



# Policies and Priorities

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## Salvaging Special Products from the Wreckage of Global Trade Talks

Negotiations at the December 2005 World Trade Organization Ministerial meeting in Hong Kong will likely be remembered as the tipping point where the aggressive demands of rich countries were finally met by enough resistance from developing nations to derail the process of global trade liberalization – at least for the time being. Activists and many developing country trade ministers complained loudly that developed country demands for liberalization of services were much too drastic and far reaching, while promises of “aid for trade” were too meager and narrowly focused. West African trade ministers were bitterly disappointed by the lack of any breakthroughs on cotton subsidies. Mrs. Ngarmbatina Soukate, the Minister of Trade and Industry of Chad, admonished rich country negotiators to “stop beating around the bush and instead tell us what you are going to do.”<sup>1</sup> Many observers wondered even then how such fragile compromises could lead to

the talks’ completion, much less to an outcome that would live up to the promises of the so-called “Doha Development Round.”

But one of the few positive outcomes of the Hong Kong ministerial was new language in the final declaration that acknowledges the right of developing countries to protect key agricultural sectors from floods of cheap imports. These provisions on Special Products and Special Safeguard Mechanisms provided a somewhat surprising ray of hope for those most adversely affected by liberalization measures thus far. Paragraph 7 of the Ministerial Declaration expresses the agreement among the trade ministers that “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.” Special Products are agricultural commodities that are particularly important for achieving national development goals. Under the Hong Kong framework, developing countries would be able to exclude those agricultural goods from further trade liberalization.

The Ministerial Declaration specifies that “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 Safeguard Mechanisms on agriculture are already allowed under existing WTO agreements for those member countries that have met certain stringent conditions, particularly that they have converted non-tariff barriers into specific tariffs. The existing mechanisms do allow those countries to adjust trade protections in the face of import surges. What is new about the Hong Kong proposals is that all developing countries would be able to utilize the safeguards both to manage volatile price fluctuations and to reduce disruptive increases in the volume of imports of a protected good.

These two proposals, often joined as SP/SSM in WTO-speak, were central elements promoted by the G-33, an inter-governmental coalition formed to advance developing country perspectives in the WTO talks.<sup>2</sup> The G-33 has continued to press on this issue and to insist that developing countries be allowed to define up to 20 percent of tariff lines as Special Products. In the wake of the Hong Kong Ministerial, the G-33’s insistence on these proposals, coupled with developed countries’ refusal to make any additional concessions on reductions in subsidies, led to the breakdown in negotiations.

US Trade Representative Susan Schwab has insist-

ed that SP/SSM protections are harmful and unnecessary. In response to a letter from 25 US development, religious, environmental and family-farm organizations supporting the G-33 proposals, including ActionAid, she asserted that, “the G-33 proposal to effectively exempt 20 percent of tariff lines from reform has the potential to circumvent meaningful progress toward expanded market access and increased trade flows. Such a percentage, therefore, would undermine the Doha promise to create a more market-oriented agricultural trading system. As all economic studies have shown, the larger the market access result the larger the positive effect on all WTO members, especially for developing country members.”<sup>3</sup>

In fact, more recent elaborations of the G-33 proposals on Special Products call for tariff cuts on 90% of agricultural tariff lines, while allowing for greater flexibility to protect those goods or to phase in trade liberalization on the remaining 10%.<sup>4</sup> Still, it is important to understand how such protections could advance the achievement of poverty reduction and sustainable development.

### The arguments for and against SP/SSM

There have been a series of economic studies on the potential impacts of the current WTO proposals. Some research by the World Bank projects gains for all parties, although the potential gains seem to decrease each time a new study is completed. Just before the Hong Kong ministerial, those studies projected \$300 billion in gains resulting from

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ambitious cuts to tariffs and agricultural subsidies. Studies released in 2006 projected smaller gains, perhaps \$96 billion, in part because these projections took into account new data incorporating changes that had already been made as a result of prior WTO commitments. Of that projection, however, \$80 billion would accrue to rich countries, leaving \$16 billion for the rest of the world. On that basis, economist Tim Wise calculates that the average developing country farmer or worker would see an increase in his or her income of about 16 cents a month.<sup>5</sup>

Even those meager gains probably overstate the actual benefits of tariff and subsidy reductions. The

