The WTO Doha Round will undercut Sugar Regime reform

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Progress in WTO negotiations

- Despite the apparent quiet in Geneva there has been a lot of technical progress in recent months
- Whether or not this translates into final deal later this year remains to be see
- But we cannot ignore the outlines of the deal set-out in the latest draft modalities papers on Agriculture and on Non-Agricultural Market Access (NAMA), issued 8th February
- **The fundamental issue for us is that the agriculture text undermines the Sugar Regime reform**

Possible timetable

- Enthusiastically supported by the EU, the timetable that Mr Lamy (WTO Director General) **hopes** to follow is: -
- March 2008: Horizontal negotiations on draft modalities for agriculture and NAMA simultaneously, to allow trade-offs between them
- April 2008: Ministerial meeting to agree the modalities for import tariff/domestic subsidy cuts
- Rest of 2008: Preparation and verification of commitment schedules, negotiations on Services and Rules, etc
- December 2008: Final Doha Round agreement signed
- Whole of 2009: Ratification by WTO members
- **1.1.2010**: Doha Round agreement **implementation starts (unlikely to be earlier as the next US President will have to get a new Trade Promotion Authority from Congress)**

Will the timetable be achieved?

- **In my view, this timetable will not be achieved** because:
- The over concentration on agriculture in the Doha Round has meant that other areas (especially Services and Rules) have received inadequate attention
- As the Single Undertaking applies (‘nothing is agreed until everything is agreed’) these other areas have to be dealt with properly – including g.i’s for the EU
- The trade-off between agriculture and NAMA is not accepted by important developing countries, while the EU and the US are disappointed at how little they are likely to gain on NAMA
- An accelerated negotiating process (as Lamy wants) risks overloading Ministers with too many unresolved technical issues
- The commitment of many developing countries to the whole process is suspect unless, that is, they get all the concessions they want so they can avoid significant trade liberalisation

What are the key features of the Doha Round for agriculture?

- There are 3 broad parameters for reducing agricultural ‘trade distorting’ support in the WTO. These are: -
  - Domestic support
  - Export subsidisation
  - Market access
- As an over-riding principle, however, developing countries in general are required to make _ smaller support reductions than developed countries. This is termed “special and differential” treatment in the WTO
- Additionally 50 Small and Vulnerable economies will be allowed to make even smaller import duty cuts, while the 50 least developed countries will not have to make any cuts at all
- Furthermore, developing countries will also have access to Special Product status and the Special Safeguard Measures (SSM) for particular products
- The affect of these exceptions is, in my view, that it will be voluntary for developing countries how much they liberalise, or if they liberalise at all

The key WTO parameters as they affect sugar: Domestic Support

- The cut required in Overall Trade Distorting Support for the EU is [75%] [85%] (to be agreed)
- This is not expected to have major impacts for the EU as CAP Reform means the EU has already met this requirement by switching most agricultural support into the Single Farm Payment (SFP), where it is paid provided environmental requirements are met
- In WTO terms the SFP does not count as ‘trade distorting’ and hence is included in the ‘Green Box’ of permitted support spending
- The Sugar Regime reform cut support prices 36%, while including compensation to sugar beet growers in the Single Farm Payment scheme

The key WTO parameters as they affect sugar: Export Subsidisation I

- Export subsidies are to be eliminated by 2013 (half by 2010)
- The EU has already cut 'subsidised' sugar exports by some _ due to the loss of the 2005 WTO Sugar Panel: a key factor in the 6 mt production quota cut in the Sugar Regime reform
- **The result of Sugar Regime reform is the EU has gone from being the world's second largest exporter to being a large net sugar importer**
- For the remaining export refunds, the Commission is aiming to eliminate Budget spending on a short timetable, as Sugar Regime reform diverted the existing export refund budget for sugar to grower compensation in the SFP

The key WTO parameters as they affect sugar: Export Subsidisation II

- Quota sugar exports made without export refunds do not count as subsidised, so can continue where they are competitive in a few high priced Third Country markets (e.g. Switzerland)
- Out of quota sugar exports are deemed cross-subsidised (by the Panel) and count for the EU's subsidised export constraints
- Once export refunds are not payable for the export of sugar as such, export refunds will not be payable for sugar exported in Non Annex I processed food products
- This is a key issue as 800 kt of EU sugar are incorporated in NAI processed food exports
- **We risk a further quota cut** if sugar users are allowed to use Third Country, rather than EU, sugar under Process Inwards Relief (IPR)

