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6TH INFORMAL CONSULTATION BETWEEN THE OECD TRADE COMMITTEE AND CIVIL SOCIETY ORGANISATIONS

Submission by the Canadian Federation of Agriculture (CFA)

THE IMPACT OF THE AGREED FRAMEWORK ON THE FORTHCOMING AGRICULTURAL NEGOTIATIONS OF THE DOHA DEVELOPMENT AGENDA

Paris, 19 October 2004

This paper has been submitted by the Canadian Federation of Agriculture. The views expressed herein are those of the author and are not necessarily shared by Members of the OECD.

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**CANADIAN FEDERATION OF AGRICULTURE SUBMISSION TO:
INFORMAL CONSULTATION OF THE OECD TRADE COMMITTEE AND
CIVIL SOCIETY ORGANISATIONS**

**PARIS, FRANCE
OCTOBER 19, 2004**

Introduction

1. The Canadian Federation of Agriculture (CFA) is Canada's largest national farm organization and represents over 200,000 farm families from across the country. We recognize that the long term success of our agricultural industry is dependent on stable domestic markets and policies and on export market opportunities. The increasing interdependence of national economies and the growing competitive global market place have reinforced the importance of fair and effective trade rules.

2. The WTO is the vehicle for the establishment of fair and equitable rules. A positive agricultural outcome of the Doha Agenda negotiations will reflect the unique nature of the agricultural sector, which is not just another industrial sector. It differs from the production of industrial goods in countless respects, as recognized by the Uruguay Round Agreement which separates agriculture from industrial goods. People in every country of the world rely on regular and dependable access to safe food – it is the basic necessity of life. Farmers cannot readily stop and restart producing agricultural commodities, once land goes out of agriculture production or a farmer leaves farming, they are usually gone forever.

3. The approach to trade reform and developing fair trade rules must be balanced. It must respect the domestic concerns of farmers and the needs of export-dependent farmers, providing them improved export opportunities. It must ensure that all forms of measures distorting trade are brought under WTO disciplines. This will result in a better functioning of international and domestic markets, which contribute to the improvement of farm incomes.

4. The idea of revising the agricultural policies was given official status in 1987, when the OECD countries agreed to a set of principles for the reform of agricultural policies. These principles focused mainly on the need to reduce the forms of support that had the effect of distorting the market and imposing protection on trade flows. The OECD recognizes, however, that these efforts, brought alongside the GATT and WTO objectives, have thus far only gradually decreased these supports that serve to distort international trade. Subsidies granted by certain countries are reaching record levels, subsidy wars are continuing and even intensifying, and the trade in agricultural products, by and large, is still very low, as approximately 6% of world production is transacted.

5. Agricultural policies implemented in recent years, mainly by the developed countries, have led to a significant drop in export prices. According to a study conducted by the University of Tennessee in the United States,¹ the international export prices of raw agricultural products (corn, wheat, soybeans, cotton

¹ Rethinking US Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide, Agriculture Policy Analysis Center, The University of Tennessee, 2003.

and rice) have plunged more than 40% since 1996. The same study shows that this situation has benefited primarily the largest representatives of “agribusiness” but has considerably decreased the income of smaller producers. The increase of subsidies granted by the governments to counter this problem has led to an increase of production, thus perpetuating a situation of financial instability.

6. The Canadian Federation of Agriculture closely monitors the WTO negotiations and regularly consults with Canadian trade officials and negotiators. We understand the need to maintain momentum in the negotiations and the desire of the agricultural negotiators to advance in establishing a framework agreement on agriculture. Our representatives were in Geneva and met regularly with Canadian negotiators during the final framework negotiations.

7. Our goal was a Framework agreement that set the stage for an effective and equitable final agricultural agreement. We believe parts of the Framework meet this goal; other parts require revision or refinement before they can provide the basis for an effective and equitable final agreement.

