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Agriculture in WTO Negotiations

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Summary

The World Trade Organization's (WTO) fifth ministerial conference (held September 10-14, 2003 in Cancun, Mexico) ended without an agreement on a framework for continuing multilateral negotiations on agricultural trade liberalization. The inconclusive end of the Cancun ministerial places in doubt the ability of WTO member countries to complete the current round of negotiations by the scheduled January 1, 2005 deadline.

WTO member countries launched this new round of multilateral trade negotiations in November 2001 at the WTO's fourth ministerial conference in Doha, Qatar. Because of its emphasis on integrating developing countries into the global trading system, the round is called the Doha Development Agenda (DDA). The new round incorporates agriculture into a comprehensive framework that includes negotiations on industrial tariffs, services, dispute settlement, and other trade issues. The ambitious agenda for agricultural trade liberalization calls for substantially improving market access, reducing and phasing out export subsidies, and substantially reducing trade-distorting domestic support.

While the United States and the EU reached agreement on a broad framework for negotiating agricultural trade liberalization before the Cancun meeting, a group of developing countries, the G-22 which includes Brazil, China, India, and South Africa, among others, made a counter-proposal which makes fewer demands on developing countries than the EU-U.S. framework. The Chairman of the Cancun ministerial circulated a draft declaration at the meeting that attempted to reconcile differences between developed and developing countries on the agricultural issues. Neither the proposals made by the United States and the EU and the G-22 nor the Chairman's draft declaration propose specific modalities (formulas, targets, or timetables) for reducing tariffs and trade-distorting support and for phasing out export subsidies.

WTO meetings are scheduled to continue, beginning with an agriculture negotiating group meeting in October and ending with a senior level stock taking in December 2003. Amid considerable uncertainty about prospects for completing the round, WTO members, including the United States, the EU, the G-21 and other countries, are taking stock and considering options for concluding the round. U.S. trade officials also have indicated they will be focusing attention on bilateral and regional trade negotiations.

Much of U.S. agriculture would benefit from further multilateral trade liberalization, but some U.S. products might face stiffer foreign competition at home or in third-country markets. DDA negotiations, if they result in new commitments to reduce trade-distorting domestic support or export subsidies, also could affect U.S. farm programs authorized in the 2002 farm bill (P.L. 107-171). Any agreements reached in the new round would be taken up by Congress under fast-track procedures for legislation to implement trade agreements as spelled out in the Trade Act of 2002 (P.L. 107-210). This report will be updated periodically.

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Agriculture in the Cancun Ministerial

The WTO's fifth ministerial conference (held September 10-14, 2003 in Cancun, Mexico) ended without an agreement on a framework for continuing negotiations on agricultural trade liberalization as well as a host of other trade issues, including market access for non-agricultural goods, trade in services, WTO rules, and dispute settlement. The inconclusive end of the Cancun ministerial places in doubt the ability of WTO member countries to complete the current round of negotiations by the scheduled January 1, 2005 deadline.

The immediate cause of the breakdown of the ministerial conference was refusal by a group of poor developing counties to agree with European Union (EU) demands to begin negotiation of multilateral rules for the so-called Singapore issues – investment, competition, government procurement, and trade facilitation. The meeting ended when least-developed countries refused absolutely to agree to launch negotiations on just one of the issues – trade facilitation.

But fundamental differences especially between developed and developing countries over developed country farm subsides and market access for agricultural products also contributed to the failure of the round. The United States, in particular, urged negotiations that would result in reductions in the most trade-distorting forms of domestic support, but with some flexibility granted to developed countries to maintain domestic support in production-limited programs, reciprocal reductions in tariffs by all WTO members on agricultural products, and phasing out of export subsidies. In the U.S. view, developing countries, especially the more economically advanced ones, should begin to open their markets to agricultural products from both developed and developing countries. The developing countries, represented by the G-21 group (whose members include Argentina, Brazil, China, Egypt, India, and South Africa), demanded steeper cuts in trade-distorting domestic support than proposed by the United States and the EU and the elimination of export subsidies (opposed by the EU), but without much in the way of reciprocal tariff reductions in return.

