



Technews

**National Dairy Development Board
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HONG KONG WTO MINISTERIAL CONFERENCE: OUTCOME IN THE CONTEXT OF DAIRY SECTOR

This bulletin includes technical information based on latest developments on products, systems, techniques etc. reported in journals, companies' leaflets and books and based on studies and experience. The technical information in different issues is on different areas of plant operation. It is hoped that the information contained herein will be useful to readers.

The theme of information in this issue is **Hong Kong WTO Ministerial Conference: Outcome in the Context of Dairy Sector**. It may be understood that the information given here is by no means complete.

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1. INTRODUCTION

The international guidelines and rules for trade in agricultural products, including dairy products, influence Indian dairy industry considerably. Subsidies provided by developed countries, under the provisions of World Trade Organization's agreements, affect dairying sector of developing countries adversely. Indian dairy products have to compete with the subsidized products of some major developed countries not only in the global market but also in the domestic market. As the market becomes more open, competition becomes more intense. Therefore it is essential that the dairy industry keeps itself updated with the latest developments on this.

The rules that govern international trade are those that are provided in the various Agreements of the World Trade Organization (WTO). For agricultural products, including dairy products, one of the important and pertinent WTO agreements is Agreement on Agriculture (AoA). The important provisions included in this agreement were discussed in the 6th World Trade Organization (WTO) Ministerial Conference, which met in Hong Kong on 13-18 December this year. Through a series of discussions in the past, the representatives of different groups of countries had attempted unsuccessfully for agreed modalities for negotiation on agriculture in the forthcoming meeting. The Hong Kong meet is over and has agreed on a general framework for future discussions. Over the next year, the specifics are required to be detailed for discussion and approval by WTO.

This issue of Technews presents the outcome of the Hong Kong Ministerial specific to AoA, which directly influences Indian dairy sector.

It would be appropriate to review briefly the important provisions of the AoA and the background on negotiations on agricultural issues before the outcome of the Hong Kong meet is presented.

2. OVERVIEW OF AGREEMENT ON AGRICULTURE

The AoA was designed to provide for substantial progressive reduction in agricultural support and protection sustained over an agreed period of time with the objective of preventing restrictions and distortions in world agricultural markets. The agreement included, among other provisions, specific binding commitments in the three main pillars of domestic support, export competition and market access. The implementation period was six years commencing 1995 (1995-2000), except for the Article on ‘Due Restraint’, which had the implementation period of 9 years. For developing countries, the implementation period for reduction commitments was ten years.

The commitment for reduction in the three pillars by the member countries was based on agreed rates of reduction in each area from a base period. For all countries, the base period for domestic support and market access chosen was 1986-88, and for export subsidies it was 1986-1990. Least developed countries had no reduction commitment.

Domestic support. Many countries provide subsidies in different forms to assist in the production of agricultural produce. Some of these have high trade distortion effect. The objective was to reduce the trade distortion effects of these subsidies, and therefore to reduce such subsidies. To facilitate this all domestic supports were included in three boxes suitably: Amber Box, Green Box and Blue Box. Domestic support measures considered to be highly trade distorting were included in Amber Box, or Aggregate Measurement of Support (AMS), and were subject to reduction. The support measures under Green Box and Blue Box were not subject to reduction. Green Box includes measures that have no, or minimal, trade-distorting effects or effects on production, such as publicly - funded government programmes. Blue Box includes

direct payments under production-limiting programmes.

Additionally, there are *de minimis* exemptions. Where the product-specific subsidies expressed as a percentage of the value of the production of the relevant basic agricultural product or, in the case of non-product specific support, the value of total agricultural production, come to no greater than 5% (10% for developing countries), there is no reduction requirement. The reduction commitments are shown in Table 1.

Export subsidy. Similarly, export subsidies, mainly provided by several developed countries in various forms to increase exports by agricultural products were required to be reduced by certain rate (Table 1). Developing countries were exempted from reduction commitments in respect of some specific measures.