8. In the following we discuss interlinkages between the three pillars of the negotiations, identify our specific thoughts on each of the three pillars, and raise a concern regarding special and differential treatment. The Annex to this document contains comments on the limitations of the PSE methodology for negotiators.

Interlinkages between the three pillars of the negotiations

9. The Framework text makes reference to the need for trade reforms to be approached in a balanced and equitable manner, recognizing that linkages exist between issues concerning market access, domestic support and export competition. The CFA would like to stress that this is an important provision that recognizes the need for a more factual investigation of the interlinkages between domestic support, market access and export competition tools.

10. In order to pursue this ambitious goal, several areas must be investigated and worked on before any movement forward is possible. First, a clear understanding of the way domestic support interacts with market access must be determined. Second, a level playing field must be created before comparisons can be made. Third, the value of the different ways to improve market access must be analyzed. Fourth, reforms to domestic support and market access must provide options (resulting in similar outcomes) which give a country the flexibility to organize itself domestically in a manner which reflects its historical and cultural values.

11. Most countries use different combinations of domestic support programs with tools that limit market access. These combinations are the result of a country’s history, resources, and infrastructures that include things such as roads, telecommunications, and government structures. It is important that this is recognized and addressed in this next round of negotiations. For example, a country may need a much lower tariff to protect its market because the producers in that country receive a greater share of their income through direct payments. An example is the dairy industry in the US: it is estimated that producers receive approximately one third of the income through various support programs. If they were to receive all of their income from the market, the US dairy industry would need an additional tariff (above current tariffs) of approximately 50 – 75% to retain its current level of protection.

The uniqueness of the agricultural sector

12. Can we still claim today that agriculture is an economic sector of such uniqueness that it deserves special treatment when it comes to government intervention? There was a consensus as to its uniqueness until quite recently, namely up until the Uruguay round. The agricultural exception from other industrial sectors is still a concept that must be recognized.

13. The agricultural sector is characterized by a demand for products that is deemed inelastic in the areas of income and price. For example, even when market prices drop sharply, demand hardly increases. Supply, for its part, is also very insensitive to price drops. Indeed, in the short term one can observe an inverse response of agricultural producers to market indications, with an increase in deliveries when the prices drop. This situation is attributable to three factors: the length of time it takes to make technical adjustments, the length of production cycles and the weight of the capital locked into the agricultural activity (five to ten times greater than in other sectors of economic activity). In addition, it is difficult for producers to defer the sale of products on the market in the hope of obtaining a better price later. Many products are perishable and must therefore be sold on the market at the going prices. For example, deferring the sale of livestock products to a later date can result in the product being declassified. As for products that can be kept in storage, doing so must be done in the hope of obtaining earnings greater than the storage costs. These factors still hold true today, and they influence the economic cycles of production and inject unpredictability into the prices of agricultural products. The bottom line is instability, as agricultural income is thereby subjected to huge fluctuations from year to year, and sometimes within the same year.

14. Agriculture is still characterized today as having a very competitive production structure. In general, individual agricultural producers have no impact on the total market supply. They therefore make their production decisions individually, without consulting other producers. They are therefore perfectly competitive among themselves and are, accordingly, vulnerable to what happens in the market and to market uncertainty. Most of the time they have to deal with strongly concentrated intermediaries, whether when purchasing inputs or selling their products. Taken individually, agricultural producers hold no market power but have to deal with strongly concentrated intermediaries both upstream and downstream who sometimes hold considerable market power.

15. Another unique characteristic of the agricultural sector is its “resource rigidity,” (i.e. once integrated into the enterprise, agricultural assets tend to remain there because their usage value exceeds their disposal value). These characteristics have been noted before and will continue to exist.

16. From an economic theory point of view, the increase in the collective well-being resulting from public intervention justifies any intervention undertaken for the sake of stabilization, as opposed to a laissez-faire regime. One is clearly dealing with a market shortcoming that opens the way to public policies designed to correct it. This market shortcoming stems from the difficulty, if not the impossibility, of spreading the risk over time.