Viewed as symbolic of the differences between developed and developing countries was the issue of trade-distorting domestic subsidies for cotton. A group of four least-developed African cotton-exporting countries–Benin, Burkina Fasso, Chad, and Mali–proposed an end to global trade-distorting subsidies for cotton within three years with transitional compensation to be paid to producers. The United States, in response, proposed a global, sectoral initiative for cotton and textiles which would have addressed subsidies for cotton and textiles, tariffs on fibers, textiles and clothing, and non-tariff and other barriers in the fiber sector. Inability to reach a compromise on the cotton issue also contributed to the breakdown of the Cancun ministerial conference.

Agriculture Negotiations: Mandate and Timetable

At the WTO's Fourth Ministerial Conference in Doha, Qatar, November 9-14, 2001, WTO member countries agreed on a declaration to begin a new round of multilateral trade negotiations (MTNs), including negotiations on agriculture. This new round, because of its emphasis on integrating developing countries into the world trading system, is called the Doha Development Agenda (DDA).

A first phase of agricultural trade negotiations had been underway since early 2000. The first phase produced proposals from WTO member countries for agricultural trade liberalization, but no agreement was reached on a work program or timetable for completing negotiations. The DDA incorporates those negotiations into a comprehensive multilateral trade framework with an agreed upon negotiating mandate and established benchmarks to be used to measure progress.

The Doha Ministerial Declaration mandates comprehensive negotiations on agriculture aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. The Declaration also provides that special and differential (S and D) treatment for developing countries shall be an integral part of all elements of the negotiations. (S and D treatment generally means that developing countries would make fewer or lower reduction commitments and enjoy longer periods of time in which to phase in concessions or commitments.) The Declaration takes note of non-trade concerns reflected in negotiating proposals of various member countries and confirms that non-trade concerns would be taken into account in the negotiations.

March 31, 2003 was set as the deadline for reaching agreement on "modalities" (targets, formulas, timetables, etc.) for achieving the mandated agriculture objectives, but that deadline was missed. Negotiations on modalities continued as part of the preparations for the next (and fifth) WTO Ministerial Conference which was held September 10-14, 2003 in Cancun, Mexico. Rather than agree on modalities, the objective for agriculture in the Cancun ministerial was to agree on a framework (without numbers or formulas) for achieving the broad objectives of the DDA for agriculture. No agreement on a framework was reached, however, and consequently, the deadline for concluding the DDA by January 1, 2005 seems unlikely to be met.

Initial Negotiating Proposals

The March 31 deadline was missed because of the inability of WTO members, especially the United States and the EU, to bridge differences in their respective, initial negotiating proposals.[1] Agreement on modalities is a prerequisite for moving to the next step in the process, i.e., negotiating individual country commitments

[1] Initial negotiating proposals are at [http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm].

(called schedules or lists) for reducing tariffs and domestic support and phasing out export subsidies.

United States. The United States proposed the elimination of agricultural export subsidies; substantial reductions in tariffs (with no country's tariff on any agricultural product exceeding 25%); 20% increases in tariff-rate quotas on agricultural imports; disciplines on export state trading enterprises (STEs); elimination of the blue box (see text box); and reductions in trade-distorting domestic support ("amber box") to no more than 5% of each country's total agricultural production value — the objective being to make all countries' domestic support levels comparable in relative terms. So-called *de minimis* exemptions, that is, trade-distorting support less than 5% of the total value of production or, in the case of commodity specific support, less than 5% of the commodity's total value, would be maintained. Most of these changes would be phased in over 5 years. Ultimately tariffs and trade-distorting domestic support would be eliminated.

The U.S. position was supported by the Cairns Group and many developing countries that also want deep cuts in domestic support and the elimination of export subsidies. The 17 members of the Cairns group are: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay. The Cairns Group and some developing countries, however, have proposed that spending on non-trade distorting domestic support ("green box" measures) also be curbed, a position the United States opposes.

WTO Farm Support Categories

The WTO classifies domestic farm support policies into three colored box categories.

Green box programs are publicly funded programs (financed by direct outlays or foregone revenue) that do not involve a transfer from consumers or have the effect of providing price support to producers. Examples of green box programs are research programs, de-coupled income support such as U.S. direct payments to producers that are not contingent on any production, environmental program payments, such as the Conservation Reserve Program, or disaster assistance. No WTO disciplines or reductions apply to green box programs.

Blue box programs are direct payments made under a production limiting program. The EU is the primary user of blue box programs, making direct payments to producers, for example, based on fixed areas or yields or a fixed number of livestock. There are currently no U.S. blue box programs. Blue box programs also are not subject to reduction commitments.

