ILEAP

INTERNATIONAL LAWYERS AND ECONOMISTS AGAINST POVERTY

Negotiation Policy Brief No. 2

Agricultural Products

Modalities

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This Negotiating Policy Brief has been prepared to assist developing countries in the Meetings of the Negotiating Group on Market Access for Agricultural Goods. Comments can be sent to the ILEAP Secretariat (ileap@ileapinitiative.com) or to the leader of the advisory group that prepared this Brief (Sheila Page: s.page@odi.org.uk)

Contents

1. Objective and Background

The objective of this Negotiation Policy Brief is to provide developing countries and least developed countries, particularly those in Africa, with information, independent policy analysis and operative suggestions relating to the establishment of modalities for negotiations on agricultural products (see appendix 1) within the framework of the World Trade Organization Doha Development Agenda negotiations. The brief is intended to inform and assist decision-makers and delegates in the formulation of their policy and negotiation positions through integrated economic and tactical analysis with a view to promoting the achievement of developing country goals. Generally stated, developing country goals in the agricultural negotiations are to strengthen rules and specific commitments on support and protection and to address distortions in agricultural markets, while retaining appropriate measures of protection for their own developing economies.

It is important that the agricultural modalities be designed in a manner that conforms to the goals of developing countries in the agricultural negotiations. In the following section, these goals are presented; subsequently, a general assessment of the draft modalities and their consistency with these goals is provided. Then, detailed analyses of the main agricultural modalities negotiating items are set out, with practical reference to a number of developing African countries (Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, Kenya, Malawi, Mali, Nigeria, Senegal, Tanzania and Uganda). The report focuses on the impact of the Harbinson modalities on tariff reductions and market access with particular reference to preference erosion. The report also examines the proposals for special and differential treatment and develops criteria for determining 'special products'. Finally, the paper examines the broad impact of changes in domestic support and export subsidies proposed under the Harbinson text.

2. Developing Country Goals and the Doha Mandate

Agriculture is a key sector in most African economies, accounting for more than a third of GDP, nearly 70% of employment and 40% of export earnings. Consequently, Africa's performance in world agricultural markets is of primary importance for economic growth, employment and incomes. Most African economies confront major challenges participating in such markets due to impediments which inhibit these countries from exporting to the markets of developed countries.

Reducing barriers to agricultural trade is the key issue of the Doha Round of multilateral trade negotiations for most African countries. Dealing effectively with issues of tariff and non-tariff barriers to agricultural trade will be an important determinant for the success of the current round of trade negotiations. The multilateral trading system needs to deal effectively with the huge outlays on domestic support provided by developed countries to their farmers, which offsets the competitiveness of Africa's agriculture on world markets. Similarly, addressing issues of tariff peaks and tariff escalation are also important, as they inhibit African countries from adding value to their raw materials and primary products. The modalities currently being discussed in the WTO have to produce results which will not only result in a marked liberalisation of world agricultural markets, but also provide avenues for African countries to increase and stimulate their agro-processing industries.

The Doha Ministerial Declaration stated that further negotiations on agriculture should aim at substantial improvements in market access; reductions of all forms of export subsidies; reductions in trade-distorting domestic support; make special and differential treatment for developing countries an integral part of all elements of the negotiations; and incorporate non-trade concerns in the new Agreement. The discussions so far have focused on defining modalities for undertaking negotiations in these areas, including establishing numerical targets for some elements, such as tariff reduction levels.

The major areas of focus have been on market access issues; competition policy in agriculture; domestic support measures; special and differential treatment; and non-trade concerns. On market access issues the negotiations have covered tariffs, tariff quota administration, special safeguard measures, and importing state trading enterprises. On export competition, they have covered issues such as export subsidies; export credits; food aid and exporting state enterprises. In addition, proposals to strengthen the existing provisions on export restrictions, particularly with a view to taking account of food security concerns, have also been discussed.

African countries have been developing strategic alliances in these negotiations. Although African countries have submitted joint proposals on certain issues, they have also been combining forces with other developing countries, and even developed countries, to articulate their interests wherever possible. The main goal for developing countries in this context is "to undertake a programme of fundamental reform

encompassing strengthened rules and specific commitments on support and protection" to address distortions in agricultural markets[1].

The positions of African countries on further negotiations of the Agreement on Agriculture have evolved over a period of time. They are reflected in the Ministerial Statement and Africa's Negotiating Objectives and Strategies adopted by African Ministers of Trade at Abuja in September 2001, prior to the Doha WTO Ministerial Conference. The position of African countries is also reflected in the Joint Proposal on Agriculture submitted by African countries to the Committee on Agriculture in March 2001. The WTO African Group has made a comprehensive submission during the first phase of the Agriculture negotiations outlining the main concerns of African countries[2] supplemented by submission of individual countries.

African Ministers stated in Abuja that: the African Group has been guided by the objectives of the continuation of the reform process contained in the preamble and in Article 20 of the Agreement on Agriculture that the objective of the reform of Trade in Agriculture should aim at providing "for substantial progressive reductions in agricultural support and protection sustained over a period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets". Of critical importance to the African Group are provisions which identify non-trade concerns; special and differential treatment; least developed countries; net food-importing developing countries' concerns; and the establishment of a fair and market-orientated agricultural trading system. Special and differential treatment is a horizontal issue cutting across market access, export competition and domestic support to compensate for structural and economic inequalities between developed and developing countries in terms of their share in world trade, access to technology and financing as well as infrastructure. An operational and binding special and differential treatment provision is therefore vital. The Doha Ministerial Declaration reaffirms that "special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development".

[1] Committee on Agriculture, Special Session Informal Meeting, 18-20 November 2002, *Comprehensive Reform in the Areas of Market Access, Domestic Support and Export Competition with Effective S&D for Developing Countries in Agriculture Negotiations, Specific Input: Propoal presented by Dominican Republic, Honduras, Nicaragua, Nigeria, Pakistan, Sri Lanka and Venezuela*, JOB(02)/174.
[2] See G/AG/NG/W/142.

3. Negotiations

Agricultural negotiations cover issues relating to three pillars: market access, domestic support and export subsidies. They are conducted within the WTO by the special (negotiating) session of the WTO Committee on Agriculture (CoA), created at the first meeting in March, 2002[3].

According to the Doha Declaration, "modalities for the further commitments [in agriculture], including provisions for special and differential treatment, [were] to be established no later than 31 March 2003"[4]. These modalities are to set out targets – including numerical targets – as well as rules-related elements based on which Members will subsequently prepare their individual offers. Defining modalities is, therefore, one of the most critical stages of the agriculture talks, as the modalities to be agreed will determine the shape of the final outcomes of the agriculture negotiations under the Doha mandate.

On 12 February 2003, Stuart Harbinson, chair of the CoA, submitted his first modalities proposals[5]. Despite the many unresolved issues on how to address the further reduction of Member's tariffs, their export subsidies and domestic support, these proposals offered options for modalities even in the most contested areas such as the formula for tariff reduction. On substance, the paper thoroughly addressed special and differential treatment for developing countries in most of the modalities items – as provided for in the Doha Declaration – while no particular role was assigned to agricultural non-trade concerns on an across-the-board basis.

Following intense discussions of the first proposal at the Special Session held between 24 and 28 February 2003, a number of participants indicated that the draft did not correspond in various ways with their vision of the modalities to be established. Both importers and exporters of agricultural products expressed disappointment with the document, finding proposals either too ambitious or not ambitious enough. Most WTO Members, however, expressed a willingness to examine technical matters, such as tariff quota administration, export credits, food aid and some aspects of special and differential treatment in the area of market access. However, while a number of useful suggestions emerged, positions in key areas remained far apart. Many developing countries insisted on the immediate elimination of export subsidies, elimination of trade-distorting support and capping and tighter rules for non-distorting support.

The Chairman on 18 March 2003 issued a revision of the first draft modalities[6], based on the outcome of negotiations and consultations among WTO Members. However, Harbinson, who actually intended to prepare a third modalities draft, found himself unable to do so due to Members' inability to compromise on the key parameters for an agricultural framework accord. There were differences in views with regard to appropriate provisions for special and differential treatment, even among developing countries. Small island developing states and other vulnerable developing countries proposed modalities for addressing their concerns. Net food-importing developing countries called for the implementation of the Decision of Measures Concerning the

[3] TN/AG/1
[4] WT/MIN(01)/DEC/1
[5] TN/AG/W/1
[6] TN/AG/W/1/Rev. 1

Possible Negative Effects of Reform Programme on least developed countries and net food-importing countries. There were different views regarding the extent and the ways to take into account non-trade concerns such as food security, poverty alleviation, rural development, protection of the environment, food safety and animal welfare. In particular, WTO Members were dissatisfied by the fact that the revised draft ignored what they called the majority view (75 out of 145 WTO Members), which favoured the use of the Uruguay Round formulae for tariff reduction, as opposed to Harbinson's three-band formula. Although most of the members of the WTO agreed on the need to make progress in the reform of agricultural markets, consensus did not emerge as to how to achieve this objective. Finally, on 31 March Harbinson had to formally declare that Members' efforts to agree on agricultural modalities by the end-March deadline had failed. Nevertheless, Harbinson is set to continue consultations, and plans to hold further CoA negotiations in June and July. But despite Harbinson's hope to have modalities established as soon as possible, it appears unlikely that modalities can be agreed before trade ministers meet in September for the forthcoming WTO Ministerial Conference in Cancun, Mexico.

4. An Analysis of the Draft Modalities and Central Substantive Issues in the Harbinson Text

4.1 Market Access

4.1.1 Market Access under the Uruguay Round Agreement on Agriculture

Of the three pillars covered by the Uruguay Round Agreement on Agriculture (market access, export subsidies and domestic support), barriers to market access have been estimated to inflict the greatest damage to efficient agricultural exporters, but their effects vary widely among countries. The 1986 Ministerial Declaration promised that negotiations should: "achieve greater liberalisation of trade in agriculture…by: improving market access through, *inter alia*, the reduction of import barriers". In fact, the inclusion of agriculture was a condition that many developing countries made in order to agree to launch negotiations.

Following the Uruguay Round industrial countries committed to reduce agricultural tariffs by 36% on a simple average basis and a minimum reduction of 15% at the product level. However, many countries used the degrees of freedom implied by simple averaging in order to minimise liberalisation by applying proportionately higher reductions to the lowest tariffs. Very little liberalisation took place in highly protected sectors like sugar and dairy. Tariffication of non-tariff barriers during the Uruguay Round Agreement on Agriculture also produced many specific tariffs which, by making the level of protection contingent on the level of international prices, distorted the pattern of production and trade more than *ad-valorem* tariffs. Tariff escalation also remained a prevalent characteristic of agricultural protectionism.

Tariff quotas blossomed out of the Uruguay Round obligation to provide minimum access to their markets. Importing countries concluded that tariff quotas were an appropriate instrument to implement this obligation; low in-quota tariffs facilitated imports up to a threshold level above which, the tariff rose steeply. Estimates indicate that the utilisation rates of quotas have been declining and are well below 100%: the simple average utilisation rate for OECD countries declined from 67% in 1995 to 63% in 1998. Although low levels of utilisation rates might be explained by demand factors or lack of product availability in exporting countries, many observers expect that the explanation is due to the administration of the quotas. For example, some quotas have been allocated to specific countries in a discriminatory way. Thirty-four tariff-quota in the US, and nineteen in the EU are allocated on a country-specific basis; the latter mainly to ACP countries and central and eastern European countries. The allocations to specific countries is most prevalent for dairy products, sugar and beef. Other forms of quota allocation include: first-come first-served, auctioning, historical importers, licenses on demand, associations of producers, state enterprises, and allocations by exporting countries.

In spite of the above-mentioned trade instruments, the Uruguay Round Agreement on Agriculture developed an additional trade instrument, the special agricultural safeguards

(SSGs). The products eligible to be protected by this instrument were those that underwent a tariffication of NTBs and could only be invoked after quotas were filled. The biggest loophole in these safeguards were that they could be implemented without the injury test: safeguards were triggered by certain threshold levels on import prices and quantities. In the Uruguay Round Agreement on Agriculture, eight OECD countries retained the right to use SSGs on their tariffied products.

