

## Special Products and Special Safeguard Mechanism in WTO Agriculture Negotiation *In Search of a Common South Asian Position!*

— Mehnaz Azmal\*

### Introduction

As part of the Doha Round of negotiation by the WTO (World Trade Organisation) Members on agriculture it has been agreed, while final modalities and measures are yet to be decided, that developing countries would have a category of agricultural products as Special Products (SPs), which would be exempted from tariff cuts (new market access commitments as part of a Doha deal) and there will also be Special Safeguard Mechanism (SSM), which would allow them to increase their import tariff levels when there is an import surge.<sup>1</sup> The objectives of these measures are to ensure food security and rural development in developing countries, and to protect the small farmers against the volatility of world prices in agricultural commodities.

Article 41 of the July 2004 Framework of the Doha Round of negotiation provides developing countries the responsibility to define SPs in order to designate certain agricultural products based on the criteria of food security, livelihood concerns and rural development.<sup>2</sup> Though explicitly provided, in actual practice it is a very complex and tricky process having many nuances. Till date a common consensus is yet to be developed in the Doha negotiation by the developing and developed countries for the designation of SPs and SSM.<sup>3</sup>

The Hong Kong Ministerial also allowed developing countries to self-designate an appropriate number of tariff lines (agricultural products) as SPs and develop SSM to protect farmers from import surges.<sup>4</sup> The complexity of these issues can be gauged from Annex A of the Hong Kong Ministerial Conference of the WTO. A list of such complexities is given below.

- **Special Products:** Some Members have considered that special products should be fully exempt from any new market access commitments whatsoever and have automatic access to the SSM. Others have argued there should be some degree of market opening for these products, albeit reflecting more flexible treatment than for other products.
- **Special Safeguard Mechanism:** There is no material disagreement with the view that it should have a quantity trigger. Nor is there disagreement with the view that it should at least be capable of addressing effectively what might be described as import

“surges”. Divergence remains over whether, or if so how, situations that are lesser than “surge” are to be dealt with. There is, however, agreement that any remedy should be of a temporary nature. There remains strong divergence however on whether, or if so how, a special safeguard should be “price-based” to deal specifically with price effects.

Given this context and complexity, there is a need to analyse the possible changes that could take place in the negotiating stance of some South Asian countries on SPs and SSM and to explore a common South Asian position at the Doha Round of negotiation on the basis of this analysis.

### A Glimpse of the Sector in South Asia<sup>5</sup>

#### Bangladesh

The Bangladeshi economy is highly dependent on agriculture and this sector contributes around 31.6 percent of its gross domestic product (GDP). It provides 63.2 percent of employment. The crop sector contributes about 72 percent of total agricultural production and fisheries, livestock and forestry contribute about 10.33 percent, 10.11 percent and 7.33 percent, respectively. The agriculture sector as a whole contributes between 10 to 15 percent of the country’s total export. Principal crops are rice, jute, sugarcane, potato, pulses, wheat, tea and tobacco.

In the of four-year period prior to the WTO Agreement on Agriculture coming into force, agricultural export increased to US\$139mn from US\$128mn. But during 1999-2002 there was a significant decline in such exports. On the other hand, import of agricultural products increased during this period: from US\$1.25bn to 1.62bn.<sup>6</sup>

Though Bangladesh will not have to take any tariff reduction commitments at this stage (as per the Doha Round of negotiation), in future there may be a pressure on the LDCs to take on at least some tariff reduction commitments on a ‘voluntary’ basis and to bind their tariffs at lower levels. Thus, although Bangladesh may not be directly concerned about SPs and SSM, it might still be in its interest to participate in this negotiation relating to setting the criteria for designation, identification and, treatment of SPs, setting up of SSM, and linking SPs and SSM.

