

Le leadership du Brésil dans les négociations internationales

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OUTLINE

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- **Brazil and G-20 in the Doha Round**
 - **Evolution and deadlocks**
 - **Ag Domestic Support ⇔ US**
 - **Ag Market Access ⇔ EU and G-20**
- **Conclusions**

Introduction

Supply:

- Intensification (land and water supplies), new technologies (GMOs), climate change, sustainability, rural non-farm income, new diseases.
- The competition among the 4 Fs: Fuel vs. Food-Feed-Fiber?

Demand:

- Developing countries: booming consumption due to continuous population growth and increased per capita income; fast urbanization; changing food habits.
- Developed countries: concerns on healthy eating habits, organic food, environmental concerns.

Negotiators are looking in the mirror, not ahead

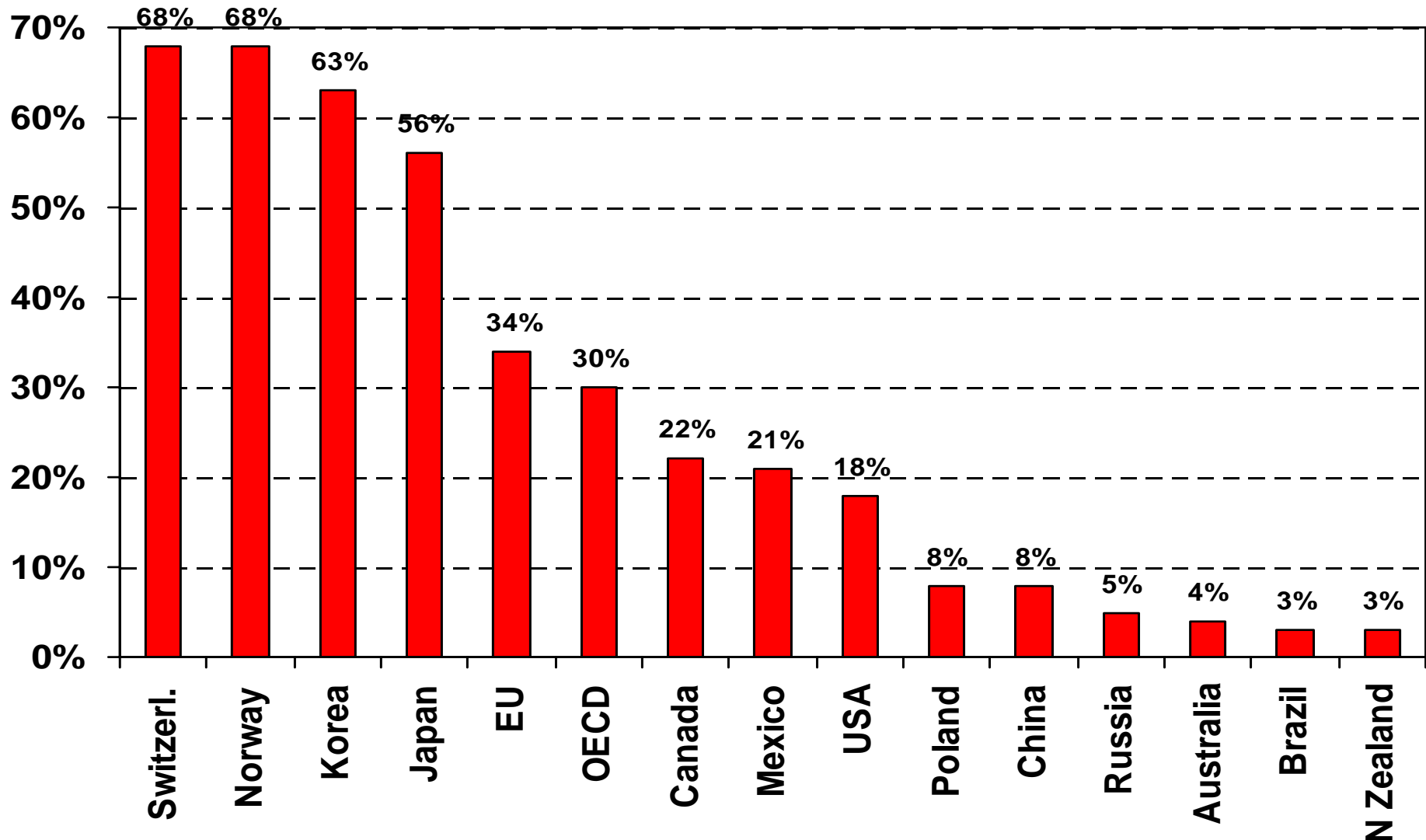
- Defensive positions to preserve the status quo (2002 Farm Bill, 2003 EU Fischler reform) or to create new exceptions (India, China, etc.)

Reforming Agriculture

- Sector is the most protected.
- Disciplines for agriculture are way behind disciplines for non-agricultural sectors.
- Sector is where most developing countries have competitive advantage and where many of them can extract gains from the Doha Round.

Overview of Domestic Subsidies

OECD - Producer Support Estimate (PSE%)



Notes: The %PSE expresses the total producer support as a percentage of gross farm receipts, measured by the value of total production (at farm gate prices) plus budgetary support. China and Russia data are 2002-03 averages. Source: OECD PSE/CSE databases, 2005.

Agricultural Trade Negotiations: Main Issues

Market Access:

- **Tariff Peaks & Tariff Overhang (“water”)**
- **Tariff Escalation**
- **Specific Duties (conversion to ad valorem)**
- **Tariff-Rate Quotas**
- **Special Safeguards (SSG, SSM)**

Domestic Support:

- **Amber Box payments**
- **Blue/New Blue Box payments**
- **Green Box disciplines**
- **De Minimis payments**
- **Overall cut of all distorting support**

Export Competition:

- **Export Subsidies**
- **Export Credits**
- **Food Aid**
- **State Trade Enterprises & Monopoly Power**

Other Issues:

- **Geographical Indications**
- **Differential Export Taxes (DET)**
- **Sectoral Initiatives: Level Playing Field**

Evolution of the Doha Round

1. Strong ambition in the Doha Mandate (2001).
2. Setbacks in the US Farm Act 2002 and the timid EU Fischler CAP Reform of 2003.
 - EC/US joint proposal: defensive interests in ag domestic support (US) and ag market access (EU)
3. Cancun Ministerial: the emergence of the G-20 and the “new variable geometry”
 - From QUAD to G-6 ⇒ US, EU, Brazil, India, Australia, Japan
4. The Framework of July 2004.
5. Hong Kong: new exceptions and loopholes (SP, SSM)
6. July 2006: suspension of the negotiations

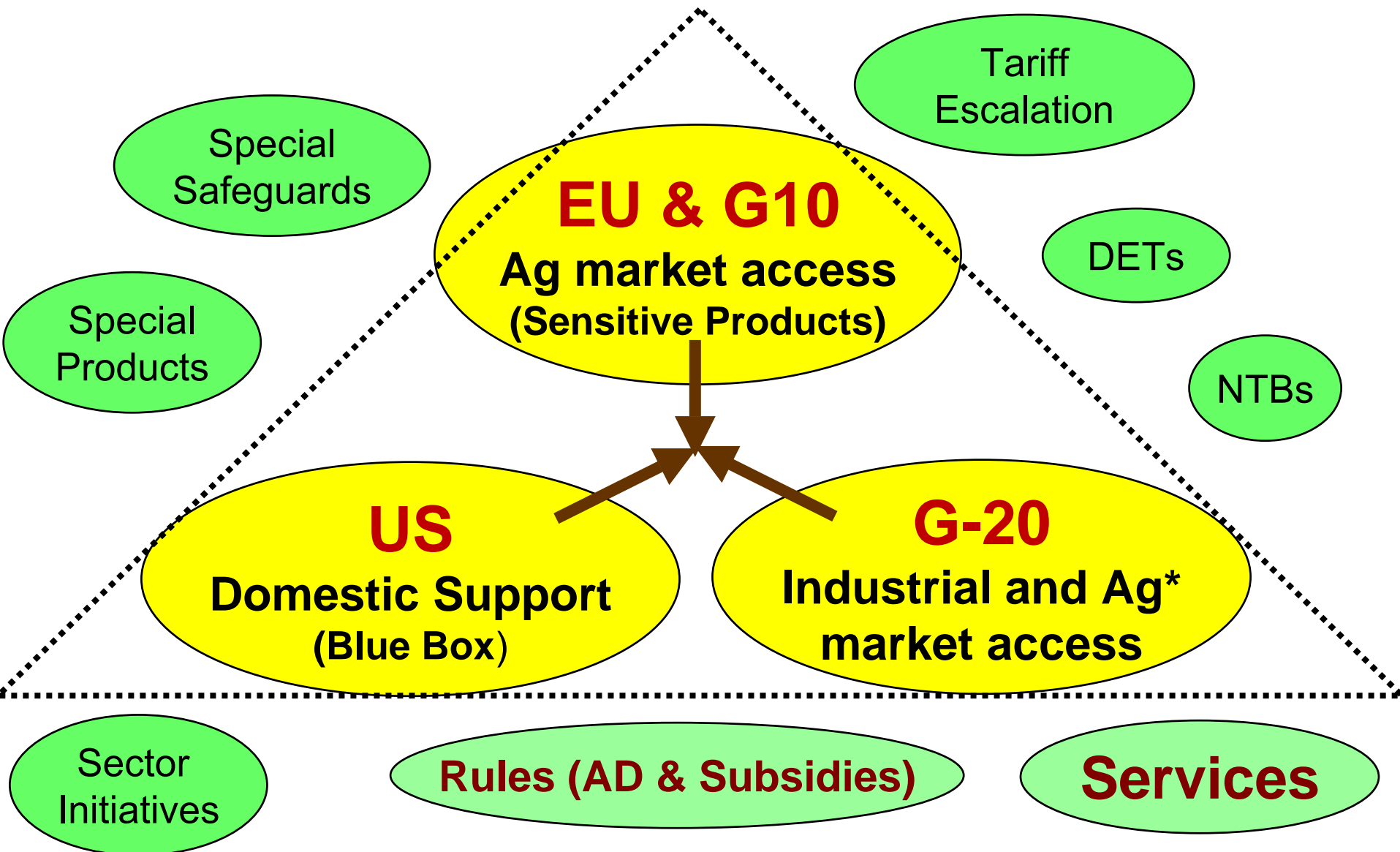
Doha Interest Groups

Group	Countries	Agriculture		Industrial Goods	Services
		Subsidies	Access		
United States		Defensive	Defensive	Offensive	Defensive
European Union		Defensive	Defensive	Offensive	Defensive
Free traders (Cairns)	Australia, Chile, New Zealand, South Africa	Offensive	Offensive	Offensive	Offensive
Ag resistant countries	G10: Japan, Korea, Taiwan, Switz, Norway	Defensive	Defensive	Offensive	Defensive
G-20 main players	Brazil, Argentina	Offensive	Offensive	Defensive	Defensive
	China	Defensive	Defensive	Offensive	Defensive
	India	Defensive	Defensive	Defensive	Offensive
Developing: SP, preference erosion	G-90 and G-33	Defensive	Defensive	Defensive	Defensive
Developing: net food importers	LDCs and others	Defensive	Defensive	Defensive	Defensive