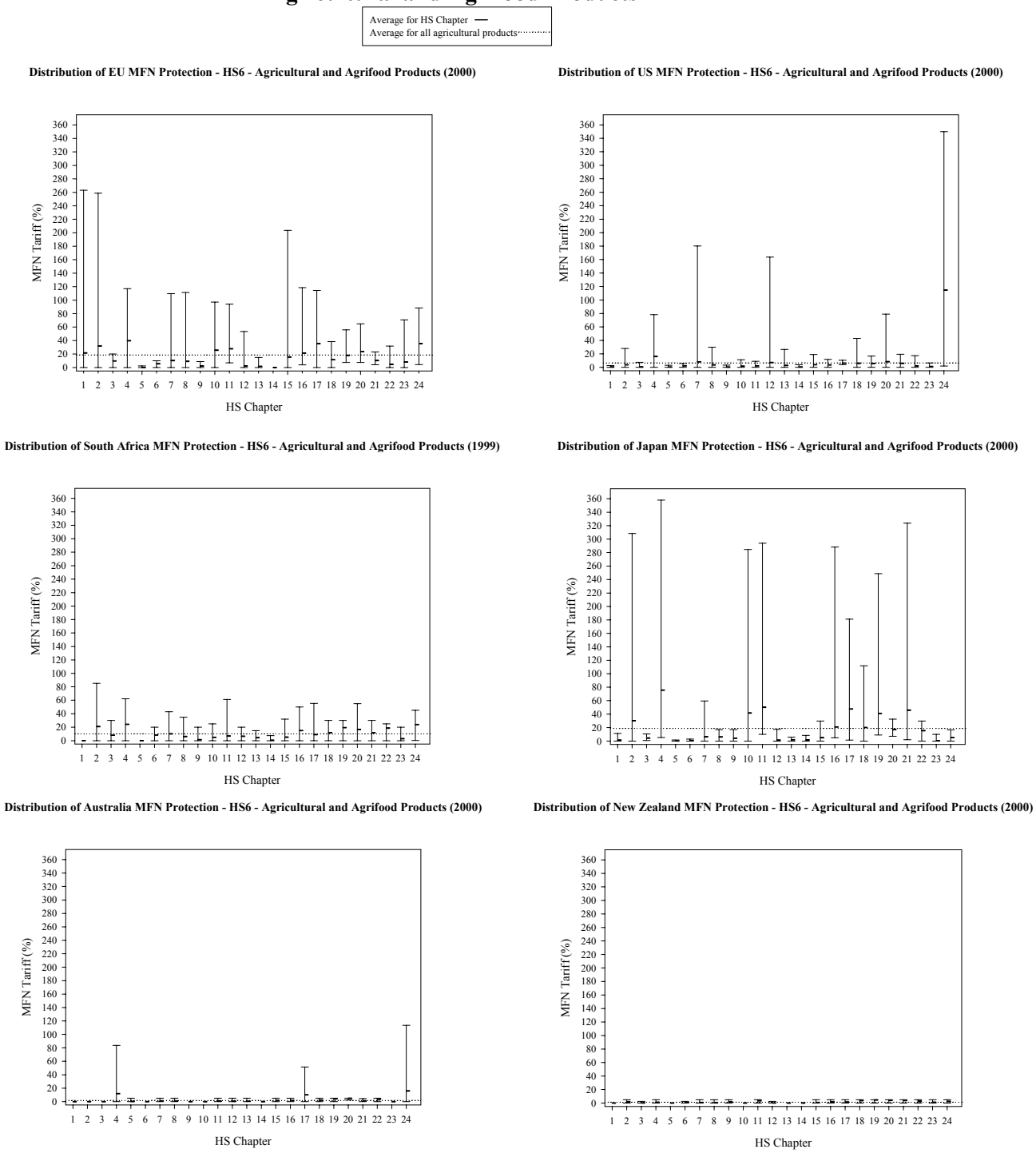
4.1.2 The Harbinson Modalities for Tariff Reduction

Following the implementation of the Uruguay Round Agreement on Agriculture there is evidence of high average agricultural tariffs and high tariff peaks for a number of major developed country importers of agricultural products. Integrating two instruments of protection (*ad valorem* MFN tariffs and *ad valorem* equivalents of specific tariffs[7]), figure 1 illustrates the mean and range of outside quota agricultural tariffs at the HS-6 digit product level applied by the European Union, United States, South Africa, Japan, Australia and New Zealand across agricultural sectors (defined at the HS-2 digit chapter headings). At a first glance, the dispersion of protection is very large, from numerous duty-free goods to highly protected goods. The EU and Japan have the highest average agricultural tariffs (19%) and the greatest number of tariff peaks. Notably, New Zealand has the lowest average agricultural tariffs (1.4%) and virtually no tariff peaks.

In contrast, the agricultural tariffs of the African countries investigated in this study reveal a different pattern of protection. Average agricultural tariffs for Cameroon, Ghana, Kenya, Senegal, Tanzania and Malawi (around 20%) are similar to those of developed country importers. However, average agricultural tariffs are notably lower for Burkina Faso (5%), Côte d'Ivoire (4.8%), Mali (4.4%) and Uganda (13.3%) and higher for Nigeria (52.4%). With the exception of Nigeria, tariff peaks are fewer and of a lower magnitude. Figure 2 illustrates the mean and range of agricultural tariffs at the HS-6 digit product level applied by Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, Kenya, Malawi, Mali, Nigeria, Senegal, Tanzania and Uganda. However, in some cases applied rates for these countries are much lower than the bound rates. Therefore, the Harbinson formula may not fundamentally affect the *status quo* for some items. The application of the Harbinson proposal to the current bound tariffs of these economies will maintain the 'new' bound tariff above the current applied level for these products. In other words, whilst the reform will reduce the comfort zone it may not, in itself, result in many significant cuts to the tariffs applied by these countries at present.

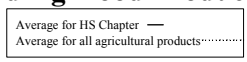
[7] Calculated by dividing the tariff by the unit value of multilateral imports.

Figure 1: Distribution of Developed Country MFN Protection – HS6 – Agricultural and Agrifood Products[8]

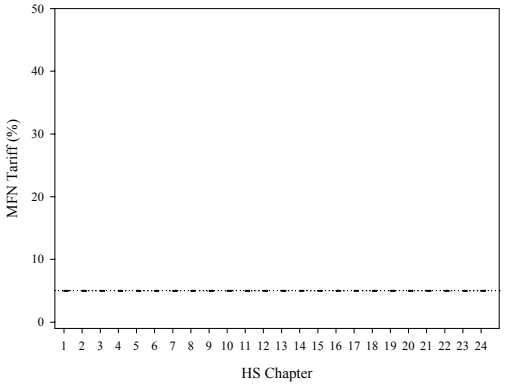


[8] Source: UNCTAD TRAINS database (2001) and authors' calculations.

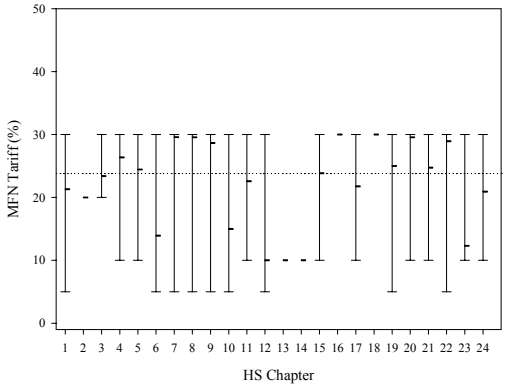
Figure 2: Distribution of African Country MFN Protection – HS6 – Agricultural and Agrifood Products[9]



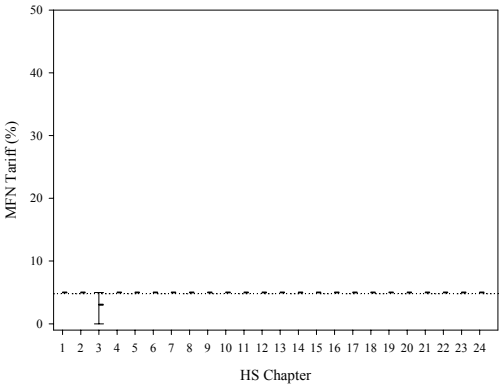
Distribution of Burkina Faso MFN Protection - HS6 - Agricultural and Agrifood Products (1993)



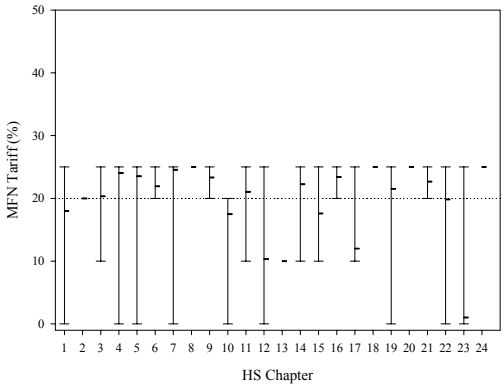
Distribution of Cameroon MFN Protection - HS6 - Agricultural and Agrifood Products (1995)



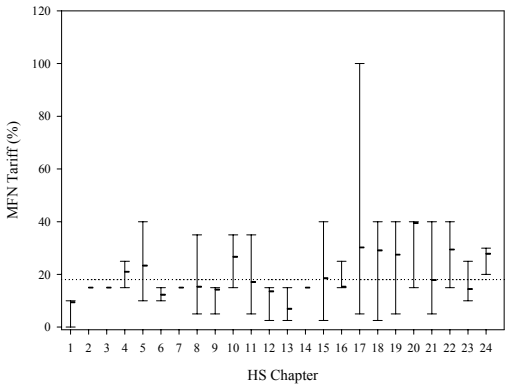
Distribution of Côte d'Ivoire MFN Protection - HS6 - Agricultural and Agrifood Products (1996)



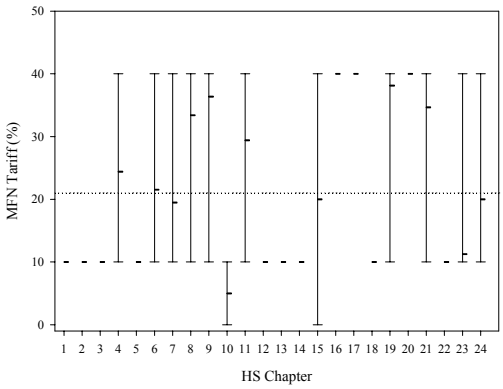
Distribution of Ghana MFN Protection - HS6 - Agricultural and Agrifood Products (1993)



Distribution of Kenya MFN Protection - HS6 - Agricultural and Agrifood Products (2000)



Distribution of Malawi MFN Protection - HS6 - Agricultural and Agrifood Products (1999)

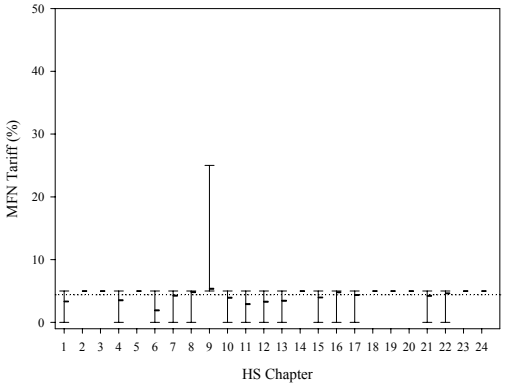


[9] Source: UNCTAD TRAINS database (2001) and authors' calculations.

