be practically useless to developing countries if current potential outcomes are to be realized.

This brief therefore recommends that a special safeguard mechanism must be agreed as an essential component of the Doha Round of negotiations. This SSM must be workable and effective and non-burdensome. This means that current texts which impose conditions on its use - limiting when it can be invoked and the usefulness of remedies - need to be rejected and more constructive proposals made by developing countries themselves should become the basis of any negotiated agreement.

Conclusions

The ineffective remedies and stringent conditions in current texts would make both the price-based and volume-based SSM inadequate for developing countries needs. Particularly in the case of the price-based SSM, developing countries have a safeguard on paper, but not in practice.

The current proposals for the SSM compare unfavourably to the terms of the SSG enjoyed by developed countries such as the EU and US, and would therefore do little to redress the imbalances of the Uruguay Round deal.

These inadequacies are important and must be urgently addressed if the current WTO round is to earn the development credentials to which it aspires.

Many developing countries have realized in the last two years that food security cannot be secured by sourcing food on world markets and ignoring the role of small-holder farmers in guaranteeing supplies. Neither have developed countries themselves followed this prescription – using subsidies to prop up their own agricultural sectors and domestic food supplies. The food crisis of 2008 showed that it was not feasible for many low income countries to be highly dependent on the world market. They just may not be able to afford to eat should prices escalate. A basic level of food self-sufficiency is thus very important. In fact, the less financially endowed a country is, the more important it is to have a decent level of domestic food production. For liberalization of agricultural markets to work for developing countries, the competitiveness of local producers in their local/ regional markets or the availability of alternative livelihoods needs to be assured. These conditions do not hold true for many of the low-income or small and vulnerable economies.

For these reasons, effective safeguards for developing countries are a crucial element of the Doha negotiations. These may be difficult issues to raise in the context of trade talks, and clearly do not lend themselves to traditional horse-trading and power play of negotiations. Nevertheless they are crucial to the impact of a future WTO deal on the development prospects of the poorest countries.

The Impact of WTO Agricultural Trade Rules on Food Security and Development: An Examination of Proposed Additional Flexibilities for Developing Countries

by Alan Matthews, http:// www.tcd.ie/iiis/.../ IIISDP371.phpý

Introduction

DISCIPLINES on agricultural trade measures and trade-distorting domestic subsidies to agriculture were included for the first time in the Uruguay Round Agreement on Agriculture (AoA) which came into force for WTO member countries in 1995. Since then, there has been a continuing debate over whether these disciplines are appropriate for developing countries seeking to promote their agricultural development and food security. Criticisms range from arguments that the AoA rules are lop-sided and essentially favour developed countries which can continue to heavily support their agricultural sectors, that they constrain the ability of developing countries to pursue their agricultural development and food security policies, and even that they undermine the right to food of developing countries. There is a widespread perception that developing countries got a raw deal in the AoA. It is certainly the case that the extent of the additional market access offered by developed countries was less than hoped for.

Based on their experience of the implementation of the WTO agreements, developing countries prepared a list of implementation issues in 1999 aimed at removing the serious imbalances and inequities they perceived in these agreements. When the Doha Round of trade negotiations was launched in 2001, all countries agreed that a primary objective was to foster development in poorer developing countries (WTO, 2001). Paragraph 3 of the Doha Declaration "committed to addressing the marginalization of least-developed countries in international trade". Paragraph 12 noted the separate decision taken on some implementation issues and that "negotiations on outstanding implementation issues shall be an integral part of the Work Programme" in the coming years. Paragraph 13 stated that Special and Differential Treatment (SDT) measures "shall be an integral part of all elements in the negotiations on agriculture" and these measures should be "operationally effective and enable developing countries to take account of their development needs, including food security and rural development". As the negotiations continued, it became clear that different participants interpreted this mandate in different fashions. For some, mainly developing countries, this was an opportunity to carve out special and distinct trade rules that would apply to developing countries given their particular structural characteristics and development needs.