 = Offensive position

 = Defensive position

Doha Round – Main Trade-Offs

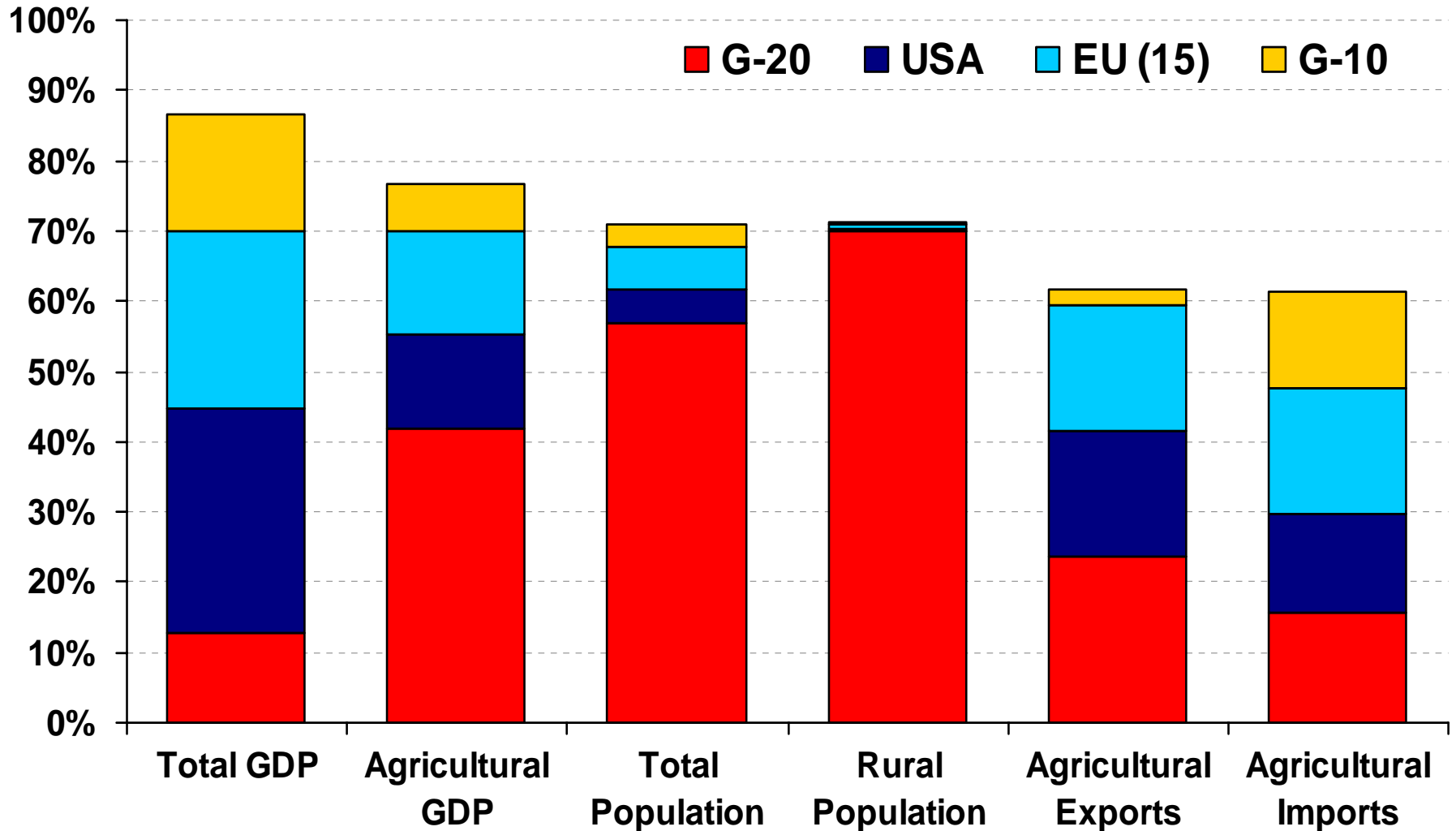


(*) India, China, Indonesia, The Philippines

The Emergence of the G-20

- **Legitimacy**
 - **Geographic distribution: Asia, Africa, Latin America.**
 - **Most dynamic exporters and markets with the highest rates of growth.**
- **Traditional coalitions x new forms of pressure:**
 - **Cairns: traditional coalition based on quasi homogeneous interests.**
 - **G-20: heterogeneous pressure group based on technical & political capacity: fast response, measurable results.... but important internal contradictions.**

Agricultural Negotiations in the Doha Round: Main Coalitions



Notes: Data for GDP (2001) population (2001) and trade (2003). EU excludes intra-trade.

Source: FAO and World Bank. Elaboration: ICONE.

G-20 as an effective pressure group?

G-20 main positive aspects

- **Pragmatism: oriented towards consensus building.**
- **Pressure to speed up the integration of agriculture in the multilateral trading system.**
- **Today ⇒ ag obstructionists positions from China, India; but tomorrow ⇒ new offensive interests in industrial goods (China) and services (India).**

G-20 contradictions

- **Political consistency, economic inconsistency.**
- **Main divergences:**
 - **Market access beyond “water” (tariff overhangs).**
 - **New exceptions: Special Products, Special Safeguards (SSMs), Recently Acceded Members (China).**

G-20 HETEROGENEITY

COMPETITIVE EXPORTERS (OFFENSIVE, CAIRNS MEMBERS)

- Argentina
- Brazil
- Chile
- Paraguay
- Uruguay
- Thailand

LARGE RURAL POPULATIONS (DEFENSIVE, G-33 MEMBERS)

- China
- India
- Indonesia
- Philippines
- Pakistan
- Nigeria

OTHERS (DEFENSIVE, FOCUSED ON AG SUBSIDIES)

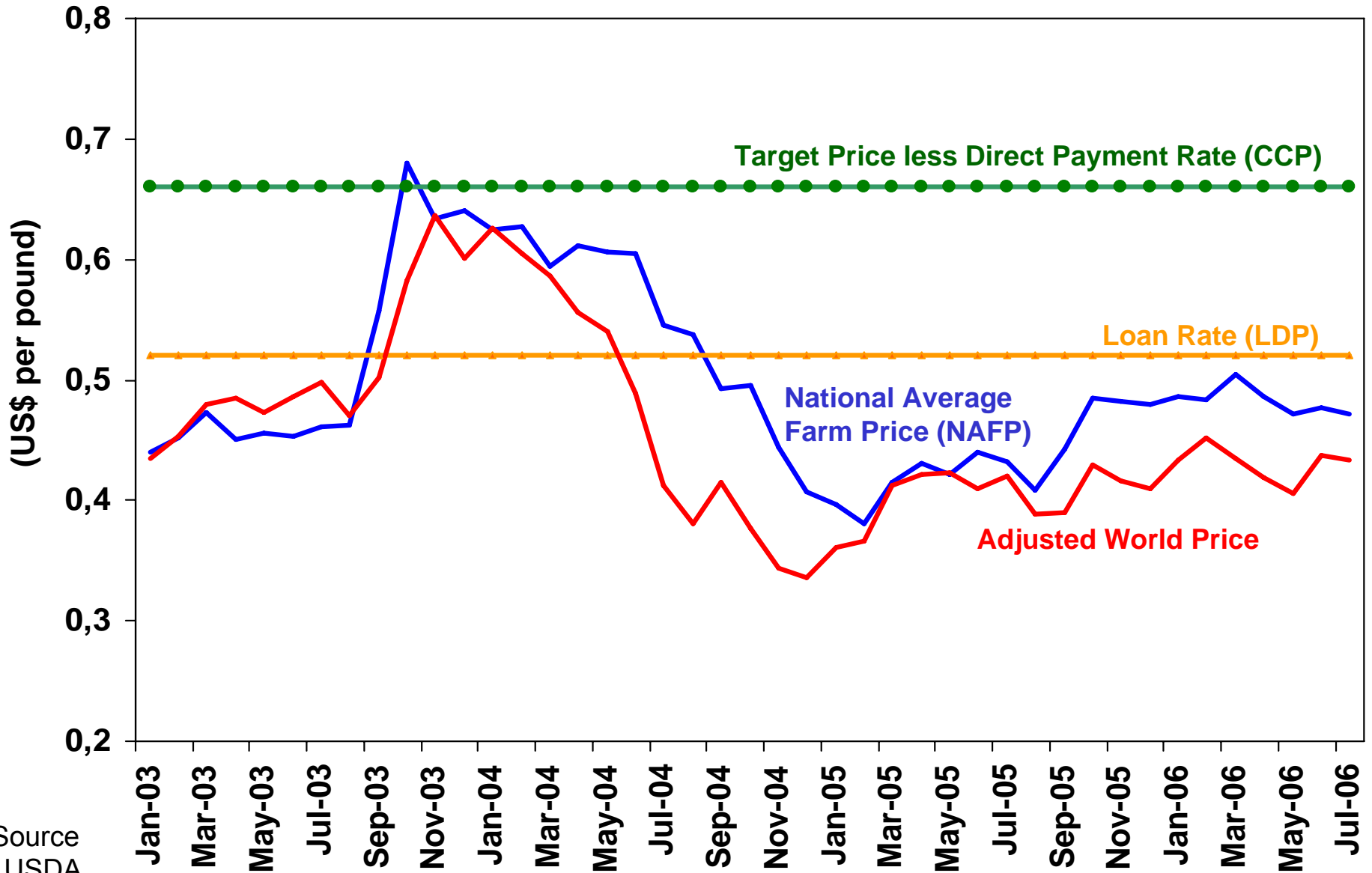
Mexico	South Africa	Egypt	Tanzania	Zimbabwe
Bolivia	Venezuela	Guatemala	Cuba	

COMMONALITY IN WTO NEGOTIATIONS:

Reduce Subsidies and Market Access Barriers in Developed Countries.