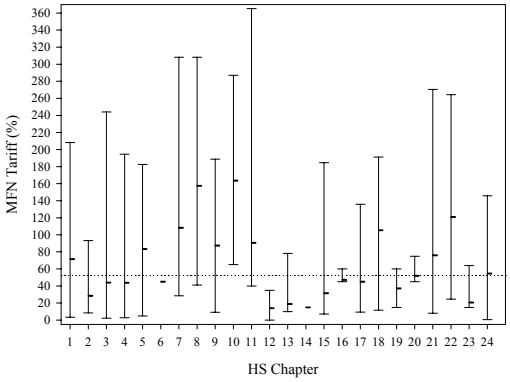
Figure 2: Distribution of African Country MFN Protection – HS6 – Agricultural and Agrifood Products[10]

Average for HS Chapter —
Average for all agricultural products ·····

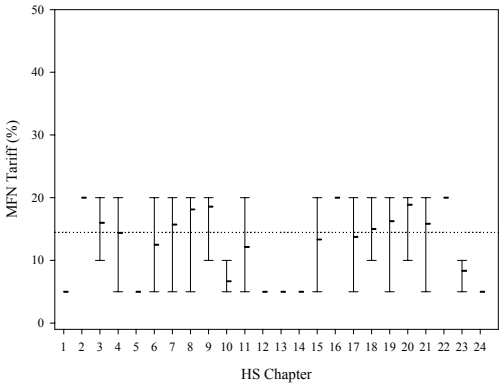
Distribution of Mali MFN Protection - HS6 - Agricultural and Agrifood Products (1994)



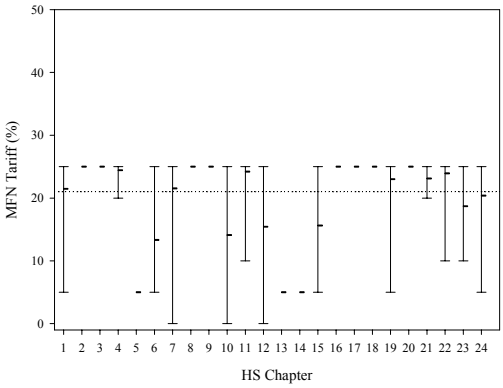
Distribution of Nigeria MFN Protection - HS6 - Agricultural and Agrifood Products (1995)



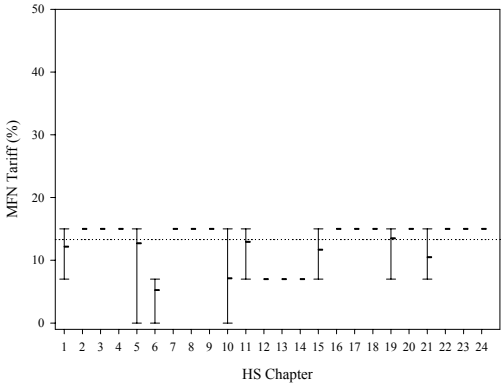
Distribution of Senegal MFN Protection - HS6 - Agricultural and Agrifood Products (2001)



Distribution of Tanzania MFN Protection - HS6 - Agricultural and Agrifood Products (1999)



Distribution of Uganda MFN Protection - HS6 - Agricultural and Agrifood Products (2000)



HS Chapter Descriptions

HS-2	Description
1	Live animals
2	Meat & edible offal
3	Fish products[11]
4	Dairy products
5	Products of animal origin
6	Trees & other plants
7	Edible vegetables
8	Edible fruit & nuts
9	Coffee, tea & spices
10	Cereals
11	Prod milling industry
12	Oil seed, oleagi fruits

HS-2	Description
13	Gums & resins
14	Veg plaiting materials
15	Fats & oils
16	Prep of meat & fish
17	Sugars
18	Cocoa
19	Prep of cereals
20	Prep of vegetables & fruit
21	Misc edible prep
22	Beverages & spirits
23	Waste from the food industry
24	Tobacco

[10] Source: UNCTAD TRAINS database (2001) and authors' calculations.
[11] Not included in agriculture.

On market access, the Harbinson text proposes that countries be required to cut tariffs tariffs by a simple average, except in-quota tariffs, for all agricultural products. Countries may reach this average in any way, subject to a minimum reduction per tariff line, using bound tariffs as a base. Using a banded approach (see figure 3) tariff reductions shall be implemented in equal annual instalments over a period of five years, for developed countries, and ten years, for developing countries.

Figure 3: Harbinson Proposals on Market Access

Tariffs	Present Level	Average Cut	Minimum Cut per Tariff Line	Time Period
Developed Countries	Over 90% 15-90% Under 15%	60% 50% 40%	45% 35% 25%	5 years 5 years 5 years
Developing Countries	Over 120% 60-120% 20-60% Under 20%	40% 35% 30% 25%	30% 25% 20% 15%	10 years 10 years 10 years 10 years
Least Developed Countries		No cuts		

Where a country applies non-*ad valorem* tariffs on a product, *ad-valorem* equivalent tariffs are to be constructed to use as a base for tariff reduction. The Harbinson text proposes to calculate *ad valorem* equivalents of non-*ad valorem* tariffs using an average external reference price for a three-year period, based on data of a recent "representative" period of five years, excluding the highest and lowest entry. There is, however, no clarity as to what a representative period may be. Using historically low agricultural prices would provide a high basis for defining tariff reduction commitments.

4.1.3 The Impact of Tariff Reductions under the Harbinson Modalities

It is of great importance to assess the impact of tariff reductions proposed under the Harbinson modalities for African agricultural exports. A first insight can be obtained through an examination of the destinations for the main agricultural products for the countries investigated. We have chosen eleven countries for this study with different patterns of commodities and markets.

Appendix 2 shows the main exports for Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, Kenya, Malawi, Mali, Nigeria, Senegal, Tanzania and Uganda of products covered by the Agreement on Agriculture at the HS-2 digit level. Disaggregating the trade data for the main agricultural exports for each country (to the HS-6 digit level) we are able to examine the impact of proposed tariff reductions on the main agricultural exports for these countries under the Harbinson modalities. Figure 4 summarises the destinations for each country's main agricultural exports. With the exceptions of Mali and Burkina Faso, it is observed that the majority (more than 80%)

of agricultural exports from the developing African countries investigated in this study are not exported under MFN rates or are already exported under 0% MFN rates, and so will not be directly affected by any MFN reductions envisaged in the Harbinson text. For exports to the EU, most products from the least developed countries (Burkina Faso, Mali, Malawi, Tanzania and Uganda) and developing countries (Cameroon, Côte d'Ivoire, Ghana, Kenya, Nigeria and Senegal) are imported under preferential rates granted under the GSP for Least Developed countries (the 'Everything But Arms' Initiative) and the ACP regime (established under the Cotonou 2001 Agreements), respectively. Many other developed or transitional country trading partners have established GSP schemes, which also grant reduced tariff rates for agricultural imports from these countries. In addition, the EU's GSP scheme grants preferential access on a number of products from developing countries which are not eligible for treatment under the ACP regime. Moreover, a significant proportion of agricultural exports for the countries investigated are imported by other African countries in the region under reduced or zero rates in the context of regional trade agreements (including EAC[12], ECOWAS[13], SADC[14], COMESA[15], UEMOA[16] and CEMAC[17]). Finally, a share of agricultural exports from the African countries investigated are already imported under conditions of 0% MFN tariffs. In particular, Cameron, Côte d'Ivoire, Ghana, Nigeria and Senegal already export more than half of their agricultural exports under 0% MFN tariffs.

From this observation, we can conclude that some African countries stand to gain little in terms of market access from the Harbinson modalities for MFN tariff reduction in agriculture.

Addressing the issue of erosion of tariff preferences, which will inevitably take place as a result of the proposed tariff cuts, should be a priority for African countries particularly those which benefit from the highest preferential rates.

[12] Kenya, Tanzania, Uganda.
[13] Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo.
[14] Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.
[15] Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe.
[16] Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo.
[17] Cameroon, Central African Republic , Chad, Congo, Equatorial Guinea, Gabon.

Figure 4: Destinations of Main Agricultural Exports for Selected African Countries

Country	Imported by EU[18] (%)	Imported by CEMAC (%)	Imported by EAC (%)	Imported by ECOWAS (%)	Imported by SADC / COMESA (%)	Imported under 0% MFN Tariff (%)	Imported under GSP (schemes in bracket)[19] (%)	Imported under normal MFN rates (%)
Burkina Faso	10			7		47	0.2 (Switzerland, US)	*36*
Cameroon	20	4				62	1 (EU, Poland)	*13*
Côte d'Ivoire	31			2		56	3 (Canada, Hungary, Japan, Poland, Romania, Switzerland, US)	*7*
Ghana	25			0		65	1 (EU, Canada, Hungary, Poland, Switzerland, US)	*9*
Kenya	38		0		11 (COMESA incl. Uganda)	39	3 (EU, Hungary, Japan, Poland, Romania, Switzerland, US)	*9*
Malawi	40				11 (SADC & COMESA)	19	14 (Hungary, New Zealand, Romania, Japan, Poland, US)	*16*
Mali	9			0.4		39	0.3 (Hungary, Japan, US)	*52*
Nigeria	7			4		79	0.3 (Canada, Hungary, Poland, US)	*10*
Senegal	13			14		68	0.1 (Poland)	*5*
Tanzania	50		0.2		2 (SADC)	32	4 (Canada, Hungary, Japan, Poland, Romania, Switzerland, US)	*12*
Uganda	29		1 (Tanzania)		33 (COMESA incl. Kenya)	8	25 (Hungary, Switzerland, Japan, Poland, US)	*4*

4.1.4 Effects on Tariff Preferences

A further investigation of the agricultural products which are exported under ordinary, non-zero MFN rates reveals a number of interesting observations about the degree of tariff reduction proposed by the Harbinson market access modalities. In this regard,

[18] Under the "Everything But Arms" Initiative for least developed countries (Malawi, Tanzania and Uganda) and the Cotonou Agreement for developing countries (Ghana and Kenya), for products which are eligible and have a non-zero MFN tariff in the EU market. We assume that rules of origin will not be binding.

[19] For products which are eligible for a tariff preference in the importing market and have a non-zero MFN tariff assuming that rules of origin will not be binding.

appendix 3 lists the agricultural exports, destinations and tariffs faced by the African countries addressed in this study. For each export, MFN tariff and destination, *H* indicates the new MFN tariff using the Harbinson modalities, *UR* represents the new tariff if agricultural modalities made during the Uruguay Round were to be adopted[20], and *NAM B=5* and *NAM B=25* calculates the resulting tariff if the variation on the Swiss formula proposed for the non-agricultural market access modalities is used such that:

$$t_1 = \frac{B \times t_a \times t_0}{B \times t_a + t_0}$$

where,

t_1 is the final tariff rate, to be bound in *ad valorem* terms;

t_0 is the base tariff rate;

t_a is the average of the base tariff rates[21]; and,

B is a coefficient with a unique value to be determined by the participants.

On average, and given our assumptions about levels for B and t_a, it can be seen that tariff liberalisation under the three-tariff-band approach in the Harbinson text would be greater than that implemented during the Uruguay Round and that which would be achieved under the adoption of the formula approach proposed during the non-agricultural market access negotiations for *B=25*. For the case of *B=5*, tariff liberalisation under the adapted Swiss formula approach may be more or less than under the Harbinson modalities depending on the size of the average MFN tariff faced in importing markets (Cameroon and Mali face high average MFN tariffs in their non-preferential markets such that the adapted Swiss formula approach where *B=5* would result in larger tariff cuts than under the Harbinson text). UNCTAD is of the view that the Harbinson approach would achieve a higher level of developing country agricultural production and exports than the Uruguay Round formula. However, a higher rate of MFN tariff cuts will also mean a greater degree of preference erosion that developing countries (particularly the least developed) enjoy. It would appear that developing countries motivated by this concern (in addition to protecting their own agricultural sectors) may be justified in joining the lists of countries supporting the Uruguay Round or adapted Swiss formulae for tariff cuts.

Using Brazil as an example of a large-agricultural competitor we are able to investigate the preference erosion impact of the proposed Harbinson tariff reductions for the African countries addressed in this study. Figure 5 illustrates Brazils's main agricultural exports at the HS-2 digit level.

[20] The Uruguay Round formula was a simple average cut for developed countries of 36%, with a minimum cut of 15% per line; and for developing countries an average cut of 24%, with a minimum cut of 10% per line. Cuts were implemented over 6 years for developed countries, and 10 years for developing countries.

[21] We assume an average agricultural tariff of 11% for developed countries and 16% for developing countries.