Other countries insisted that developing countries should continue to adhere to the long-term objective of "strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets", while opening the possibility for longer time periods to adapt to new rules, providing technical assistance, and permitting some exemptions and deferrals from WTO rules and other forms of preferential treatment. In this view, providing limited flexibility in some instances was a means to achieve greater ambition for the Round as a whole. This failure to agree on the ultimate objective of the negotiations helps explain why the agricultural negotiations, in particular, during the Doha Round have been so tortuous and, so far, fruitless. For many developing countries, safeguarding domestic food production capacity has become an essential component of their food security strategies. They fear that lowering protection to their agricultural sectors would negatively affect their large rural populations, which still contain the largest concentrations of poverty, and which often have limited access to employment alternatives. They also fear sudden negative trade impacts on poor producers whose vulnerable livelihoods may be severely disrupted by market instability and sudden import surges. During the Doha Round negotiations, they sought exemptions from tariff reductions for products that are important, *inter alia*, for their food security as well as the right to protect themselves from destabilizing import competition. These concerns initially found expression in the demand for a 'Development Box' to provide additional flexibilities for developing countries in WTO rules (WTO, 2000). Special Products (SPs) and the Special Safeguard Mechanism (SSM) emerged in that context as specific development box mechanisms. In the run-up to the Cancun Ministerial Council meeting in 2003 a coalition of developing countries known as the G-33 came together with the objective to secure SP flexibility for products which play an important role in food security, livelihood security and rural development as well as the introduction of an SSM for developing countries. The WTO General Council Decision of 1 August 2004 (the Framework Agreement) stated that developing country Members "must be able to pursue agricultural policies that are supportive of their development goals, poverty reduction strategies, food security and livelihood concerns" (WTO, 2004). It went on to specify that "developing country Members will have the flexibility to designate an appropriate number of products as Special Products, based on criteria of food security, livelihood security and rural development needs. These products will be eligible for more flexible treatment." The Framework Agreement further states that a "Special Safeguard Mechanism will be established for use by developing country Members." However, key aspects of these instruments – such as the selection and treatment of SPs, or the specific modalities for a new SSM, including product coverage, possible trigger mechanisms and remedies – were left for future negotiations.

Other voices urged caution in pursuing the Development Box proposals. In part, this reflects the inherent dilemma that increased flexibilities for those countries which emphasize their defensive interests in the negotiations mean fewer opportunities through increased market access for those countries, including other developing countries, which seek to promote their food security and rural development through agricultural export-led growth. But the caution also reflects the view that seeking to maintain protection may not, in fact, be an effective route to food security. As Eugenio Diaz-Bonilla noted some time ago: “Developing countries should make sure that the greater flexibility they seek within the “development” or “food security” box will really help them meet their food security and economic goals. Some of the suggested changes could help, but others may well work against the poor and the hungry”.

Low productivity in developing country agriculture is a serious problem and an important cause of poverty and hunger. Increasing agricultural productivity is an important goal for developing country policy. But whether more restrictive trade policies help to raise productivity and contribute to food security is contested. Raising food prices has the biggest negative impact on poor food consumers, many of whom are also small farmers who are net purchasers of food staples. The benefits accrue to commercial farmers in proportion to their output, and thus higher prices benefit most those larger farmers who have least need of it. Protection creates costs through stimulating inefficient production, without necessarily addressing the underlying problem of low productivity. Protection for food products leads to discrimination against other sectors which may also have potential for increased employment and poverty reduction. Development-focused policies involving measures such as improved infrastructure, education, technology and improved property rights can be much more effective than trade protection in raising productivity (Ivanic and Martin, 2006). With this debate in mind, the purpose of this paper is to explore the value of the proposed SP designation and the SSM for development, food security and poverty alleviation. In each case, the rules set out in the latest draft modalities are described and their likely effectiveness is assessed. Suggestions on how to overcome the current impasse are set out in the concluding section.

Conclusions

WTO rules constraining the protection developing countries can provide to their agricultural sectors have been a controversial element of the emerging regime governing agricultural trade. Developing countries with largely defensive interests, grouped in the G-33, have sought the maximum flexibility to maintain tariff protection both for use as a development strategy, to promote their food security and for short-term market stabilization. To this end, they have sought the introduction of SP designation as an additional way to limit tariff reductions in any Doha Round agreement, as well as seeking the introduction of an SSM which would allow additional duties in the event of particularly depressed world prices or a sudden import surge.

These proposals have been accepted in principle by all WTO members. However, the design of these instruments has been among the most difficult issues in the agricultural negotiations.

Countries with defensive interests in the negotiations, such as the G-33, fear that a lack of sufficient flexibilities in the current and proposed WTO rules could lead to economic and social disruption if tariffs on sensitive commodities are substantially reduced and if they are prevented from taking action to offset a sudden surge in imports or unusually low world market prices. Countries with offensive interests, including some developing countries, fear that too much flexibility would limit their market access gains, and thus their ability to use agricultural exports as a route to greater food security and rural development through raising the per capita incomes of their food-insecure farmers.

The negotiations have been complicated by very different views on the context in which they take place. For developed country exporters, these limits on market access by developing countries are used to justify holding back on more ambitious offers to reduce tariff peaks or trade-distorting domestic support. Developing countries, on the other hand, perceive the continued high protection for developed country farmers after the AoA as unfair and unreasonable, and argue that SPs and the SSM are merely levelling the playing field and not demands for which they should have to pay in negotiating terms. Indeed, many of the complications in agreeing modalities arise from the fact that the starting point is the historical and uneven pattern of tariff bindings, which are very different even for countries at the same level of development, rather than a more logical structure in which countries' overall tariff bindings reflect objective development criteria. The fact that countries differ over whether the negotiations are intended solely to pursue trade liberalization, or should also provide the opportunity to redress historically uneven entitlements to agricultural protection, explains to a large extent the intensity of disagreement over these issues.