Domestic support

17. We believe that there are two major challenges in the domestic support aspects of the negotiations:

1. Achieving substantial reduction in the amount of support provided by the highest spenders.
2. Achieving this reduction in a manner that reduces rather than increases disparities among commitments of WTO Members.

Existing provisions

18. The Uruguay Round Agreement on Agriculture created a structure which restrained domestic support spending and provided the basis for the further reduction and eventual elimination of trade distorting support.

- The Agreement on Agriculture established two basic categories for domestic support: Amber for trade distorting support with spending limitations, and Green for non-trade distorting support with no spending limitations.
- It also established a separate blue category for somewhat less trade distorting measures, which a country might use in the transition from amber to green. Blue programs were exempt from amber limitations.

19. The Agreement on Agriculture contains two provisions, which provide the type of flexibility and realism that would assist governments in their effort to curb trade distorting domestic support.

- The establishment of one limit (Total Bound AMS) on amber support, rather than a series of separate limits, provided the necessary flexibility.
- The *de minimis* provision recognized that small levels of amber support were not the main problem and provided a realistic initial target (the elimination of all amber support above the *de minimis* level) for the elimination of trade distorting support. Once all countries eliminated any amber support above the *de minimis* level, consideration could be given to whether that level should be reduced.
- The *de minimis* provision is also one of the most equitable provisions of the current agreement as it allows all countries the choice to provide a minimum level of support, whether or not they have AMS commitments over and above the *de minimis* level

20. Under this structure the goal of eliminating trade distorting support could be readily advanced by strong reduction of the Final Bound Total AMS; reduction, then elimination of the ability to exempt blue programs; and review of green criteria to ensure absence of trade distorting capabilities.

Framework provisions

21. In our judgement, the Framework provisions are too complicated and, as written, do not provide a good basis for the reduction and eventual elimination of trade distorting support. We would note two particular problems.

1. Product- specific caps

22. All or virtually all of the AMS notified by countries is product-specific support. The requirements of a substantial reduction of the Final Bound Total AMS would require substantial reduction of the existing levels of product-specific support. If a country wanted to provide new or increased product specific support to one product, it would have to make a reduction of the support provided to other products. The political realities arising from a substantial reduction of the Final Bound Total AMS should provide adequate restraint on the ability to transfer support to new products.

23. There is no need for caps. Caps would not prevent transfer of product-specific support to different categories (e.g. from amber to blue). Caps based on the level of support in a specific period will not reduce the high levels of support currently provided in some cases. The risk is that capping product-specific support at historic levels will have a negative effect on the outcome. It would eliminate any flexibility in the use of the allowed level of support after the reduction and act as an impediment to a country's willingness to agree to a substantial reduction.

24. Setting caps at historic levels would also penalize countries that eliminated or significantly reduced their product specific support, by eliminating or virtually eliminating their ability to use their remaining allowed level of AMS for any product specific support.

25. The disparities and main problems with product-specific caps could be solved by establishing a common cap for all product and all countries at the same percentage of the value the product's production. However, removal of the requirement for product-specific caps would be simpler and would not undermine the effectiveness of the Framework.

2. Reduction of the de minimis percentage

26. As indicated above, the *de minimis* set an initial target for the elimination of amber support. Changing this before it has been achieved sends a bad message. It says a country might as well maximize its use of its existing limit, because next time the rules will change and it will need to follow the lead of the big spenders in designing programs to meet new criteria.

27. Reducing the *de minimis* penalizes countries that significantly reduced most of their previous support to the *de minimis* level, as well as severely penalizing countries having little or no Final Bound Total AMS.

28. The best solution for this problem is to remove from the Framework the provision for reduction of the *de minimis* percentage. If there is a problem with the application of the current *de minimis* provisions, it is that in some cases the notified *de minimis* level of non-product specific support includes payments that are actually product specific and should have been included in the AMS for the product. This can be resolved by establishing a clear definition of what constitutes non-product specific support.