\* Project Associate, Sustainable Development Policy Institute, Pakistan

**Table 1: Bangladesh's Export and Import of Agricultural Products (in US\$ mn)**

Trade	1991-1994	1994-1998	1999-2002
<b>Import</b>			
Cotton Lint	89.8	167.6	197.9
Rice	5.6	186.7	193.4
Sugar (Raw Equiv.)	18.2	40.2	66.1
Wheat + Flour, Wheat Equiv.	164.2	185.5	259.5
Dairy Products + Eggs	69.0	58.0	84.0
Fixed Vegetable Oils	137.7	293.8	391.7
Oil of Palm	37.4	70.3	109.6
Oil of Soya Beans	94.6	217.1	273.8
Oilseed Cake Meal	0.1	1.7	19.1
Oilseeds	47.8	91.1	83.9
<b>Export</b>			
Fruit + Vegetables	5.9	11.3	12.1
Jute	75.2	82.4	69.2
Tea	39.7	35.0	16.6
<i>Source: <a href="http://www.wider.unu.edu/research/2004-2005/2004-2005-4/papers/chand.pdf">http://www.wider.unu.edu/research/2004-2005/2004-2005-4/papers/chand.pdf</a></i>			

### India

According to the latest Trade Policy Review of India at the WTO (held in 2002), due to trade liberalisation and structural reforms the Indian economy is growing rapidly with real GDP growth averaging about six percent in the last five years.

India is the largest producer in the world of milk, fruits, pulses, cashew nuts, coconuts, cotton, sugar, sugarcane, peanuts, jute, tea and an assortment of spices, the second largest producer of rice and wheat, and fourth largest in coarse grains. Agriculture sector is providing a source of livelihood/employment to about 70 percent of the rural households and seven percent of the urban households. However, its contribution to India's GDP is about 25 percent and it is steadily falling mainly because other sectors are growing faster than agriculture.

Trade liberalisation is taking place since 1991 and it has been gradually extended to agriculture since 1994. The government has lifted a number of restrictions on imports and exports of agriculture goods, simplified trade measures and reduced public interventions in domestic markets. Earlier India maintained quantitative restrictions on agricultural imports (and on many other non-agricultural commodities) in the form of import prohibitions and there was also a policy of import licensing or canalised imports for roughly 43 percent of its agricultural tariff lines (606 out of a total of 1398). Following a dispute at the WTO, India has removed QRs on 714 tariff lines (including non-agricultural products) from April 2000.

According to some experts, India's SPs would fall broadly in the categories of dairy and poultry products, vegetable and fruits, spices, cereals, oil seeds and edible oils and certain processed products. Incidentally, on many of these products India is the largest producer in the world – the important issue is that the productivity of these products produced in India is much lower than the

world average. Secondly, being a vast country with extremely diverse agro-climatic zones, India requires designating a large number of agricultural products as SPs to protect the livelihood and food security concerns of small and marginal farmers and agricultural workers. It has been argued that India needs more than 350 agricultural tariff lines to be protected under SPs.

### Nepal

Like other countries of South Asia, in Nepal agriculture is the main source of livelihood and contributes about 40 percent of its GDP. Approximately 76 percent of the population are employed in agriculture. The Nepalese agriculture sector is mostly affected due to cheap imports and as a result, the domestic price of rice declined from US\$0.30 in 1999 to US\$0.20 per kilogram in 2000 – 33 percent decrease in a year. This was true for many other agricultural commodities. Being a poor country, it may be good for poor consumers but most of these poor consumers are producers of agricultural commodities and thus, the Nepalese trade policy should have clear measures for balancing producer and consumer interests.

This fall in domestic prices of agricultural commodities is corroborated by a reduction in total land used for agricultural production. According to the United Nations Food and Agriculture Organisation, this fall was from 1,560,000 hectares in 2000 to 1,517,000 hectares in 2001. This data is compatible with the earlier data on the effect of import surges on prices of agricultural commodities – normally, there is a lag of one year to capture the impact of import surges of agricultural commodities on overall land use pattern in agriculture in a country. Therefore, Nepal can have an offensive interest on SSM.