Figure 5: Main Agricultural Exports (HS-2 digit) for Brazil[22]

HS2	Product	Value US$ thousand 2001	Annual growth in value 1997-2001 %	Annual growth in value 2000-2001 %	Annual growth of world exports 1997-2001 %	Ranking in country exports	Share in world exports %	Ranking in world exports
	All products (incl. non-agricultural)	58,222,640	3	5	4		1.0	26
12	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	2,756,827	2	25	-2	7	13.7	2
02	Meat and edible meat offal	2,552,736	17	59	0	8	6.3	7
17	Sugars and sugar confectionery	2,401,061	1	85	-5	9	15.5	1
23	Residues, wastes of food industry, animal fodder	2,165,308	-6	26	-3	10	10.3	3
09	Coffee, tea, mate and spices	1,339,942	-17	-20	-12	14	11.3	1
24	Tobacco and manufactured tobacco substitutes	944,316	-16	12	-5	18	4.6	5
20	Vegetable, fruit, nut, etc food preparations	925,855	-5	-18	0	20	4.7	9
41	Raw hides and skins (other than furskins) and leather	880,982	5	16	1	22	4.2	6
15	Animal,vegetable fats and oils, cleavage products, etc	625,918	-11	31	-9	26	3.0	10
10	Cereals	510,531	56	3005	-5	29	1.5	11
21	Miscellaneous edible preparations	483,319	5	-16	1	31	2.8	11
52	Cotton	409,982	12	56	-2	33	1.3	19
16	Meat, fish and seafood food preparations nes	348,168	3	3	0	34	2.2	11
08	Edible fruit, nuts, peel of citrus fruit, melons	346,456	5	-6	-2	35	1.2	23
18	Cocoa and cocoa preparations	174,151	-4	6	-3	46	1.4	16

[22] Source: COMTRADE statistics.

Appendix 5 illustrates the countries and sectors (at the HS-6 digit level) in which Brazil directly competes with agricultural exports from Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, Kenya, Malawi, Mali, Nigeria, Senegal, Tanzania and Uganda, where non-zero MFN tariffs are applied and African countries are entitled to a tariff preference. *Pref Tariff* indicates the preferential tariff on exports pre-Harbinson. *MOP* indicates the margin of preference (over Brazil) pre-Harbinson. *H* indicates the new MFN tariff post-Harbinson and *HMOP* indicates the margin of preference (over Brazil) post-Harbinson. Figure 6 presents a summary of the information contained in these tables.

Figure 6: Estimated Losses due to Preference Erosion under the Harbinson Modalities in Agricultural Markets Competing with Brazil

	Burkina Faso	Cameroon	Côte d'Ivoire	Ghana	Kenya	Mali	Malawi	Nigeria	Senegal	Tanzania	Uganda
% of agricultural exports in total exports	73	23	74	48	62	56	89	1.6	19	53	55
Non-zero MFN, preference-receiving agricultural exports competing with Brazil as a % of total agricultural exports	0.3	5.2	8.7	3	6	0.4	46	1.4	0.8	21	31
Average margin of preference on agricultural exports competing with Brazil pre-Harbinson	5.3	18.0	18.5	7.5	6.5	27.9	36.5	11.8	16.3	21.0	17.8
Average margin of preference on agricultural exports competing with Brazil post-Harbinson	3.6	11.5	10	3.7	2.8	14.3	17.3	7.7	11.4	10.1	8.8
Potential loss[23] ($ million)	**0.004**	**1.2**	**12.0**	**0.7**	**3.1**	**0.02**	**70.6**	**0.15**	**0.11**	**7.6**	**11.9**
Potential loss (% of total exports)	**0**	**0.07**	**0.4**	**0.05**	**0.2**	**0**	**17**	**0**	**0**	**2**	**2.6**

As a proportion of total exports Malawi, Uganda and Tanzania (all least developed) are predicted to lose the most from preference erosion in agricultural markets in which they compete directly with Brazil. This is due to their greater reliance on agricultural exports and the more generous margins of preference that they currently benefit from.

[23] Calculated by aggregating changes in [tariff preference % export value] pre- and post-Harbinson.

Most striking is the case of Malawi, in which 46% of its agricultural exports (mostly sugar and tobacco) directly compete with Brazil in which non-zero MFN duties are applied and Malawi has a tariff preference. In contrast, Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, Kenya, Mali, Nigeria and Senegal are predicted to lose very little from preference erosion (versus Brazil). This is not only because they benefit from lower margins of preference but also because of the composition of their major agricultural exports. Burkina Faso and Mali (both least developed) depend on cotton exports which often face 0% MFN tariffs in major importing markets (see figure 7). In addition a high proportion of their agricultural exports are to (developing country) markets which do not offer preferential rates for least developed or developing countries. Cameroon, Côte d'Ivoire and Ghana export more than half of their agricultural products under conditions of 0% MFN and are heavily dependent on exports of cocoa in which Brazil is not a major competitor. Kenya, dependent on exports of coffee in which Brazil is a major competitor, faces 0% MFN duties in most major importing markets (e.g. the EU) such that tariff preferences (and preference erosion) are redundant (see figure 7). Senegal is dependent on exports of vegetable oils which, similarly, often face 0% MFN duty. Finally, Nigeria has a low proportion of agricultural exports (of which cocoa and cotton form the majority) in total exports due to the high receipts it receives from oil.

Tanzania and Uganda represent intermediate cases. They benefit from higher margins of preference (than Burkina Faso, Ghana, Kenya, Nigeria and Senegal) but also rely on coffee as their main export (often subject to zero MFN in the importing market)[24].

A full examination of preference erosion would require analysing other actual and potential competitors.

[24] It is worth noting, for Uganda, an important exception to this rule. Uganda's main destination for its main export (coffee) is Switzerland. Unlike for example the EU, Switzerland charges a high MFN tariff on coffee imports and offers preferential rates to Uganda under its GSP. As a result, virtually all of the predicted losses for Uganda arising from preference erosion versus Brazil occur *due* to its dependence on coffee exports.

Figure 7: Cotton and Coffee MFN Tariffs[25]

Country	Date	MFN Cotton (%)	MFN Coffee (%)	Country	Date	MFN Cotton (%)	MFN Coffee (%)
Albania	2001	5	10	Kyrgyz	1995	0	0
Algeria	2001	5	40	Lao PDR	2000	20	40
Antigua	2001	5	5	Latvia	2001	0	0.5
Argentina	2001	N.A.	N.A.	Lebanon	2001	0	5
Armenia	2001	0	10	Libya	1996	0	15
Australia	2001	0	0	Lithuania	1997	0	0
Bahamas	1999	0.3	0	Madagascar	1995	0	20
Bahrain	2001	10	5	Malawi	2001	10	10
Bangladesh	2000	0	37.5	Malaysia	1997	0	0
Barbados	2001	5	22.5	Maldives	2001	15	15
Belarus	1997	0	5	Mali	2001	5	20
Belize	2001	5	4	Malta	2000	0	0
Benin	2001	5	20	Mauritania	2001	5	20
Bermuda	2001	6.5	5	Mauritius	1998	0	40
Bhutan	1996	10	10	Mexico	2001	9.7	0
Bolivia	1999	10	10	Moldova	2001	0	10
Bosnia	2001	0	5	Montserrat	1999	N.A.	40
Brazil	2001	N.A.	N.A.	Morocco	2001	2.5	32.5
Brunei	1992	0	N.A.	Mozambique	2001	2.5	7.5
Bulgaria	2001	0	0.2	New Zealand	2000	0	0
Burkina Faso	2001	5	20	Nicaragua	2001	0	11.3
Cameroon	2001	10	27.9	Niger	2001	5	20
Canada	2001	0	0	Nigeria	1995	N.A.	N.A.
Central	2001	10	27.9	Norway	2001	0	0
Chad	2001	10	27.9	Oman	1997	5	5
Chile	2001	8	8	Pakistan	2001	5	20
China	2001	90	15	Panama	2001	1	15
China	2001	0	4.5	Papua New	1997	11	55
Colombia	2001	8.3	10	Paraguay	2001	8	12
Congo	2001	10	27.9	Peru	2000	12	20
Costa Rica	2001	0	12.8	Philippines	2001	3	45
Cote d'Ivoire	2001	5	20	Poland	2000	0	10
Croatia	2001	0	5	Romania	2001	0	5
Cuba	1997	5	10	Russian	2001	0	5
Czech	1999	0	2.3	Rwanda	2001	5	0
Dominica	2001	0	45	Saint Lucia	2001	0	22.5
Dominican	2000	5	15	Saudi Arabia	2000	12	0
Ecuador	1999	7	12	Senegal	2001	5	20
Egypt	1998	5	5	Seychelles	2001	5	50
El Salvador	2001	0	13.8	Singapore	2001	0	0
Equatorial	2001	10	27.9	Slovenia	2001	0	2
Estonia	1995	0	0	Solomon	1995	0	25
Ethiopia	2001	10	40	South Africa	2001	7.5	0
EU	2001	0	0	Sri Lanka	2001	0	25
Macedonia	2001	0	20	St. Kitts	2001	0	15
Gabon	2001	10	27.9	St. Vincent	2001	5	22.5
Georgia	1999	12	12	Sudan	1996	10	5
Ghana	2000	10	20	Suriname	2000	N.A.	40
Grenada	2001	N.A.	40	Switzerland	2001	0	N.A.
Guatemala	2001	0	13.8	Thailand	2000	5	40
Guinea-Bissau	2001	5	20	Togo	2001	5	20
Guyana	2001	5	22.5	Trinidad and	2001	0	20
Honduras	2001	1	13.8	Tunisia	1998	17	15
Hong Kong	1998	0	0	Turkey	1999	0	13
Hungary	1997	0	20	Turkmenistan	1998	0	0
Iceland	2001	0	0	Tanzania	2000	5	25
India	2001	5	70	Uganda	2001	7	7
Indonesia	2000	0	3.3	Ukraine	1997	0	0.1
Iran	2000	0	5	United States	2001	0	0
Israel	1993	0	2	Uruguay	2001	7.7	12.5
Jamaica	2001	0	20	Uzbekistan	2001	30	10
Japan	2001	0	0	Venezuela	2000	10	10
Jordan	2001	0	20	Vietnam	2001	0	20
Kazakhstan	1996	0	0	Yugoslavia	2001	0	0
Kenya	2001	3	15	Zambia	1997	5	25
Korea, Rep.	1999	1	2	Zimbabwe	2001	2.5	40

[25] Source: UNCTAD TRAINS database (2001) and authors' calculations.

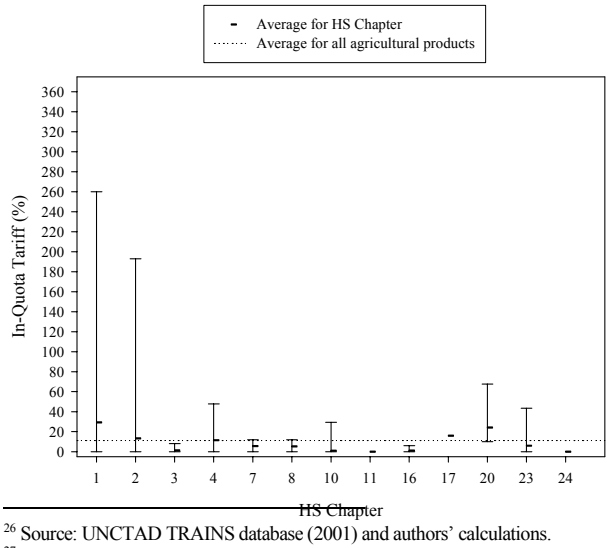
4.1.5 Offsetting Preference Erosion

In order to reduce the potential losses from preference erosion under the Harbinson modalities African countries could encourage developed countries to make use of the best endeavour clause to maintain their nominal margins of tariff preferences for the sectors referred to in appendix 5. The Harbinson text provides in paragraph 16 that developed countries should maintain "to the maximum extent technically feasible", the nominal margins of tariff preferences and other terms and conditions they accord to developing country Members under preferential agreements. To this end, two measures are proposed in the Harbinson text: firstly, a longer implementation period of eight years as opposed to five years; and secondly, a two year moratorium for "tariff reductions affecting long-standing trade preferences in respect to products which are of vital export importance for developing country beneficiaries." Applied, for example, to EU imports of sugar and tobacco and Swiss imports of coffee this would contain most of the losses from preference erosion for Malawi and Uganda, allowing these countries time to adjust to the more competitive trading system.