29. There is an alternative to the *de minimis* reduction that would insure a reduction of the ability to provide trade distorting support. That is to create a choice between Blue Box spending and *de minimis* level. It could work this way:

- A limit would be placed on the total of the *de minimis* level and Blue box spending used by one country.
- That limit would be 5% of the value of production. This is the current permitted *de minimis* level and the proposed cap on Blue Box spending.
- A country could choose whatever combination of *de minimis* level and Blue Box spending it wanted to have, provided the total of both did not exceed 5% of the value of its agricultural production.
- A country could choose a 5% *de minimis* level and no Blue Box spending. It could choose to have no *de minimis* and limit Blue Box spending to 5% of the value of production, or it could choose a combination of both that did not exceed 5% of the value of production.

30. Aside from these two problems, the Framework can provide the basis for establishing fair and effective disciplines on domestic support. Key considerations include:

a) Reduction of the Final Bound Total AMS

31. This is the most trade distorting category and is the starting point for meaningful discipline on domestic support. Forget product-specific caps and *de minimis* reduction. Concentrate on bringing down amber support as close as possible to the *de minimis* level. This is the best route to effective discipline on amber support.

b) Overall Reduction of Trade Distorting Support

32. It is essential that the overall reduction requirement is high enough to create a real and substantial reduction in the actual support supplied by the high spenders. For example, in 2001 the United States notified \$21.4 billion in product specific and non-product specific support. Depending on how the base provisions are calculated, current domestic support provisions would require (at minimum) an overall reduction of 55% to bring the U.S. to the most current 2001 notification levels. Stronger reduction criteria are needed to have an impact on larger subsidizing countries.

33. If the reduction rate for the Final Bound Total AMS is high enough, the most important role for the overall reduction would be to ensure that the AMS reduction is not offset by substantial increases in other forms of trade distorting support.

34. The other forms of trade distorting support [aside from AMS] are *de minimis* amber support and blue box spending. The Framework has provisions which will place limits on the *de minimis* level and on blue spending. However, without any requirement for further reduction these limits will add up to 10% of the value of production. To be meaningful, the overall reduction has to be high enough to require more reduction than the amount mandated by the reduction of the Final Bound Total AMS and the specific provisions for *de minimis* level and Blue Box spending.

35. The ability of the *de minimis*, to supplement the AMS, has some built in limits. *De minimis* for any product cannot exceed 5% of the value of that products' production. And it is not possible to have both *de minimis* and AMS for the same product or to have both for non-product specific support. Once support exceeds the *de minimis* level it is all AMS. These limitations do not apply to blue box spending. There is no limit of the amount of blue spending specific to a particular product. And a country can use its full AMS rights and blue spending rights in anyway it chooses at the same time.

36. If the overall reduction rate is only high enough to reinforce a reduction of the *de minimis* percentage, it will be of limited value. The real test of the value of the overall reduction is whether it reduces the ability to transfer AMS measure spending to Blue Box spending.

c) Blue Box Criteria

37. The framework provides for review and negotiation of the Blue Box criteria to ensure that payments are less trade-distorting than AMS measures. However, the Framework also sets two standards for that negotiation. They are:

- Any new criteria would need to take account of the balance of WTO rights and obligations, and
- Any new criteria to be agreed will not have the perverse effect of undoing ongoing reforms.

38. The unanswered question is “whose rights and whose reforms?” It is essential that the outcome of the criteria negotiation is not primarily driven by the domestic policy imperatives of one or two large spenders.