Table 1: Reduction in agricultural subsidies and tariffs

| Area of reduction | Developed countries | Developing countries |
|---|-----------------------|------------------------|
| Implementation period | 6 years: 1995-2000 | 10 years: 1995-2004 |
| Domestic support | | |
| Total AMS | | |
| Base period | 1986-88 | 1986-88 |
| Required reduction by % | 20 | 13 |
| Export subsidy | | |
| Base period | 1986-90 | 1986-90 |
| Required reduction in outlays by % | 36 | 24 |
| Required reduction in quantities by% | 21 | 14 |
| Tariffs | | |
| Base period | 1986-88 | 1986-88 |
| Average reduction for all products by % | 36 | 24 |
| Minimum reduction per product by % | 15 | 10 |

Market access. The important provisions included in market access were ‘tariffication’ of non-tariff barriers to trade (NTBs)

into tariff equivalents, tariff reduction and market access. Tariffs resulting from this ‘tariffication’ process, as well as other tariffs on agricultural products, were to be reduced as shown in Table 1. In the case of “tariffied” products, “special safeguard” provisions would allow additional duties to be applied in case of imports at prices denominated in domestic currencies below a certain reference level or in case of a surge of imports.

3. CURRENT SITUATION

It was expected that the implementation of AoA would substantially reform the trade of agricultural products. This has, however, not happened. High levels of subsidies are still being given by many developed countries for production and export distorting the global market and at the same time high market access barriers are also being maintained by them. The following brief review of the current situation makes it evident.

Domestic support. Total domestic support provided by many developed countries to their producers continues to be very high and has not significantly reduced from the 1986-88 levels. An important measure of domestic support by any country is its percent producer support estimate (PSE), which is an indicator of the proportion of gross farm receipts that are transferred due to the actions of governments. Producer support estimates for a few countries of OECD are given in Table 2.

Table 2: Producer support estimates for milk in some countries

| Year | % Producer support estimate | | | | | | | |
|---------|-----------------------------|--------|-------|------------------|----------------|-----|----|------|
| | Austr- alia | Canada | Japan | Switzer- land | New Zealand | USA | EU | OECD |
| 1986-88 | 42 | 73 | 85 | 87 | 9 | 41 | 70 | 61 |
| 2002-04 | 15 | 58 | 73 | 73 | 1 | 40 | 42 | 42 |

(Source: Agricultural Policies in OCED Countries: Monitoring and Evaluation 2005, OECD)

The % PSE for milk in OECD countries was 42 % during 2002-04 as compared to 61% in 1986-88, indicating that producers continue to get nearly half of their earnings from transfers due to actions of governments. Importantly, in all the major developed countries, the level of support has not come down significantly. Domestic support is highly concentrated in a few countries and commodities, with the United States, European Union and Japan accounting for a major portion of total domestic support for the OECD countries as a whole. Developed countries have resorted to meeting their subsidies reduction commitments by shifting these from non-exempt category (Amber Box) to exempt categories (Green Box and Blue Box). On the other hand, Indian milk producers do not enjoy any significant levels of such support.

Export subsidies. Export subsidies continue to be a significant factor in world dairy trade. The quantity of dairy products eligible for export subsidies, even after reduction commitments, is close to 59% of estimated world trade in all products. In case of individual product categories, 50% of skim milk powder, 63% of butter fat products, 36% of cheese and 83% of other milk products are eligible for export subsidies. Global prices are significantly influenced by these subsidies.

Tariff barriers maintained in the dairy sector. Tariff barriers maintained by several developed economies include: *ad valorem* duties that often exceed 100%; specific duties that afford a higher level of protection as compared to *ad valorem* duties; and special agricultural safeguards. The special safeguard provision is used as additional protection, in spite of some countries having high levels of bound duties. A comparison of bound tariffs on major dairy products is given in Table 3.