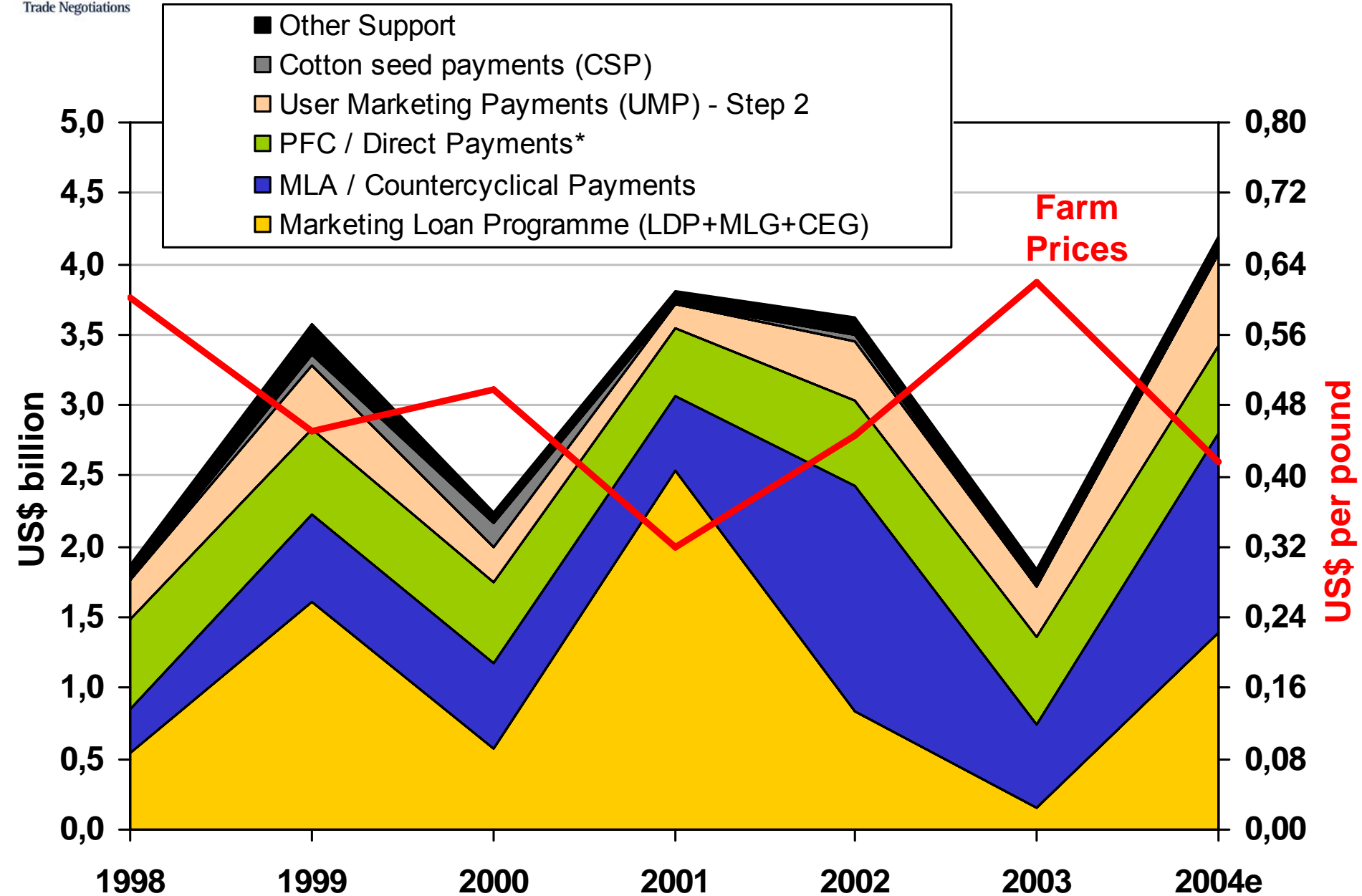
US: Cotton

(monthly prices and subsidies per pound)



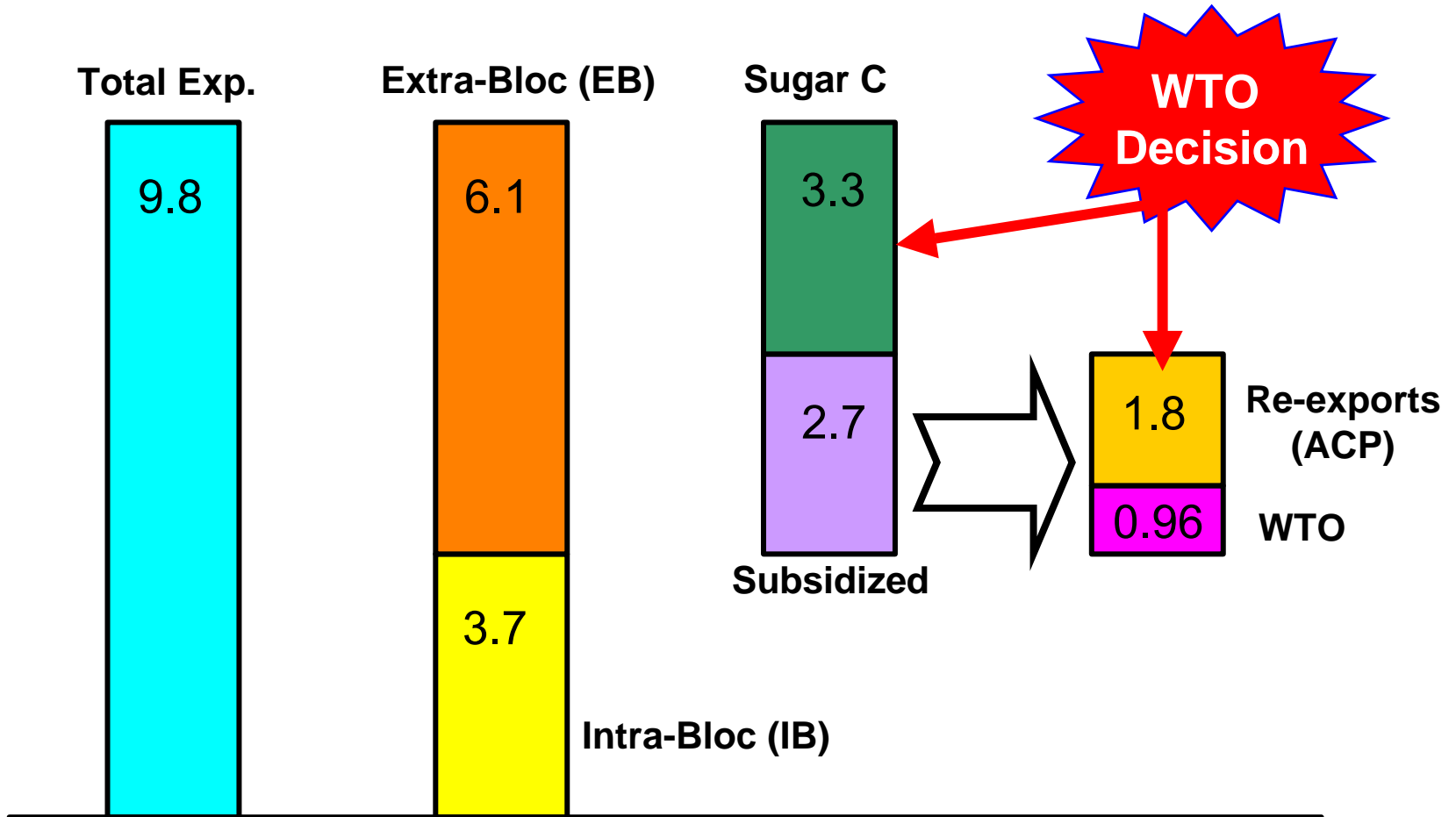
Source : USDA

US: Domestic Support to Cotton



European Union

Structure of Sugar Exports in 2001/2002



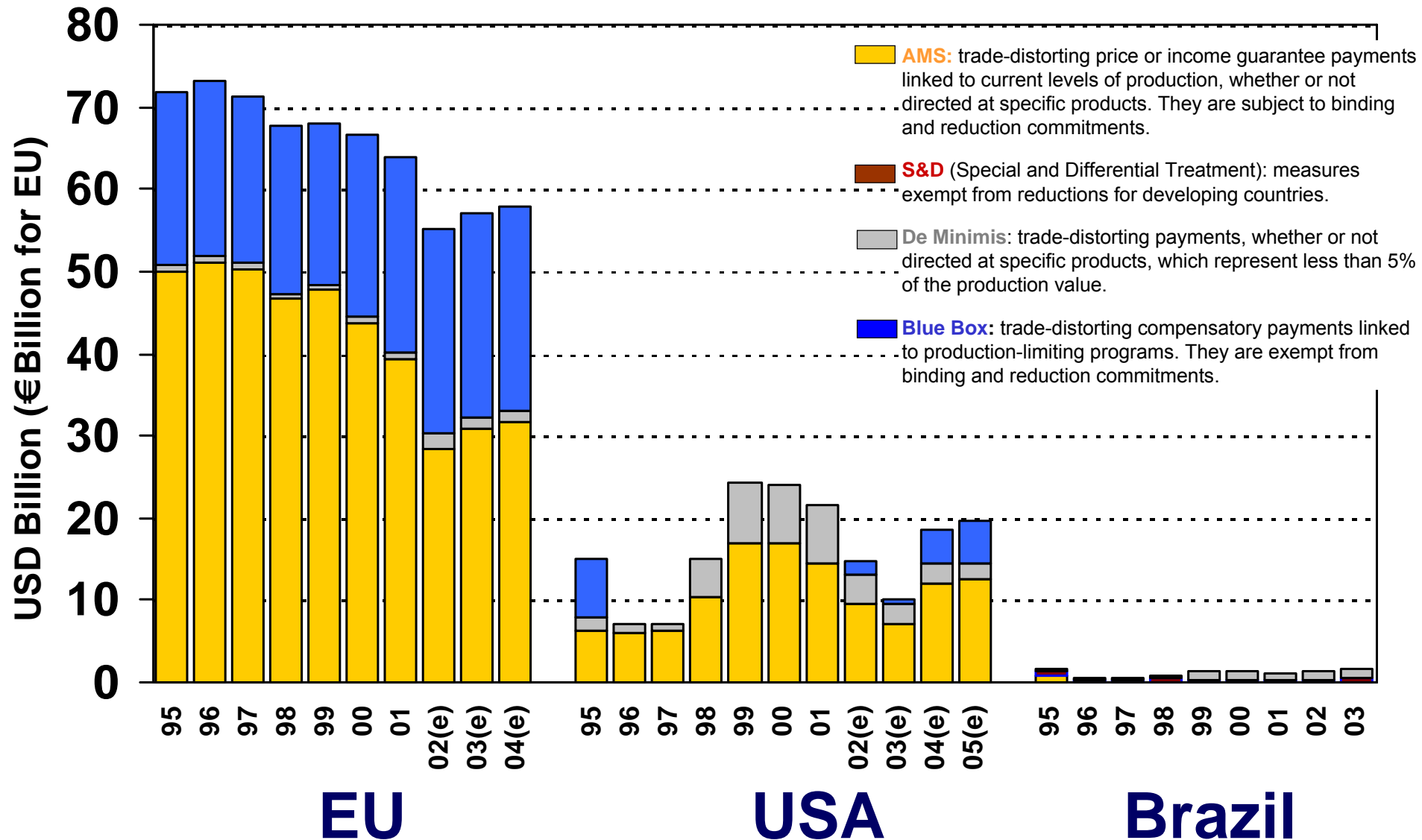
Source: FO Licht, WTO, LMC.

Note: Million tons, gross equivalent.

What is missing to conclude the Doha Round in 2007?