In addition, any in-quota duties for these products are to be eliminated. Figure 8 illustrates, for the EU, that there is potential to do this in sectors where non-zero in-quota duties exist.

The threshold for deciding on the significance of a specific product for a particular country is 20% of total merchandise exports. Furthermore, preference-providing Members will be required to undertake "targeted technical assistance programmes and other measures to support preference-receiving countries in efforts to diversify their economies and exports."

Figure 8: Distribution of EU In-Quota Protection – HS-6 Digit – Agricultural and Agrifood Products (2000)[26]



HS-2	Description	HS-2	Description
1	Live animals	11	Prod milling industry
2	Meat & edible offal	16	Prep of meat & fish
3	Fish products[27]	17	Sugars
4	Dairy products	20	Prep of vegetables & fruit
7	Edible vegetables	23	Waste from food industry
8	Edible fruit & nuts	24	Tobacco
10	Cereals		

[26] Source: UNCTAD TRAINS database (2001) and authors' calculations.
[27] Not included in agriculture.

4.1.6 Special and Differential Treatment

4.1.6.1 Tariffs on 'Normal' Products

Developing countries have had mixed opinions regarding the special and differential treatment provisions in the Harbinson modalities. On the one hand, the Harbinson modalities adopt the same approach as the Uruguay Round modalities in terms of providing for lower reduction commitments and longer implementation periods. On the other, the Harbinson modalities also include new elements to the existing special and differential treatment provisions. Paragraph 10 of the revised Harbinson text includes a best endeavour clause encouraging developed country Members to take "fully into account the particular needs and conditions of developing country Members by providing for greater improvement of opportunities and terms of access for agricultural products of particular interest to these Members, including the fullest liberalisation of trade in tropical products, whether in primary or processed form, and for products of particular importance to the diversification of production from the growing of illicit narcotic crops, or crops whose non-edible or non-drinkable products, while being lawful, are recognised as being harmful for human health."

4.1.6.2 Special Products

More notable are the proposals for "special products" and a "special safeguard mechanism" for developing countries. In many submissions provided by developing countries to the ongoing WTO agricultural negotiations, there have been proposals that for developing countries certain special products be absolved from a variety of commitments that are made in the negotiations with a view to maintaining a certain level of tariff protection on a (as yet undefined) number of agricultural products (at the HS-6 digit or 4 digit level). In addition to reduced tariff reductions, developing countries would not be subject to new commitments regarding tariff quota volume expansion for special products, whereas for other products "final bound tariff quota volumes…which are equivalent to less than 6.6% of current domestic consumption shall be expanded to that level". For one quarter of the tariff quotas, volumes can be kept at 5% of consumption, provided that volumes for a corresponding number of tariff quotas are expanded to 8%.

Such proposals came from supporters of the "development box" and are integral to the positions of several other developing countries. For example, India, Cuba, Dominican Republic, Honduras, Pakistan, Haiti, Nicaragua, Kenya, Uganda, Zimbabwe, Sri Lanka and El Salvador all proposed that duties on basic food security crops should be exempt from market access reduction commitments, with countries declaring either a positive or negative list of products. In this regard, the Harbinson text suggests that developing countries be provided with special flexibilities with respect to their

commitments for a group of products which are important for food security, rural development and livelihood concerns.

With respect to special products there are two main issues to consider: first, the actual treatment to provide these products; and, second, product coverage and how to determine the agricultural products to be classified as special.

The degree to which concessions on reduction commitments are required for special products depends on the reduction formula finally agreed. The three main options that have been proposed are (i) Swiss formula; (ii) the Uruguay Round formula; and (iii) the banded approach included in the current Harbinson draft. If the Uruguay Round approach is repeated in the Doha Round, tariff reduction concessions for special products will not be required: the Uruguay Round formula provides sufficient flexibility for variable tariff reductions within the average reduction rate. On the other hand, the Swiss formula, in its pure form, offers no flexibilities. If a Swiss formula were adopted, several options would be available for providing concessions to special products. The most obvious would be for the coefficient in the formula to be set at a higher rate. Alternatively, a simple minimum percentage cut could be applied for special products.

It is proposed that the averages of the reduction rates for all special products would be smaller than for other products: 10 per cent subject to a minimum cut of 5 per cent per tariff line over equal instalments of 10 years. For any single product, the degree to which this offers a significant concession depends on the existing bound tariff. Under the current draft, for bound tariffs of less than 20%, the simple average reduction rate for developing countries is 25%, with a minimum cut of 15%. For bound tariffs greater than 120%, the simple average reduction rate is 40%, with a minimum cut of 30%. So the concession for special products ranges between 15% and 30% on the average reduction rate and between 10% and 25% on the minimum cut.

There has subsequently been considerable discussion and controversy surrounding special products. Many developing countries have supported and proposed modalities and consider it an essential component of a revised Agreement on Agriculture. Some WTO members (in particular, the Cairns Group and the US) have expressed concern that the modalities could provide developing countries with a tool to opt out from multilateral liberalisation on a permanent basis.

4.1.6.3 Definition of Special Products

The manner in which special products are defined and selected in clearly important. The Harbinson text provides little guidance on this, except that developing countries would be given flexibility to declare special products, up to a limited number, identified at either the HS-4 digit or 6 digit level. Many developing countries would support a means of selecting them that is as broad as possible and provides them with maximum flexibility and the broadest range of products. On the other hand, countries with concerns about the implications of the special product modality on the depth of agricultural liberalisation by

developing countries (such as the Cairns Group and the US) are likely to support a means of selecting special products that is rigid and limited in number.

In this regard, the following section develops a methodology for determining special products at the most disaggregated (HS-6 digit) level and proposes a number of agricultural products, for each African country investigated in this study, that could justify special treatment under the proposed Harbinson modalities for market access.

4.1.6.4 Special Products to Protect Domestic Production

Appendices 2 and 4 shows the main exports and imports, respectively, for Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, Kenya, Malawi, Mali, Nigeria, Senegal, Tanzania and Uganda of products covered by the Agreement on Agriculture at the HS-2 digit level. Special products could be used to protect domestic production and, therefore, rural livelihoods from increased import competition under normal Harbinson tariff reductions. In this regard, developing countries may want to protect their largest sectors (high exports) for which there is already evidence of import competition (high imports).
A review of appendices 2 and 4 suggests that such products could be found in a number of sectors for each of the countries covered in this study. These are summarised in figure 9.

Disaggregrating to the HS-6 digit level appendix 6 lists for each country the products in these sectors which are major exports suffering from import competition.

However, for each of these products we must investigate the source of imports and the tariff applied since:

- there is little point proposing a product for special status if the existing MFN tariff applied by a developing country is zero; and,

- preferential tariffs for agricultural imports under regional agreements (such as EAC, ECOWAS, SADC, COMESA, UEMOA and CEMAC) will be unchanged by MFN tariff reductions such that developing country imports from these sources will be unaffected by the Harbinson modalities for market access.

Therefore, if imports of products in appendix 6 have an MFN tariff of zero, they should not be classed as strategic (see appendix 7). As a result, we drop maize seed from our list for Malawi; milk powder and glucose for Mali; and, peas, kidney beans and fruit for Tanzania.

Figure 9: Agricultural Product Categories of High Import & Export for Selected African Countries

Country	HS2	Product
Burkina Faso	12	Oil seed
	7	Edible vegetables
	10	Cereals
	15	Fats & oils
	17	Sugar
	24	Tobacco
	21	Misc. edible preparations
	19	Milk preparations & products
	20	Vegetable, fruit & nut preparations
Cameroon	52	Cotton
	21	Misc. edible preparations
	22	Beverages
	15	Fats & oils
	20	Vegetable, fruit & nut preparations
	17	Sugar
	24	Tobacco
	4	Dairy products
	19	Milk preparations & products
	13	Gums & resins
Côte d'Ivoire	52	Cotton
	9	Coffee, tea & spices
	21	Misc. edible preparations
	15	Fats & oils
	17	Sugar
	23	Residues
	24	Tobacco
	20	Vegetable, fruit & nut preparations
	19	Milk preparations & products
	2	Meat
Ghana	16	Meat, fish and seafood preparations nes
	7	Edible vegetables
	15	Fats & oils
	9	Coffee, tea & spices
	23	Residues of food industry
	21	Misc. edible preparations
	19	Milk preparations & products
	24	Tobacco
	20	Vegetable, fruit & nut preparations
	11	Milling products
Kenya	9	Coffee, tea & spices
	6	Live trees, plants & cut flowers
	7	Edible vegetables
	20	Vegetable, fruit & nut preparations
	24	Tobacco
	12	Oil seed
	21	Misc. edible preparations
	15	Fats & oils
	17	Sugar
	52	Raw cotton

Country	HS2	Product
Malawi	24	Tobacco
	17	Sugar
	52	Raw cotton
	10	Cereals
	15	Fats and oils
	21	Misc. edible preparations
	4	Dairy products
Mali	52	Cotton
	15	Fats & oils
	7	Edible vegetables
	1	Live animals
	4	Dairy products
	12	Oil seed
	10	Cereals
	20	Vegetable, fruit & nut preparations
	17	Sugar
	9	Coffee, tea & spices
Nigeria	52	Cotton
	23	Residues
	10	Cereals
	9	Coffee, tea & spices
	17	Sugar
	19	Milk preparations & products
	22	Beverages
	15	Fats & oils
	11	Milling products
Senegal	15	Fats & oils
	52	Cotton
	8	Edible fruit
	21	Misc. edible preparations
	17	Sugar
	7	Edible vegetables
	4	Dairy products
	24	Tobacco
	22	Beverages
	9	Coffee, tea & spices
	20	Vegetable, fruit & nut preparations
Tanzania	24	Tobacco
	52	Raw Cotton
	12	Oil seed
	17	Sugar
	7	Edible vegetables
	8	Edible fruit
	21	Misc. edible preparations
Uganda	10	Cereals
	11	Milling products
	15	Fats & oils
	7	Edible vegetables

In addition, if imports of products in appendix 6 are solely from ECOWAS for Burkina Faso, Côte d'Ivoire, Ghana, Mali, Nigeria and Senegal; CEMAC for Cameroon; COMESA or SADC for Malawi; SADC or EAC for Tanzania; and, COMESA or EAC for Uganda and Kenya these should not be classified as special (see appendix 8). For Malawi we drop most of the special products proposed in appendix 6 since a high proportion of Malawi's imports are with regional neighbours, entering under preferential rates. For Burkina Faso we drop cotton seed and tobacco (unmanufactured, not stemmed or stripped); for Côte d'Ivoire we drop flour; for Mali we drop onions; for Senegal we drop coffee extracts, for Nigeria we drop capsicum and cotton seed oil-cake; and, for Kenya, we drop coffee (not roasted and not decaffeinated), green tea (not fermented), black tea (fermented in packages not exceeding 3kg)), sesame seeds, glucose (in dry state), tobacco (unmanufactured, not stemmed or stripped) and cotton (not carded or combed) since imports of these products are entirely from COMESA partners (Egypt and Uganda).

The remaining products, which could be classified as special in order to protect domestic production from import competition, are listed in figure 10.

