Glossary for the WTO Agreement on Agriculture

Baffled by the boxes? Terrified by tariffication? Stymied by the special safeguard? Here is all you need to know to become an instant Agreement on Agriculture expert—or at least to sound like one. The glossary is arranged under five headings: The Overview, Market Access, Domestic Support, Export Support and Special and Differential Treatment.

THE OVERVIEW

GATT: The General Agreement on Tariffs and Trade. First signed in 1947, the GATT was the basis for successive rounds of negotiated reductions on tariffs. The most recent version of the GATT was signed in Marrakech in April 1994.

WTO: The World Trade Organization. A permanent forum for negotiating multilateral rules for international trade, established as one of the Uruguay Round agreements at the trade ministerial held in Marrakech in April 1994.

The Agreement on Agriculture (AoA): One of the Uruguay Round agreements signed by governments in 1994 in Marrakech. The AoA established rules for agricultural trade for all WTO members. The AoA's core objective "is to establish a fair and market-oriented agricultural trading system." Its implementation period was six years for developed countries and nine for developing countries, starting with the date the agreement came into effect: Jan. 1, 1995. The AoA built in a provision for its own review and renewal. That renegotiation is now underway, under the terms set at the fourth WTO ministerial conference in Doha and the Framework Decision agreed at the WTO General Council on Aug. 1, 2004.

The pillars: The AoA comprises three sections: market access, domestic support and export subsidies. Negotiators refer to these three sections as the three pillars of the agreement. Each pillar is described in more detail below.

The Doha Round: The WTO held its fourth ministerial conference in Doha, Qatar, in November 2001. Trade ministers there signed the Doha Agenda, which laid out issues and a timetable for a new round of trade agreements. The AoA was among the agreements to be renewed as part of the Doha Round. The initial deadline for agreement on all the issues was January 2005. However, none of the Doha deadlines has been kept and 2007 is now the suggested likely date for completion of the round. The Doha Agenda included a provision that the negotiations lead to a "single undertaking" meaning that the series of agreements on various issues (agriculture, services, intellectual property, etc.) will be signed as one. Countries must accept or refuse them all. The Uruguay Round was also a single undertaking.

Dumping: Dumping is the export of agricultural commodities at prices below the cost of production. Dumping is formally prohibited by Article VI of the GATT. The most common definition of dumping at the WTO is the sale of exports at prices below the prevailing prices in the domestic market. Trade officials presume dumping is a good thing for the importing country (they are getting cheap merchandise) unless the country complains (usually because the cheap imports are threatening domestic producers). So it is up to countries to put in place the national legislation they need to protect themselves from dumping, and the onus is on the country receiving the dumped production to prove harm to its domestic producers before anti-dumping duties can be imposed.

Modalities: Modalities describe the kind of commitments or targets (including numerical targets) that governments make in a trade agreement. Modalities are the language you see when you read an agreement's text. For example, a modality for export subsidy reduction might say, "Export subsidies should be cut from a baseline created by the average subsidy level between the years 1988 and 2000, they should be cut by 20 percent, and over five years." The negotiations are all about modalities. They determine what is forbidden, what is allowed, how things should change and at what pace. Modalities are complemented by the schedules (see below), and together these complete an agreement.

Schedules: Schedules are vital to understanding a trade agreement but are generally much less well-known than modalities. Each country must submit a schedule that says what program spending and tariffs will be reduced to comply with a WTO agreement. A schedule sets out the base level of support for each product affected in an agreement so that the agreed percentage cut can be implemented and monitored. Similarly, a schedule will say what tariff levels are for all the concerned products, so that the agreed cuts to tariffs can be calculated and monitored. The schedule also describes which programs are classified in which "boxes" (see below). If the modality says the baseline period will be the average annual amount between 1988 and 2000, then the schedule will provide what that amount is for the country concerned.

MARKET ACCESS

Tariffs: Tariffs are taxes raised on imports as they enter the country. They can be set *ad valorem*, meaning that the level of tariff is determined by the value of the import (if a ton of wheat costs $100, then an *ad valorem* tariff of 5 percent would add a tariff of $5 per ton of wheat imported). They can also be specific, meaning that a $5 tariff is levied on every ton of wheat, whether the wheat costs $80 or $120 per ton. Like other forms of taxation, tariffs raise money for governments.

Tariffs, bound and applied: Under agreements such as the AoA, governments agree maximum levels for the tariffs they will apply. This maximum level, or ceiling, is called the bound tariff rate. However, many governments bind their tariffs at a level higher than they actually use; applied tariffs are the tariff levels in use. The difference between applied and bound tariffs is called water; if there is a big gap, there is said to be a lot of water in the tariff. Negotiated tariff reductions usually apply to bound, not applied tariffs. So if the applied tariff is only half the level of the bound tariff, then a cut of 20 or 30 percent will make no material difference to market access, as the actual level of tariff applied remains unchanged.

