LDCs and Trade in Commodities
CSO LDC Meeting – 23 – 25th June Livingstone Zambia
Muthoni Muriu – Oxfam International

I have been asked to comment on how ccommodity trade issues and LDC concerns are addressed at the WTO, especially within the Doha Development Agenda negotiations, and how they are linked to broader agricultural negotiations and subsidies. What should be our recommendations to LDC Ministers in terms of trade in commodities? This is too big a subject for fifteen minutes so I will just highlight the essentials and am sure that our subsequent discussions will help elaborate some points and outline clear recommendations.

I will quickly cover sugar and cotton, because these two cases symbolize the unfairness of current subsidy practices of the United States in the case of cotton, as does the case of sugar for the European Union. I will touch on coffee – although this is not strictly a WTO issue apart from the fact that it would be included in a general discussion on commodities.

Sugar

Yesterday the EC announced it's proposals on sugar reforms. As most of you know, a leaked draft version has already been widely criticised by developing country governments and their sugar industries, the Spanish government, other EU member states, etc

The main criticisms revolve around the lack of clarity and detail on a wide range of issues in the Action Plan. In particular, there is insufficient detail on how support measures will be financed and delivered in a timely and effective manner and to an adequate degree. Further, the Action Plan fails to address the adjustment needs of several sugar-producing Least Developed Countries (LDCs), which are not covered by the plan or which are unlikely to receive adequate help under it.

Many ACP countries and LDCs rightly remain concerned that the EC and EU member states have failed to take account of their concerns in the reform process. In particular, they oppose the depth and speed of the proposed price cuts.[2] Some of these countries will need EU assistance to offset the likely serious impact of EU sugar reform, whilst others will need help to adjust and make the most of any opportunities presented by reform. However, many of them are reluctant to be drawn into detailed discussions on what adjustment measures will be needed without a clearer idea of which reforms will be implemented, and therefore what adjustment challenges they will face.

I will briefly outline four key concerns:

1. The plan must be adequately financed and assistance delivered in a timely and effective way[4]

Under the current EC reform proposals, price cuts will be implemented from 2006, after which time significant reductions in export revenue will affect many ACP and LDC exporting countries. Indeed, the impact of impending reform in the light of the Commission's proposals is already being felt, as loan financing for investment in sugar sector activities is drying up or becoming available on far less favourable terms (i.e. more expensive and with shorter repayment periods). It is therefore welcome that the Commission intends to make funding available for the Action Plan from 2005.

2. Any assistance should benefit all LDCs alongside ACP countries

The Commission proposes that the Action Plan should cover only the 18 ACP countries that are signatories to the Sugar Protocol and which currently export sugar to the EU.[6]

Five of these countries (Madagascar, Malawi, Mozambique, Tanzania, and Zambia) are LDCs, which also export to the EU under the EBA initiative, and will only benefit from assistance under the Action Plan to a level commensurate with their exports under the Sugar Protocol.

A further five LDCs, (Bangladesh, Burkina Faso, Ethiopia, Nepal, and Sudan) export sugar to the EU only under the EBA agreement. These countries will also be adversely affected by the fall in EU prices, as it will reduce the value of their future increased access under EBA.

However, in the longer term, they may benefit from less distortion of their markets by Europe and will need support to take advantage of any opportunities arising from EU reform. Under the Commission's proposals, these LDCs will not benefit from any adjustment assistance.

3. The trade dimension should be strengthened

The trade section of the Action Plan focuses on the future potential benefits to ACP countries arising from current negotiations at the WTO and under the EPAs. Given that these benefits are potential and may not be realised, Oxfam and other CSOs believe that the Action Plan should highlight some concrete commitments by the EU to improve the trading environment for sugar-producing ACP countries and LDCs, within the context of its overall sugar reform.

For example, the Action Plan fails to acknowledge the negative impact of EU subsidised sugar exports on poor countries, particularly that of the 600,000 tonnes of sugar it exports each year to Africa. Similarly, the Action Plan talks about EPAs enhancing regional trade in sugar, but does not follow through on this by committing to the exclusion of sugar and sugar-based products from the market liberalisation that the EU is seeking under the EPAs. The assumption that ACP producers can easily increase regional sugar trade fails to acknowledge the constraints in refining capacity and regional transportation infrastructure in many ACP countries. The EU must commit to providing support to develop refining capacity and improve regional infrastructure.

4. Adjustment assistance must contribute to poverty reduction

Sugar has made an important contribution to poverty reduction in many countries, and has the potential to do so in the future. Oxfam's recent research in southern Africa, for example, highlighted the current importance and future potential of the sugar industry in creating employment and income for thousands of people living in poverty. Investment in smallholder schemes offers the potential to provide direct benefits to their members and for the environment.