Figure 10: Special Products to Protect Domestic Production of Main Agricultural Products from Import Competition for Selected African Countries

Country	Special Products
Burkina Faso	Kidney beans, maize seed, rice, vegetable seeds, chewing gum, sugar confectionary, communion wafers, tomatoes nes, jams, soups, food preparations nes, tobacco (unmanufactured), cigarettes
Cameroon	Milk & cream powder, butter, palm oil, margarine, chewing gum, sugar confectionary, preparations of cereals, uncooked pasta, sweet biscuits, communion wafers, beans, fruit juice, baking powders, sauces, soups, food preparations, mineral water, non-alcoholic beverages, beer, wine, whiskies, rum, tobacco (unmanufactured), tobacco (refuse), cigarettes, cotton
Côte d'Ivoire	Swine meat, coffee, spices, palm oil, margarine, oleic acid, acid oils, glycerine, beeswax, refined sugar, chewing gum, sugar confectionary, doughs, malt extract, uncooked pasta, couscous, sweet biscuits, communion wafers, tomatoes nes, nuts & seeds, pineapples, pineapple juice, grape juice, coffee extracts, sauces, soups, food preparations, tobacco (unmanufactured), cigarettes
Ghana	Potatoes, mushrooms, fresh vegetables nes, frozen vegetables nes, wheat or meslin flour, maize starch, cassava starch, palm oil, palm kernel oil, maize oil, vegetable fats & oils, acid oils, glycerine, preparations of cereals, flour, starch/milk for infants, doughs, malt extract, pasta nes, wafers, tomatoes nes, citrus fruit juice nes, pineapple juice, fruit & vegetable juices, baking powders, sauces & preparations, soups & broths, dog & cat food, tobacco (unmanufactured, partly or wholly stemmed or stripped)
Kenya	Cuttings, roses, plants, cut flowers, garlic, leguminous vegetables, peppers, dried vegetables, peas, coffee (not roasted, decaffeinated), coffee (roasted, not decaffeinated), black tea, cloves, spices, flours of oil seeds, seeds of forage plants, flower seeds, vegetable seeds, fruit seeds, plants used in pharmaceuticals, soya-bean oil, palm oil, sunflower oil, maize oil, vegetable fats & oils, margarine, preparations of fats & oils, stearic acid, tall oil fatty acids, acid oils, glycerine, glucose syrup, sugar nes, chewing gum, sugar confectionary, preserved vegetables, jams, fruits, orange juice, fruit & vegetable juices, mixtures of juices, coffee extracts, yeasts, baking powders, tomato ketchup, soups, tobacco (unmanufactured, stemmed or stripped), cigars, cigarettes
Malawi	Palm oil, sauces, food preparations, milk & cream
Mali	Butter, cheese, soya bean oil, palm oil, rape, vegetable fats & oils, refined sugar, sugar confectionary, potatoes prepared, pineapple juice, cotton
Nigeria	Coffee, green tea, black tea, pepper, cloves, saffron, spices, durum wheat, maize, wheat flour, wheat groats, potato starch, soya bean oil, palm oil, babassu oil, vegetable fats & oils, glycerine, beeswax, refined sugar, chewing gum, sugar confectionary, doughs, malt extract, sweet biscuits, waters, non-alcoholic beverages, soya bean oil cake, ground nut oil cake, cotton
Senegal	Milk & cream, milk powder, butter, cheese, eggs, beans, nuts, coffee, pepper, palm oil, sunflower-seed oil, glycerine, sugar, vegetables, fruits, orange juice, mustard four, sauces, soups & broths, food preparations, waters, non-alcoholic beverages, beer, wines, whiskies, gin, vinegar, tobacco, cotton
Tanzania	Seaweed, raw sugar cane, refined sugar, tobacco, unmanufactured smoking tobacco
Uganda	Peas, beans, maize seed, rice, wheat Flour, maize flour, cereal flour, maize meal, palm oil, vegetable fats & oils

4.1.6.5 Special Products to Protect Revenue

Reductions in MFN tariffs under the Harbinson market access modalities on Africa's main agricultural imports could result in a dramatic loss in tariff revenue, used to fund rural development programmes. Special products could be used to reduce this potential loss.

For revenue protection it is necessary to find imports of products for which values are high, MFN tariffs are high and the main sources of imports are not regional partners able to export under preferential rates.

Disaggregating the sectors in appendix 4 to the HS-6 digit level it is possible to examine the most revenue sensitive agricultural imports for the African countries investigated in this report. These are listed in appendix 9.

4.1.6.6 Proposed Special Products

Combining the list of special products to protect domestic production and revenue, we are able to propose a number of products at the HS-6 digit level that deserve special status under the Harbinson modalities for agricultural market access. These are illustrated in appendix 10 (summarised in figure 11) for each African country addressed in this study.

It is interesting to note that Kenya, Malawi and Uganda share some common special products, even at the HS-6 digit product level (HS40221 - milk and cream powder, HS110100 - wheat or meslin flour, HS151190 - palm oil, HS151620 - vegetable fats and oils and HS210690 - food preparations). This may be useful for defining a common set of special products in the context of, for example, the COMESA customs union.

Figure 11: Summary of Special Products

HS-2	Descsription	Countries	Number of special products to protect domestic production[28]	Number of special products to protect revenue
2	Meat & edible offal	Cameroon	0	1
		Côte d'Ivoire	0	1
		Ghana	0	1
4	Dairy products	Burkina Faso	0	4
		Cameroon	2	3
		Côte d'Ivoire	0	4
		Ghana	0	4
		Kenya	0	1
		Malawi	1	3
		Mali	2	2
		Nigeria	0	3
		Senegal	8	4
		Tanzania	0	1
		Uganda	0	2
6	Trees & plants	Kenya	4	0
7	Edible vegetables	Burkina Faso	7	0
		Côte d'Ivoire	0	2
		Ghana	4	0
		Kenya	5	2
		Senegal	1	3
		Uganda	2	1
8	Edible fruit	Senegal	1	1
9	Coffee, tea & spices	Côte d'Ivoire	2	0
		Ghana	1	1
		Kenya	6	0
		Mali	0	4
		Nigeria	9	2
		Senegal	2	1
10	Cereals	Burkina Faso	2	2
		Cameroon	0	4
		Côte d'Ivoire	0	3
		Ghana	0	3
		Kenya	0	4
		Mali	0	2
		Nigeria	2	3
		Senegal	0	1
		Tanzania	0	2
		Uganda	4	3
11	Products of the milling industry	Burkina Faso	0	2
		Cameroon	0	2
		Côte d'Ivoire	0	2
		Ghana	3	3
		Kenya	0	1
		Malawi	0	1
		Mali	0	1
		Nigeria	3	1
		Senegal	0	1
		Tanzania	0	3
		Uganda	4	4
12	Oil seed	Burkina Faso	1	1
		Kenya	6	1
		Tanzania	1	0
15	Fats & oils	Burkina Faso	0	1
		Cameroon	4	2
		Côte d'Ivoire	7	2
		Ghana	9	3
		Kenya	12	4
		Malawi	1	4
		Mali	5	2
		Nigeria	7	3
		Senegal	3	6
		Tanzania	0	5
		Uganda	3	7
16	Preparations of meat & fish	Ghana	0	1

[28] Number of products at the HS-6 digit level within the HS-2 digit chapter heading.

HS-2	Descsription	Countries	Number of special products to protect domestic production[29]	Number of special products to protect revenue
17	Sugars	Burkina Faso	2	1
		Cameroon	2	2
		Côte d'Ivoire	3	1
		Ghana	0	1
		Kenya	4	3
		Malawi	0	1
		Mali	2	2
		Nigeria	3	2
		Senegal	4	2
		Tanzania	2	2
		Uganda	0	3
19	Preparations of cereals	Burkina Faso	1	4
		Cameroon	4	2
		Côte d'Ivoire	8	2
		Ghana	5	3
		Kenya	0	2
		Malawi	0	1
		Mali	0	3
		Nigeria	3	1
		Senegal	0	2
		Tanzania	0	3
		Uganda	0	3
20	Preparations of vegetables & fruit	Burkina Faso	2	2
		Cameroon	3	2
		Côte d'Ivoire	8	1
		Ghana	5	1
		Kenya	6	1
		Mali	2	1
		Nigeria	0	4
		Senegal	5	0
		Tanzania	0	2
21	Misc. edible preparations	Burkina Faso	2	3
		Cameroon	4	3
		Côte d'Ivoire	5	2
		Ghana	4	1
		Kenya	6	1
		Malawi	2	3
		Mali	0	4
		Nigeria	0	1
		Senegal	4	1
		Tanzania	0	2
		Uganda	0	2
22	Beverages & spirits	Burkina Faso	0	4
		Cameroon	9	1
		Côte d'Ivoire	0	4
		Ghana	0	2
		Kenya	0	6
		Malawi	0	3
		Mali	0	3
		Nigeria	3	5
		Senegal	11	1
		Tanzania	0	3
23	Waste from the food industry	Cameroon	0	2
		Côte d'Ivoire	1	1
		Ghana	1	0
		Nigeria	2	0
24	Tobacco	Burkina Faso	2	2
		Cameroon	4	1
		Côte d'Ivoire	2	1
		Ghana	1	1
		Mali	0	1
		Kenya	2	0
		Nigeria	0	1
		Senegal	2	2
		Tanzania	2	0
52	Cotton	Mali	1	0
		Nigeria	3	0
		Senegal	2	0

4.1.6.7 Safeguards

The first draft of the Harbinson text provided an outline of a "new special safeguard mechanism to enable developing countries to effectively take account of their development needs, including food security, rural development and livelihood security concerns". However, the revised Harbinson text established no linkages between the special safeguard mechanism and special products. Therefore, in principle, special products could have access to the special safeguard mechanism and still be entitled to a lower tariff reduction. Moreover, products not designated as special could still be entitled to use the special safeguard mechanism.

4.1.6.8 Addressing Poverty and Food Security

As most developing countries are unable to afford large levels of subsidy provision to their agricultural sectors, any flexibilities on subsidies provided in the Harbinson text are unlikely to be used, meaning that the most significant flexibilities or differentiation in rules will be found in terms of market access commitments. There is no doubt that special products will lessen the burden of WTO commitments for many developing country members. But to what extent will these flexibilities help to address food security, rural development and livelihood concerns?

It is generally agreed that a well functioning agriculture sector is important for development. Agriculture is also very important to the livelihoods of many of the poor in developing countries, particularly those living in rural areas. This is especially the case in low income countries where agriculture is normally of particular importance to the economy and to the livelihoods of the poor. At the same time, it is clear that international trade in agricultural products is an increasingly important contributor to improved food security. Trade also helps in smoothing consumption at the national level in response to fluctuations in domestic production.

Protection of food crops (and other 'food security crops') will have different implications for developing countries with large populations of urban poor suffering from food insecurity than for other countries where the majority of the poor and food insecure are rural and dependent on agricultural production for their livelihoods. This in turn will depend on the structure of the farming systems and the crops produced by the poor.

The justification from exempting special products entirely from liberalisation commitments is weak. Poor households in developing countries spend a high proportion of their income on food, meaning that protection can have a negative impact on poverty and food security not only for urban and landless rural workers but also for small farmers, who tend to be net buyers of food. However, there are compelling reasons for a gradual liberalisation of trade protection for some agricultural products in developing countries, given the vulnerability of poor farmers to sudden shifts in market conditions and the long term negative impact this can have

on certain groups whose capital is mainly invested in agriculture and who lack alternative livelihood opportunities.

4.2 Changes in Domestic Support and Export Subsidies

4.2.1 Export Subsidies under the Uruguay Round Agreement on Agriculture

In the GATT (Article XVI), export subsidies for industrial products were banned but not for agricultural products. Increasing protection in the most important OECD countries led to overproduction of many products which given their high cost, could only be disposed of in international markets by the granting of subsidies. This led to a proliferation of subsidies that distorted world agricultural markets. The Uruguay Round Agreement on Agriculture sought to put limits to this and the Punta del Este Ministerial Declaration stated that negotiations would discipline "the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade".

Article IX of the Uruguay Round Agreement on Agriculture listed six categories of export subsidies that were to be subject to reduction obligations. These included direct payments by governments to firms; industries or producers contingent on export performance; subsidised stock exports; producer-financed export subsidies; export marketing cost subsidies; export-specific transportation subsidies, and subsidies on goods incorporated into exports. The Agreement obliged industrial countries to reduce the base (1986-1990) period volume of subsidised exports by 21% and the budgetary outlays by 36% over six years. By the end of this period, the budgetary limits for the Quad countries were: Canada $308 million; EU: $8896 million; and, US: $594 million[30]. The Uruguay Round Agreement on Agriculture export subsidy limits were defined by commodity categories, but some of these were so broad that many degrees of freedom were left to switch subsidies among products within categories. As a result, export subsidy rates on individual products could vary from year to year compounding uncertainty and distortions in the trading system. There were other problems associated with export subsidies granted by the major industrial countries. First, low international prices in the base year facilitated the binding of high levels of export subsidies. Second, the Peace Clause (Article XIII of the Uruguay Round Agreement on Agriculture) severely limited the application of countervailing measures against export subsidies. The Peace Clause protects countries using subsidies which comply with the agreement from being challenged under other WTO agreements. Without this, countries would have greater freedom to take action against each others' subsidies, under the Subsidies and Countervailing Measures Agreement and related provisions. The peace clause is due to expire at the end of 2003. Third, in addition to the list of export subsidies listed explicitly in Article IX of the Uruguay Round Agreement on Agriculture, others which also had the potential to distort trade (e.g. officially supported export credits and credit guarantees) were not included and therefore not subject to reduction commitments. Fourth, food aid allowed by the Uruguay Round Agreement on Agriculture had similar effects to export subsidies when such aid was tied to commercial exports. Finally, by subsidising crucial inputs, some countries covered a higher subsidised volume than agreed in the Uruguay Round Agreement on Agriculture.