### Pakistan

In Pakistan, 66 percent living in the rural area are directly or indirectly dependent on agriculture.<sup>7</sup> It contributes 25 percent to the GDP.<sup>8</sup> Agricultural export is dominated by cotton despite the government's diversification efforts. Among the major agricultural imports is milk, cream and milk food for infants, unmilled wheat, dry fruits, tea, spices, soybean oil, palm oil, sugar and pulses. If one compares monthly imports in the years 2004 and 2005, one can find a continuous increase in the import of sugar, edible oils, milk and milk products, pulses, tea and dry fruits.

Since 1994, Pakistan has progressively and substantially reduced agricultural tariffs. Maximum tariff rates were reduced from 92 percent to 70 percent in June 1994, and from 70 percent to 65 percent in June 1995, and further to 30 percent in June 2001. This effort culminated in June 2002 with the establishment of four maximum import tariff bands of 25, 20, 10 and five percent.

Pakistan has an offensive interest in market access and demands for a substantial overall reduction in tariffs with deeper cuts on higher tariffs through tiered formula. It also supports that the issue regarding tariff escalation on trade

in agricultural commodities should be addressed. It calls for tariff capping at 100 percent for developed countries and 150 percent for developing countries.

Pakistan, being a member of the G33 group of WTO Members, supports its stance on SPs and is also in favour of using SSM against import surges.

### Sri Lanka

Agriculture contributes about 20 percent to the GDP and provides 37 percent-employment. The major agricultural crops include rice, tea, spices, rubber, coconut and sugar. The agricultural policy of Sri Lanka has two dimensions – one for the plantation sector that includes exportable crops like tea, rubber and coconut while the other for non-plantation crops, which are mostly linked with the livelihood and food security of the small growers.

Tea contributes 70 percent of total agriculture exports. Being a small economy vulnerable to natural calamities, the import of agricultural products varies from year to year: in the year 2002 it increased by more two percent in value terms.

Sri Lanka has taken a very keen interest on the debate on SPs and SSM during the Doha Round of negotiation. It has identified around 600 products covering about 10 percent of agricultural tariff lines as SPs and strongly supports this proposal at the negotiating platform along with other developing countries.<sup>9</sup>

According to Ruffer (2004), depending on the GDP and the population of the country, Sri Lanka can have SPs with about 23 percent of import value out of total agricultural imports. The crops which are proposed for designation as SPs are rice, coconut, poultry, milk, vegetables, cowpea, ground nuts, maize, red onions, chillies, tomato, capsicum, green gram, potatoes, sorghum, black gram, ginger, soya, big onions. Paddy, coconut, poultry, milk and vegetables, according to the order of importance, have top priority in Sri Lanka's list of SPs.<sup>10</sup>

The products proposed for SSM treatment are rice, coconut, vegetable oil, poultry, milk, cowpea, red onion, cereal, maize, chillies, tomatoes, cucumber, green gram, legumes, potatoes, black gram, soya, onion, kurakkan, fruits, cocoa, coffee, cardamom, nuts, root crop, pepper, nutmeg, meat bovine, meat swine, and sheep meat .

**Table 2: Agricultural Growth in Pakistan (in percent)**

Year	Agriculture	Major Crops	Minor Crops
2000-01	-2.2	-9.9	-3.2
2001-02	-0.1	-2.5	-3.7
2002-03	4.1	6.9	0.4
2003-04	2.3	1.9	4.0
2004-05	6.7	17.8	3.0
2005-06 (P)	2.5	-3.6	1.6

*P= Provisional.*  
*Source: Federal Bureau of Statistics*

### A Common South Asian Position

In exploring a common negotiating position of South Asian countries on SPs and SSM, one has to face two major complexities. The first is the politics of the region and the second is the economics of the region. Moreover, in case of other issues of agriculture negotiations, there are differences in the negotiating positions of net food importing countries (such as Bangladesh, Sri Lanka) and the net food exporting countries (such as India).

Therefore, it is imperative to develop a set of least common denominators and a collective stance, if not a common position. While the set of least common denominators can be derived from the various proposals put forward at the negotiating platform, a common position/collective stance should be based on political considerations, including the positions/stance of a country on other issues under negotiation.