Non-tariff barriers (NTBs): Tariffs are not the only way to restrict or control imports. Non-tariff barriers work to favor domestic producers without generating income for the government. They include measures such as quotas (e.g., only 100 ton of wheat per year can be imported, regardless of price or demand) and variable levies (e.g., the tariff level changes to ensure that domestic prices remains stable—the levy rises when world prices fall and drops when world prices rise). Another example of an NTB is a requirement that a given percentage of any product sold on the market be from local providers. This obliges would-be importers to establish relations with local businesses. Generally, NTBs increase local producers' revenue and make no contribution to government revenue.

Tariffication: A verb invented to describe the process of converting non-tariff barriers, such as variable levies and quantitative restrictions, into tariffs. Uruguay Round negotiators judged this exercise to be essential to create transparency (tariffs are more predictable for the would-be exporter and also indicate the level of protection in an economy more clearly) and to facilitate subsequent reductions of trade barriers. Negotiating an across-the-board reduction in a tariff is much easier than negotiating restrictions on dozens of different kinds of NTBs. The rationale serves exporting interests and reduces the flexibility available to governments to support domestic producers. However, tariffs are also less susceptible to corruption than most NTBs. Tariffication resulted in very high tariffs in some cases, particularly where a supply management program (such as for Canadian dairy producers) had tightly restricted market access by volume to protect the integrity of the domestic system.

Tariff rate quotas (TRQs): Because tariffication (see above) resulted in some spectacular tariffs (upwards of 300 percent), TRQs were put in place to force a minimum level of market access. This was achieved by establishing an amount of imports, equivalent to 5 percent of domestic consumption under the AoA rules, which had to be let in at a tariff that would make the goods competitive with domestic production. That is, the tariff had to be zero or very low. TRQs were intended to create additional pressure to open markets on countries that established high tariffs as a result of tariffication.

Special safeguards (SSG): Article 5 of the AoA specifies that countries that "tariffied" (see tariffication) could reserve the right to apply safeguard tariffs to protect against sudden import surges. A safeguard tariff is intended to make the affected imports less attractive to domestic consumers. Use of the SSG is time-limited (i.e., it cannot be renewed indefinitely). It is designed to protect domestic industry from volatility in world markets. It was mainly developed countries that tariffied—only 21 developing countries have access to the SSG. Most developing countries opted to bind their tariffs (to set a ceiling on their maximum level) instead, a choice which precluded them from having the right to use SSG measures.

Special safeguard measure (SSM): Easily confused with the SSG, this is a proposal for a new provision that would be included in the revised AoA. The proposal is that devel-

oping countries (not developed) be granted the right to use safeguards as a protection against market volatility (which might cause sudden import surges).

Countervailing duties: These are tariffs that can be levied on imports that have benefited from the use of government subsidies, either domestic or export-related, in their country of origin. Under the AoA, a number of government subsidies were categorized as "non-countervailable," which in effect legitimized a system in which countries had to accept imports whose price did not reflect their true production and marketing costs. With the expiry of the Peace Clause (see Peace Clause), a number of U.S., European and other countries' agricultural exports are now vulnerable to countervail by importing governments. Countervailing duties are distinct from anti-dumping duties; they are triggered by the use of government support payments in the country of origin, while anti-dumping duties are related to the behavior of exporting firms (see Anti-Dumping Duties).

Anti-Dumping Duties: These are duties that a government imposes if it judges that the company exporting the product is engaged in unfair pricing. For example, if a company has different prices in different markets, the importing country receiving the imports at the lower price can impose a duty to bring the price up to the level pertaining in another importer's market. In addition, anti-dumping duties can be imposed where a company sells a product for a higher price in its domestic market than it does in its export markets. Where there is no open market to help determine what the domestic price should be, countries are allowed to "construct" a price based on the cost of production of the product in question, plus a "reasonable profit." In many agricultural markets, the dominance of government programs of various kinds make this last approach necessary to determine if dumping is occurring. Under the current rules, a country must have domestic anti-dumping laws in place if it wishes to impose anti-dumping duties. The sector affected by the dumped imports must demonstrate harm to the satisfaction of the appropriate domestic authority (often a ministry of commerce). The ministry determines whether the accusation of dumping is justified. If so, the government imposes an additional duty on the offending imports at the border.

Tariff peak: A high tariff on a particular product within a given tariff line (e.g., on cheese but not on cream or milk powder).

Tariff escalation: Tariffs that rise with the degree of processing of a given commodity (e.g., higher tariffs on chocolate than on cocoa).

DOMESTIC SUPPORT

Boxes: The AoA sub-divides domestic support programs into a variety of categories, most of which are known as boxes of various colors: amber, blue and green.

Amber Box: The amber box is the category of domestic support that is scheduled for reduction. Expenditures on the measures assigned to the Amber Box are subject to reduction based on a formula called the "Aggregate Measure of Support" (AMS). The AMS calculates a number for the amount of money spent by governments on agricultural production, except for spending that is exempt under other articles of the agreement (the Blue Box, Green Box and *de minimis*, all described below).