39. If the Blue Box is intended to facilitate the transition between Amber and Green support, it would seem appropriate to tailor the criteria to transitional programs. These are programs tied to a fixed period of time with support levels that may decrease, but cannot increase over time. Replacement of or rebasing of Blue programs to reflect more recent production or market conditions should not be allowed.

d) Green Box Criteria

40. The Framework correctly identified the need to review the Green criteria. There is a need to:

- Identify and provide clear definition of programs that are not trade distorting and therefore meet the intent of the Green Box. This should not be limited to only those programs or measures specifically listed in Annex 2 of the Agreement on Agriculture.
- Ensure that the criteria for the programs that meet the intent of causing very little or no trade distortion, are clear and practical.
- Tighten up the definitions to eliminate opportunities for trade distortion. The focus should be on direct payments, particularly in paragraphs 5 and 6 of Annex 2 to the Agreement on Agriculture.

Other considerations

Large levels of Green Box Support

41. It may not be enough to try to ensure that the Green criteria are clean. The provision of large support payments may in itself be trade distorting, regardless of the rationale for the payments. The trend line, in the big spending countries, is toward moving large levels of spending to new, relatively permanent, green direct payments. If the final agreement is to prevent circumvention of the objective of the Agreement through transfers of high levels of domestic support between different support categories, an overall limit on all support [amber, blue and green] may be the correct tool.

Administered Pricing

42. Market price support is a calculation of the perceived benefits of “administered prices”. When actual government expenditures are used to maintain prices, this would fall within the normal concept of government support expenditures and the subsidy element of these expenditures should not be difficult to identify. If the perceived benefits of “administered prices” is the result of collective bargaining and does not involve any funds from the government, then the higher price received by farmers is simply reflecting the market conditions observed in a given market, including the effect of border protection, which can be dealt with more realistically by the market access provisions in the agreement. A clear distinction must be made between “negotiated prices” resulting from collective bargaining and “price support mechanisms” which involve government funds. Price support mechanisms involve direct government intervention in clearing the market. By contrast, a negotiated pricing system coupled with production control is responsive to market signals and surplus production will be prevented through the renegotiating of both price and volume.

43. The problem surrounding market price support systems is the concept of producer support equivalent (PSE). This concept, which was developed more than three decades ago and popularized during the 1980s by the OECD, claims to offer a yardstick against which one can compare the various agricultural support measures used around the world. The PSE has become overnight the reference par excellence widely used by government employees, journalists, universities and so forth to evaluate support between products and between countries. The PSE has greatly influenced the discussions within the WTO during the Uruguay Round, and it continues to have a definite influence in the Doha Round.

44. The PSE technically measures transfers to agricultural producers from not only taxpayers but also consumers. While direct payments made to producers can easily be accounted for, it is legitimate to question the validity of the market price support component of the PSE calculation whether and the extent by which it represents a transfer from consumers to producers. A number of criticisms have been in the recent past and support that we clearly address the limitations of the PSE calculation as a measure of the transfer from consumers to producers. This issue is addressed in more details in the Annex.

Export Competition

45. The Framework, in the main, provides a good basis for elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect. Key elements include:

- Elimination of all export subsidies covered by the Agreement on Agriculture.
- Effective disciplines on export credit elements which can constitute subsidies.
- Discipline on the use of food aid programs.
 - The provision to address the question of providing food aid exclusively in fully grant form is useful and could help achieve effective disciplines on food aid programs.
- Elimination of any export subsidies provided to or by exporting STEs

46. However, there are serious problems in the Framework export competition provisions for exporting STEs. Part of these provisions goes beyond export competition issues.

- The question of monopoly powers relates to how a country decides to organize the marketing of its agricultural product, not export subsidies. The negotiation of this issue should be eliminated from the export competition provisions.
- The provision to eliminate government financing of exporting STEs is too broad. Any government financing which provides an export subsidy should be eliminated under export competition. Any government financing which provides a domestic subsidy should be subject to the rules governing domestic subsidies. Any financing arrangement beyond that is a domestic consideration.