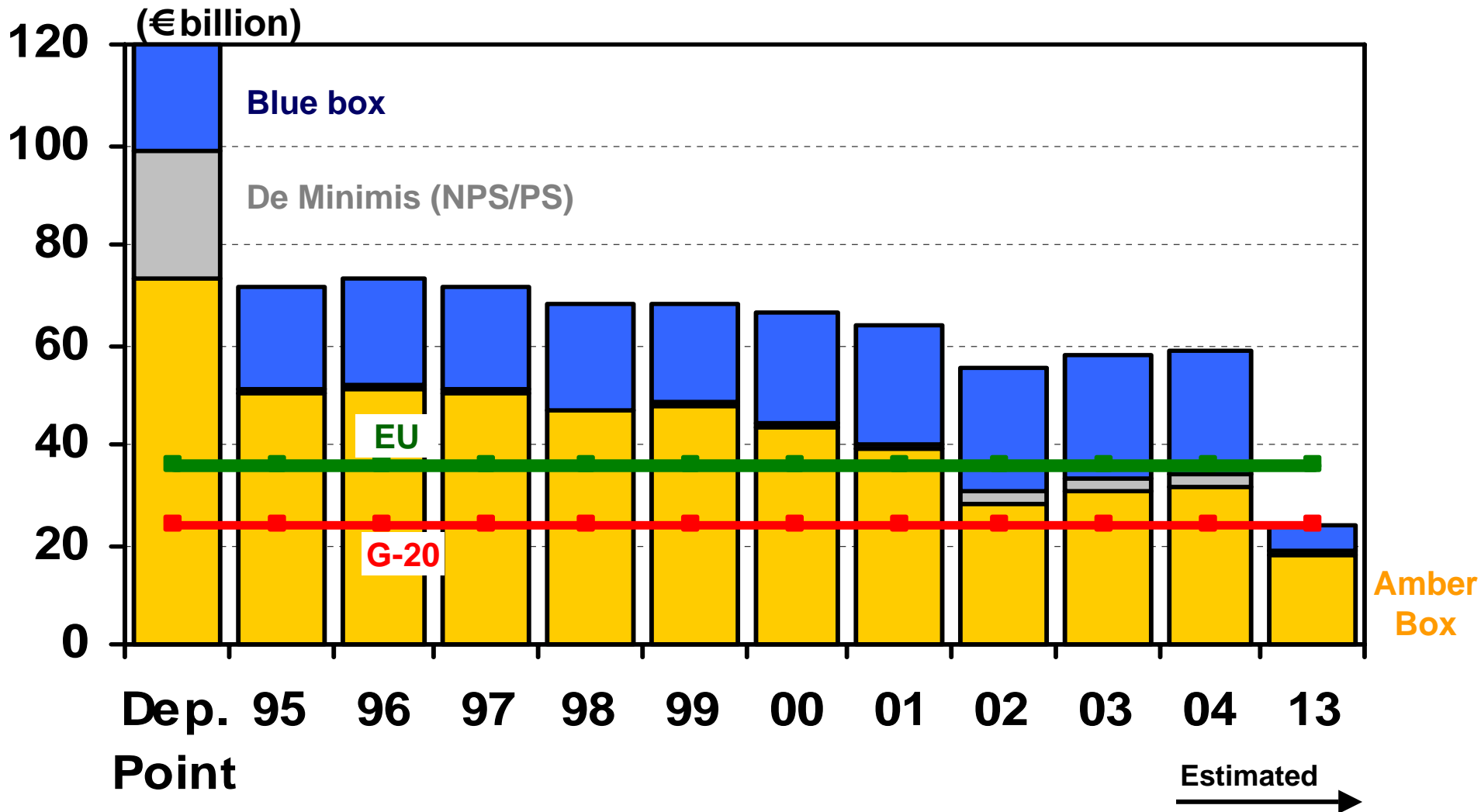
1. Trade Promotion Authority (TPA) renewal by the US Congress
2. Reverse Engineering ⇒ ambitious results are achievable, but respecting Economic Theory and Most Favorable Nation (MFN) principle
3. US is expected to move on Domestic Support
 - ↑ cuts = ↓ disciplines; but ↓ cuts = ↑ disciplines.
 - Disciplines to restrict box and product-shifting ⇒ product-specific cappings on all trade distortive support.
 - Over-subsidization in specific products: cotton, rice, soy, corn, wheat.
 - Minimize distortions: reduce the adverse effects on world prices.
 - Special attention to the New Blue Box ⇒ price vs. revenue-based counter-cyclicals (USDA proposal)

WTO: OVERVIEW OF DISTORTIVE DOMESTIC SUPPORT



EUROPEAN UNION

Overall Trade-Distorting Support (5.0% VOP for Blue Box)

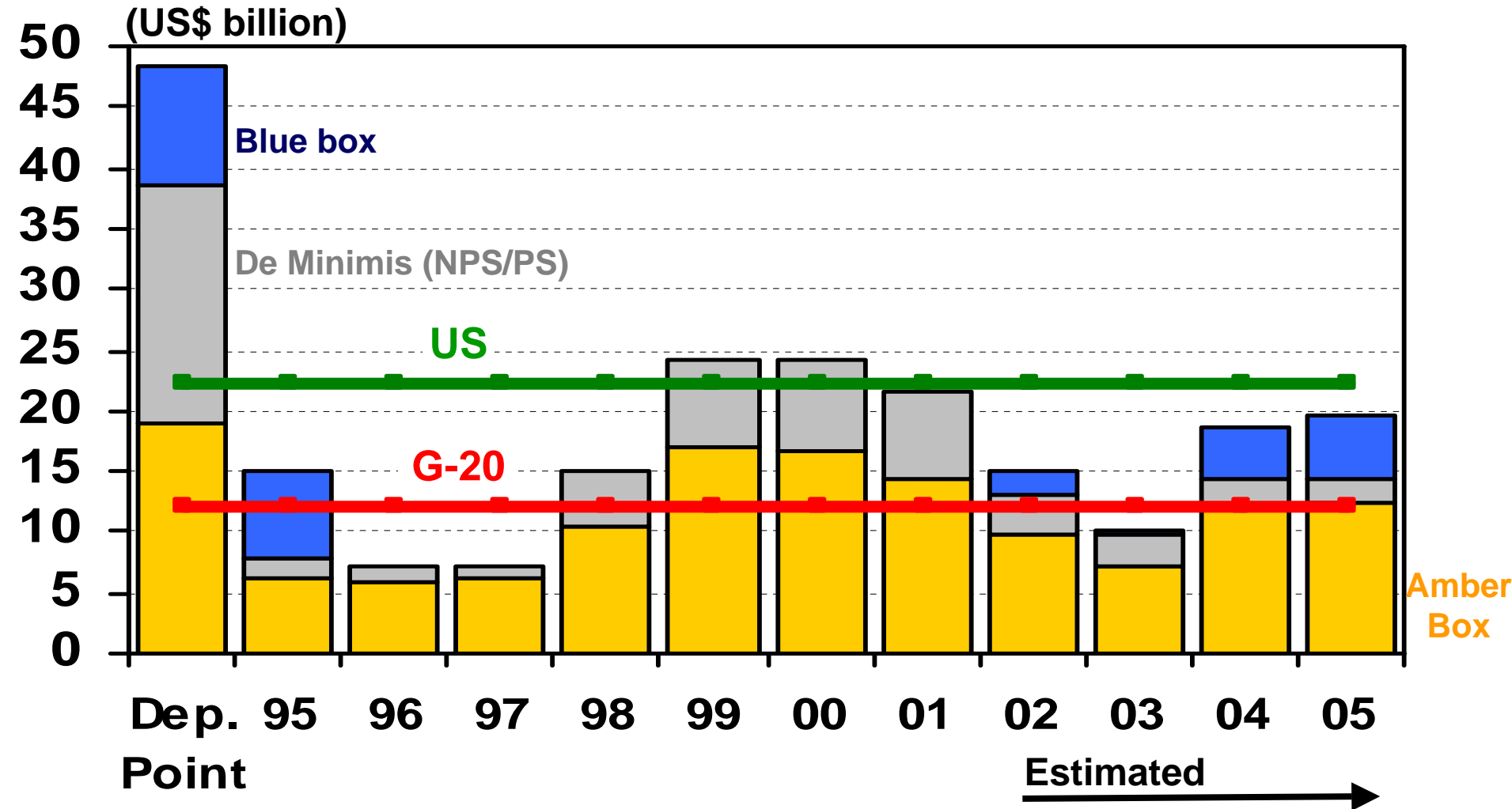


Source: WTO notifications and ICONE's Simulations. OTDS = Overall Trade Distorting Support

Note1: Counter cyclical payments for the Blue Box from 2002 to 2005. Note 2: on the starting point, AMS for EU-25

UNITED STATES

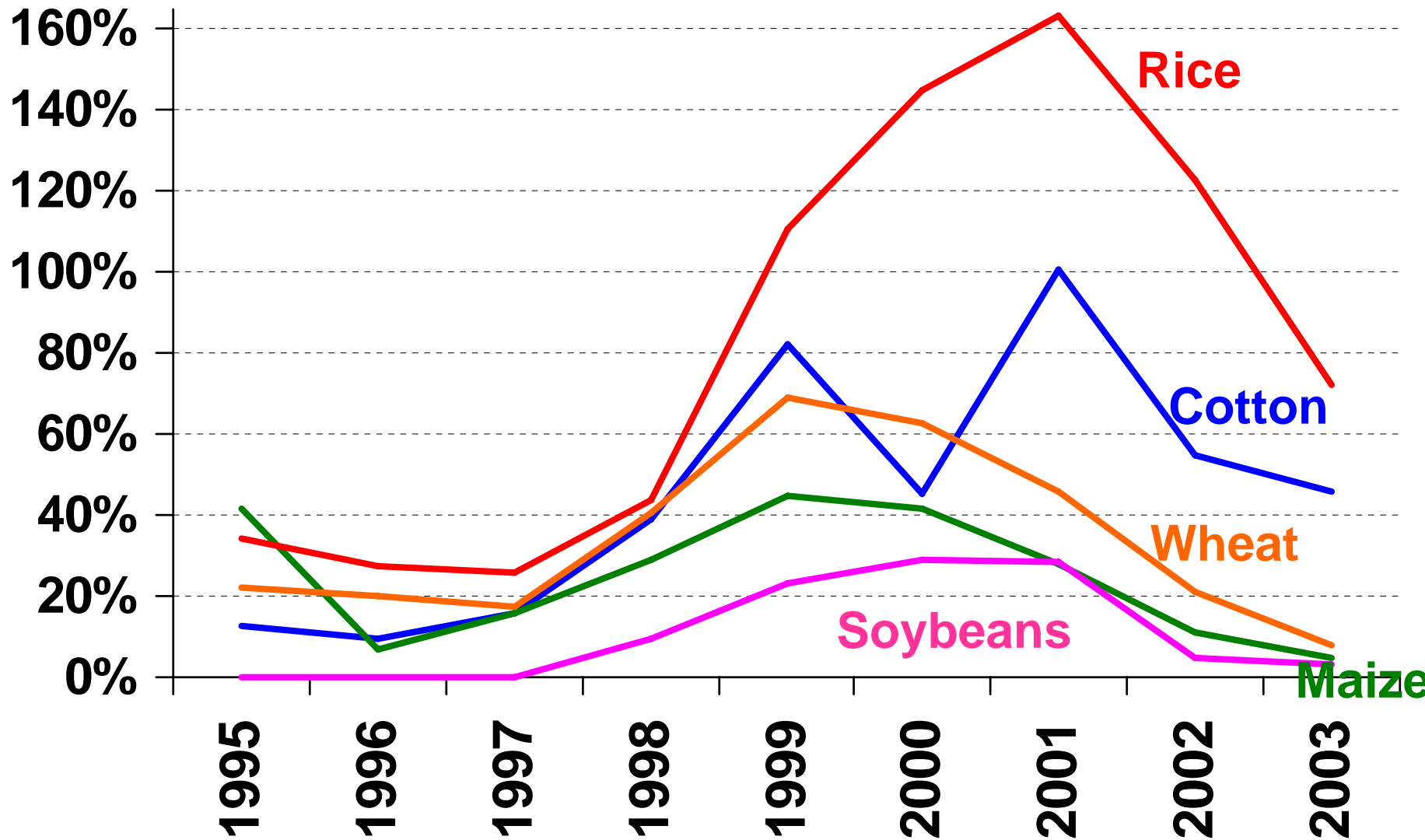
Overall Trade-Distorting Support (5.0% VOP for Blue Box)