The important thing to note is that the EU uses programmes that are trade distorting and the reforms must take into consideration the developmental impacts on countries that have been benefiting from these programmes. Therefore possible proposals on the EU sugar reform could be:

- Shallower price cuts and a longer implementation period than those proposed by the Commission
- Accelerating and expanding market access for LDCs at remunerative prices
- Quota cuts of 5.2m tones to end all exports
- A clear timetable for the complete elimination of EU sugar export subsidies.
- Assisting LDCs to develop their supply capacity and improve their competitiveness through the provision of targeted aid and technical assistance
- Providing an effective package of measures, including compensation, to help ACP suppliers adjust to EU sugar reforms.

<u>Cotton</u>

Despite their WTO commitments to reduce trade-distorting subsidies, the European Union and the United States have used loopholes and creative accounting to continue dumping products on world markets. In the case of US cotton subsidies, the dispute settlement body of the WTO concluded that such practices hurt developing countries and are in violation of WTO rules. This landmark case gives hope to millions of impoverished cotton farmers in West Africa. And it might be the beginning of the end for US and EU dumping. In fact, while this case pertains only to cotton subsidies, the same principles could apply if developing countries were to bring similar cases about other highly subsidised crops, such as soybeans or rice.

Since the ministerial conference in Cancun, cotton has been a major item on the WTO negotiation agenda. You all know the history. Following a complaint by Brazil at the WTO, a dispute settlement panel has found that US cotton subsidies are contrary to WTO rules..

Export competition - Specifically, the panel found that the USA used hidden export subsidies to circumvent its WTO commitment to reduce export subsidies. These subsidies are therefore contrary to WTO rules and must be removed

US export credit guarantees constitute by far the largest agricultural export credit programme in the world, with a minimum of $5.5 billion per year allocated under the 2002 Farm Bill.

Domestic support The panel also ruled that US domestic support subsidies for cotton in the marketing years 1999 to 2002 had a 'significant price suppressing effect' which has caused serious prejudice to Brazil's exports. This means that the USA will have to reform its current practices. Moreover, the USA misreported certain programmes as 'non trade-distorting', when in fact they were trade-distorting. Direct payments on cotton, amounting to $617 million, are not minimally trade-distorting, and therefore they cannot be classified as green-box payments. Hence they should be reclassified as trade-distorting domestic support.

These two elements of the panel´s findings on the serious prejudice caused by domestic support and the misclassification in green-box subsidies call into question whether decoupling reforms introduced by the USA and the EU have reduced trade distortions enough to comply with their Uruguay Round commitments. But that is a subject for another day.

Wider implications

What is important is that the panel ruling will have profound political implications, which go beyond the specific case of the USA and cotton.

• The key demand of West African countries for a drastic reduction in US cotton subsidies has also been fully vindicated. This will strengthen their political case for urgent action within the current Round.

• The example of cotton proves that most subsidies currently used by the USA and the EU are damaging to developing countries. If they are serious about development, the EU and the USA must agree to improved rules that will effectively end export dumping and reduce trade distortions.

• Under current rules, with the expiry of the peace clause, all subsidies can now be challenged by developing countries in the Dispute Settlement Understanding (DSU) on the grounds of serious prejudice. As I said earliet, the same principles could apply if developing countries were to bring similar challenges concerning other highly subsidised crops, such as rice.

• Following the EU sugar panel and the US cotton panel, it is now legally established that developed countries failed to abide by subsidy rules that they had crafted during the Uruguay Round, which was a long-standing claim of developing countries. Hence, developing countries have won an important moral and legal victory, gaining a stronger position in multilateral negotiations. (one of the recommendations to the LDC ministers must be that they use their high moral ground to insist on changes and reforms that they need)

The USA will undoubtedly appeal against this ruling. If the appeal is lost, which is likely, the USA will be at a crossroads. It can either choose to implement the ruling in good faith or face possible trade sanctions by Brazil. However, the USA would have a lot to lose by failing to implement this ruling in a meaningful way; the likely results include the following effects:

• An overall reduction of the ambition of the Agreement on Agriculture, as developing countries and Cairns group of countries would conclude that the USA is not interested in reform.

• A lost chance to reduce EU subsidies. Non-implementation would give a signal to the EU that it can do the same with sugar or that it can continue to postpone the elimination of export subsidies.

• A lost opportunity to respond to legitimate demands made by West African countries to eliminate trade-distorting cotton subsidies. This would be a continuing source of problems for the USA at the WTO.

• A weakening of the WTO

The impact on WTO agricultural negotiations

Even though WTO members have managed to reach agreement on a framework for a new agricultural agreement, the majority of the work still remains to be done, including very hard political decisions that need to be made to put an end to dumping once for all. This panel will certainly have an impact on upcoming negotiations, for the following reasons.