Amber box programs are payments that are contingent on participation in agricultural production, i.e., producing a crop or raising livestock qualifies a farmer for government payments. Examples of U.S. amber box programs are price supports for dairy, sugar and peanuts and loan deficiency payments or marketing loan gains for grain, oilseed, and cotton producers. Examples of EU amber box payments are so-called intervention buying of farm products at prices administratively maintained above market prices. In contrast to green and blue box programs, amber box payments are subject to WTO reduction commitments.

European Union. In sharp contrast to the U.S. and Cairns Group proposals, the EU (and Japan and Korea) proposed "progressive and substantial" reductions in farm subsidies and agricultural tariffs based on the formulas agreed to in the Uruguay Round negotiations (1986-1994). Thus tariffs would be reduced by 36% on average while individual tariff lines would be subject to a 15% minimum reduction. Trade-distorting domestic support (amber box) would be cut by 55% starting from the bound commitment level in 2006. A new agricultural agreement would retain the current allocation of domestic support to green, blue, and amber boxes (see text box, p. 3). The EU proposes elimination of *de minimis* exemptions that the United States says should be retained. The volume of export subsides, according to the EU proposal, would be cut substantially, while an average 45% cut would be made in budgetary expenditures for such measures. The EU indicates a willingness to eliminate export subsidies on products of interest to developing countries such as wheat or oilseeds, provided that no other forms of subsidy (such as export credit guarantees) are provided by other WTO members.

The EU proposal provides for taking non-trade concerns into account. Measures, including subsidies, to promote rural development, protect the environment, or enhance animal welfare, the EU says, should be considered as green box measures and therefore exempt from WTO disciplines.

Developing Countries. Developing countries, a large and diverse group that constitutes the majority of WTO members, in numerous initial proposals, called for rapid dismantling of developed countries' trade barriers and the elimination of production-linked domestic subsidies. Developing countries are also seeking exemptions for developing country domestic support deemed essential for economic development. While developing countries are seeking substantial reductions in agricultural tariffs of developed countries, many are resistant to the idea of reciprocal tariff reductions, preferring instead to be accorded special and differential treatment which would entail maintaining tariffs or phasing them down over lengthy time periods. Developing countries, including many of the poorest, that benefit from preferential treatment for their exports to developed country markets also want such benefits to continue. Countries receiving preferences fear they may lose markets to other developing countries if preferential schemes are replaced with across-the-board reduction or elimination of tariffs.

Agricultural Policy Reform and Trade Liberalization

Some suggest that the success of the agriculture negotiations depends on agricultural policy reform in the EU and the United States. Both have recently made changes in domestic farm policy that could significantly impact on the negotiations.

European Union. The EU has recently enacted a number of significant reforms in its Common Agricultural Policy (CAP), including substantial de-coupling of income support from production, reductions in price supports, and a shift of funds from domestic support for agricultural production to rural development. In WTO terminology, the reforms enable the EU to shift substantial amber and blue box spending into the green box which, under WTO rules, is not subject to reduction commitments. These reforms should enable the EU to accept cuts in trade-distorting domestic support or the reduction of export subsidies in the Doha agriculture negotiations.

United States. In the United States, the President on May 13, 2002, signed into law a farm bill (P.L. 107-171) to replace the 1996 Federal Agricultural Improvement and Reform, or FAIR, Act). Critics say this new farm law could raise trade-distorting domestic support above U.S. WTO commitments to reduce such spending. Critics also argue that inclusion in the farm bill of new trade-distorting supports, such as price-triggered counter-cyclical income support, undermines the U.S. position in the new round. However, the farm bill stipulates that the Secretary shall, to the maximum extent possible, make adjustments in U.S. farm support to ensure that it does not exceed levels allowable under the WTO Agreement on Agriculture. Moreover, U.S. trade officials insist that the United States has not wavered from its negotiating objective of securing substantial reductions in domestic subsidies, including U.S. subsidies, that distort trade, and that congressional support for agricultural trade liberalization remains strong.