World Bank studies do not incorporate costs such as decreases in tariff revenues resulting from tariff cuts, additional costs resulting from new protections for intellectual property rights (especially patents on medicines), or the impacts of labor displacement, as their models assume full employment. A few months after the Hong Kong Ministerial, Sandra Polaski of the Carnegie Endowment for International Peace issued a report that does factor in the changes in rural and urban employment that could result from the proposals under consideration in the WTO talks. While her study does not address the impact of revenue cuts or other adjustment costs, it does differentiate between impacts on various groupings of countries and based on various



negotiating outcomes, ranging from complete liberalization (which is highly unlikely) to moderate changes.<sup>6</sup>

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While the results varied somewhat depending on the assumptions used, Polaski found that “the poorest countries are among the net losers under all likely Doha scenarios.” In addition to the “likely” scenarios, which were based on variations of negotiating proposals actually tabled at the Hong Kong ministerial, she explored what would happen if developing countries were to exclude all agricultural products from trade liberalization, a scenario that goes well beyond the G-33 proposal to exclude 20% of those goods. She found that potential gains to both developed and developing countries would decrease only marginally under that scenario. Moreover, most of the gains from further agricultural trade liberalization would accrue to developed countries and those developing countries that are agricultural exporters as they gain new market access to large high-income economies. Allowing developing countries to protect their agricultural markets could help to reduce their losses.<sup>7</sup>

Despite these considerations, the United States government has vigorously opposed the SP/SSM proposals, insisting that Special Products designations be limited to just 5 tariff lines per country, out of an average of 2000 tariff lines notified by most countries. The

G-33’s rejection of that position was one of the factors that led to the collapse of WTO talks in July 2006 that sought to break the impasse after Hong Kong.

The Hong Kong Ministerial Declaration does allow the 32 Least Developed Countries (LDCs) that are members of the WTO to avoid any new commitments on the liberalization of agricultural goods (as well as industrial goods and services). Annex F of the Hong Kong declaration also provides for flexibility for waivers from WTO commitments, but it does not provide any assurances that the deliberate, long-term use of trade protections for key sectors would be supported. So, while technically these proposals would only apply to developing countries that are not LDCs, clear support for the SP/SSM concept and its implications for food sovereignty would empower LDCs to more fully utilize the flexibility they already have.

In the wake of the breakdown of the WTO talks, the U.S. may remove larger developing countries such as Brazil, India and South Africa from the US Generalized System of Preferences, which grants unilateral trade benefits to developing countries. This proposal is driven in large part by objections in the U.S. Congress to Brazil and India’s resistance to US proposals on the WTO,<sup>8</sup> though the argument is also being advanced that these so-called middle-income countries do not

need trade preferences. But that position, like the US opposition to SP/SSM, ignores the vast income inequality within those countries. According to ActionAid India, more than half of India's billion people live in extreme poverty, a number that dwarves the combined population of most of the LDCs. While the LDCs clearly deserve much greater access to many kinds of resources than they currently receive, it is a mistake to assume that poverty, even extreme poverty, is not a problem in the relatively larger economies.

## SSM: successful protection from import surges

ActionAid research on the impacts of import surges in Kenya<sup>9</sup> demonstrates the need for a more comprehensive approach to Special Products and Special Safeguards Mechanisms. Kenya, which is not classified as an LDC, experiences high levels of poverty and a fragile economy plagued by recurrent droughts and other climatic challenges. Sugar cane production has traditionally been an important source of employment in Kenya, accounting for 52 percent of employment in the Nyanza region and 30.5 percent in the Western rural region. Approximately 300,000 people are directly involved in sugar production in Kenya, with another 6 million people indirectly supported by the industry. Formal employment in the sector, however, has dropped from 43,000 in the 1990s to 7,500 in 2004. This shift to informal sector employment has meant that workers, particularly women who tend to be involved as seasonal farm workers, labor under

increasingly precarious circumstances, with severe consequences for their livelihoods.

Sugar imports in Kenya have risen rapidly in recent years, from 50,000 tons in 1999 to 125,000 tons in 2000, followed by a peak of 241,000 tons in 2001. This increase is a result of several related factors, including: trade liberalization carried out in the 1990s; the reduction of government support for sugar production and milling as a result of structural adjustment programs; and the inability of domestic producers to respond quickly to increased consumer demands. The share of imported sugar in domestic consumption rose from 1.5% in 1984 to 39% in 2001. And while domestic prices for sugar had been rising during the 1990s, wholesale prices for refined sugar dropped by nearly 20% following the 2001 import surge. Sugarcane prices fell by about 10% the following year. Moreover, instability in the sugar refineries resulted in late payments to many farmers, exacerbating their economic insecurity.

Although consumer prices for sugar fell just after the import surge, since then they have risen more quickly than prices for other food products. In fact, there is evidence that many consumers actually paid more for sugar during the import surge because of inefficiencies in the administration of import quotas that allowed cartels to unfairly manipulate prices.