1. The main impact of the ruling will be to strengthen the hands of developing countries that are fighting for fairer rules on agricultural trade. The fact that the USA (cotton case) and the EU (sugar case in July 2004) are found to be in violation of WTO rules seriously weakens their political case during the negotiations. After all, why should developing countries make any concessions during the Doha Round, if it becomes clear that heavy subsidisers have failed to respect the relatively modest commitments already made in the Uruguay Round?

In this context, one possible consequence will be to strengthen the voice of those who say that no deal is better than a bad deal. However limited and imperfect, rules in the current Agreement on Agriculture could provide the basis for more successful dispute-settlement cases on highly subsidised crops. While launching dispute-settlement cases is not easy for developing countries, this might be a more attractive option for them than a meaningless new agreement on agriculture. This might also reduce the pressure for developing countries to achieve a new agreement as quickly as possible. Waiting for the full implementation of panels might be more useful in their overall political strategy to end the dumping practices of developed countries.

<u>Impact on the substance of the negotiations</u>

Export competition

In terms of export competition, this ruling is positive news for negotiations. The Doha mandate, to which the USA agreed, calls for the elimination of all forms of export subsidies, including subsidising export credits or the commercial use of food aid.

The EU is reluctant to commit itself to a date for the elimination of export subsidies as long as the subsidy-components of US export credit programmes are not prohibited. The dispute lies in the definition and size of the export-subsidy component of US export credits. If the USA chooses to comply with the panel ruling and reform its export credits, this could leave the EU isolated in seeking to delay elimination of export subsidies.

Domestic support

In terms of domestic support, the ruling clearly shows that subsidy programmes currently used by the USA have disastrous impacts on world markets. **This should strengthen the case of those who are asking for sharp reductions of all forms of domestic subsidies and on all products**, especially the major export products of the USA such as rice, corn, soybeans, dairy products, and meat. This further discredits the US/EU proposal made before Cancun, under which the USA could keep most of its current programmes. More specifically, the ruling will have an impact on current discussions on the blue box.

AU Ministers of Trade meeting in Cairo recently insisted that the developed countries must engage in the review and clarification of the green box criteria in a manner that will ensure that the green-box measures have no or at most minimal trade-distorting effects or effects on production.

Market access

In light of the panel’s finding, which confirms the disastrous impact of dumping practices, developing countries may become even more reluctant to open their markets, at least as long as dumping continues. The fact that the USA did not abide by the existing rules leaves great uncertainty about the likelihood of subsidy rules being fully respected by the EU and the USA in a new agreement. At the very least, any agreement reached should not deny developing countries the policy tools to protect their markets from floods of cheap subsidised commodities (tariffs on special products, a special safeguard, and a simple countervailing mechanism).

Apart from these there are two other points to note. Developing countries must insist that the dates agreed for ending the US cotton subsidies be adhered to, otherwise what's the point of having rules. The other is that there needs to be an improvement in monitoring of creative accounting – clearly self notification does not work!

Coffee

In 2002, the international price of coffee had dropped to a 30-year low, placing already vulnerable small-scale coffee farmers and farm workers at the brink of a humanitarian crisis. Two and a half years later, the context of the coffee crisis has changed. The international coffee market has begun to recover, as reflected in higher international prices for coffee. But a few extra cents does not signal the end of the coffee crisis. Small-scale coffee farmers and farm workers remain extremely vulnerable to the coffee market's price swings and the disproportionate market power of local buyers, international traders, and multinational coffee companies.

As a result of disproportionate lack of access to market information and direct markets, technical capacity, farm credit, and voice in the international forums where the coffee crisis is debated, family farmers and farm workers are relegated to destitution in a boom and bust market.

There is evidence that diversification will only deliver relief if low income countries have the flexibility to develop pro-development economic national policies. Producing country governments need a whole host of measures including tariffs and farm protections to create the enabling environment for successful diversification.

Though coffee is not restricted by import tariffs, into the US market for example, the ability for coffee farmers to diversify into other products is limited by the constraints put on their governments to support and protect national agriculture. Fairer trade rules include: reduction of developed nations' hypocritical agricultural policies, closed markets, and dumping. Without these broader changes, diversification options in coffee producing areas will remain severely limited.

This is one among many arguments that some African countries tried to bring to the table. In 2003, a commodities proposal was put forth by East Africa – building on the fact that the history of GATS is to ensure special and differential treatment of developing countries. Sugar and cotton have taken off as issues but it is difficult to justify a DDA that does not address the overriding issue of commodities – why are they not being addressed?

Sources:

- Oxfam Briefing Paper No 44 - Walk the Talk: A call to action to restore coffee farmers' livelihoods
- Oxfam Briefing Paper No 65 - Dumping: the Beginning of the End?:Implications of the Ruling in the Brazil/US Cotton Dispute
- Joint NGO Briefing Paper (Oxfam/WWF) - Critique of the EC's Action Plan for ACP countries affected by EU sugar reform