### Some Negotiating Proposals on SPs and SSM

*July 2004 Agriculture Text:* On July 28, 2004, G33 presented a proposal called July Agriculture Text, demanding the implementation of SPs and SSM.<sup>11</sup> The Group wanted to take into consideration the food security, livelihood and rural development concerns of the developing countries while taking any decision, and asked for certain measures to be included in the revised draft.<sup>12</sup> They also stressed the need that developing countries should decide on their own the percentage of tariff lines to be considered as SPs.

**Table 3: A Summary of Country Positions on SSM**

Country/Country Groups	Position
G-33, most developing countries including India	Comprehensive coverage of SSM. SSMs are fundamental to economic development and should not be constrained in its use. SSM should only be available to developing countries and Special Safeguard (SSG) should be abolished.
Developed and developing countries which are big agricultural exporters (Thailand, Australia, Canada), mostly Cairns Group Members (Brazil has been quite non-committal on SSMs)	G-33 position too protectionist, can hurt South-South farm trade. SSM should be limited in its use and coverage. SSG should be abolished.
EU and G-10	Generally not much objection to SSM but feel G-33 proposed coverage is somewhat protectionist. Want SSG to continue
USA	Proposes extremely limited coverage and usage of SSM, hints at injury test, SSM should be abolished by the end of Doha Round, SSG should be abolished at the start of the Doha Round

*Source: Pal, Parthapratim and Deepika Wadhwa, An Analysis of the Special Safeguard Mechanisms in the Doha Round of Negotiations: A Proposed Price-trigger-based Safeguard Mechanism, Working Paper No. 189, Indian Council for Research on International Economic Relations, New Delhi: 2006*

*Malaysia's Informal Paper:* Malaysia in its paper circulated on March 23, 2006 proposed a series of quantitative/numerical indicators for the designation of SPs with a view that SPs have the potential to undermine the development agenda of exporting developing countries since the income of many poor farmers in such countries depends on the production and export of one or two crops.<sup>13</sup> It has been pointed out that the Malaysian proposal of numerical indicators to the staple crops (contributing to the nutritional requirement and livelihoods) denies the basic objectives of food security, livelihoods and rural development. It was also argued that a single set of thresholds would not be able to capture the diverse conditions that prevail in different developing countries.

*United States' Proposal:* US says that only five agricultural products (five agricultural tariff lines) should be designated as SPs. Products that are domestically or are close substitutes of products produced domestically can be designated as SPs. Those products that are exported from a country on an MFN basis and are net exported cannot be designated as SPs.<sup>14</sup> An analysis of this proposal shows that it limits the scope of safeguards to the extent that alternatives to any such mechanism become ineffective. The US paper also made the applicability of SSM a bit difficult by linking the price-based trigger with the increase in volume through a market test. It also asks for the application of SSM to only those products where formula cuts have been applied.

*Falconer's Paper:* On May 5, 2006 New Zealand's Ambassador to the WTO Crawford Falconer and Chair of the Special Session of the Committee on Agriculture to the Trade Negotiations Committee in his personal capacity produced a paper and argued to include market access consideration into the basis for selecting SPs.<sup>15</sup> In this paper wide gaps in the positions of different countries on the selection of SPs either on the basis of tariff cuts or on the basis of food security, livelihood security and rural development were identified. Falconer stressed that WTO Members before designating SPs must first agree on the modalities for cuts in agricultural tariffs and subsidies. The paper highlighted that the G33 proposal that "at least 20 percent tariff lines are/should be eligible for SPs" would allow two (unnamed) developing countries to shield as much as 98.4 and 94 percent of the total value of their respective agricultural imports from Doha Round tariff cuts. This paper was criticised by the G33 for unfavorable assessment of market access flexibilities that they are seeking, and also that it may allow some developing countries to shield a high proportion of agricultural imports from the tariff cuts. G33 emphasised that the entire notion of SPs is not based on trade-related concerns and thus, should not be viewed through the prism of commercial considerations.