High production and export subsidies provided by several developed countries (such as EU, USA, Japan) distort international dairy market to the disadvantage of many developing

countries including India. India's milk production and production of dairy products are adequate to meet the local demands. But the threat of high level of imports of subsidized dairy products is real, and the domestic dairy industry, though otherwise competitive, cannot compete with such subsidized imported products. Such imports depress the local market price of dairy products, and are likely to displace domestic production directly affecting the livelihoods of producers negatively.

Table 3: Bound tariffs on important dairy products of some countries (Source: GATT, Summary of the results of the Uruguay round in the Dairy Sector, 1994)

| Country | Out of quota bound tariff in % | | | |
|------------|--------------------------------|------------|--------|------------|
| | SMP | WMP | Butter | Butter-oil |
| India | 60 | 60 | 40 | 40 |
| Finland | 208 | 246 | 481 | 481 |
| Norway | 392 | | 343 | 343 |
| Romania | 248 | 128 | 200 | 200 |
| Canada | 201.6 | | 298.7 | |
| Israel | 162 | Restricted | 162 | 162 |
| Bangladesh | 200 | 200 | 200 | 200 |
| Pakistan | 100 | 100 | 100 | 100 |
| Indonesia | 210 | 210 | 40 | 210 |
| Korea | 176 | 176 | 89 | 89 |
| EU* | 66 | 72 | 121 | |
| US* | 39 | | 81 | 90 |
| Japan* | 192 | 184 | 497 | 484 |

*Note: Bound tariffs are calculated from specific duties in the case of EU, US and Japan. The reference prices for calculation of *ad valorem* duty are skim milk powder and whole milk powder - US \$ 2200/tonne, butter - US \$ 1900/tonne and butter-oil - US \$ 2300 (source: av. prices in 2005, as reported in International Dairy Market News website.)

Further, due to low international prices, developing countries dairy

sectors are unable to take advantage of export markets, as they cannot afford to provide high subsidies. Additionally the high tariffs by developed countries neutralize the cost competitiveness of India and other developing countries. Moreover, the stringent food safety regulations imposed by developed countries, that are more stringent than international standards (Codex or OIE) and in many cases not based on adequate scientific evidence, pose additional hurdles for exports from developing countries. Thus, the developing countries producers are deprived of the opportunities of income from exports. Such adverse situation would continue unless the trade distorting provisions of WTO agreements corrected.

4. NEGOTIATIONS ON AGRICULTURAL ISSUES

The issues related to agriculture were not included in the discussion by the Ministerial Conference, the highest body of the WTO, until 1999. The Ministerial Conference meets at least once every two years to discuss various important issues related to WTO Agreements and take suitable decisions (Table 4). The 1st Ministerial Conference meeting was held in December 1996 at Singapore.

Table 4: WTO Ministerial Conferences

| Ministerial Conference | Place | Date |
|------------------------|-----------|-----------------------------|
| First | Singapore | 9-13 December 1996 |
| Second | Geneva | 18-20 May 1998 |
| Third | Seattle | 30 November-3 December 1999 |
| Fourth | Doha | 9-14 November 2001 |
| Fifth | Cancun | 10-14 September 2003 |
| Sixth | Hong Kong | 13-18 December 2005 |

In its Article 20, the AoA stipulates that negotiations for

continuing the reform process would be initiated one year before the end of the implementation period. Which meant 1999, implementation period being 1995-2000. Accordingly, the 3rd Ministerial Conference in 1999 end at Seattle also had the objective of setting up a framework for agriculture negotiations. However, Seattle was not successful for various reasons. Issues on agriculture were then taken up in the 4th Ministerial Conference in 2001 at Doha, Qatar. The Doha Ministerial established the broad framework for negotiations on agriculture. As expected, the mandate included, as stated in the Ministerial Declaration, mainly:

- substantial reductions in trade distorting domestic support;
- reduction of, with a view to phasing out, all forms of export subsidies; and
- substantial improvements in market access.

It also stated that special and differential treatment (S&DT) for developing countries shall be an integral part of all elements of the negotiations.