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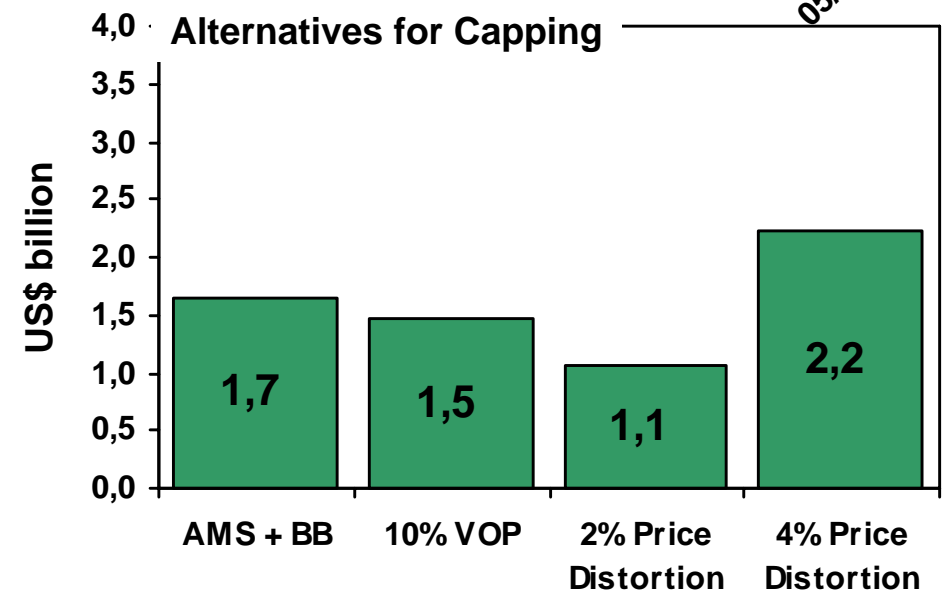
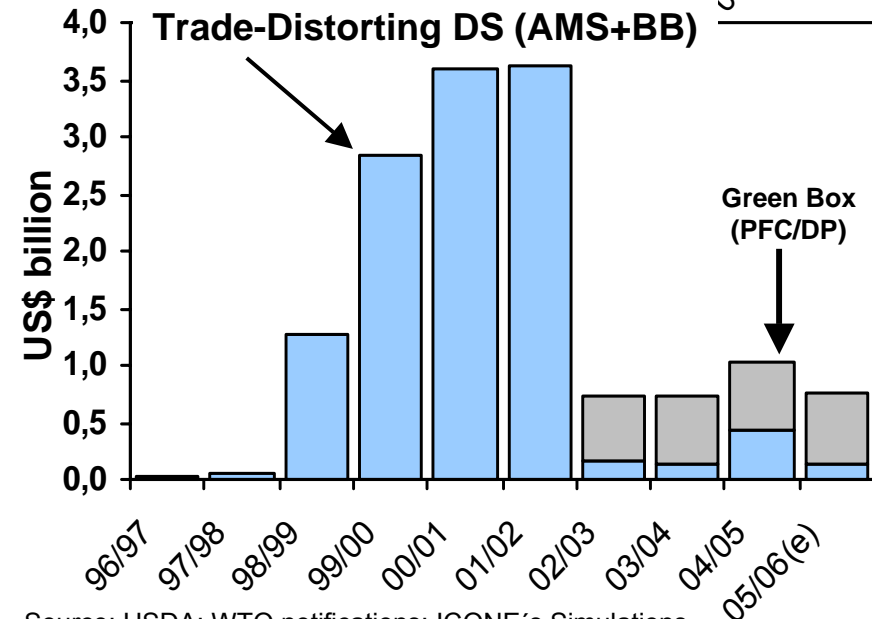
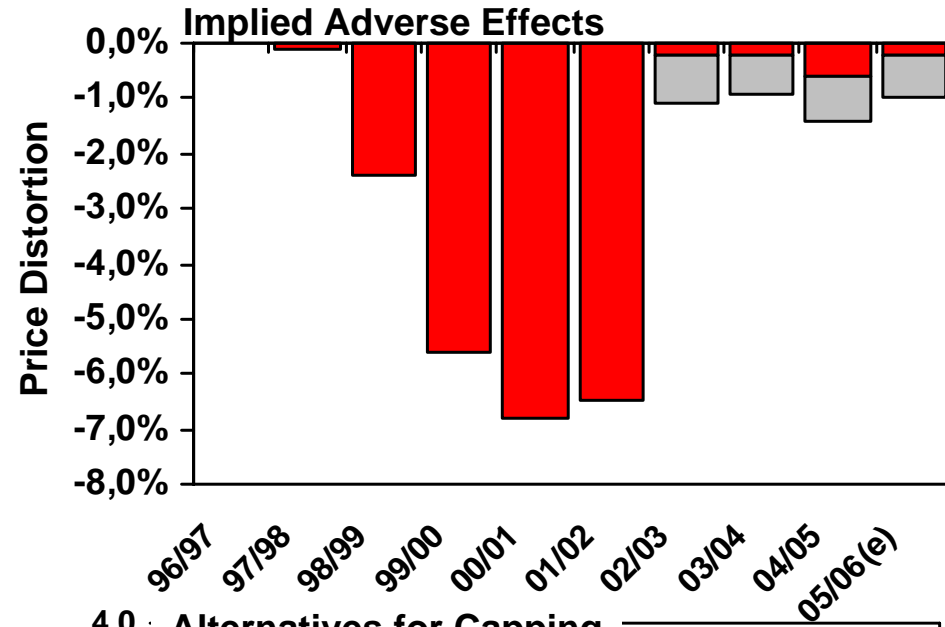
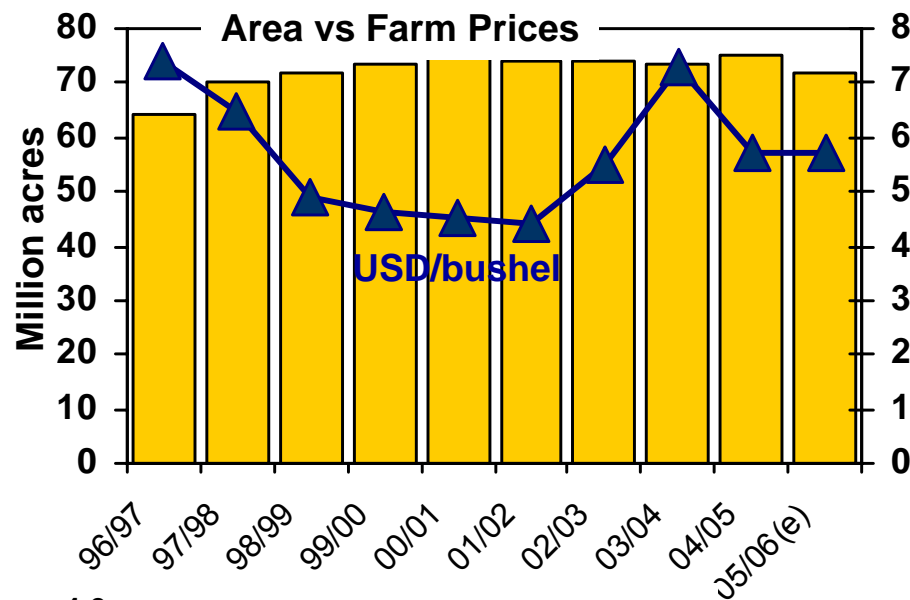
Note1: Counter cyclical payments for the Blue Box from 2002 to 2005.