*World Bank's Paper:* A paper produced by the World Bank pointed out that "raising agricultural prices substantially through SPs would create large increases in poverty - sufficient in some cases to undo decades of development progress - and push the already poor deeper

into poverty".<sup>16</sup> G33 criticised this paper its assumptions and methodology and pointed out that the paper has misinterpreted the expected operations and impact of SPs and downplayed the importance of the agricultural sector in developing countries. G33 said that such a paper could have adverse consequences for the Doha Round of negotiation. This paper ignores the reality of price declines, price volatility and predatory competition, including dumping of heavily subsidised products, which raises the risk levels of developing countries without providing an adequate safety mechanism or flexibility to deal with adverse impact of trade policy changes for vulnerable agriculture. G33 has urged the World Bank to substantially modify this fundamentally flawed paper as a matter of priority.

*Pakistan's Paper:* On January 19, 2007 Pakistan submitted a proposal with four specific indicators for the designation of SPs besides the three agreed criteria of food security, livelihood security and rural development.<sup>17</sup> The first two indicators [(share of the production of a product in total agricultural production of a country (as a proxy for rural development) and share of consumption of a product in total food consumption in a country (as a proxy for food security)] show the relative importance of individual products in agricultural production and consumption, and their degree of importance to the agriculture base and consumption profile of a country. The third indicator [(share of domestic consumption by domestic production of a product (as another proxy for food security)] shows a relationship between the levels of domestic consumption as compared to domestic production and its sustainability in terms of self-sufficiency. The fourth indicator [(share of employment in a product in the total agricultural labor force or in total agricultural employment (as a proxy for livelihood security)] indicates the dependency ratio of the people on agriculture for their livelihood. Based on these it is proposed that countries according to their need should/may develop a minimum threshold for each indicator, and based on that threshold, a product should be selected as a Special Product and also by leaving policy space for any change in future.

This paper is too far from the G33 proposal (20 percent agricultural tariff lines to be designated as SPs) and according to some experts, it actually supports the US position of designating not more than five agricultural tariff lines as SPs. It takes into consideration some major indicators for determining SPs and ignores several sub-indicators as in the G33 proposal. As prioritised crops in South Asia, the paper says that rice has high regional importance from the food security perspective, and rice, tomato, onion, citrus, apple and tea have high regional importance from the livelihood security perspective. Which regard to rural development, it categorises six products (cotton, potato, tomato, citrus, apple, milk) as highly important because of their potential for value addition. Based on this, it appears that Pakistan would only be able designate five crops (wheat, rice, citrus, apple and edible oils) as SPs. All other important crops

having strong linkage with food security, livelihood security and rural development (despite having export potential) might be excluded from the list of SPs and would be subjected to tariff reduction. It ignores other products of regional importance such as maize, gram, groundnut, chilli, banana, other vegetables, hides and skin.

### In lieu of a Conclusion

The Hong Kong Ministerial Declaration of the WTO Members has provided for the self-designation of SPs by WTO's developing country Members on the basis of the criteria of food security, livelihood security and rural development. Setting thresholds and identifying a set of specific indicators will limit developing countries' flexibility to choose products that will be designated as SPs. For instance, identifying SPs based on a product's contribution to national production alone will not be sufficient, as that will not cover a specific commodity

group. There are agricultural commodities, which may not be a major contributor to a country's national production but crucial to meet food security, livelihood security and rural development.

In the light of all these reasons, a common South Asian position on SPs and SSM in agriculture needs to be developed, which can help these countries to play their legitimate part at the Doha Round of negotiation in order to:

- face the problem of cyclical food shortages in the region;
- provide protection to farmers and others to ensure better food security, livelihood security and rural development;
- have price control of agricultural commodities – domestically as well as internationally; and
- develop potential for the export of agriculture and value added agricultural products – policy space to become export competitive over time.