The Modalities Proposal[2]

To facilitate the process of reaching agreement on modalities, the chairman of the Agriculture Negotiating Group, Stuart Harbinson, issued prior to the March 31, 2003 deadline, a set of proposals. Harbinson's proposals attempted to steer a middle course between the U.S. and EU negotiating positions, while according special and differential treatment to developing countries. Chairman Harbinson proposed specific formulas and numerical targets for dealing with the three so-called pillars of the agriculture negotiations: market access, export competition, and domestic support. His proposal for modalities, universally criticized as being too specific, was not adopted by the agriculture negotiating group, and the modalities deadline was missed. However, many expect that Harbinson's modalities report may be reviewed later as a source of methods for achieving the DDA 's agricultural objectives.

Market Access. Harbinson proposed a "banded" approach to tariff reduction. For tariffs greater than 90% *ad valorem*, the simple average would be reduced by 60% subject to a minimum cut of 45% per tariff line; for agricultural tariffs lower than or equal to 90% but greater than 15%, the simple average reduction would be 50% subject to a minimum cut of 35% per tariff line; and for all agricultural tariffs lower than or equal to 15%, the simple average reduction would be 40% subject to a minimum cut of 25% per tariff line.

Export Competition. Harbinson's modalities report recommended that export subsidies be eliminated over a ten-year period. Export credit and food aid programs would also be covered by new rules. Repayment terms for export credits would be limited to a maximum of six months but developing countries would be allowed longer repayment periods. For the most part, food aid would take the form of unrestricted financial grants to purchase food internationally or regionally under the Harbinson recommendations. However, food aid in kind for development

[2]The Chairman's report on modalities for the agricultural negotiations can be accessed at [http://www.wto.org/english/tratop_e/agric_e/negoti_mod2stdraft_e.htm].

projects could be provided through United Nations food agencies or UN food agency projects operated by non-governmental or charitable organizations.

Domestic Support. The Harbinson modalities report called for a 60% reduction in trade-distorting (amber box) support. The report also suggested that trade-distorting support tied to production limits (blue box support used primarily by the EU) be capped and then reduced by 50% over five years. The modalities report also included an option for eliminating the blue box altogether by including it in the amber box category and subjecting it to a 60% reduction. The *de minimis* exemptions would be cut by half over five years.

U.S. Reaction. While U.S. trade negotiators indicated they considered the modalities report as a reference point for further negotiations, they were highly critical of specific proposals. Both U.S. and Cairns Group officials said the recommendations fell far short of their earlier proposals. U.S. criticisms, among others, were that the market access provisions did not result in tariff harmonization (i.e., reduction to comparable levels) and that the application of the Harbinson approach would still leave very high tariffs on many products, especially meat products. U.S. trade officials welcomed the elimination of export subsidies, but they noted that the ten-year phase-out schedule should be considerably shortened. According to U.S. negotiators, reduction proposals for amber box support would enable the EU to maintain trade-distorting blue box payments and to continue to provide considerably more trade-distorting amber box support than could the United States. Under current WTO rules, U.S. amber box support is capped at $19 billion annually, while the EU's is capped at $67 billion. Under the Harbinson proposal, U.S. amber box support would fall to around $8 billion per year, while the EU's would be capped at $27 billion per year.

Not only the Administration, but many in Congress reacted negatively to the Harbinson proposals. A particular concern was that the proposed 60% reduction in trade-distorting, or amber box, support, did not "level the playing field" between the United States and the EU. Permitted EU trade distorting subsidies would still be more than three times the level of permitted U.S. subsidies. Also in the 2002 Trade Act, Congress had made preserving export credit guarantee programs a major negotiating objective. Any proposals for tightening export credit program disciplines are thus likely to come under intense congressional scrutiny.

EU Reaction. The EU also reacted negatively to the Harbinson proposals. In the EU view, they were unbalanced and placed most of the burden of adjustment on the EU. The EU was particularly concerned that, with the exception of adding animal welfare subsidies to the category of non-trade distorting (or green box) subsidies, the Harbinson report ignored non-trade concerns. The EU criticized the report's call for the elimination of export subsidies without similarly disciplining export credit programs, such as U.S. export credit guarantees. EU officials argued also that blue box subsidies are less trade distorting than amber box support and should not be subject to the same reduction requirements as amber box support.