The negotiations have also been complicated by very different views on what these instruments are intended to achieve. For some countries, mainly but not only developed countries, safeguards have a role in providing some flexibility as countries undertake a long-run commitment to liberalization. For the proponents of SPs and the SSM, they are mechanisms to legitimize protection as a permanent feature of the global trade regime. In much of the discourse on the impact of WTO trade rules on food security, there is a presumption that greater policy space is synonymous with greater food security. WTO rules are criticized because they limit the policy space of developing countries, although often without analysis of the link between policy space and food security. The fact that, increasingly, developing country imports are supplied by developing country exporters is just one pointer to the need for a more balanced discussion. Developing countries now supply more than one-half of all developing country food imports, and thus will be most affected by continued protection of developing country markets.

Of the two instruments reviewed in this paper, the draft modalities on SPs appear to be more settled, although this apparent agreement may be misleading and may simply reflect the negotiators' focus on the SSM and other issues since 2008. The December 2008 modalities propose that developing countries could self-designate up to 12 per cent of their tariff lines as SPs (13% in the case of SVEs and RAMs), guided by indicators based on the criteria of food security, livelihood security and rural development. This proportion is closer to the G-33 proposal of 20 per cent than to the more restrictive alternatives on the table. Further, a proportion (5%) would be exempt from tariff cuts, although the overall average cut would have to be 11 per cent (10% for SVEs and RAMs). The proposed indicators appear to be so broad that they are unlikely to constrain developing countries in their choice of tariff lines to designate as SPs. Taking into account that the majority of developing countries have substantial tariff overhang between bound and applied tariffs, and also taking into account the possibility to avoid formula tariff cuts through designating sensitive products, these SP modalities mean only a few developing countries would be required to reduce applied tariffs as a result of the Doha Round.

The situation with respect to the SSM is different. A 2010 G-33 paper noted that discussions on the SSM have highlighted the gulf that persists in perceptions on the rationale, structure and design of this instrument (WTO, 2010a). The proponents of the SSM want an effective, easy to operate instrument which addresses their development needs. They thus reject the current texts which impose conditions on its use, limiting when it can be invoked and the extent of the remedies. According to the South Centre, which has substantial influence with the G-33, "Developing country proposals have become so drastically watered down during horse-trading of negotiations that the mechanism would be practically useless to developing countries if the current draft negotiating texts (December 2008) are agreed upon" (South Centre, 2009c, p. 1).

However, for a successful outcome, the SSM modalities must be acceptable both to agricultural exporters as well as to importers. The previous analysis indicated some possible room for compromise. Applying the existing draft modalities, and particularly the volume based SSM, would seem potentially to expose a high proportion of trade with developing countries to the risk of supplementary safeguard duties. SSM proponents protest that, in practice, developing countries are unlikely to use more than a fraction of these opportunities.

Indeed, it is clear that many so-called import surges contribute to food availability when domestic production suffers a setback. But an agreement cannot be based on such vague uncertainty. If, indeed, SSM proponents envisage using the mechanism on relatively few occasions, then there would seem to be scope to construct rules which clarify when these occasions would occur. Whether these rules would involve limits on the number of tariff lines for which the SSM could be invoked at any one time, more rigorous trigger conditions or a strengthened cross-check condition would be for negotiators to decide. The SSM would allow developing countries to impose tariffs which breach their post-Doha tariff bindings. A second nettle which must be grasped is the circumstances in which pre-Doha Round bound tariffs can be exceeded. The reason why this is such an issue is because of the huge variability in bound tariffs between developing countries, depending in part on the choices they made at the conclusion of the Uruguay Round negotiations in 1994 or the timing of their subsequent accession. Countries which opted for ceiling bindings in 1994 often have high bound tariffs, while RAMs were required to offer much lower bound rates.

The remedies available to the latter group if the pre-Doha bound tariff is retained as a cap are severely curtailed. When additional SSM duties are tied to bound tariffs as in the December 2008 modalities, countries with low pre-Doha bound tariffs would very frequently exceed these tariffs with the SSM. This would be automatically the case for all countries which designated SPs with the zero tariff cut option. These products would not be eligible for the volume SSM remedy under the December 2008 draft modalities because there would be no difference between bound and pre-Doha starting tariffs in any year. However, the bigger problem is China. Some countries see removing the pre-Doha cap as allowing China to reverse the disciplines it accepted when becoming a WTO member. But not allowing China to exceed its bound tariff level would effectively eliminate its use of the SSM altogether. This issue needs to be addressed as part of a successful outcome, possibly by varying the number of tariff lines for which the pre-Doha ceilings could be breached according to the size of the bound MFN tariff.