SHARE OF AGRICULTURAL SUBSIDIES IN US PRODUCTION - BY COMMODITY



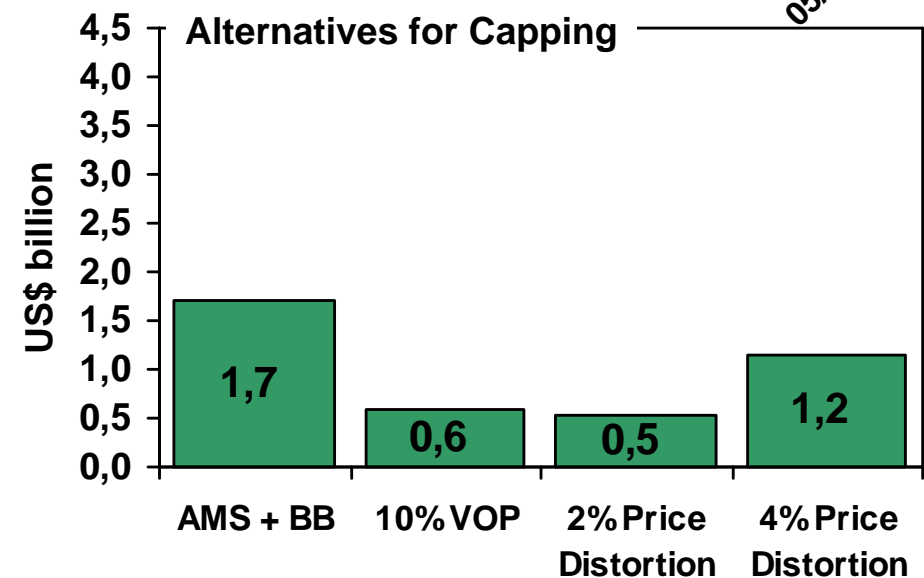
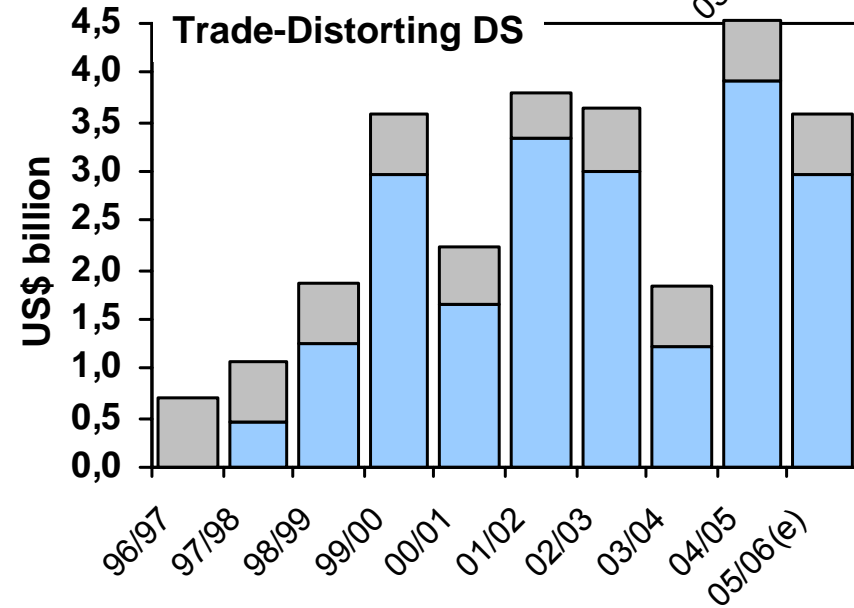
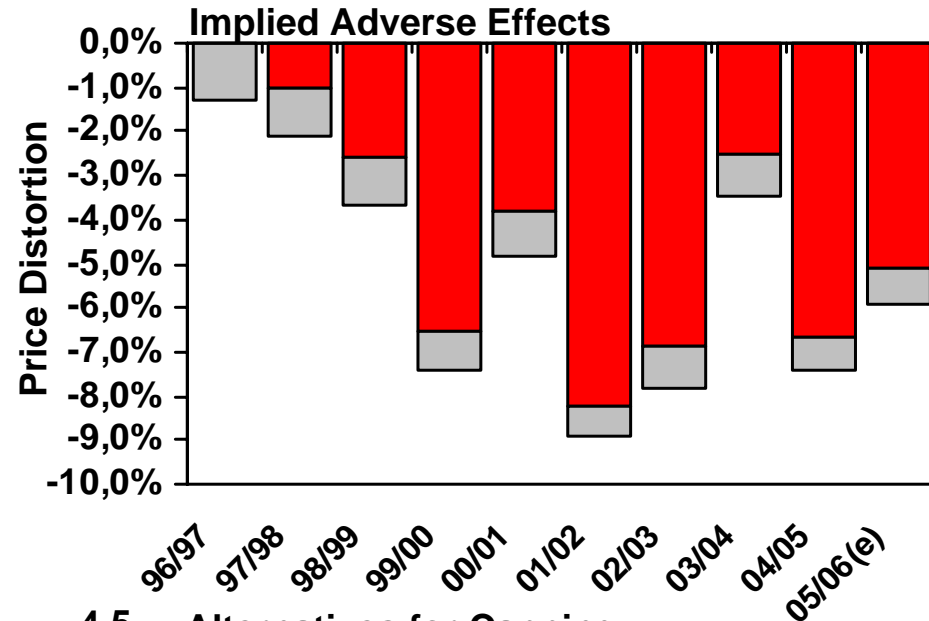
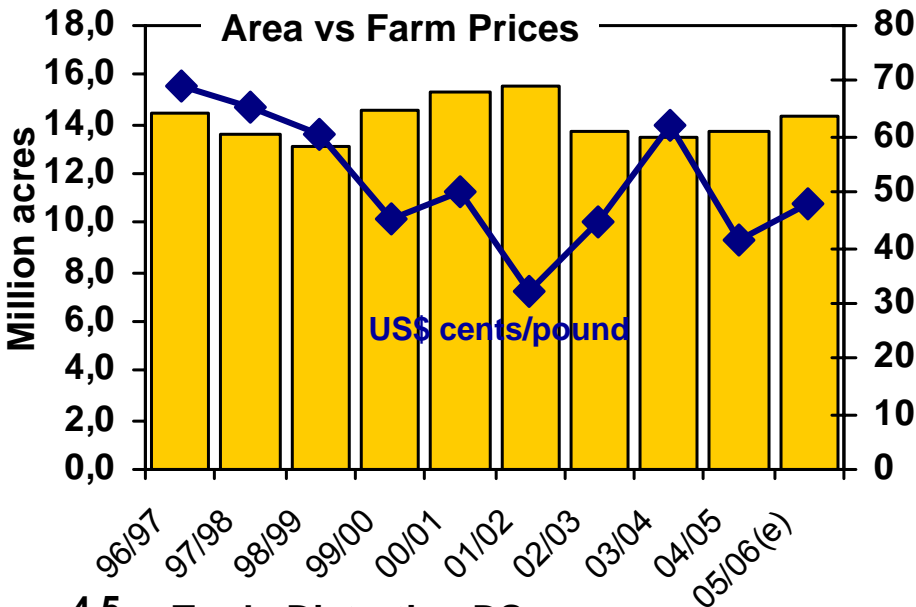
Soybean

Product Specific Capping based on Adverse Effects on World Market



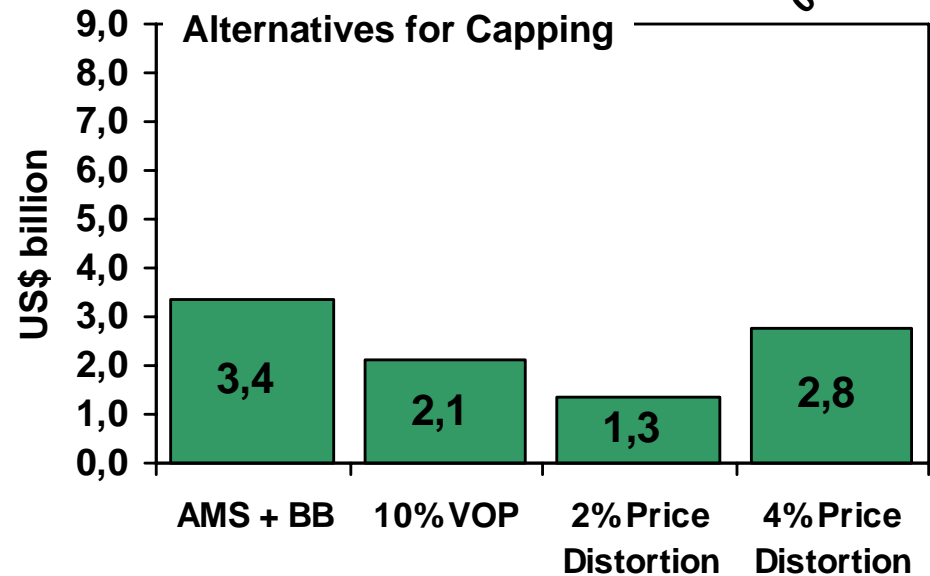
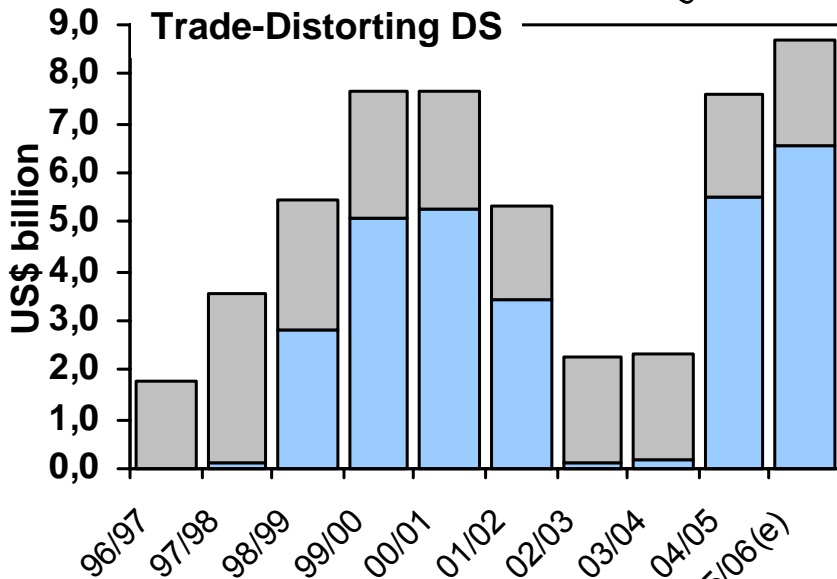
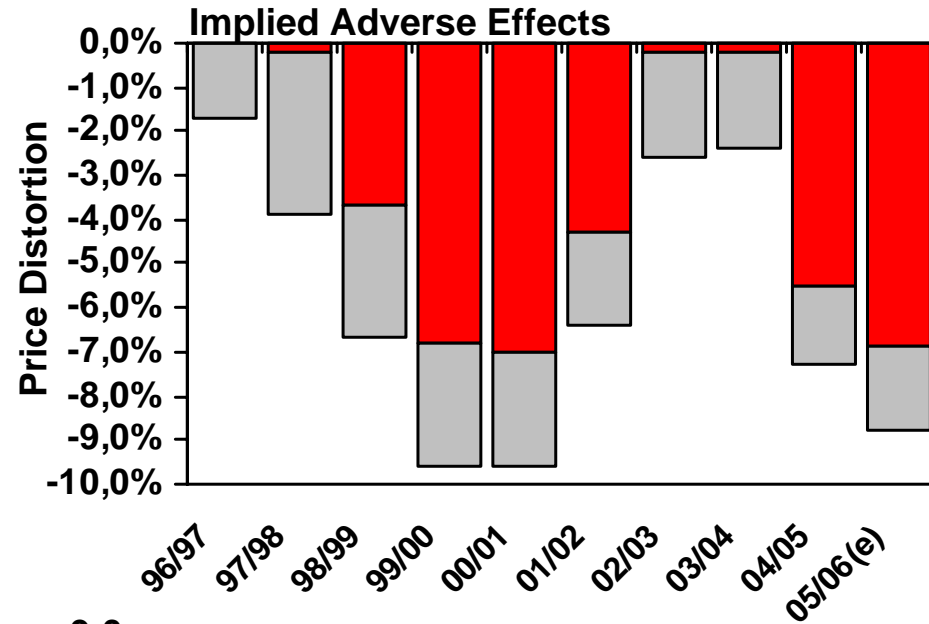
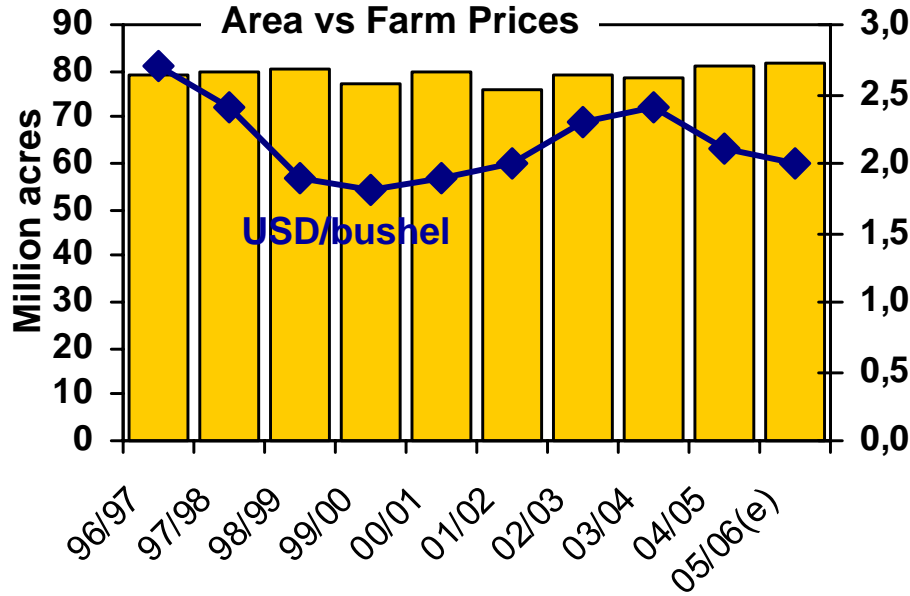
Cotton

