The WTO July 2004 Framework Agreement
An Overview of Agriculture

In the early hours of August 1, 2004, World Trade Organization (WTO) member states agreed to a document dubbed the July Package. The package was a bid to revitalize the talks on the Doha Agenda, signed in November 2001, but since left languishing in stalemate as countries failed to meet any of the deadlines for agreement.

The Framework consists in an overview of general commitments for the Doha Agenda, followed by a series of annexes on specific agreements. Annex A deals with agriculture. The following review of the terms included in Annex A should be read in conjunction with the IATP *Glossary for the WTO Agreement on Agriculture*. It is organized, as Annex A is, by pillar: domestic support, export competition and market access. In all areas, least developed countries are in general exempt from reduction commitments.

Domestic support: The heart of the Framework proposal on domestic support is to cut overall levels of support, and to cut the highest levels of support by a greater percentage than smaller levels. The framework includes some very modest proposals, including that spending should be reduced on at least "some" products, while all product-specific support will be capped, presumably at current levels (meaning it cannot subsequently be increased).

The framework proposes to cut the *de minimis* threshold. The *de minimis* sets a floor below which programs are exempt from reduction commitments: if the entire program cost is less than the floor, then the program is exempt from reduction commitments. This level is currently 5 percent for developed countries and 10 percent for developing countries. In proposing to reduce the *de minimis* level, the only concession to developing countries is to allow the current level of *de minimis* to continue for programs that are almost entirely allocated to "subsistence and resource-poor farmers."

The aggregate measure of support, or AMS, which measures spending on agriculture that has to be reduced (programs that are classified in the Amber Box), is to be cut by a minimum of 20 percent in the first year of the implementation of the new Agreement on Agriculture. Blue Box, Green Box and *de minimis* spending are all additional to the AMS calculation.

The most dramatic element of the framework text on agriculture was the creation of new criteria that expand the definition of Blue Box programs. The U.S., which had largely moved out of Blue Box spending with its domestic farm policy legislation reform of 1996, insisted on expanding the program-limiting criterion that now determines what can be included in the Blue Box. The U.S. wanted to include the counter-cyclical programs they reintroduced in the 2002 farm bill. Counter-cyclical payments create a price floor for commodities; if prices drop below this floor, an automatic income support payment is triggered for domestic producers, paid per unit of output without a limit on the volume of production covered. Under the current AoA, these programs have to be classified in the Amber Box. Counter-cyclical payments are decoupled from production (they apply regardless of production levels, although the more you produce, the more payment you are eligible to receive) but are price-dependent and therefore not eligible for inclusion in the existing Blue Box.

The Framework text also proposes a cap on Blue Box spending of 5 percent of a country's average total value of agricultural production. This is also new; the existing Blue Box allows unlimited spending. The base period for the average value calculation has yet to be established. Some flexibility is foreseen for countries with a lot of Blue Box programs, which might face "a wholly disproportionate cut" to existing programs under the introduction of a ceiling.

Despite the negotiation of an overall cap on Blue Box spending, and the commitment that there will be a minimum 20 percent reduction in spending within the Amber Box, there is a real possibility that allowed domestic support will increase with the new agreement, if the baseline for reduction includes the currently unlimited spending allowed for Blue Box programs. In any case, the final spending levels bound by the Uruguay Round AoA were higher than actual spending in most countries, creating considerable space before future cuts start to bite. The July text does make some attempt to curb the new Blue Box by insisting that eligible programs still have to be "less trade-distorting" than Amber Box programs and that the new Blue Box criteria "will not have the perverse effect of undoing ongoing reforms."

The Green Box has attracted less attention than other areas of domestic support but is still contentious, particularly because spending on decoupled programs, which are Green Box eligible, have reached such high levels. The July Framework only suggests a review of the existing criteria, to ensure the basic principle—no or only minimally trade-distorting impact—is respected. This is an oblique challenge to the inclusion of decoupled payments in the Green Box, as the Organization for Economic Cooperation and Development and others have determined that

in practice these payments do affect production. However, the EU is in the process of moving most of its Common Agricultural Policy payments to income support payments that meet current Green Box criteria, and will be reluctant (and, probably, politically unable) to tighten the disciplines in this area. The U.S. would also find any change to the rules on decoupled support very difficult to accept, given its domestic political realities. Real reductions in U.S. domestic support to agriculture are much more likely to come from the ballooning budgetary deficit, pushed by tax cuts and the cost of the war in Iraq.