### Endnotes

- 1 It is to be noted that Special Products and Special Safeguard Mechanism are different from "sensitive products". Developed country Members of the WTO can determine certain agricultural products as sensitive, which will be subjected to a differential application of tariffs (as against the formula approach of tariff cuts on other agricultural products) along with the application of tariff rate quotas. However, there are divergent views among the developed country Members on the treatment of "sensitive products". Many developing country Members of the WTO are of the view that the developed country Members should first determine (to be agreed by a consensus of all WTO Members) their "sensitive products" and then the developing country Members will determine their Special Products and Special Safeguard Mechanism – this sequencing is important.
- 2 WTO Members on July 31, 2004 agreed on a Framework package to take the Doha Round of negotiation forward. After almost a year of stalled negotiation following the breakdown of the talks at the Cancun Ministerial Conference, WTO Members had set the end of July 2004 as a deadline for agreeing on a negotiating framework package. The 31 July Framework has allowed countries to send an important political message that the Doha Round should be taken forward towards its conclusion.
- 3 See Annex A of the Hong Kong Ministerial Declaration of the WTO: Report by the Chairman of the Special Session of the Committee on Agriculture to the Trade Negotiations Committee.
- 4 Paragraph 7 of the Hong Kong Ministerial Declaration states that: "We also note that there have been some recent movements on the designation and treatment of SPs and elements of the SSM. Developing country Members will have the flexibility to self-designate an appropriate number of tariff lines as SPs 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 Special Safeguard Mechanism shall be an integral part of the modalities and the outcome of negotiation in agriculture."
- 5 As per the Doha Ministerial Declaration (of the WTO Members) least developed country Members of the WTO are exempted from taking any commitment on tariff cuts, etc on agricultural products. Provisions relating to SPs and SSM will not be applicable to them. Bangladesh and Nepal are two LDCs in South Asia. A glimpse of their agriculture sector is provided here. The reason is that in many respects the agriculture sector in developing countries in South Asia (India, Pakistan and Sri Lanka) resemble the conditions in Bangladesh and Nepal. At the same time, as part of the Doha Ministerial Declaration, these WTO Members (India, Pakistan and Sri Lanka) will have to undertake tariff reduction and other commitments on trade in agriculture products – thus, they have a strong case for availing SPs and SSM. This argument is, however, in no way an attempt to differentiate developing country Members of the WTO – such attempts have been made on many occasions and developing country Members of the WTO have resisted them in no uncertain terms.
- 6 <http://www.wider.unu.edu/research/2004-2005/2004-2005-4/papers/chand.pdf>
- 7 The Economic Survey of Pakistan, 2006-07
- 8 *Op. Cit.*
- 9 News Alert, Economic Intelligence Unit, The Ceylon Chamber of Commerce; December 2005, page 2
- 10 Tim Ruffer, Special Products and Special Safeguard Mechanism – Criteria for the Selection of Products, Oxford Policy Management, 2004
- 11 A group of 42 developing countries that include Antigua and Barbuda, Barbados, Belize, Benin, Botswana, China, Cote d'IVOIRE, Congo, Cuba, Dominican Republic, Granada, Guiana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Korea, Mauritius, Mongolia, Montserrat, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, The Philippines, Peru, Saint Kitts, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia and Zimbabwe.
- 12 G33 Issue statement calling for better treatment of SPs and SSM in July Agricultural Text, Geneva, 28 July 2004.
- 13 <http://www.ictsd.org/weekly/06-04-05/story2.htm>
- 14 JOB(06)/120, 3 May 2006, US Communication to the WTO Committee on Agriculture Special Session
- 15 Bridges Weekly Trade News Digest, 10 May 2006, Volume 10, Number 16, <http://www.ictsd.org/weekly/10.05.06/story1.htm>
- 16 <http://www.tradeobservatory.org/library.cfm?refID=89834>
- 17 Pakistan Paper on "Special products: possible elements for discussion", shared by Ahmad Mukhtar, Commercial Secretary, Permanent Mission of Pakistan to the WTO, Geneva, Switzerland on Forum-on-Trade@yahoo.com

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