Blue Box: To break the deadlock on agricultural negotiations under the Uruguay Round, the U.S. and EU brokered a deal in 1992 called the Blair House Accord. The accord was a deal to exempt from reduction domestic support programs that were linked to production-limiting programs. That is, if the level of payment is based on fixed areas and yields, or per head of livestock. At the time, both the U.S. and the EU's Common Agricultural Policy relied heavily on such programs. This exemption was dubbed the Blue Box and was included in the AoA as Article 6.5. Blue Box spending is unlimited. Very few developing countries have Blue Box-eligible programs.

Green Box: The Green Box is a list of domestic support programs that are exempt from the AMS (Amber Box) formula. The Green Box list includes payments linked to environmental programs, pest and disease control, infrastructure development and domestic food aid (if it is bought at market prices). It also includes direct payments to producers if they are not linked to anything but a fixed, historic base period (these are the so-called decoupled payments). Government payments towards income insurance and emergency programs are also included in the Green Box. It is more formally referred to as Annex 2 of the AoA.

De minimis: The term refers to a minimum threshold below which spending on domestic support does not need to be included in the AMS calculation. Thresholds are established for both overall agricultural production (for general support programs) and for specific commodity programs. The thresholds are referred to as the *de minimis* levels, and for developed countries are equal to 5 percent of the total value of production for general support and 5 percent of the value of each crop for commodity specific support. Developing countries can spend up to 10 percent in each

de minimis category. The whole program must cost less than the *de minimis* level to be excluded from the AMS. The U.S. has a number of programs that are eligible under *de minimis* rules, but most EU programs are too expensive to qualify.

Non-trade concerns (NTCs): Non-Trade Concerns are objectives that can be used to legitimize government programs that run contrary to the AoA objective of establishing a market-oriented agricultural trading system. NTCs are listed in the preamble to the AoA. They include food security, rural development and environmental protection. The European Union has included animal welfare and eco-labeling as NTCs they wish to protect in the next iteration of the agreement.

EXPORT SUPPORT

Export subsidies: Export subsidies are government payments that cover some of the cost of doing business for export firms. Typically, an export subsidy program will pay the difference between a more expensive domestic product and a cheaper alternative, so that firms are encouraged to buy from domestic producers. The U.S. subsidizes its cotton production in this way, paying U.S. firms to buy and process U.S. cotton by making it as cheap as the imported competition with subsidies.

Export credits: A tool used above allmostly by the U.S., export credits are given by a government to underwrite the cost of doing business on commercial terms. The U.S., for example, will pay Cargill to ship wheat to Malawi, and then Malawi will pay back the U.S. government rather than Cargill, usually at lower than commercial rates of interest and with longer payback terms. At the behest of the EU, a complicated exercise is now underway to try to estimate the subsidy component of export credits so as to discipline this aspect of the practice without banning the tool altogether.

SPECIAL AND DIFFERENTIAL TREATMENT

Special and differential treatment (SDT): As the GATT evolved from its inception in 1947, and as a growing number of developing countries became signatories to the agreement, member states established the principle in the 1960s that developing countries ought to be granted greater flexibility than developed countries in implementing GATT disciplines because of the economic difficulties they faced. Special and Differential Treatment (SDT or sometimes just S&D) provides formal recognition of the disadvantages developing countries face in the world trading system.

Special products: A term created by developing countries that want to protect their food security and the livelihoods of their most vulnerable producers. The proposal is that developing countries would be allowed to designate a certain number of products that would be exempt from tariff reduction requirements and other disciplines. A number of initiatives have been undertaken to try to establish criteria that would be effective in putting this idea into practice. The question is complicated, both technically (which crops should be eligible) and politically (how wide should the net be cast? All developing countries? If not, what criteria would be used to disqualify a country?).

Sensitive products: A kind of SDT for developed countries, sensitive products were introduced by the European Union to request continued protection for particular agricultural products, for political or social or cultural reasons. These products are proposed to receive less stringent disciplines in relation to tariff and domestic support reductions. The EU strongly supports the idea, as there are a number of products that are too sensitive for them to negotiate easily at the WTO. The U.S. has not shown much interest in the idea, but it was included in the joint EU-U.S. proposal that was circulated prior to the fifth WTO ministerial conference held in Cancún, Mexico, in September 2005.

The Peace Clause: Another form of SDT for developed countries, the Peace Clause—formally called the Due Restraint Clause—is Article 13 of the AoA. The Peace Clause was another outcome of the Blair House Accord (see Blue Box). The clause, now expired, overrode the Agreement on Subsidies and Countervailing Measures and protected WTO members who used export subsidies for agriculture from challenge, so long as the subsidies respected the limits set by the AoA. The Peace Clause expired at the end of 2003. ●

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