The majority of the sugar imports to Kenya originated from members of the Common Market



for Eastern and Southern Africa (COMESA), particularly South Africa, Egypt, Malawi, Swaziland and Sudan. Starting in 2003, the Kenyan government utilized its rights under COMESA to safeguard local production. Under that accord, sugar imports from COMESA countries in excess of 200,000 metric tons would be charged a 100% tariff plus value-added taxes and other duties, resulting in total duties equivalent to 123%. This protection will extend until 2008, but will not affect sugar imports from Brazil, Saudi Arabia and Thailand, which have been increasing in recent years.

These import surge protections have already led to increases in local sugar production, which grew to record levels in 2004. Still, the existing procedures for implementing the safeguards are cumbersome and difficult to apply. Qasim Ali Shaw, the coordinator of ActionAid's sugar study, noted that "it took Kenya almost two years to fulfill the procedural requirements to invoke the SSM in the sugar sector under the COMESA regional trade agreement, and that time lag proved to be very detrimental to the local industry."

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Similar programs exist under other regional trade agreements. Unfortunately, rather than building on their successful promotion of local development, the US government has been pushing hard to dismantle them. The Andean Community of Nations, which currently includes Colombia, Ecuador, Peru and Bolivia, has established a safeguard mechanism involving price bands that allow for variable tariffs, so that when prices dip below predetermined levels, tariffs are applied to provide some degree of protection for local farmers. Prices of soybeans, soybean oil, palm oil, rice, barley, corn, wheat, poultry parts, pork, sugar and milk are tracked on an ongoing basis under this price band system.<sup>10</sup>

In its recent negotiations for bilateral trade agreements with Colombia, Peru and Ecuador, USTR has insisted that these protections be eliminated and that tariffs on virtually all agricultural goods be phased out over a period of 10 to 15 years, with many products scheduled for immediate liberalization once the trade agreement comes into force. The Colombian Ministry of Agriculture has warned that if the price bands and other remaining protections are removed under the trade agreement, local

farmers' incomes could fall by 57% and employment in agriculture by 35%, compelling farmers to migrate to cities or other countries, to enter into drug production, or to affiliate with armed groups.<sup>11</sup>

Nevertheless, the texts of the recently completed US-Peru and US-Colombia Free Trade Agreements fail to include any such safeguard mechanism. In fact, the US-Peru FTA provides for the immediate elimination of tariffs on wheat, barley, cotton, food oils, with other tariffs and quotas eliminated over the next ten to fifteen years.

## Conclusions

The G-33 proposal on Special Products and Special Safeguard Mechanisms is a measured and reasonable response to a very serious problem. By insisting that developing countries have "the flexibility to self-designate" certain goods as needing protection, the proposal does not call for drastic increases in tariffs. At most, tariffs on special products would only increase from applied rates to their bound rates, i.e., the ceilings already allowed for in the WTO. Any safeguard mechanisms against import surges would be in place on a temporary basis. Many would argue that much more far-reaching proposals are needed to address the global crisis of low prices and overproduction in agriculture, particularly within the context of extreme liberalization proposed in the WTO and other bilateral and regional trade talks, as well as continued pressure by international financial institutions to reduce public support for agricultural production.