An important element of Annex A, which addresses a common complaint with regard to the use of the Green Box, is the provision that notifications should be more transparent and more timely. Both the EU and the U.S. have delayed notification of their actual spending on agriculture for years at a time, making it difficult for other WTO members to assess whether these two big spenders are in compliance with the rules. The recent findings by two dispute settlement panels that the U.S. cotton programs and EU sugar programs are both spending more than is permitted under the AoA highlights the importance of tightening the requirements on countries' notifications to ensure compliance with the rules.

Export competition: The July Framework did not set a date for the elimination of export subsidies, but it does include the unambiguous statement, "The following will be eliminated by the end date to be agreed: "export subsidies as scheduled." The framework expands the area of subsidies to be eliminated with the inclusion of "export measures with equivalent effect." These are defined as export credits or export credit guarantees or insurance programs with repayment periods of more than 180 days (which is the baseline set by commercial credit terms), or programs with repayment periods of less than 180 days that include other subsidy elements (including low interest rates or easy repayment terms). The list of these elements is still to be negotiated. In addition, "trade-distorting practices with respect to exporting STEs [state trading enterprises]" are included for elimination, and the future use of monopoly powers is subject to further negotiation.

Food aid "that is not in conformity with operationally effective disciplines to be agreed" will also be eliminated. This reflects a fight between the U.S. and some of its food aid recipients on the one hand, and most other countries on the other. The U.S. distributes a great deal of food as program food aid. This food is given to NGOs and governments to sell in the market to generate counterpart funds for spending on development projects; it is not food that meets an emergency shortfall. The food competes directly with local producers. The sale does not have to meet normal commercial considerations, since any sale is a profit for the NGO that has been given the food and the U.S. government has paid the shipper. U.S. export firms like the system (they are paid on a commercial basis for shipping the food) and U.S. NGOs like the money (which they are highly unlikely to get as cash from the U.S. Agency for International Development). Recipient governments are often glad for the food, which they would otherwise have to find the money to buy on commercial terms to meet need. However, the practice has been shown to be detrimental for local producers, because it introduces subsidized competition into the market, and it angers other commercial exporters, who would perhaps be more competitive in those markets if U.S. surpluses were not being dumped. The U.S. government openly talks to domestic constituencies about program food aid as a way to create future markets for its commercial food exports. The European Commission, after a series of damning investigations into its use of food aid, now complies with multilateral guidelines to ensure its food aid meets developmental needs in the recipient country. The U.S. has refused to accept such multilateral disciplines to date.

Market access: The key feature of the market access provisions in the July Framework is that a banded formula, still to be specified, will be used to ensure that the highest tariffs will face the largest cuts. The cuts will come from bound rather than applied tariff levels, which will reduce the immediate impact of reform, as many agricultural tariffs, in both developed and developing countries, are bound at higher levels than countries actually apply. The text sets up three exceptions to the application of the reduction formula: sensitive products, special products and the special safeguard mechanism, all described below.

- All countries can designate "an appropriate number" of sensitive products (the number to be negotiated). Tariffs on these products will not have to be cut along the lines set by the formula, but some cut will still have to be made, and further market access will also have to be created through the use of tariff rate quotas.
- Developing countries will also have recourse to "an appropriate number" of special products, whose determination will be subject to review according to food security, livelihood and rural development concerns. It is not clear yet whether some tariff reduction or other increase in market access will be required for special products. A number of developing countries, particularly the G33, have argued that special products should be self-selected. If all developing countries automatically have access to this provision, developed countries can be expected to limit this tool as far as possible.
- A special safeguard mechanism or SSM is to be established, for developing countries only. Its scope and application have yet to be defined. ●

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