47. We concur that export state trading enterprises should not be used to subsidize exports. However we want to emphasize the need to avoid restrictions on the effective operation of export state trading enterprises. There is no justification for restrictions on STEs other than prohibition of export subsidies and the requirements of GATT Article XVII. A recent WTO Panel Report has helped clarify the intent of Article XVII. If someone has concerns with the provisions of GATT Article XVII, then they should endeavour to establish a review of the provision of Article XVII in a proper forum for that purpose.

48. The marketing of agricultural products in Canada has been assisted by a variety of marketing boards. These boards can improve the scale and efficiency of marketing, improve producers' returns and improve the balance of power between the various parties in the market place. These boards do not distort trade, they facilitate fair trade.

Market Access

49. There are still substantial differences of opinion, between countries, on how to deal with market access. Because of this, the market access Framework provisions are in general less specific than the provisions for

the other two pillars. There are different ways to provide market access and they should all be considered as options. For example, TRQ commitments may provide better market access than over-quota tariff reductions as well in-quota tariff reductions may provide better access than quota expansion or over-quota reductions.

50. We believe that the important considerations under market access include:

- Achieving a substantial reduction of current bound tariff rates.
- Providing options (resulting in similar outcomes) in the treatment of sensitive tariffs, which recognizes the sensitivity, but also requires meaningful improvement in access.
- Establishing TRQ provisions that resolve the inequities in the Uruguay Round commitments and ensure that TRQs provide real market access.

51. The Framework can provide a starting point for dealing with those considerations, but substantial work and refinement is required.

Reduction of bound tariff rates

52. The single approach of a tiered reduction formula can provide the basis for effective tariff reduction. Important considerations include:

- The reduction requirements must be high enough to cause substantial reduction and harmonization of tariff rates.
- There is a need for an independent monitoring of the placement of tariffs within the reduction tiers in order to avoid underestimation of the ad valorem value and inadequate reduction of tariffs with specific rather than ad valorem rates.
- If a sufficient number of tiers are established and the reduction rates are high enough, there is no need for a tariff cap, particularly when there will be distinct treatment for sensitive products. A cap would probably detract from rather than assist effective reduction of tariff levels.
- As proposed in the Framework, there should be formula provisions for the substantial reduction of tariff escalation.

Sensitive products

53. Important considerations include:

Number of allowed sensitive products

The Framework refers to “an appropriate number of sensitive products.” This is an important consideration. We believe that allowing a large percentage of tariff lines to be treated as sensitive products, would undermine the effectiveness of the tariff reduction and hinder the willingness to provide adequate flexibility in the treatment of sensitive products.

If a country wants to have a relatively large number of sensitive products, that country should be required to provide additional access for their sensitive products. We believe this is the intent of the reference to “taking into account deviations from the tariff formula” in Framework Annex A paragraph 34.

Achieving substantial access improvement for sensitive products

The Framework provides for access improvement for sensitive products through MFN-based tariff quota expansion under coherent and equitable criteria. We believe this is the correct approach. However, it is important to recognize that current TRQs do not necessarily provide significant access. The criteria must set standards that ensure the equitable provision of a substantial amount of real access. And the concept of coherent and equitable must reduce the current inequities rather than amplify them.

If a country meets the full standards for provision of access through TRQs, there should be no requirement for the reduction of over-quota tariffs of sensitive products.

Effective TRQ rules and standards

The current TRQ commitments vary greatly between countries and products. In-quota tariffs range from “0” to well over 100%. Fill rates range from “0” to well over 100%. The TRQ volumes range from a fraction of 1% of base period consumption to well over 5% (5% of base period consumption is the amount specified by the Uruguay Round modalities for minimum access.)