Product Specific Capping based on Adverse Effects on World Market



Corn

Product Specific Capping Based on Adverse Effects on World Market

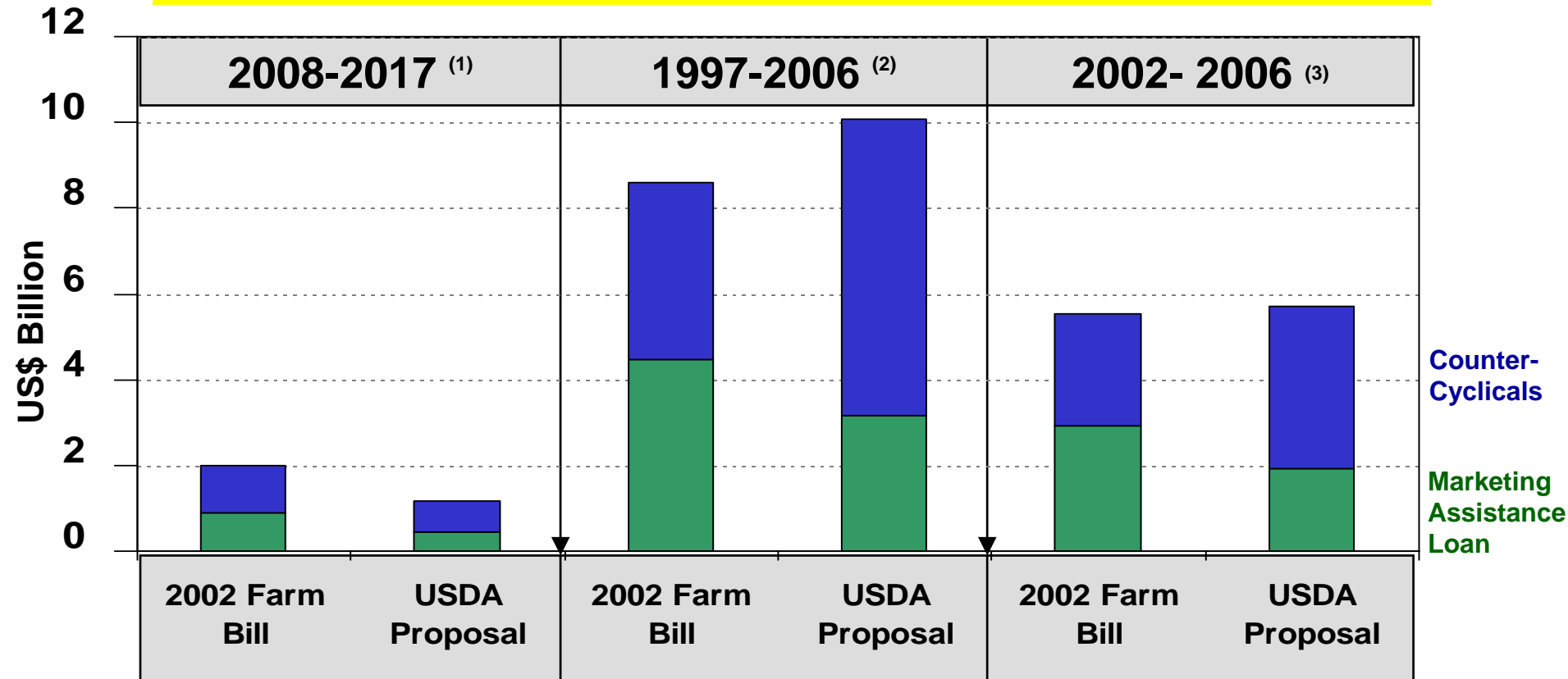


Farm Bill 2007

Administration's Proposal (USDA – 01/31/07)

Expenditures according to historical and projected prices and yields

Will the Farm Bill 2007 be compatible with the Uruguay Round Agricultural Agreement?
 What will happen in years when prices and productivity are low?



Notes:

1. According to the Budget presented on the Administration's Farm Bill Proposal
2. Estimated expenditures according to 1997-2006 farm prices and yields.
3. Estimated expenditures according to 2002-2006 farm prices and yields.

Marketing Assistance Loan programs: main commodities, except the information supplied by the Administration's proposal.

Elaboration: ICONE's simulations

What is missing to conclude the Doha Round in 2007?

4. EU and G-20 are expected to move on Ag Market Access

- Sharp limitations on the “4S”
 - Developed countries: Sensitive Products; old Special Safeguards (SSG).
 - Developing countries: Special Products; new Special Safeguards (SSM).
- Number and treatment for exceptions is more important than average tariff cut
 - Sensitive Products (EU): treatment for deviations and method for compensations (expanded Tariff Rate Quotas) are more important than the number of tariff lines.
 - Special Products (India, China): number of tariff lines.

Trade Barriers on Brazilian Exports

Product	EU	USA	JAPAN
Raw Sugar	<u>130*</u>	<u>133*</u>	0
Ethanol	43*	47*	27
Powder Milk	<u>80*</u>	<u>40*</u>	<u>55*</u>
Frozen Chicken Cuts	<u>88*</u>	12*	12
Frozen Pork	<u>44*</u>	0	<u>136*</u>
Frozen Beef	<u>142*</u>	<u>26</u>	38
Corn	<u>73*</u>	1*	0
Tobacco	5*	350	0
Orange Juice	15	39*	26

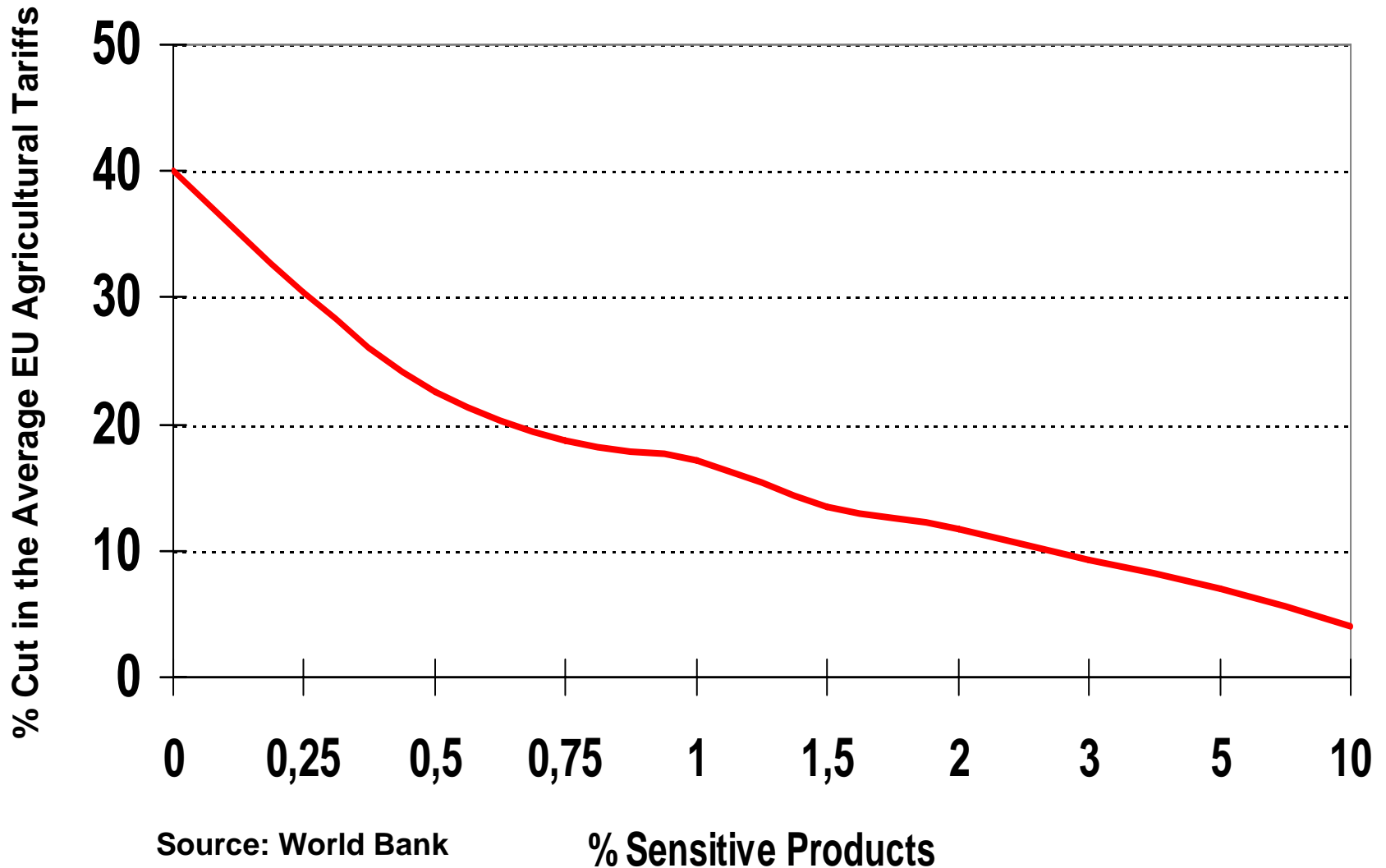
(*) indicates that specific tariffs were converted into their ad valorem equivalent (AVE).

Italics indicate the existence of Tariff-Rate Quotas (TRQ),

Underlined numbers indicate the existence of Special Safeguard Measures (SSG).

Shaded cells indicate sanitary restrictions that act as a barrier to trade.