The Declaration considered its agenda as Development Agenda. The detailed modalities for the further commitments were required to be established by March 2003 for the Fifth Ministerial Conference at Cancun later in the year. However, no substantial progress was made on this due to various reasons. Therefore, Cancun Ministerial could not discuss agriculture issues objectively, but it reaffirmed to carry on negotiations under the Doha Declaration Framework. It was agreed that the detailed modalities should be worked out for the Sixth Ministerial Conference in Hong Kong in December 2005.

Modalities for Hong Kong Ministerial Conference. The main task for members in Hong Kong was to settle a range of questions that would shape the final agreement of the Doha Development Agenda, which members hoped to complete at the end of 2006. For the negotiations on agriculture, the aim was to agree on formulas and other details that would determine the scale of

reductions in tariffs on agricultural products and on subsidies.

After Cancun Conference, proposals were made and discussed in special meetings of ministers, meetings of Committee of Agriculture and General Council meetings. Proposals on modalities on negotiations on agriculture were made mainly by three important groups of countries: Group 20 (G-20) of developing countries, the EU and the USA. All these proposals proposed reductions in domestic support, export subsidies and tariffs, but the proposed reduction rates were different in each proposal. Each proposal also included additional conditions / requirements.

Outcome of Hong Kong Meet. Ministers from the WTO's 149 member governments met in Hong Kong during 13-18 December to consider the Doha Ministerial Declaration (WT/MIN{01}/DEC/1) and the Framework adopted by the General Council on 1 August 2004 (WT/L/579), and to discuss the various proposals and the report by the Chairman of the Special Session of the Committee on Agriculture on his own responsibility (TN/AG/21, contained in Annex A). The Ministerial Conference (MC) approved a declaration after six days of intensive negotiations.

The main points of the declaration are summarized below:

1. The MC reaffirms commitment to the mandate on agriculture as set out in paragraph 13 of the Doha Ministerial Declaration and to the Framework adopted by the General Council on 1 August 2004. It takes note of the report by the Chairman of the Special Session of the Committee on Agriculture.

Domestic support

2. There will be three bands for reductions in Final Bound Total AMS and in the overall cut in trade-distorting domestic support,

with higher linear cuts in higher bands. In both cases, the Member with the highest level of permitted support (*i.e. EU*) will be in the top band, the two Members with the second and third highest levels of support (*i.e. the US and Japan*) will be in the middle band and all other Members, including all developing country Members, will be in the bottom band. In addition, developed country Members in the lower bands with high relative levels of Final Bound Total AMS will make an additional effort in AMS reduction.

Some of the important details yet to be worked out for discussion and endorsement in future include: the three bands for reductions in Final Bound Total AMS and in the overall cut in trade-distorting domestic support and the cuts in these bands for developed countries and developing countries (the proposed bands for overall cut are, in US \$ billion, ≥ 60 , $\geq 10 < 60$ and < 10 , and for AMS, in US \$ billion, ≥ 25 , $> 12/15 < 25$ and $\leq 12/15$). The proposal is for developing countries to undertake a cut less than 2/3 of the cut to be undertaken by developed countries in the same band.

3. There would be reductions in both product-specific and non-product specific *de minimis* limits. Developing country Members with no AMS commitments will be exempt from reductions in *de minimis* and the overall cut in trade-distorting domestic support. *The level of reduction is yet to be decided. The proposal is to cut both product-specific and non-product specific supports de minimis support by developed countries by 50-80%.*
4. Disciplines will be developed to achieve effective cuts in trade-distorting domestic support consistent with the Framework. The overall reduction in trade-distorting domestic support will still need to be made even if the sum of the reductions in Final Bound Total AMS, *de minimis* and Blue Box payments would otherwise be less than that overall reduction.

5. Green Box criteria will be reviewed in line with paragraph 16 of the Framework, *inter alia*, to ensure that programmes of developing country Members that cause not more than minimal trade-distortion are effectively covered.