Unless these current disparities are corrected, tariff quota expansion will be meaningless in many cases and will exacerbate rather than resolve current inequities. The Framework correctly identifies the need for coherent and equitable criteria. We believe that those criteria should include:

The establishment of a common standard for minimum access through TRQs

- This would be the end point (at the end of the implementation period) of the TRQ expansion requirement for sensitive products.
- This end point would be a set % of recent consumption of the product. For example, using the 5% Uruguay Round goal as the required endpoint would in many cases result in a very substantial increase in market access.
- The TRQs should be established and consumption calculated on a disaggregated product basis (e.g. at the 4-digit level of the HS.)

The elimination of all in-quota tariffs

- Even if the TRQ volume is substantial, it provides no access if the in-quota tariffs are high.

Provision of Tariff Rate Quota on a MFN basis

- Bound tariff rates are MFN, which means that all WTO Members can access the market at the same bound rate. Access improvement through TRQs must also be provided on the same basis. The tariff rate quota should be available to all WTO Members.

New rules to govern the administration of TRQs

- There are cases where the TRQ administration procedures frustrate the ability of exporters to access the market for the product.
- The need for effective improvements in tariff quota administration is identified in Framework Annex A paragraph 35. This need must be addressed and the new rules must apply to both existing and new tariff rate quota.

54. The rules for sensitive products should be clear and binding. If a country meets the full minimum access standards for TRQs, it should have met its obligations to provide improved access for sensitive

products. If a country is not willing to do so, it should be required to provide sufficient tariff reduction to fulfill its access improvement obligations.

Special and Differential Treatment for Developing Countries

55. A fundamental element of the Doha Agenda is the need to address the gross disparities in economic well being between the rich and poor countries. A trade agreement is not a panacea that can solve all of the economic and structural problems facing a country. However, it is essential that the outcome of these negotiations do something other than impose the views of the economically successful on the less developed countries. The outcome must respect the needs of the developing countries and create conditions that will assist them in their economic development.

56. The Framework makes a number of references to special and differential treatment, but provides little detail. This remains to be negotiated. As representatives of farmers in a developed country, we would be reluctant to try and suggest the best specific provisions for special and differential treatment for developing countries. However, we do have a concern that is not addressed in the Framework. This is the establishment of criteria for the eligibility for special and differential treatment.

57. The Framework, in effect, identifies three groups of countries; developed, developing and least developed. There is a specific list and criteria to identify least developed countries. Until now, countries have decided on their own if they were developing. We do not think this is satisfactory or sustainable.

- The economic conditions of countries do not neatly fall into two categories, developing and developed. In reality there is a great variance in the economic development of countries, and they are spread out on a continuum from very poor to very wealthy.
- The special and different treatment needs of some are more substantial than the needs of others. Unless there is an ability to target the treatment to those that need it, there will be reluctance on the part of many countries to agree to adequate special and differential treatment measures.
- The consideration and negotiation of special and differential treatment measures must include the development of clear eligibility criteria.

Conclusion

58. We thank you for the opportunity to participate in the consultation and to express our views on the agricultural portion of the agreed Framework. In closing we would emphasize the need for a balance approach to agricultural trade reform. This approach will result in better functioning of international and domestic markets, while contributing to the stability of the agricultural sector and improvement of farm incomes.

ANNEX

There is Still a Need to Clearly Identify the Limitations of the PSE Methodology for Negotiators

59. In a technical note prepared by the OECD (dated 19 November 2003), the OECD responded to a number of criticisms suggesting that the Producer Subsidy Equivalents (PSE) calculation needs to be revisited. The criticisms of the market price support component of the PSE calculation have been centered on three elements: the reference world price, exchange rates and the hypothesis of perfect competition and perfect price transmission. In their conclusion, the OECD stated that “a careful review of the criticism of the PSE does not indicate a need for revisiting the concepts used by the OECD”.

60. The CFA is not really surprised by this conclusion, given that the OECD has been using this calculation for over 20 years to influence the debate regarding trade liberalization. Despite the fact that the OECD has stressed that the PSE is not an indicator of policy effects on quantities produced and on quantities traded, the PSE calculations continue to be used by media and government officials to denounce the high levels of subsidization in the OECD countries and more importantly as the conceptual basis for the AMS calculations that define subsidy reduction commitments. How many times have we heard the reference to over 1 billion dollars per day spent in support to agricultural producers in OECD countries?