This paper takes the view that developing countries do not require a permanent exception to WTO market access rules in order to promote their food security, livelihood security and rural development goals. By far the more important issue to address in that context is the continued under-investment in agricultural production, infrastructure and institutions by both developing countries themselves and donors. WTO disciplines do not constrain such investments in any way, even if they could do more to restrain the provision of support and subsidies in rich countries which, by encouraging additional production and thus lowering world market prices, depress the incentives for agricultural investment in developing countries. If safeguards are justified as permitting temporary protection from import surges above and beyond that provided by their tariff schedules, then the compromise proposal of Hufbauer and Adler (2008) is worth considering. In their proposal, consistent with the spirit of progressive liberalization, trigger levels would initially be set at a low level and then gradually raised, while remedies would be set at a high level and then gradually lowered. What is distinctive in their proposal is that the phasing-out of the safeguard would take place at different rates for different country groupings. They distinguish between four country groupings on the basis of their 'need' for safeguard remedies (least developed countries, small and vulnerable economies, recently acceded members and other developing countries). Setting a sufficiently long period for phasing out might provide importing countries with the comfort they are seeking while reassuring exporters that liberalization would occur (in this context, if the Doha draft modalities came into force in 2013, the SSG would be available to those countries, mainly developed countries, that have access to it for 25 years). In any case, over the next two decades, it seems likely that developing countries will find agricultural shortfalls and rising food prices more painful than gluts and falling food prices.

Special Products and the Special Safeguard Mechanism Strategic Options for Developing Countries, December 2005, http://ictsd.org/i/publications/3089/

Executive Summary

It is widely recognized that developing countries as a whole will benefit from the removal of trade distortions in agricultural trade through the Doha Round negotiations currently underway in the

World Trade Organization (WTO). Reforms to rich-country subsidies, tariff peaks and tariff escalation offer significant potential gains to many poor developing countries.

However, subsidy and tariff cuts under the Doha Round will not be uniformly good for all farmers in all developing countries. Opening markets to competition from cheap – often subsidized – foreign imports may devastate the livelihoods of small and resource-poor farming communities. Even import-competing sectors that would likely be competitive over the long term can be permanently damaged. Indeed, tariff liberalization in recent years has coincided with increasing reports of food import surges in developing countries, which have, in some instances, disrupted local markets. In general, the majority of developing countries have seen agricultural trade imports increase faster than exports. The market-oriented economic reforms that often accompany trade liberalization may also cause a shift towards large-scale, export-oriented agricultural production, leaving small rural farmers who are unable to take advantage of the new opportunities even more marginalized.

Yet, the livelihoods of these rural farmers are central to development and poverty alleviation. Agriculture still accounts for a large share of developing countries' GDP, as well as up to 70 per cent of employment in low-income countries and 30 per cent in middle-income countries. These figures reflect the importance of small-scale subsistence farming in developing countries. These farmers usually have very limited alternative employment opportunities, and are unlikely to become competitive in the short run. As such, they might be negatively affected by greater exposure to foreign competition.

In this context, a food security strategy based solely on imported food, whether through commercial imports or food aid, would entail significant risks. This is particularly so for poor countries which are highly dependent on a few export commodities whose prices show high volatility and a long-term decline. In spite of the progress seen in the diversification of production for export, these sectors still represent a small proportion of developing countries' production. This raises questions as to whether export earnings are sufficient and stable enough to pay for commercial imports of food. Two key concepts to address these concerns have emerged in WTO negotiations: allowing developing countries special tariff treatment for "Special Products" (SPs) that are important for food security, livelihood security, and rural development needs, and access to a Special Safeguard Mechanism (SSM) to afford themselves a measure of protection against import surges.

The two instruments have distinct purposes: SPs should provide targeted protection for specific products which would not survive under competitive conditions but are crucial for food security, livelihood security and rural development; the SSM would allow countries to protect import-competing sectors (including well-established ones) against import surges and/or price depression. In both cases, however, these flexibilities should help reduce the risks associated with agricultural production and create a more conducive environment for investment in productivity-enhancing technology.

Both concepts have been raised at the WTO since the outset of the agriculture negotiations in 2000. They became part of any eventual Doha Round package when Members included them in the July 2004 "Framework" agreement, which set out the terms under which the final deal would be negotiated. This represented a rare instance in the multilateral trading system where public policy objectives, as opposed to purely commercial objectives, were the explicit rationale for specific multilateral disciplines.