The EU-U.S. Framework Proposal

As the date for the Cancun ministerial meeting approached, the objective of the ministerial changed from agreeing on specific modalities to reaching agreement on a broad framework for accomplishing the agriculture objectives. An EU-U.S. framework proposal put forth on August 13 represents an effort to bridge the significant gaps between their previous positions and to provide a basis for agreement on a way forward at Cancun. A political agreement on agriculture between the EU and the United States is critical to the success of the Doha round, because they are the world's largest exporters and importers of agricultural products. In retrospect, observers have noted that while an EU-U.S. framework agreement may have been necessary in order to move the DDA round toward agreement, it was not sufficient. One consequence of the EU-U.S. agreement was to provoke a coalition of developing countries (see below) to make a counter-proposal that went beyond what the EU and United States had been able to agree to in their framework proposals.

Domestic Support. The EU-U.S. framework agreement proposes that the most-trade distorting domestic support measures would be reduced according to a percentage range to be negotiated. WTO members could use blue-box type payments based on fixed areas and yields (such as U.S. counter-cyclical payments); or payments made on 85% or less of the base level of production or livestock payments based on a fixed number of animals as employed by the EU). Such "blue box "support could not exceed 5% of the total value of production by the end of an implementation period. *De minimis* exemptions would also be reduced. The sum of allowed trade-distorting support, *de minimis*, and blue box spending must be significantly less than the final bound level in 2004.

Market Access. Tariffs would be reduced using a blended approach. Some tariff lines would be subject to a Uruguay Round type reduction formula (i.e., the average tariff level would be reduced by some percentage, while individual tariff lines would be subject to a minimum percentage reduction) to be negotiated. Minimum reductions here would be counterbalanced by a combination of tariff cuts and expanding tariff rate quotas (TRQs). Some tariff lines would be reduced using a Swiss formula. and some tariffs lines would be duty-free. The use of the special agricultural safeguard measure (SSM) by developed countries remains under negotiation, but an SSM would be established for developing countries for import-sensitive products. Some portion of developing countries' exports would receive duty-free treatment through a combination of across the board tariff reductions or elimination and preferential access. Developing countries would benefit from S and D treatment including lower tariff reductions and longer implementation periods.

Export Competition. Export subsidies would be eliminated over a period to be negotiated for a specific list of products of particular interest to developing countries. For remaining products, budgetary and quantity allowances would be negotiated. Trade distorting aspects of export credits would be reduced in parallel with export subsidies by reducing the repayment terms to commercial practice (usually defined as 6 months). Disciplines would be developed to prevent commercial displacement through food aid shipments. Disciplines ending single desk export privileges, prohibitions of special financing privileges, and disciplines on pricing practices also would be established for export STEs.

Other Matters. The EU-U.S. framework proposes to deny the full benefits of special and differential treatment to significant net agricultural exporting countries (such as Brazil or Argentina), while maintaining them for the least-developed WTO members. Issues the framework says are still being negotiated include the "peace clause"[3], non-trade concerns, implementation period, sectoral initiatives, and geographical indications.

Implications. Many WTO member countries expressed encouragement that the United States and the EU could reach agreement on broad parameters of the agricultural negotiations given the strong differences in their initial negotiating positions. Nevertheless, both other developed countries, like Australia, and developing countries, like Brazil, criticized the framework because, in their view, it did not meet the ambitious trade liberalization objectives of the Doha Ministerial Declaration, especially with respect to trade-distorting domestic subsidies.

Although the EU-U.S. framework would require reductions in spending on domestic support, it would not require much, if any, change in farm policies. Some have suggested that the proposal's blue box provision has been structured in such a way as to give the United States the flexibility to shift up to $10 billion in trade-distorting counter-cyclical payments into this category. Both the Cairns Group and developing countries have expressed dissatisfaction that the framework does not meet the Doha mandate of substantial reductions in trade-distorting support. Those countries also would like to see limits placed on green box spending which they say also can distort trade.

The framework agreement implies that the United States has moved away, at least for the time being, from its initial objective of total elimination of export subsidies. The framework calls for eliminating such subsidies on products of special interest to developing countries and for reductions in the budgetary expenditure and volume of subsidies on remaining products. U.S. supporters of export credit programs are likely to be wary of the framework's proposal to "mirror" commitments made on export subsidies with disciplines on export credit programs, particularly to limit the repayment period for such credits to 6 months. Some observers suggest that U.S. willingness to drop its insistence on elimination of export subsidies is a trade-off for limited preservation of its export credit programs.