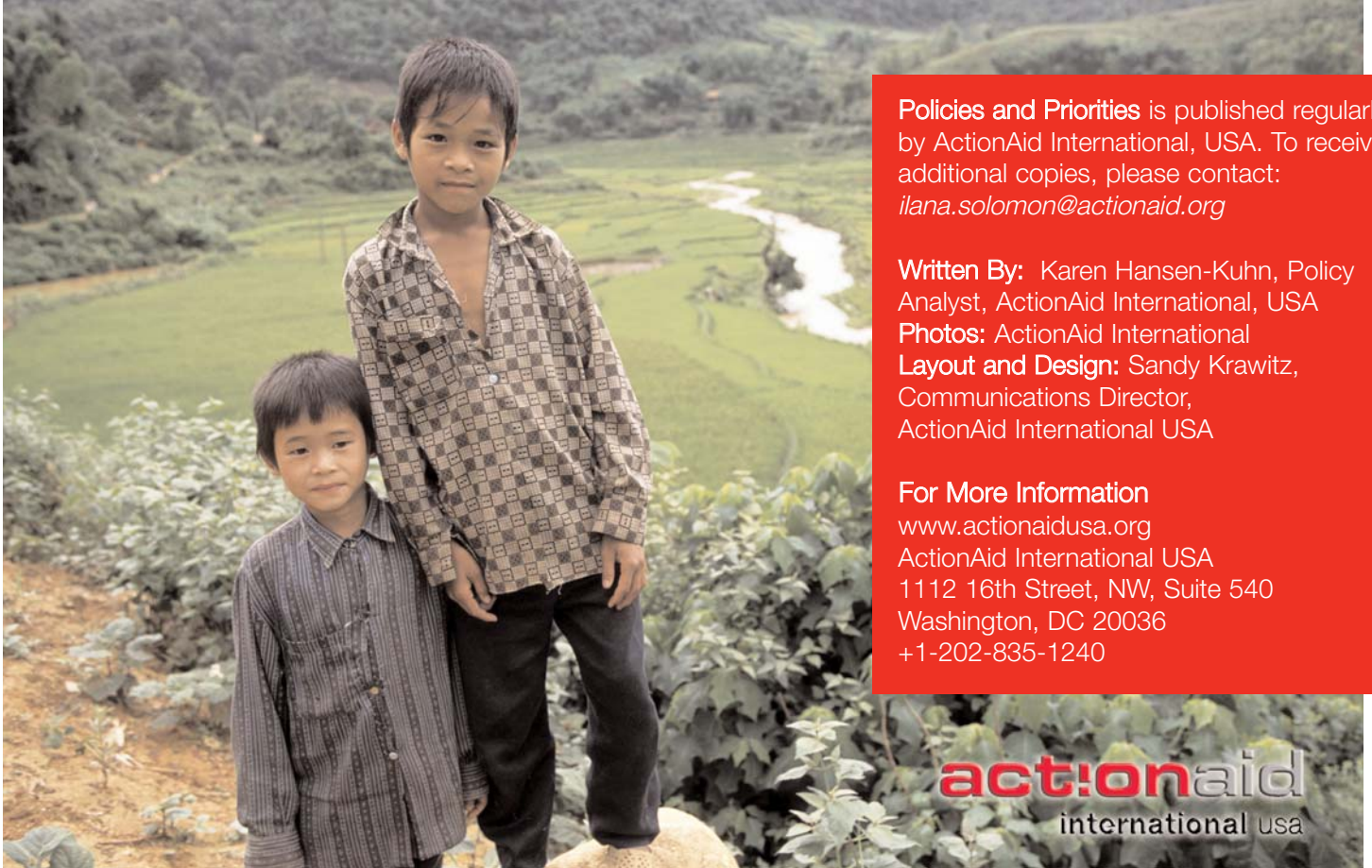
The truly ambitious element of the G-33 proposal is the underlying assumption that developing countries have a right to food sovereignty, the right to make their own decisions about the best ways to feed their people and ensure their livelihoods. That concept, rather than the unbridled expansion of market access at any cost, should be the central focus of global trade talks should they ever resume. Trade justice advocates and developing countries should be alert to any proposal to restart talks on agricultural trade that would threaten the modest gains on Special Products and Special Safeguard Mechanisms that were achieved at the Hong Kong Ministerial meeting.



## End Notes

1. African cotton countries demand concrete results at Hong Kong, Tetteh Hormeku, TWN-Africa, 1/9/2006.
2. The G-33, originally, the Group of 33 countries, now has 46 members, with Indonesia serving as Chair. Member countries include Antigua and Barbuda, Barbados, Belize, Benin, Bolivia, Botswana, China, Cote d'Ivoire, Congo, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, 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.
3. Letter to Karen Hansen-Kuhn from Ambassador Schwab dated July 24, 2006.
4. Letter to Paul Wolfowitz from Indonesian Ambassador. Gusmardi Bustami on the G-33 proposals, October 2, 2006.
5. Timothy Wise, "The WTO's Development Crumbs," Foreign Policy In Focus, January 23, 2006.
6. Sandra Polaski, "Winners and Losers: Impact of the Doha Round on Developing Countries," Carnegie Endowment for International Peace, 2006.
7. Ibid., p. 31-33.
8. See statements by Sen. Charles Grassley, Senate Finance Committee Chair, for example, as cited in, "Schwab Says GSP Review Will Consider Limits on India, Brazil," Inside US Trade August 11, 2006.
9. Information on Kenya is drawn from "The Impact of Agro-Import Surges in Developing Countries," ActionAid International Working Paper, April, 2006.
10. See [www.comunidadandina.org/comercio/franja.htm](http://www.comunidadandina.org/comercio/franja.htm) for more information on the Andean Community price band system and links to current market price reports.
11. Ministry of Agriculture and Rural Development, "Colombian Agriculture before the Free Trade Agreement with the United States," July 2004.

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