Introduction

The reform of the global agricultural trading system, currently under negotiation in the World Trade Organization (WTO), is crucial to establishing a "fair and market oriented trading system". Highly subsidized agricultural production and exports in developed countries, along with other forms of anti-competitive behaviour, are depressing world prices and undermining development prospects in poor countries. In addition, tariff peaks and tariff escalation are limiting many poor countries' market access opportunities and potential gains from trade.

It is widely recognized that developing countries as a whole will benefit from the removal of trade distortions in agricultural trade. However, some trade negotiators and analysts fear that vulnerable farming communities in developing countries might suffer as a result of further liberalization under the Doha Round. Many developing countries have large populations of small and resource-poor farmers with limited access to infrastructure and few employment alternatives. As tariff barriers are removed, the livelihoods of communities employed in import-competing sectors could be affected by the lower prices resulting from international competition.

On 1 August 2004, WTO members agreed on a framework in agriculture that constitutes the basis for negotiations of full modalities. The so-called "Framework Agreement" includes two key sustainable development concepts: Special Products (SPs) and a Special Safeguard Mechanism (SSM). SPs are agricultural products of particular importance to vulnerable farming communities in developing countries for reasons of food security, livelihood security or rural development. According to paragraph 41 of Annex A, these products should be subject to "more flexible treatment" in the tariff reduction negotiations. This is likely to take the form of lower tariff reductions over longer time periods than would be the case for other products. At the WTO Ministerial Conference in Hong Kong in December 2005, Members agreed that developing countries will have the flexibility to self-designate an appropriate number of SPs but that this designation should be guided by indicators of food security, livelihood security and rural development

The SSM will give developing countries the possibility of raising tariffs beyond bound levels to protect their agricultural sectors against price fluctuations and sudden import surges. A Special Safeguard (SSG) already exists in the current Agreement on agriculture, but this provision has been limited to only a few developing countries and has proved difficult for eligible countries to apply in practice. Paragraph 42 of the 2004 Framework Agreement simply states *that: "A Special Safeguard Mechanism (SSM) will be established for use by developing country Members."* In terms of how such a mechanism would function, Ministers agreed in Hong Kong that the SSM will have both a price and volume trigger mechanism.

These two concepts provide a strategic window of opportunity to address food security, livelihood security and rural development needs in current agricultural negotiations. It is also one of the few instances in the multilateral trading system where public policy objectives, as opposed to purely commercial objectives, have been explicitly stated as the rationale for specific multilateral disciplines.

There has been considerable debate among members over the way SPs are to be defined, including how to operationalize the three criteria of food security, livelihood security and rural development; and what should be the level of tariff reduction (if any) to which they should be subject. With respect to the SSM, the debate has focused on product coverage, trigger mechanisms (volume and/or price) and types of remedy.

Turning these concepts into meaningful provisions will require leadership by developing countries in the modality stage of the negotiations. The G-33 alliance members are actively pursuing this objective. Despite the diversity of the group's membership – encompassing, for example, the largest developing country (China), the smallest – agricultural producers (Grenada or Saint Kitts & Nevis), the most advanced developing country (Korea) and one of the most deprived economies (Haiti) – the coalition presents a common front based on their support for SPs and the SSM.

The International Centre for Trade and Sustainable Development (ICTSD) has sought to take advantage of this strategic opportunity to inject public policy concerns into the WTO negotiations, by engaging with leading thinkers in this area to develop a conceptual framework for operationalizing the SP and SSM concepts. This framework was subsequently applied and 'tested' in the field through a series of six-country studies on the identification of SPs and products eligible for an SSM. These studies were carried out in Barbados, Honduras, Kenya, Pakistan, Peru and Sri Lanka, in close collaboration with local researchers.

In keeping with ICTSD's strategic approach, the studies involved a wide range of stakeholders, ranging from government officials to farmers' groups and academia, in an inclusive and participatory process at the national and international levels. This empirical work was supplemented by a series of targeted analytical pieces that address cross-cutting issues such as tariff structures in developing countries and the interaction between bilateral and multilateral negotiations on SP-SSM. The material produced under this project has undergone a multidisciplinary peer review process with leading experts in the field, representing different countries, international and non-governmental organizations and academia.

The objectives of the present paper are to synthesize the knowledge generated by this fact-finding exercise and convey its main findings to policy makers, negotiators, civil society representatives, farmers' groups, and academia. The paper is not intended to be prescriptive or to propose a particular approach to accommodate the specific needs of developing countries. It rather aims to contribute to ongoing negotiations by providing some empirically-based and scientific elaboration of the SP-SSM concepts from a sustainable development perspective. To achieve this, it connects local realities – such as food insecurity, rural employment structures, market conditions or traditional food preferences – with disciplines under negotiation in the market access pillar of the WTO agricultural talks. The paper has been developed not as an academic exercise, but as a practical tool for both policy makers and stakeholders with immediate applicability to the current WTO negotiations on agriculture. It is also intended to be a living document that will incorporate relevant findings from future country case studies.

