

Key agricultural trade issues for ACP countries

# The way forward after Hong Kong

*While the 6th WTO Ministerial Conference held in Hong Kong in December 2005 was reported as a modest but significant step in the current trade negotiations process, establishing detailed modalities especially in agriculture by the end of April 2006 remains the major challenge for WTO members. The achievement of the objectives of the Doha Development Agenda will mainly depend on the willingness of the so-called G4 (EU, USA, Brazil, India) to take into account the needs of the poorest countries. As part of the 90 ACP countries will have to continue pushing their own trade agenda with the current EPA negotiations with the EU.*

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The aim of this article is to review the critical trade issues faced by African, Caribbean and Pacific (ACP) countries, analyze these issues in the light of recent developments in the multilateral agricultural trade negotiations and suggest priorities for the forthcoming months of negotiations and consultations.

## Key agricultural trade issues faced by ACP countries

The outcomes of WTO agricultural trade negotiations will have serious implications for ACP countries although more than half of them are classified as Least Developed Countries (LDCs) and therefore exempted from most commitments. Before analysing those implications, it is important to highlight the critical agricultural trade issues currently faced by ACP countries in terms of market access, export subsidies, domestic support and supply side constraints and to examine the extent to which these issues are also linked to the current process of Common Agricultural Policy (CAP) reform.

**Market access (MA).** For more than thirty years, ACP countries have enjoyed trade preferences on the EU market within the framework of the Lomé Conventions and the Cotonou Agreement. The value of these trade preferences however is being eroded by three different processes: multilateral trade liberalization, bilateral trade liberalization (through the conclusion by the EU of free trade arrangements - FTAs - with other trading groups), and the process of CAP reform. The impact of these processes varies from product to product and hence from country to country. Although the multilateral process of trade liberalization directly reduces the preferential margins of ACP countries, it is probably the least adverse of the three aforementioned processes.

Multilateral tariff reductions largely exacerbate the level of erosion resulting from EU CAP reform (which reduces EU prices towards world market price levels - sugar and beef being two of the most significant examples) and from EU FTAs (which



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grant preferences to a growing number of regions and countries – provisions made by EU FTAs on trade in fruits & vegetables with Mediterranean countries being one possible example).

For non LDC ACP countries which are not benefiting from the «EBA (Everything But Arms) initiative» and which trade under the trade provisions of the Cotonou Agreement, the issue of **tariff escalation** might in some cases prevent the development of value added production, thereby preventing escape from the «commodity trap». In the case of the EU market, this mainly applies to sensitive products such as sugar (for example, whereas fresh and dried mangos are exported duty free, processed mango products containing sugar are taxed at euro 15 per 100 kilograms and mango juice is taxed at euro 12.9 per 100 kg).

Market access issues for ACP countries are increasingly focused on the **non tariff barriers (NTBs)** which are compounding the process of preference erosion described above. For ACP countries, there are two main barriers:

- rules of origin (RoO) and
- sanitary and phytosanitary (SPS) issues.

The RoO applied by the EU to exports from developing countries are particularly strict. A recent study carried out by IDS (University of Sussex) indicated that the EU RoO can require local value addition of 60 percent of the final price of the product in order for LDCs to secure duty free access. Although it seems legitimate for



To meet the high SPS standards and to be more competitive on the world markets advanced processing technologies have to be implemented.

the EU to avoid risks of re-exportation, the RoO seem too rigid and have in certain cases led to ACP countries preferring to export under the GSP regime.

The adoption and implementation of stricter EU

food safety standards and sanitary and phytosanitary (SPS) regulations is also a particular and increasing concern for ACP countries, given that agricultural products account for an average of 36 percent of ACP exports to the EU (substantially more for many African ACP countries). This is especially the case since the adoption in April 2004 by the EU Council of a series of key regulations for the EU food-safety policy, which basically pose two important challenges for ACP countries:

- technical compliance with EU food safety standards; and
- institutional capacity for the certification and verification of compliance.

The SPS issues are dealt with at the multilateral level through the WTO Agreement on Sanitary and Phytosanitary (known as 'SPS Agreement'). Adopted in 1994, this Agreement aims to ensure that

- whilst any level of health protection can be adopted, this must be based on scientifically based evidence and that
- a measure shall not discriminate against or between trading partners more than is necessary to reach its goal of SPS protection.

The SPS Agreement commits developed countries to increase the provision of technical assistance to developing countries. This is however quite insufficient compared to the current needs identified. Indeed, the EU has recognised that much more needs to be done but at the all important national level little progress in

deploying EU assistance in support of food safety control systems has yet become evident.