61. One of the major criticisms that have been made implicates the market price component of the PSE calculation. According to the OECD, the market price component of PSEs measures “transfer(s) from consumers to producers” and represents an important share of the PSE calculation. Critics have focused on the use of a New Zealand price (taking dairy as an example) as a proxy for the free trade price while everyone recognizes that that the NZ price is nothing but the current distorted world price. Suggestions have therefore been made to use estimates of the equilibrium world market prices that would prevail in the absence of policies deemed to distort world market prices as a more appropriate proxy.

62. In its response, the OECD argues that it would not be appropriate to use the equilibrium prices, arguing that, in the context where the equilibrium prices are greater than actual prices, “countries that currently do not provide any price support would be shown to have a negative level of market price support, suggesting that they should reform their policy by introducing deficiency payments or export subsidies.”

63. In fact, we would argue that a negative PSE demonstrates that the world market place is highly distorted and that countries willing to sell at these prices without any support actually contribute to creating a highly distorted market place. In the case of dairy, it has been demonstrated that countries like New Zealand, which are qualified as not subsidized, are benefiting from guaranteed access into the EU, US and Canadian markets where they obtain a much higher price for their products, allowing them to sell at cheaper prices in other markets. Given that, a negative PSE shall be an indication that some countries are contributing to depressed world market prices and suggest that further analyses is required in this area. Negative PSEs could also be an indication that farmers are simply transferring economic resources to other stakeholders in the marketing chain. The transfer of economic resources from producers to others in the marketing chain was found to constitute a subsidy to exporters, by the WTO Appellate Body in Canada-Dairy

64. Another element that must seriously be addressed by the OECD regards the notion that the market price support component of the PSE calculation represents the monetary value of transfers from consumers to producers. The PSE assumes that **perfectly competitive market conditions prevail (perfect price transmission)**. It ignores the fact that there is significant market concentration at the processing and retail levels of the marketing chain and that the market power that arises from ever increasing levels of concentration is used to extract returns from producers rather than lower prices to consumers. We were

please to see that the OECD recognized, in its response dated November 19, 2003, that **“it is wrong to interpret the aggregate level of market price support in the OECD are as an indication of revenue loss to be faced by farmers if policies were to be eliminated”**. This acknowledgement by the OECD clearly demonstrates that, as a minimum, the market price support component of the PSE calculation misleads the public and policy makers.

65. It is important for the OECD to undertake further analysis on the question of market concentration. Recently, a study entitled “Dairy Supply Chain Margins 2003-04” released by the Milk Development Council demonstrates that farm gate prices have fallen by around 6 ppl since deregulation in the United Kingdom, while supermarkets margins have increased by around 8-10 ppl as retail prices increased. This conclusion calls into question the rationale which suggests that market price support leads to higher consumer prices. This was not an isolated result and the OECD, therefore, must enhance its analysis and policy development activities in the area of market concentration.

66. While we appreciate the efforts by the OECD to address some of the criticisms directed at the PSE, we believe that further consideration and OECD resources must be devoted towards understanding and communicating the policy implications that flow from the empirical results obtained by a number of studies like the recent MDC study.

67. The CFA, therefore, is of the opinion that the PSE calculation methodology must be reviewed and corrected so as to give special treatment for calculating price support measures. This is all the more urgent since the PSE concept lead to developing the calculation methodology used for evaluating the supports causing the greatest distortion of trade, namely the Aggregate Measurement of Support, in the context of the WTO Agreement on Agriculture. Without a calculation methodology that fairly compares the various agricultural policies around the world, it will be impossible to obtain a balanced agreement on agriculture in the present cycle of negotiations at the WTO.