4.2.2 Domestic Support Commitments under the Uruguay Round Agreement on Agriculture

During the Uruguay Round negotiators attempted to separate domestic policies having no direct effect on agricultural trade (e.g. government supported research), from those that did have clear trade and production-distorting effects (e.g. governments fixing minimum purchase prices). The first were included under what is called the green box and the second, under the amber box. Under the Uruguay Round Agreement on Agriculture policies in the amber box were subject to reduction commitments while those in the green box were not and could even be increased. Problematic is that green box support has a major cost-reducing effect. The support it provides to farmers allows them to produce and export more cheaply.

In addition to the green box, three other forms of assistance were not affected by the Uruguay Round reduction commitments. These corresponded to (i) developmental objectives in developing countries; (ii) *de miminis* levels according to which 5% (10% in the case of developing countries), of the contributions in the amber box were exempt and (iii) direct payments for production-limiting programs or the so-called blue box (mainly used by the EU).

Under the Uruguay Round Agreement on Agriculture, it was noteworthy that direct payments could be put in the green box provided that they were "decoupled" from production. This provided freedom to increase domestic assistance levels under the green box and such increases did take place in several OECD countries. For example, between 1987 and 1997 the following increases in green box subsidies were recorded: EU: from $10.1 billion to $20.6 billion; Japan: from $15.0 billion to $21.9 billion; and, US: from $24.1 billion to $51.2 billion. The restructuring of the EU's Common Agricultural Policy under the 1992 MacSharry reforms moved support into the Green Box.

The commitment that developed countries took under the Uruguay Round Agreement on Agriculture was to reduce the value of domestic assistance granted by amber box policies (aggregate measure of support or AMS), in the base period by 20% over a period of six years. The following figures presenting the reduction of AMS from the base period (1986-1988) to 1997 indicate that this obligation was met: EU: from $80.7 billion to $56.9 billion; Japan: from $33.8 billion to $26.2 billion; and, US: from $23.9 billion to $6.2 billion.

However, the economic impact of this compliance was reduced not only by an increase in green box subsidies but also by several other considerations. First, because of low international prices in the base period, domestic policies afforded very high levels of assistance. Second, the levels of AMS in the base period proved to be inflated by policies that were transferred to the blue box which as said, was free from reduction commitments. This implies that it is possible for a country to have complied with the Uruguay Round Agreement on Agriculture by simply making and notifying this switch to the WTO. Third, the commitment to reduce AMS at the aggregate and not the product level, implied that assistance to specific commodities could be increased. Fourth, the AMS excluded support provided by protection. Finally, there is a presumption that blue box policies are more

distortionary than green box policies and yet as said, they were excluded from the Uruguay Round Agreement on Agriculture obligations.

4.2.3 The Harbinson Proposals for Reductions in Domestic Support and Export Subsidies

The Harbinson proposals for reductions in domestic assistance and export subsidies are illustrated in figure 12. Basically, the overall architecture of the Uruguay Round Agreement on Agriculture is maintained with the three categories of domestic support measures being preserved.

Figure 12: Harbinson Proposals for Reductions in Domestic Support and Export Subsidies

Domestic Support: Amber Box (trade-distorting measures)
Developed countries: reduce by 60% over 5 years
Developing countries: reduce by 40% over 10 years
Least developed countries: no change
Domestic Support: Green Box (at most minimally trade-distorting support)
Developed countries: No reductions/spending ceiling, but stricter eligibility criteria possible
Developing countries: Maintain at least present flexibility under the Agreement on Agriculture
Least developed countries: no change
Domestic Support: Blue Box (direct payments under production-limiting programmes)
Developed countries: capped and bound, reduce by 50% over 5 years
Developing countries: reduce by 33% over 10 years
Least developed countries: no change
Export Competition: Subsidies
Developed countries: phase out 50% within 5 years, the rest within 9 years
Developing countries: phase out 50% within 10 years, the rest within 12 years
Least developed countries: no change

Even after the new commitments are implemented significant levels of trade distorting support could continue to be allowed, so the objective to eliminate trade and production distorting support is not reflected in the Harbinson text. A particularly troublesome issue is that the overall level of support could actually increase as it did during the Uruguay Round given the loop-holes in the disciplines and that no limits have been proposed for the green box.

The draft modalities paper proposes the elimination of export subsidies over a period of 9 years. However, for a group of products the elimination will take place within 5 years. With regard to the product coverage of commitments on export subsidies, no change is proposed to the current framework. This means that commitments would be undertaken by product or product groups, providing further flexibility in the implementation by shifting support among products within a group.

The following sections provide an overview of the estimated effects for developing countries of reducing developed country domestic support and export subsidies in the cotton and dairy sectors. No specific estimates of the impact of subsidies and their

reform are given since data is not readily available to calculate the effects for different products and countries. However, a number of broad observations may be drawn.

4.2.4 The Effects of Reductions in Domestic Support: Cotton

On 10 June, Burkina Faso presented the WTO's Trade Negotiations Committee with a new proposal for cotton entitled *Poverty Reduction: Sectoral Initiative in Favour of Cotton.* The initiative called for two decisions to be taken at the Cancun Ministerial:

1) The establishment of a "mechanism for phasing out support for cotton production with a view to its total elimination", which would provide for "substantial and accelerated reductions in each of the boxes of support for cotton production"; and,
2) The establishment of transitional measures for least-developed countries: "until cotton production support measures have been completely eliminated, cotton producers in least-developed countries should be offered financial compensation to offset the income they are losing, as an integral part of the rights and obligations resulting from the Doha Round."

According to the proposal – co-sponsored by Benin, Burkina Faso, Mali and Chad, and supported by 13 other West and Central African countries[31] - the elimination of subsidies for cotton production and export is their "only specific interest" in the Doha Round.

While the elimination of cotton subsidies would benefit all low-cost cotton producers, and the transitional compensation measures would apply to all least-developed countries, West and Central African countries – where more than 90% of cotton is grown for export – are among those that suffer the most from the high level of subsidisation in the sector.

Over ten million people in the region depend directly on cotton production. Cotton exports represent around 30% of total export earnings and more than 60% of earnings from agricultural exports. However, the International Cotton Advisory Committee (ICAC) estimates at $6 billion the combined support granted to the cotton sector by the US ($2.3 billion) , the EU ($700 million) and China ($1.2 billion) in 2001/02, which corresponds to total world exports in that year. US cotton subsidies alone exceed by 60% the total GDP of Burkina Faso, where nearly 2 million people depend on cotton production. The EU's subsidies per kilogram of cotton are the highest in the world i.e. 160% and 180% of the market price for Greek and Spanish farmers respectively. According to ICAC, cotton would have fetched 31 cents more per pound in 2001/02 without subsidisation. In a telling point, West and Central African countries' cotton export revenue decreased by 31% between 1999/2000 and 2001/02 even while the region's production increased by 14%. The revenue drop was not due to lack of market access, but to subsidisation making world market prices unsustainably low.

While supplementary market access concessions for other products or increased import tariffs are the customary WTO methods of compensating a Member for trade losses, the cotton initiative signatories argue that neither will work for cotton-producing least-developed countries. The first alternative would bring few benefits due to the lack of alternative export products for least developed countries, as well as the preferential access they already have to most major markets. The second possibility (i.e. raising import tariffs for products from subsidising countries) would impact more heavily on the countries which impose such customs tariffs, as "the majority of their imports are essential for development and poverty reduction".

Therefore, "the only practical short-term measure is contractual financial compensation as an integral part of rights and obligations, as well as the balance of commitments resulting from the Doha Round…Such financial compensation should be calculated in proportion to the subsidies granted by countries which support their cotton production. It will decrease (terminate) as and when these subsidies are reduced (abolished)." When defining the total amount of compensation, the direct and indirect effects of support for cotton production on the economies of least-developed countries should be taken into account, and the compensation should be sufficiently high to constitute an additional incentive to decrease or phase-out subsidies as soon as possible."

In addition to the elimination/compensation proposals, the initiative's sponsors call for an extension of special products. Instead of being restricted to defensive measures such as higher tariffs and quotas, the category should include products of offensive interest to developing countries, i.e. those whose export "is essential for agricultural development or the survival of the rural population in least developed countries, as is the case for cotton."

While the proposal recognises the general validity of both 'non-trade concerns' and green box support, it nevertheless makes a clear distinction between developed and developing countries in the case of cotton: "whereas cotton clearly has non-trade objectives in developing countries – due to its role in food production, rural development and poverty reduction – this is not the case in industrialised countries. In the latter, cotton does not have any role related to food security or protection of the countryside neither is it essential for the livelihood of a decentralised or agricultural population. Cotton production can easily be replaced by other agricultural products that are more profitable on global markets."

The signatories also call for "strict and mandatory definition of the various subsidy boxes", and warn that they will not be able to accept "any outcome of the negotiations that allows the WTO disciplines to be circumvented by reclassifying subsidies from one box to another. A substantial reduction in amber and blue boxes, export subsidies and the *de minimis* level in developed countries would be a step in the right direction".

We now try to estimate the effects of the removal of cotton subsidies on cotton export revenues in Burkina Faso and Mali. Cotton exports for the EU, US, China, Burkina Faso and Mali are illustrated in figure 13. With cotton subsidies, world exports of cotton in 2001 were $6.3 billion (5.3 million tonnes) with a unit value of $1.19 per kg. The main cotton subsidisers (EU, US and China) accounted for $2.6 billion (2.3 million tonnes) of these exports with a unit value of $1.13 per kg.

Figure 13: Subsidised Cotton Exports in 2001

	Value ($ 1000s)	Quantity (tonnes)	Unit value ($/kg)
World	**6,296,223**	**5,271,593**	**1.19**
France	4,851	3,423	1.42
UK	751	503	1.49
Germany	29,045	18,872	1.54
Belgium-Luxembourg	22,012	18,724	1.18
Netherlands	180	71	2.54
Denmark	0	0	
Sweden	75	0	
Italy	13,494	7,626	1.77
Spain	39,057	36,235	1.08
Portugal	477	293	1.63
Greece	253,216	316,363	0.80
Finland	0	0	
Ireland	37	2	18.50
Austria	83	63	1.32
US	2,164,415	1,853,874	1.17
China	80,021	52,366	1.53
Total of EU+US+China	**2,607,714**	**2,308,415**	**1.13**
World-EU-US-China	**3,688,509**	**2,963,178**	**1.24**
Burkina Faso	78,685	51,575	1.53
Mali	107,524	73,816	1.46

Assuming export subsidies are removed and the EU, US and China fail to export and all other countries' exports remain the same, then cotton exports would be $3.7 billion (3 million tonnes) with a unit value of $1.24 per kg. As a result, cotton prices rise $0.05 per kg. Assuming Burkina Faso is able to receive an extra $0.05 per kg on its exports of cotton, this will translate into increased export earnings of $2.6 million (2% of total exports). Assuming Mali is able to receive an extra $0.05 per kg on its exports of cotton this will translate into increased export earnings of $3.7 million (2% of total exports).