The paper is structured as follows. Sections II and III review the rationale for SPs and the SSM. Section II looks firstly at the considerations of food security, livelihood security and rural development needs, and then reviews empirical evidence of cases and causality of import surges and associated production shortfalls over the last twenty years. Section III provides an overview of the current tariff structure of G-33 countries reflecting both bound and applied rates, and a short analysis of how bilateral and regional agreements have addressed the issues of sensitive products and agricultural safeguards and to what extent they might affect developing countries' abilities to use the flexibilities under negotiation in the WTO. Section IV focuses on the national level. It proposes a possible methodology for the identification of special products and products eligible for an SSM. To do so, it provides a comprehensive set of possible indicators at the national and subnational level to: (i) identify the intended beneficiaries; and (ii) assess the importance of specific products from a food/livelihood security and rural development perspective. It also highlights the need to take into consideration issues such as substitute products, import vulnerability or current levels of protection when finalizing national lists and ranking the identified products. Finally, section V provides a number of strategic considerations in the context of the current WTO negotiations on modalities for SPs and the SSM. It lists possible options for the self-designation of SPs and reviews the pros and cons of various treatment options, ranging from a total exemption from tariff reductions to differentiated treatment following the model of the tiered formula for agricultural tariff reduction, to a combination of both these treatments. The paper ends with a presentation of a set of options to design a fully operational SSM, building on the experience and, particularly, the difficulties encountered by developing countries in using the existing SSG to mitigate the sustainable development impacts of import surges.

Conclusions

It is widely recognized that developing countries as a whole will benefit from the removal of trade distortions in agricultural trade. However, some trade negotiators and analysts have expressed concerns that the livelihoods of small and resource-poor farmers employed in import-competing sectors might be adversely affected by further liberalization under the Doha Round. The concepts of SPs and the SSM have therefore emerged as a key compromise between efforts to make substantial improvements in market access and the need to provide targeted flexibilities under special and differential treatments. In this context, multilateral disciplines on SPs and the SSM should contribute to reducing the risks associated with agricultural production in developing countries and ultimately create a more conducive environment for investment in productivity-enhancing technology. While SPs and the SSM share the same goal, they are two different instruments, designed to address two different problems. In the case of SPs, it is public policy concerns, rather than purely commercial objectives, that are explicitly stated as the rationale for specific disciplines. Such disciplines should provide targeted protection through tariff reduction exemptions or minimal tariff cuts over a longer transition period for products deemed important from a food security, livelihood security and rural development perspective, but which would not survive under so-called competitive conditions. These products are mostly cultivated by small-scale subsistence farmers, who represent a large proportion of developing countries' rural populations but who are unlikely to become competitive in the short run. As such, they would be negatively affected by greater exposure to foreign competition.

The SSM, by contrast would allow countries to raise tariffs above their bound levels for a limited duration, to protect import competing sectors against price depression and/or import surges. This tool could be useful for products that are "competitive" – or, because of SP flexibility, could "compete" with imports – but which are still vulnerable to price fluctuation and revenue related risks. As successive rounds of trade negotiations continue to reduce tariffs, the countries that are least prepared could become particularly vulnerable to external market instability and to import surges that could affect agricultural production and inflict huge adjustment costs, in both economic and social terms.

In more developed economies, such risks can be offset by market-related instruments, but in many developing countries the capacity to develop such instruments is limited and tariffs and surcharges are the only trade instruments realistically available to them. Developing countries are further pressured to use these border protection measures as tariffs are often the main source of government revenue.

A major concern regarding SPs and the SSM is the potential impact of these provisions on South-South trade. However, recent research tends to show that the so-called welfare impact of these provisions would be minimal, to developed and developing countries alike. This is partly due to the fact that trade between developing countries in subsistence and staple products today accounts for only a small share of exports in most developing country regions. At most, if SPs are fully exempted from tariff reduction, the introduction of these additional S&DT provisions might slow down the expansion of South-South trade. At the same time, it has also been argued that these flexibilities would in fact contribute to increasing South-South trade in the longer term, as they would allow developing countries to make investments in their agricultural sectors and readjust their production structure, in order to become more competitive or diversify into other sectors of the economy. The past five years have seen a significant evolution of the concepts of SPs and the SSM in the agriculture negotiations. Although WTO Members now recognize the need for SPs and the SSM, as recently stated in the Hong Kong Ministerial Declaration, there has been considerable debate over the way SPs and the SSM are to be identified, selected and made operational.