Impact of the number of sensitive tariff lines on the average EU tariff cut



Source: World Bank

% Sensitive Products

Applied Agricultural Tariffs (%)

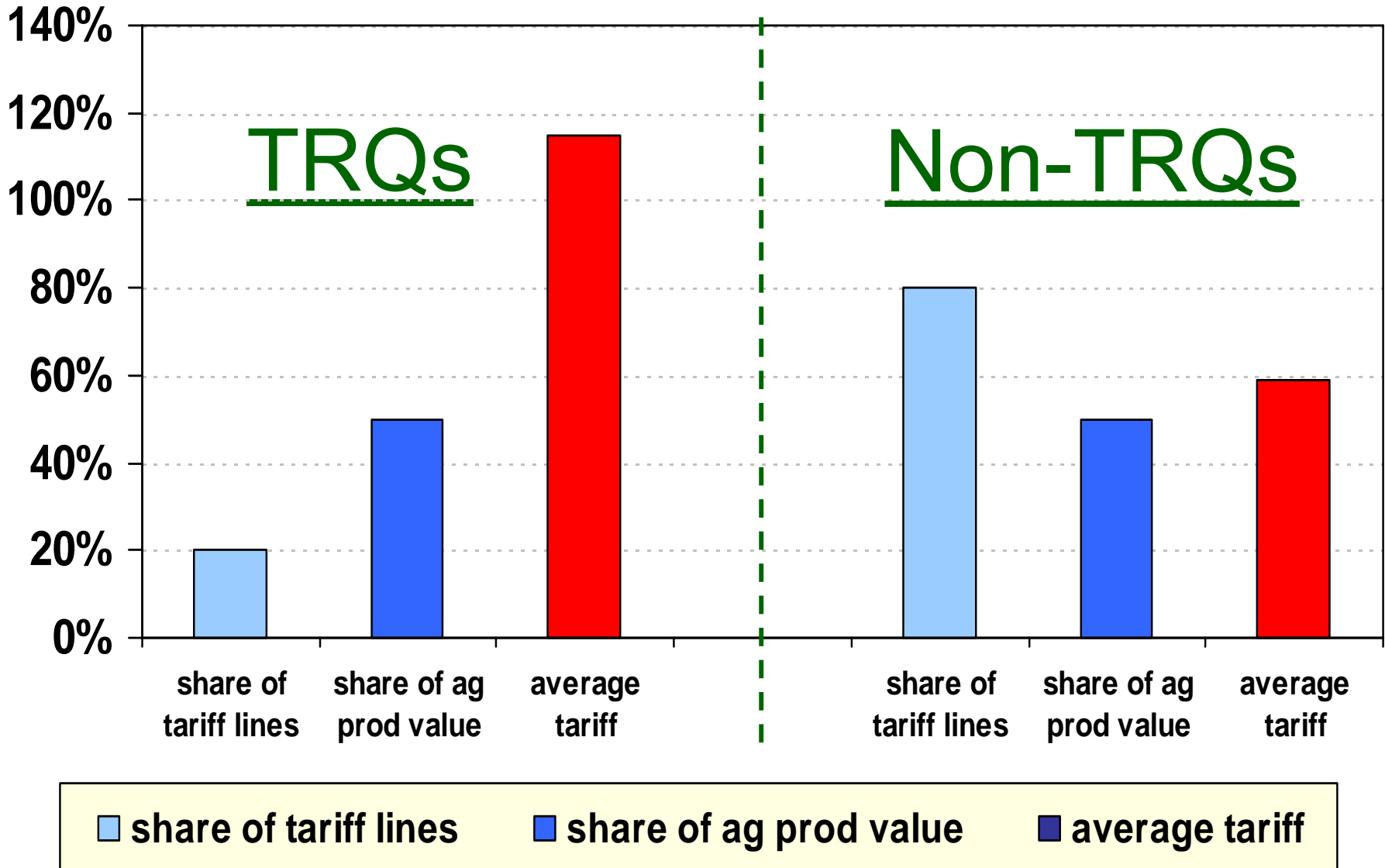
Countries	2001 Average Tariffs	After G-20 Formula	Formula plus Sensitive & Special
HIGH INCOME	15.8	7.9	12.3
DEVELOPING	13.9	12.5	13.7

Source: World Bank

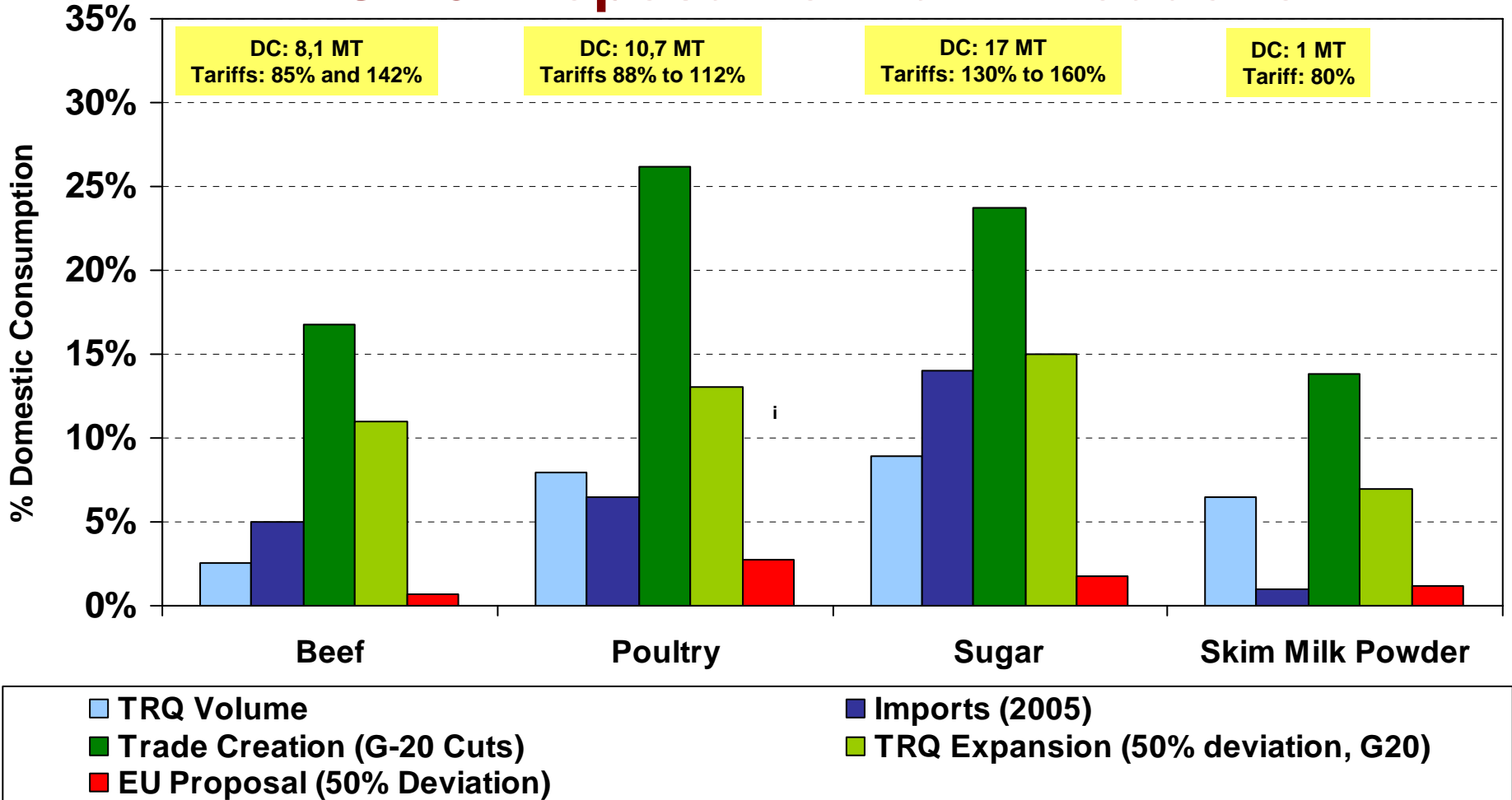
Elaboration: Will Martin – WORLD BANK (2006)

Tariff Rate Quotas

OECD TRQ vs. Non-TRQ Tariff Lines



Expansion of EU TRQs based on the G-20 Proposal for Tariff Reduction



Notes:

1. Trade creation is calculated by tariff line using the partial equilibrium model formula: $Trade\ Creation = B * [(Ti - Ttrf) / (1 + Ti)] * \eta_{ed}$ (B=base for expansion; Ti =initial tariff; $Ttrf$ =tariff from the formula cut; η_{ed} =import price-elasticity). 2. The base for expansion is the current imports (2005) or, in the case of skimmed milk powder, the TRQ volume. 3. η_{ed} is calculated individually and is based on the paper of Ramesh Sharma "On the Equivalence of Tariffs and Quotas for Sensitive Products in the WTO Agricultural Negotiations", 2006 January. The general formula is $\eta_{ed} = [\eta_d * (C/M)] - [\eta_s * (Q/M)]$. 4. In order to calculate the trade creation, the tariff reduction has been applied in a 5 year implementation period. 5. Central assumption: TRQ expansion must full compensate for the tariff cut not taken. Trade creation is calculated from the full tariff cut. The compensation is the absolute difference between the full trade creation and the trade created by a cut with 50% deviation. 6. Calculations include the TRQ for processed poultry resulted from the recent negotiations of Article XXVIII. 7. The EU Proposal refers to ICONE's interpretation of the proposal and calculations have been done using 2005 imports as base period. Elaboration: ICONE

Special Products: Number of Tariff Lines

	China	India	Indonesia	Philippines	Brazil
Total Tariff Lines	998	705	1076	929	945
# TL with applied tariff higher than bound tariffs, after the G-20 cut					
Overall	998	110	26	171	96
Tariff lines with imports over US\$ 1 million	320	24	0	23	15
Tariff lines with imports over US\$ 10 million	101	7	0	5	7
Tariff lines with imports over 1% of total agricultural import value	11	4	0	1	1

Source: IDB; ICONE's Simulations.

Special Safeguard Mechanism for Developing Countries (SSM)

- Concurrent activation of both volume and price triggers (import surge \Rightarrow import prices going down and imports going up).
- Should be available only to modulate the difference between the UR bound tariff (ceiling) and the tariff after reduction.

The Evolution of Ag Protectionism

WTO Doha Round

- 
- 1. Tariffs (peaks, escalation, specific tariffs,...)**
 - 2. Tariff Rate Quotas, Special Safeguards, antidumping**
 - 3. Subsidies and export credits, food aid, state trade firms**
 - 4. Domestic Subsidies**
 - 5. Sanitary barriers (dioxin, hormones, BSE, foot and mouth, avian influenza, newcastle, regionalisation...)**
 - 6. Technical barriers: process and production methods, labeling, packing, traceability, animal welfare...**
 - 7. Certifications and Private Standards (EurepGap, British Retail Consortium, etc)**
 - 8. Environmental restrictions: GMOs, deforestation...**
 - 9. Social and labor standards**
 - 10. Multifunctionality**

CONCLUSIONS

- **Trade will move faster than trade policy**
- **Main risks:**
 - **“Water Round”**: accommodate current ag policies, new exceptions, backlashes.
 - **Explosion of bilaterals (spaghetti bowls)**: trade diversions, no treatment for systemic issues.
- **Window of opportunity in 2007: small and closing!**



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