However, even in the absence of subsidised exports from the EU, US and China, cotton exports from Mali and Burkina Faso are small compared to world exports and are relatively expensive ($1.46 per kilogram and $1.53 per kilogram respectively) in terms of their unit value compared to the world export unit value. As such, Burkina

Faso and Mali may not be well placed to increase their export earnings from cotton if subsidies are removed. Figure 14 illustrates the 40 largest cotton exporters in 2001. Australia and Uzbekistan are the largest (non-subsidising) exporters of cotton, with unit values of $1.22 per kilogram and $1.17 per kilogram respectively. In the absence of subsidies any gap in supply is likely to be filled by increased exports from these countries. In addition, Brazil ($1.05 per kilogram) and Benin ($1.10 per kilogram) appear likely to benefit from increased exports of cotton. There are also a number of smaller developing country exporters of cotton that appear highly competitive and so more able (than Mali and Burkina Faso) to take advantage of any reduction in world exports of cotton brought about by the removal of subsidies: Pakistan ($1.15 per kilogram); Paraguay ($0.89 per kilogram); Argentina ($0.82 per kilogram); Tanzania ($0.82 per kilogram); and, Zambia ($1.12 per kilogram).

Figure 14: Main Sources of Cotton Exports in 2001

Exporters	Value exported in 2001, in US$ thousand	Quantity exported in 2001 (tonnes)	Unit value (US$/tonne)
World	6,296,223	5,271,593	1,194
United States of America	2,164,415	1,853,874	1,168
Australia	1,030,335	842,543	1,223
Uzbekistan	676,725	577,056	1,173
Greece	253,216	316,363	800
Brazil	154,264	147,280	1,047
Syrian Arab Republic	151,651	128,836	1,177
Egypt	148,915	53,664	2,775
Zimbabwe	134,233	95,925	1,399
Benin	118,242	107,503	1,100
Côte d'Ivoire	112,710	59,259	1,902
Mali	107,524	73,816	1,457
Cameroon	91,376	68,166	1,340
Pakistan	91,334	79,731	1,146
Turkmenistan	87,315	72,028	1,212
Kazakhstan	87,082	81,981	1,062
Paraguay	83,468	93,674	891
China	80,021	52,366	1,528
Burkina Faso	78,685	51,575	1,526
Tajikistan	75,743	59,628	1,270
Argentina	72,845	89,262	816
Chad	59,333	46,087	1,287
Spain	39,057	36,235	1,078
Turkey	37,399	30,043	1,245
Sudan	32,384	21,594	1,500
Kyrgyzstan	31,983	29,525	1,083
Germany	29,045	18,872	1,539
Israel	25,686	0	
Tanzania, United Rep. of	24,419	29,632	824
Mexico	22,276	18,746	1,188
Belgium-Luxembourg	22,012	18,724	1,176
Estonia	15,277	13,446	1,136
India (2000)	13,700	12,710	1,078
Central African Republic	13,519	11,100	1,218
Italy	13,494	7,626	1,769
Nigeria	13,161	11,471	1,147
Ghana	8,991	2,975	3,022
Indonesia	8,273	3,455	2,395
Taiwan, Province of (China)	5,338	4,216	1,266
Zambia	5,258	4,694	1,120

In sum, unless higher quality is a driving factor, Burkina Faso and Mali appear too small and too expensive as exporters of cotton to substantially derive benefit from the removal of cotton subsidies. If Burkina Faso and Mali were able to secure the compensation for export subsidies which they have requested ($2.6 million and $3.7 million, respectively, as suggested by this analysis) then this could be used to develop alternative exports or to increase efficiency in the production of their cotton exports.

4.2.5 The Effects of Reductions in Domestic Support: Dairy Products

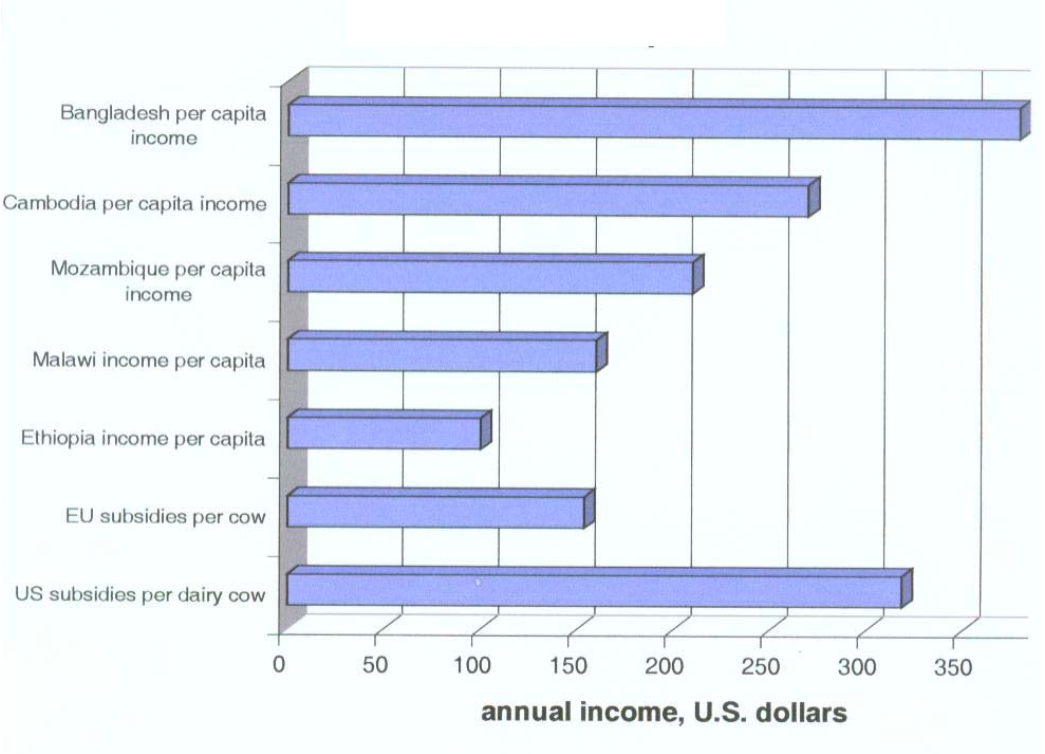
The EU dairy sector is protected under the Common Agricultural Policy (CAP) through a system of price support, production quotas, import restrictions and export subsidies. Despite the production quotas, the EU produces more milk and milk products than it needs to satisfy domestic consumption. This results in a structural surplus of dairy produce, which is disposed of on internal and external markets using subsidies.

Milk production is the most important agricultural activity in the majority of EU member states, and in the EU as a whole. It represents around 14% (€38 billion) of the total value of agricultural production. More than 600,000 farmers are involved in the sector, which is particularly important for Germany, France, the UK, the Netherlands, Ireland and Italy. Together these countries account for three-quarters of EU milk production.

Despite a system of milk quotas designed to cap production, the EU systematically produces a surplus of milk and milk products. This is because production quota levels have been set higher than is required to meet the needs of domestic consumption.

Although its world market share has declined in recent years, the EU remains one of the biggest exporters of milk and milk products in the world, accounting for 40% of whole milk powder exports, 32% of cheese exports, 31% of skimmed milk powder exports, and 20% of butter exports. The OECD Producer Support Estimate suggests that in 2001 the EU spent €16 billion (40% of the value of dairy production) supporting its dairy sector (see figure 15), equivalent to more than $2 per day per cow.

Figure 15: EU and US Dairy Support[32]



In order to enable the export of EU dairy produce, subsidies are provided to bridge the gap between prices on the world market and the higher internal EU process. In October 2002, EU export refunds were €1850 per tonne for butter and €760 per tonne for skimmed milk powder. Export subsidies have accounted for around €1.5 billion or 50% of the EU's expenditure on the dairy sector in recent years.

The EU dairy regime affects developing countries in three main ways: by depressing world market prices, by pushing developing country exporters out of third markets, and by directly undermining domestic markets in developing countries. It is difficult to estimate precisely how high world market prices would rise in the absence of the CAP dairy regime, but a number of studies suggest that EU subsidies have a substantial depressing effect. A 2001 Australian government study[33] showed that if the volume of subsidised EU and US dairy exports were halved, world dairy prices would be between 17 and 35% higher. Due to the EU's dominant role in world dairy trade, the CAP dairy regime must account for a major proportion of this price depression. Where subsidised EU dairy exports enter developing country markets, they compete unfairly with domestic milk production. The result is that domestic process are depressed and local producers are driven out of business. The dairy sector in Kenya employs around 600000 small-scale farmers, and accounts fo around 10% of total GDP. The country is self-sufficient in milk production, but in 2001 Kenya experienced a surge in imports of EU milk powder and butter. After a lobby campaign by the Kenya Dairy Board, the government agreed to double dairy import tariffs in order to protect local producers.

The US also supports its dairy industries. The 2002 US Farm Act introduced a new milk price support expected to add $775 million to farm subsidies in the first year. Other US instruments are particularly damaging to developing countries. The Dairy Export Incentive Program subsidises exports with cash, enabling processing firms to export dairy products for less than they pay them. Under the Price Support Program for Milk, the government's Commodities Credit Corporation can buy unlimited amounts of butter, cheese and skimmed milk powder for stock, some of which is then used as food aid under the USA's Public Law 480. Public Law 480 aid increased from 18500 tonnes of dairy products in 2001 to 32230 in 2002. Most of this went to Afghanistan, Indonesia and Pakistan.

5. Conclusions and Recommendations

Agricultural tariffs and tariff peaks remain high in most major importing developed country markets, with the notable exception of New Zealand. As a result, developing countries are likely to benefit from increased market access as a result of the tariff reductions proposed in the Harbinson text. However, the impact of tariff reductions on increased market access for exports from some least developed countries (Malawi, Tanzania and Uganda) is likely to be limited since most exports from these countries are under zero MFN or preferential rates. Potentially more significant, are the losses that least developed countries may suffer as a result of preference erosion, although the precise effect will depend on the composition and destination of a country's major agricultural exports. However, coffee and cotton exporters are predicted to be largely unaffected from preference erosion since they often face 0% MFN tariffs for these products in major importing markets. To the extent that the former is a concern, adoption of the Uruguay Round or adapted Swiss formula approach will reduce the losses from preference erosion since MFN tariff reductions will be lower than under the Harbinson banded approach. However, this would adversely affect other developing countries who do export agricultural products under ordinary MFN rates (notably Burkina Faso, Mali and Nigeria). In order to offset preference erosion affected countries will need to ensure that the best endeavour clause in the Harbinson text (allowing delayed liberalisation by developed countries of tariffs in sectors of vital export importance to developing countries) is adopted and utilised, any in-quota duties for these products are eliminated where potential exists and technical assistance is forthcoming. Alternatively, affected countries could request compensation from developed countries to offset the direct and indirect effects on their economies of support for agricultural production. Cost savings from reduced subsidies could also be redirected to provide support and technical assistance for these countries in order to diversify their export bases and restructure their industries to increase competitiveness.

In contrast to developed countries, the African countries investigated in this study (with the exception of Nigeria) have lower average agricultural tariffs with fewer tariff peaks. The nomination of special products may be important to protect domestic production and revenue sensitive sectors from tariff reductions in the interest of maintaining food security, rural development and livelihoods. The degree to which concessions on reduction commitments are required depends on the reduction formula finally agreed: the Uruguay Round approach would provide enough flexibility for variable tariff reductions within the average rate without the need for a separate mechanism. The impact of special products will depend upon decisions regarding the number of products allowed and the level of disaggregation required for specifying them. The methodology presented in this report provides a way of identifying products which justify special treatment.

Finally, the provision of domestic support and export subsidies in the agricultural sector by developed countries adversely affects developing countries since it serves to depress world prices, exclude developing country exporters from third markets and undermine domestic markets in developing countries. Due to preference erosion the greatest gains from agricultural liberalisation for many developing countries in the current Round of trade negotiations may be in securing commitments in these areas. Developing countries need to make targeted requests and form alliances between themselves to secure commitments for

reductions in domestic assistance and export subsidies in key sectors of export interest. In this regard, it is problematic that no limits or reductions have been proposed for the green box. Developing countries should request that the Harbinson proposals for reductions in domestic assistance are extended to non-trade distorting support.

However, cotton exports from the poorest cotton producers investigated in this study (Burkina Faso and Mali) may be too small and too expensive to substantially benefit from the removal of cotton export subsidies. Most gains are likely to accrue to the largest cotton exporters (Australia and Uzbekistan) or the most efficient producers (such as Brazil and Benin). As a result, any compensation obtained by countries such as Burkina Faso or Mali from developed countries for the short-term maintenance of export subsidies could be used to diversify the production of exports or increase efficiency in cotton production.