The selection of SPs constitutes a strictly national process that should take into consideration many variables. The main challenge for members is to genuinely build on the concepts of food security, livelihood security and rural development needs when doing so, instead of being driven by narrowly defined commercial considerations. Each developing country will have to undertake a process of internal reflection, discussion and consultations in order to identify its SPs based on the above-mentioned criteria. Such a process is a *sine qua* non condition for an informed and effective participation in the negotiations.

The methodology presented in this document aims to guide countries in establishing their national lists of SPs and identifying products that could be eligible for an SSM. The methodology proposed focuses on the internal process to be undertaken by individual developing countries, rather than the multilaterally agreed indicators in the context of the WTO negotiations. The methodology frames the analysis for the identification of SPs within the broader national strategies for sustainable agricultural development and poverty alleviation. It attempts to operationalize the concepts entailed in the Framework Agreement through a combination of quantitative and qualitative indicators applied at the national and sub-national levels. These indicators are designed to identify the intended beneficiaries of the SP-SSM flexibilities, and to assess the importance of specific products from a food/livelihood security and rural development perspective.

Based on the preliminary list of products identified through this process, the methodology then provides guidelines to assess the potential direct or indirect impacts of further liberalization on the selected products. In particular, it highlights the need for policy makers to take into consideration issues such as substitute products, vulnerability to imports or current levels of protection when finalizing country lists and ranking the identified products. Any prioritization of potential SPs, and the criteria and methods used for such a prioritization, would be a strictly internal process for individual developing countries. Prioritization exercises would need to take many different factors into account and would require extensive consultations with key agricultural stakeholders.

The proposed methodology has been "tested" in the field through a series of six country studies carried out in Barbados, Honduras, Kenya, Pakistan, Peru and Sri Lanka, in close collaboration with local researchers and other stakeholders, including government officials, farmers' groups and academia. The products most commonly identified as SPs are wheat, rice, maize, sugar, chicken and beef, milk and dairy products, tomatoes, onions and potatoes. The average percentage of tariff lines identified as SPs is 12.5 per cent, with a maximum of 20 per cent in one of the countries studied.

In the context of the WTO negotiations

As opposed to the national debate – the designation of SPs could be done either on the basis of a series of multilaterally agreed indicators that include specific thresholds, or by allowing countries to self-designate their SPs, guided by an agreed set of indicators. A major problem associated with the first option would be the difficulty of defining uniform thresholds for the different indicators of food security, livelihood security and rural development needs. The latter option is therefore more realistic, and it is this option which the Hong Kong Ministerial Declaration seems to support. As a *quid pro quo* for being allowed to self select SPs, developing countries might have to accept the imposition of an overall limit on the proportion of agricultural tariff lines or percentage of agricultural trade or both. Regardless of the number of SPs, there is a case for tariff reduction exemption for at least a sub-set of them. Developing countries could potentially seek complete exemption from tariff reduction for all tariff lines in a long list of SPs. However, such exemption would almost certainly have heavy cost repercussions and could lead to a steep lowering of the overall level of ambition in the agricultural negotiations. In terms of treatment, countries could ask for all SPs to be treated identically, or could classify them into different tiers with varying flexibility. As for the modalities of the SSM, developing countries have repeatedly emphasized that the SSM should not replicate the shortcomings of the SSG that have made its application very cumbersome. In other words, it should be simple and transparent, relatively easy to invoke, and triggered in reaction to exceptional market conditions. The remedy measures should be temporary in nature and should not require proof of injury. Finally, the system should be crafted in a way that doesn't lead to misuse or too frequent triggers.

At present, the use of the SSG is limited to countries that have converted their non-tariff restrictions into tariffs (so-called tariffication). The many developing countries that opted instead to offer ceiling tariff rates therefore have no access to the SSG. Between 1995 and 2004, the overall "SSG utilization rate" – the ratio of actual use to potential use – is about one per cent of its potential use by all 22 countries. A quick review of developing countries' experience in this area reveals that in several cases countries have had difficulties in promptly undertaking the necessary domestic legislative reforms to be able to use the mechanism. Others have been reluctant to do so out of concern that this might prompt affected members to initiate WTO disputes in case of erroneous application. Finally, in several instances influential importers have been successful in convincing their government not to use the SSG, whereas producer groups most affected by import surges and price fluctuations only had a minimal influence on governments' decisions. This experience tends to indicate that the risk of abuse of a new SSM might be rather low in practice.

(Contd. on p. 40)

DOCUMENTS

Committee on Agriculture
Special Session

Issues and Concerns on the Price-based Special Safeguard Mechanism:

Some Analysis and Technical Contributions for the Design and Structure

Communication by the G-33

The following communication, dated 11 February 2010, is being circulated at the request of the G-33

Introduction

The G-33 have expressed its concerns on the price-based Special Safeguard Mechanism (SSM) on a number of occasions. However, these have remained unaddressed as the focus of discussion has mainly been on the volume-based SSM.