Export subsidies

6. The MC agrees to ensure the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect to be completed by the end of 2013. This will be achieved in a progressive and parallel manner, to be specified in the modalities, so that a substantial part is realized by the end of the first half of the implementation period.
7. Export credits, export credit guarantees or insurance programmes should be self-financing, reflecting market consistency, and that the period should be of a sufficiently short duration so as not to effectively circumvent real commercially-oriented discipline.
8. As a means of ensuring that trade-distorting practices of state trading enterprises (STEs) are eliminated, disciplines relating to exporting STEs will extend to the future use of monopoly powers so that such powers cannot be exercised in any way that would circumvent the direct disciplines on STEs on export subsidies, government financing and the underwriting of losses.
9. On food aid, the MC reconfirms its commitment to maintain an adequate level and to take into account the interests of food aid recipient countries. To this end, a "safe box" for bona fide food aid will be provided to ensure that there is no unintended impediment to dealing with emergency situations. Beyond that, it will ensure elimination of commercial displacement. To this end, it will agree effective disciplines on in-kind food aid,

monetization and re-exports so that there can be no loop-hole for continuing export subsidization.

10. The disciplines on export credits, export credit guarantees or insurance programmes, exporting state trading enterprises and food aid will be completed by 30 April 2006 as part of the modalities, including appropriate provision in favour of least-developed and net food-importing developing countries as provided for in paragraph 4 of the Marrakesh Decision.
11. The date above (end of 2013) for the elimination of all forms of export subsidies, together with the agreed progressivity and parallelism, will be confirmed only upon the completion of the modalities. Developing country Members will continue to benefit from the provisions of Article 9.4 of the Agreement on Agriculture for five years after the end-date for elimination of all forms of export subsidies.

Market access

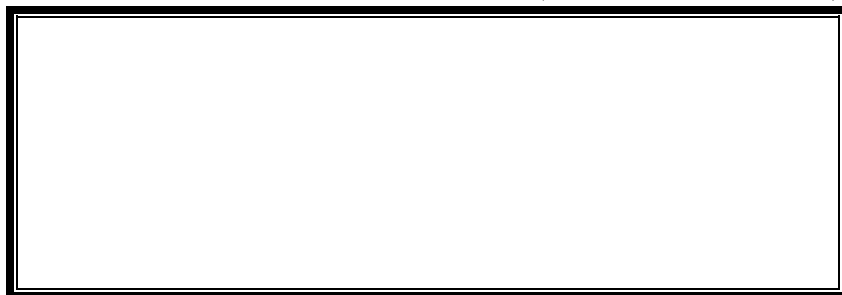
12. The MC adopts four bands for structuring tariff cuts, recognizing that there is a need now to agree on the relevant thresholds – including those applicable for developing country Members. *The details yet to be worked out are the four bands and the levels of reduction in each band for developed countries and developing countries. On reduction in tariffs, the proposal is for developing countries to commit cut in tariffs by 2/3rd of the cut to be undertaken by developed countries*
13. The need to agree on treatment of sensitive products is recognized. It is also recognized that there should be greater flexibility for developing countries for sensitive products. *The number of products that can be accepted as sensitive products is yet to be decided.*
14. Developing country Members will have the flexibility to self-

designate an appropriate number of tariff lines as Special Products guided by indicators based on the criteria of food security, livelihood security and rural development. Developing country Members will also have the right to have recourse to a Special Safeguard Mechanism based on import quantity and price triggers, with precise arrangements to be further defined. Special Products and the Special Safeguard Mechanism shall be an integral part of the modalities and the outcome of negotiations in agriculture. *The relevant details are yet to be worked out.*

Special and differential treatment

15. On other elements of special and differential treatment, the MC notes in particular the consensus that exists in the Framework on several issues in all three pillars of domestic support, export competition and market access and that some progress has been made on other special and differential treatment issues. *The details are yet to be worked out.*

The MC, however, notes in the declaration that much remains to be done in order to establish modalities and to conclude the negotiations. Therefore, it agrees to intensify work on all outstanding issues to fulfill the Doha objectives, and resolves to establish modalities no later than 30 April 2006 and to submit comprehensive draft Schedules based on these modalities no later than 31 July 2006.



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