There are no specific numerical formulas for tariff reduction in the EU-U.S. framework so it is difficult to tell how much market access would be expanded. Import-sensitive products would be subject to lower tariff reductions, but lower reductions would be counterbalanced to some degree by expanded TRQs. The framework calls for S and D treatment of developing countries, but specifically exempts net agricultural exporting countries from the benefits of S and D. No

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[3]Article 13 of the WTO Agreement on Agriculture is known as the "peace clause" because it prevents most challenges in WTO dispute settlement against another WTO member country that is complying with its WTO commitments. The peace clause expires at the end of 2003. When the peace clause expires, it is possible that WTO member countries' subsidies could be challenged in WTO dispute settlement, especially by developing countries.

mention is made of duty-free treatment for imports from the least developed countries.

The G-21 Counter-Proposal

A group of 21 developing countries put forth a counter-proposal to the EU-U.S. framework which makes a clear distinction between what should be required of developed and developing countries and would impose greater trade liberalization obligations on developed than on developing country members of the WTO. The G-21 counter-proposal calls for deeper cuts in domestic support, the elimination of export subsidies, and emphasizes special and differential treatment in tariff reductions and market opening for developing countries.

Domestic Support. This group seeks deeper cuts in domestic support than proposed by the EU-U.S. framework. Trade distorting domestic support would be reduced on a product specific basis, the blue box would be eliminated, and green box support would be capped or reduced for developed countries. Developed countries would reduce *de minimis* support and the sum of amber box and *de minimis* support would be subject to a percentage cut.

Market Access. The blended approach proposed by the EU and United States would be used by developed countries that would also be required to expand TRQs and reduce in-quota tariff rates to zero. The SSM would be discontinued for developed countries, but maintained for developing countries. Developed countries would provide duty free access for all tropical products and other products of special interest to developing countries. In contrast, tariff reductions for developing countries would be according to a Uruguay Round formula, with no commitment to expand TRQs or reduce in-quota tariff rates.

G-21 Member Countries

Argentina	Ecuador	Paraguay
Bolivia	Egypt	Peru
Brazil	Guatemala	Philippines
Chile	India	South Africa
China	Indonesia	Thailand
Colombia	Mexico	Venezuela
Costa Rica	Nigeria	
Cuba	Pakistan	

Export Competition. Export subsidies on products of particular interest to developing countries would be eliminated over a time period to be determined. Export subsidies on remaining products would be eliminated over another time period to be determined. Export credit programs would be regulated by a rules-based approach taking into account the needs of least developed and net food importing developing countries.

The African Cotton Proposal

An example of a developing country proposal to substantially reduce trade-distorting support is the proposal by four African countries — Benin, Burkina Faso, Chad and Mali — to eliminate developed countries' trade-distorting domestic support and export subsidies for their cotton producers. The four countries propose that all WTO members' domestic support measures and export subsidies for cotton be eliminated over a three-year period (January 1, 2004 to December 31, 2006). Subsidies would be reduced in equal annual installments to at least one-third of the total level of subsidies granted. The WTO should establish a transitional financial compensation mechanism in favor of cotton-exporting developing countries affected by the subsidies. Beginning January 1, 2004, and continuing until all domestic support and export subsidies have been eliminated, subsidizing countries would provide financial assistance equivalent to the loss of export revenue experienced by the developing country producers. Data from the International Cotton Advisory Council would be used to calculate developing country revenue losses. The proposal, which is on the agenda of the Cancun ministerial conference, does not address adjustment problems of developed country cotton producers.

Draft Declaration for Agricultural Negotiations

The developing countries' counter-proposal reflects the continuing differences between developed and developing countries in the agriculture negotiations. A draft declaration for the Cancun Ministerial, circulated by the Chairman of Cancun meeting, but not agreed, represents an attempt to reconcile these differences and proposes a framework for establishing modalities for the agriculture negotiations.

Domestic Support. The draft declaration states that trade distorting domestic support would be reduced according to a percentage range and that *de minimis* exemptions would be reduced also by a negotiated percentage. Blue box payments would continue but could not exceed 5% of the value of agricultural production in the 2000-2002 period and thereafter would be subject to an annual linear percentage reduction for a further period of years. The sum of allowed trade distorting support and *de minimis* would be reduced so that it is significantly less than the sum of *de minimis*, blue box and trade-distorting support in 2000. Green box criteria would remain under negotiation. Developing countries would benefit from S and D treatment and be exempt from *de minimis* reductions.