The key WTO parameters as they affect sugar: market access I

- This is the area that most concerns the EU sugar sector as the cuts in import protection exceed those allowed for in the Sugar Regime reform. Thus: -
- ➢ The draft gives a range in the cut in import duties [66] [73%] (to be agreed) for import duties exceeding 75% ad valorem
- ➢ It is extremely likely that the fixed import duty for sugar will have to be cut 70% from €419/t white sugar to €126/t
- ➢ [In the Sugar Regime reform a cut of only 60%, and that as a maximum, was considered (!)]
- ➢ The EU is **also** under heavy pressure to agree to the scrapping of the Special Agriculture Safeguard Clause (SSG)
- ➢ [Yet in the Commission's presentation of the Sugar Regime reform to the Council of Ministers, it is clear that only an unchanged SSG and a 60 % fixed import duty cut would be consistent with the new EU sugar price levels]

The key WTO parameters as they affect sugar: market access II

- The SSG is the only protection instrument that helps us offset the high variability of world sugar prices due to the sugar cycle, currency fluctuations and the now massive speculation from hedge funds, etc
- The current modalities draft offers three possibilities for the SSG. These are - in order of best to worst for us:
  - ➢ Maintenance of the SSG for 1.5% of tariff lines; or
  - ➢ Phasing-out over 4 years, but with the SSG's effectiveness halved from day 1; or
  - ➢ Complete elimination from day 1
- The Commission has volunteered a further option of tarifying the SSG and reducing it like a fixed import duty, but this would mean the SSG would no longer be an effective tool against world price variability

The key WTO parameters as they affect sugar: market access III

- The only alternative to the maintenance of the SSG is that sugar should be designated a Sensitive Product
- In this case the tariff cut can be reduced by _ or _ or _
- BUT the offset is that increased market access has to be given by the opening of a tariff rate quota (TRQ)
- For a _ deviation in import duty cut (i.e. an import duty cut of 44.6%), the text has a TRQ expansion of [3%] [5%] (to be agreed) of domestic consumption
- As sugar imports into the EU already exceed 10%, the text provides for the TRQ expansion to be slightly reduced at [2.5%] [3.5%] (to be agreed) of domestic consumption, **but only if the imports are on a mfn basis.** (This must be changed to allow preferential imports to count)

The key WTO parameters as they affect sugar: market access IV

- Two major issues for sugar with Sensitive Product status are:
- The unforeseen further cut in production quotas that would be required as a result of TRQ expansion. These have not been allowed for in the Restructuring Scheme and **would require further production quota cuts**
- There would also be a need for many products with high sugar contents to be treated as Sensitive Products, to avoid creating loopholes that would undermine the EU sugar market

What does the Sugar Industry want?

- **We want the Doha Round agreement to be consistent with Sugar Regime reform**. Currently it isn't
- In particular, **an effective SSG must be kept**
- If this proves impossible, then sugar will have to be treated as a Sensitive Product, even though this raises significant difficulties. In this case, **TRQ expansion should be limited to take account of the fact that the EU gives LDC's duty free and quota free access**, whereas the US and Japan do not
- **Sugar must be treated as a Preference Erosion product** in WTO terms, so that import duty cuts are phased-in over 15 years, rather than the 5 that will otherwise apply.
- Sugar and Cocoa mixed with sugar must <u>not</u> be treated as Tropical Products, as import duties would have to be cut 85%

Bias against the EU sugar industry

- The pressure on the EU sugar industry does not recognise that the majority of the world's sugar production occurs in developing countries
- Most developing country sugar producers will not have to cut their applied import protection because of "special and differential" treatment and because of the huge differences between their WTO 'bound' import duty rates and the import duties they actually apply
- This means that while we make major cuts in our import duty levels, our developing country competitors will often have to do very little – even though their import duties can be as high, or higher, than the EU's