#### **Domestic Support and Export Subsidies.**

The trade distorting support provided by developed countries to their farming sector is a major area of concern for ACP countries. As a matter of fact, by supporting domestic production and exports of agricultural surpluses on the world market, OECD countries (mainly the EU and the US) have not only prevented ACP countries from competing on the EU market but have also generated unfair competition with ACP products on local and regional markets (it should however be mentioned that for some products such as sugar, the support provided by the EU has also directly benefited ACP exporters).

These two issues have to be seen against the background of the EU CAP reform process which is especially critical for African ACP countries which are closely linked to the EU market both in terms of exports and imports.

A fundamental shift in the nature of the EU CAP started in 1992 with the reform of the cereals sector. This involved moving away from systems of price support to systems of direct aid to farmers. Schemes for direct aid to farmers are seen as more WTO compatible, since they are deemed less trade distorting (green box or blue box measures). The aim of this process of reform is to reduce the internal prices of EU agricultural products closer to world market price levels, without undermining farm incomes.

But by reducing prices and closing the gap between EU and world market prices, it is easier for EU producers and processors to export agricultural and processed agricultural products. This process of reform is reducing, and in some sectors eliminating, the need for export refunds, which are WTO-constrained. Once completed, the objective of the CAP reform is to increase the price competitiveness of EU exports of agricultural and simple value added food products. This could disrupt ACP markets (particularly in Africa) and ACP efforts to move up the agri-food value chain.

**Supply side constraints.** Last but not least, trade potential in ACP countries and especially in African LDCs, is severely constrained by limited production capacities in spite of potential improvements in market access, export subsidies and domestic support.

«Supply side» constraints range from poor public infrastructure with high transaction costs and the unreliable provision of public utilities along with their associated

costs through weak and inadequate institutional and policy frameworks to low labour productivity.

In the food and agricultural sector, unfavourable weather conditions associated with the lack of irrigation systems, insecure land tenure, low level of technology and weak institutions are directly impacting on the production capacity of ACP countries. In addition, their processing and marketing capacities are severely limited due to a lack of appropriate post-harvest and processing equipment and technologies and inadequate and unreliable market information systems. While the lack of finance and capital is also an important element, their capacity to ensure quality products is certainly one of the key challenges for ACP agricultural exporters.

The issue of supply side constraints is very important for ACP countries in the context of building regional market integration and negotiating Economic Partnership Agreements (EPAs) with the EU.

### **The Hong Kong Ministerial Declaration: what implications for ACP countries?**

In the light of these major issues facing ACP countries, what is the significance of progress to date in WTO agricultural negotiations, particularly the Hong Kong ministerial text agreed on 18 December 2005.

**Market Access.** With respect to market access, members agreed to a four band tariff cut while no agreement was reached on the relevant levels of threshold for both developed and developing countries. The final declaration provides for different kinds of flexibility in this pillar: sensitive products, special products (SP) and special safeguard mechanisms (SSM). While these flexibilities still need to be worked out in more details, some progress have been made compared to the 2004 July framework agreement. On special products, the text takes up the G33's proposal allowing DCs to «self-designate an appropriate number of tariff lines as Special Products guided by indicators based on the criteria of food security, livelihood security and rural development». In addition, DCs «will also have the right to have recourse to a Special Safeguard Mechanism based on import quantity and price triggers». However, no numbers are given. In this regard, the need to have strong, simple and pre-emptive safeguard provisions seems to be critical for ACP countries, given the extent to which CAP reform is reducing input costs for EU food sector exporters and allowing

them to exploit fully their economies of scale (e.g. expanding EU exports of «preparations of cereals» to African markets and to a certain extent EU poultry exports to Africa).

Another key issue has to do with para. 9 of the final declaration which, thanks to strong requests made by the ACP group during the last night of the Hong Kong conference, reiterates the agreement reached in July 2004 regarding the importance of long standing preferences and preferences erosion. This is of vital interest to ACP countries which potentially have the most to lose from the multilateral process of tariff reduction given the traditionally high margins of preference which they have enjoyed on the EU market. However, like the 2004 July framework, the Hong Kong text still gives no indication as to how preference erosion will be addressed.

Finally, members agreed to the opening up of developed and advanced developing-country markets (not only agricultural products) to LDC exports in 97 percent of all tariff lines. While this «duty free quota free» initiative appears to be a substantial outcome of the Hong Kong negotiations, a more detailed analysis shows that 3 percent of all tariff lines would allow countries to exclude a high number of products. Under the EBA the use of 18 tariff line exclusions was enough to exclude sugar, rice and bananas, all areas where LDCs could relatively easily expand exports. The 3 percent criteria will allow the exclusion of 10 times this number of tariff lines.