The Hong Kong Ministerial Declaration stipulates that developing countries shall have recourse to both "volume-based and price-based SSM". These are necessary Special and Differential Treatment (S&DT) instruments, along with the Special Products (SP), for ensuring food security, livelihood security, and rural development of the millions of farmers, mostly small and marginal, in the developing world. The Doha Round must deliver on this basic S&DT requirement in order to fulfill its development mandate.

The price-based SSM is an indispensable trade remedy instrument for most developing countries. It is not surprising that all the developing countries that opted to use their entitlement to the Special Safeguard Provisions (SSG), over the period 1995–2004, invoked the price based SSG. The price-based measure is better suited to address the price sensitivities of domestic producers to low priced and/or subsidized exports which contribute to the volatility in the world agricultural markets. Developing countries will also be more susceptible to external shocks as trade liberalization deepens.

In light of the above, the price-SSM must be simple to use and effective. However, the present modalities include several restrictive conditionalities that would make the instrument not only ineffective but also inoperable. In this paper, five major areas in the Chairman's revised draft modalities text (TN/AG/W/4/Rev.4) that require immediate attention and resolution are: (a) access to and application of the SSM (triggers and cross-check); (b) remedies and pre-Doha cap; (c) "MFN trade only"; (d) *en route* shipment; and (e) *ad valorem* price-based SSM option. These have been examined in Section II.

These areas need to be addressed with a view to ensuring that the SSM is operational, accessible, and effective for all developing countries.

Conclusion

In accordance with the S&DT mandate of Hong Kong and Doha, the price-based SSM must be operable, accessible and effective in addressing temporary price declines for ensuring food security, livelihood security and rural development in developing countries.

First, as regards the trigger, a calibration of the threshold is a must so as not to unduly restrict access. The Chairman's 85 per cent trigger provides access to the SSM at a very limited level of incidence and coverage of products and must be raised. In addition, the mandatory volume cross-check can unnecessarily restrict access to the safeguard and must be deleted from the Chairman's text.

A *second* concern is the structure and ineffectiveness of the remedy. These are further compounded by the introduction of the pre-Doha cap as this will penalize products that undertook early liberalization (already low tariff regime). Thus, the G-33 strongly believes that for the SSM to be truly effective and meaningful, the remedy must be 100% and the pre-Doha cap must be removed.

Third, the MFN-trade only limitation is a serious cause of concern especially with the proliferation of regional and bilateral free trade agreements. In addition, most, if not all, of the existing bilateral and regional agreements have safeguard provisions. Thus, the G-33 is of the view that it is best left to the parties in a regional or bilateral agreement to decide for themselves whether recourse to SSM is necessary.

Fourth, the non-application of SSM to *en route* shipment is inoperable in a shipment-by-shipment case and provides further operational difficulties amid the lack of reliable and real time data and institutional mechanisms in most developing countries. It is also technically infeasible for the shipment-by-shipment price-based SSM since the level of remedy every shipment may vary depending on the price gap. The G-33 views that advance information through notification of price triggers is already sufficient for the exporters to execute informed business decisions; and thus the *en route* shipment prohibition should not apply to the price-based SSM.

Fifth, the *ad valorem* price SSM method offers an option to institute a predictable price safeguard since a uniform duty is to be applied over a definitive period of application.

Finally, in order for us to move forward on the above issues on the price-based SSM, the G-33 urges the Members to address these issues as soon as possible in the interest of delivering a truly developmental outcome consistent with the Doha and Hong Kong mandate.

(http://www.r1phils.org/ 11 February 2010)

(Contd. from p. 38)

In terms of coverage, neither the Framework Agreement nor the Hong Kong Ministerial Declaration exclude any developing countries or particular products from eligibility for the SSM, nor do they restrict its coverage to a particular number of products. There is no particular economic rationale for restricting the number of product eligible beyond the fact that they should meet the trigger requirements.

In the Hong Kong Ministerial Declaration, it was decided that developing countries "will have the right to have recourse" to both volume and price-based triggers. While the use of a volume-based trigger has the advantage of being based on a verifiable event, the damage to the domestic sector is often due not to the volume of imports, but to the reduction in net producer income from the ensuing price decline. The price based trigger is a particularly appropriate tool when prices fall and import volumes remain constant.

The SSM should respond to short-term price depressions below a trigger threshold, but not to structural price declines. Structural problems need structural policies for training, research, technology and infrastructure to improve welfare in rural areas. Once a trigger has been activated, the remedy or the action to be taken should be commensurate with the depth of the import surge or the level of the price depression of the commodity in question. In addition, the duration of the application of the safeguard should match the duration of the injury that the remedy is trying to address. This will avoid a repetition of some of the problems that dogged the Special Safeguard (SSG) in the Agreement on Agriculture.

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