Cotton. The draft declaration recognized the importance of cotton for a number of developing countries and the need for urgent action to address trade distortions in global cotton markets. It instructed the WTO negotiating groups to begin a consultative process to address the distortions not only in cotton markets but in related sectors of man-made fibers, textiles, and clothing. In addition, the draft proposed consultation between the WTO, the World Bank, and the UN Food and Agriculture organization to work with cotton-producing countries to direct programs and resources toward diversification.

Market Access. The draft declaration also calls for a blended approach to market access with S and D treatment for developing countries that could designate special products which would only be subject to a linear cuts and no new commitments regarding TRQs. An SSM would be established for developing countries although an SSM for developed countries would still be under negotiation. Developed countries also would seek to provide duty-free access for some minium percent of imports from developing countries either through tariff elimination or via preferential access.

Export Competition. The draft declaration calls for the elimination, over a yet to be determined time period, of export subsidies on products of special interest to developing countries. For remaining products, WTO members would reduce, with a view to phasing out, budgetary and quantity allowances for export subsidies. The subsidy element of export credits for products of special interest to developing countries would be eliminated by reducing repayment terms to commercial practice (usually defined as six months). The subsidy element of export credits for other products would be reduced in tandem with export subsidies. Additional disciplines to prevent food aid from displacing commercial sales would be agreed to, but the special needs of least developed countries and net food importing developing countries would be taken into consideration. The question of an end date for phasing out all export subsidies would remain under negotiation. Developing countries would receive S and D treatment for reductions of export subsidies.

Other Matters. The draft declaration says that least developed countries would be exempt from reduction commitments and that the objective of duty- and quota-free market access for products of least developed countries would be expeditiously pursued. Finally, the draft declaration says that the Harbinson report would serve as a reference document for further work on modalities.

Agriculture Negotiations After Cancun

Status of the Draft Declaration. Preliminary assessments of the draft declaration reveal that differences remain especially between developed and developing countries about the nature and extent of agricultural trade liberalization.

The United States and the EU both criticized the proposed reduction in blue box subsidies, which they join in arguing are less trade-distorting. The United States and the EU also criticized the declarations's statement that the green box remains "under negotiation." The EU maintains that its ability to agree to reductions in trade-distorting (amber box) support depends on the continuation of blue and green box policies. Brazil and Australia criticized the declaration's continuation of the blue box and the failure to put a cap on green box spending as inconsistent with the Doha mandate. The African countries expressed dissatisfaction that consultation rather than immediate action was proposed in relation to their proposal for ending cotton subsidies with transitional compensation for income losses.

The United States criticized market access provisions for developing countries in the Chairman's draft. The United States argued that developing countries would not be required to make sufficient market opening because they could select special products to be exempt from cuts and would not be required to expand TRQs.

The EU said that the draft went too far in suggesting that an end date for phasing out export subsidies remained under negotiation because the Doha declaration did not mandate such a date. Australia and a number of developing countries argued however that the declaration should set a target date for eliminating export subsidies.

Both the United States and the EU have indicated that, despite their dissatisfaction with various proposals, the draft declaration for agriculture could serve as a basis for negotiations. Brazil, one of the leaders of the G-21, also has indicated that agricultural negotiations could proceed on the basis of the draft ministerial.

Next Steps. WTO meetings are scheduled to continue, beginning with an agriculture negotiating group meeting in October and ending with a senior level stock taking in December 2003. Amid considerable uncertainty about prospects for completing the round by January 2005, WTO members, including the United States, the EU, the G-21 and other countries, are taking stock and considering options for concluding the round. U.S. trade officials also have indicated they also will be focusing attention on bilateral and regional trade negotiations.

In Congress

Congress would take up any agreements that result from the Doha round of trade negotiations under fast track procedures (in P.L. 107-210) for congressional consideration of legislation to implement trade agreements. In the meantime, according to the procedures established in P.L. 107-210, Congress and the Administration would be consulting as negotiations proceed. Interaction during the period of consultation between Congress and the Administration on negotiating positions and strategies would lay the groundwork for congressional consideration of an agreement. Congressional fast track procedures would expire by June 1, 2005, but could be extended if the President satisfies the consultation requirements in P.L. 107-210 and if progress is being made in meeting the negotiating objectives set forth in the Trade Act of 2002.