**Domestic support.** An agreement on a three-band approach to the reduction of domestic support was reached in Hong Kong but without any details agreed on the size of the cuts to be made. Members are committed to make cuts to overall trade distorting domestic support that are at least equal to, if not greater than, the sum of the reductions in Amber box, Blue box and *de minimis* support. Another important provision is that «developing country Members with no AMS commitments will be exempt from reduction in *de minimis* and the overall cut in trade-distorting domestic support».

While the text provides for a real cut into levels of developed countries subsidies (and not just the «water» between the bound and the applied levels) and gives some flexibility to DCs to provide domestic support, it however contains no rules for the criteria of the Blue box. It also leaves unaddressed the issue of whether so called «non-trade distorting» is really non-trade distorting.

**Export competition.** The commitment made by WTO members to remove «all

forms of export subsidies and disciplines on all export measures with equivalent effect» by 2013 in a «progressive and parallel manner ... so that a substantial part is realised by the end of the first half of the implementation period» has often been commented as the most concrete achievement of the Conference. As a matter of fact, the EU's agreement to 2013 has probably been a key factor in encouraging members to adopt the final Declaration. This decision, while welcome, should not be seen as a concession made by the EU since successive waves of reform since 1992 (by closing the gap between the internal price and the world price) have progressively reduced the need for export reforms, while additional reforms scheduled for 2013 will allow the EU to completely eliminate the need for (as opposed to the use of) such export refunds.

From an ACP perspective the deferment of the elimination of export subsidies until 2013 is seen as something of a set-back, since they had wanted a more rapid phasing-out of export subsidies. However, so much will depend on how this phasing-out is progressively introduced. In this context ACP countries should focus on those export subsidies which currently generate the most significant adverse trade effects and seek restraint informally in those areas of concern where the EU is adamant on the 'back loading' of elimination commitments.

**Cotton.** The discussions in Hong Kong between the so-called C4 (Chad, Mali, Benin and Burkina Faso) and the US delegation did not go very far on this very highly sensitive issue, despite the revised offer put on the table by the C4 during the conference. The final declaration merely reiterates the commitments of the 2004 July framework, with no substantial progress on domestic support, which in the case of the US cotton sector is by far the most trade-distorting element. The commitments made in terms of increasing market access for cotton products are not really meaningful for the C4, and the elimination of export subsidies by 2006 should not be seen as an outcome of the negotiations but as a simple enforcement of the decision of the DSB panel after Brazil challenged the USA on the step 2 programme. As noted by Oxfam in Hong Kong, «US negotiators managed to turn a dispute settlement ruling against the USA into a bargaining chip for which developing country negotiators were expected to make concessions in other areas».

From the C4 perspective, it is hoped that the Hong Kong «outcome» on cotton will not be seen as a final step. The success of the Doha round will largely depend on a specific outcome from the negotiations

on cotton. However, it seems that some US congressmen have already indicated that they would vigorously oppose any deal in which cotton would receive a specific treatment.

## Way forward after Hong-Kong

As already indicated by some high officials during the last series of press conferences in Hong Kong, the Ministerial declaration is not the end of the Doha round but just a step in the process. The next step for WTO members is to build on this text and agree on detailed modalities by the end of April 2006.

As part of the G90 and the G110, ACP countries will need to define as soon as possible strategies which would ensure that this round is effectively delivering tangible outcomes for them in the light of the key agricultural trade issues mentioned above. This means that ACP countries might want to re-examine how their priorities could be achieved at the multilateral level but also at the bilateral level considering the current EPA negotiations. ACP agricultural trade priorities such as **preference erosion, Special Products, Special Safeguard Mechanisms and cotton** will need to be supported very strongly in the coming months, with in particular, practical ways being found to address the issue of preference erosion. This could perhaps involve the establishment of integrated and targeted programmes of assistance and immediate trade concessions to assist ACP countries in moving up the value chain, thereby reducing their dependence on basis agricultural prices. However, a radically new approach in terms of promoting the processing, marketing and distribution of ACP agricultural products will be needed if this is to bring ACP countries any real benefits. More broadly, this implies a need for an in-depth analysis of the lessons learnt in Hong Kong including an updated review of the new coalitions emerging and their rationale. For instance, ACP countries will probably have to see whether their alliance in Hong Kong with Brazil and India in the G110 could be sustained where the issue of preference erosion is so fundamental to the future value of the ACP of its preferential trade relationship with the EU.

Some findings in this paper are based on the analytical materials published by CTA on its Agritrade website (<http://agritrade.cta.int>) and on the Hong Kong daily updates produced by CTA and GRET during the Hong Kong Ministerial meeting.