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DOHA DEVELOPMENT AGENDA WTO Negotiations in Agriculture

CAOBISCO – the European Association for the Chocolate, Biscuit and Confectionery industries of the European Union – supports the political will of WTO partners to achieve a comprehensive outcome at the Hong Kong Ministerial in December 2005, through constructive negotiations. The main objective has to be a **balanced agreement** on the modalities for agriculture, in view of further reducing trade distorting measures. If no such balance and coherence can be achieved by December, the Round must not rush into a too general, 'last-minute' political agreement, which could worsen the equilibrium of multilateral trade in general.

Indeed, multilateral trade commitments are vital to maintain and improve CAOBISCO's competitiveness internally and externally. But they are also essential for the benefit of developing countries, whose economic development depends on multilateral commitments in trade.

CAOBISCO believes that the success of the negotiations in the agriculture sector can only be achieved through securing **coherence**:

Among the three pillars of the negotiations: It is crucial that domestic support, export competition and market access are treated in a global, indivisible package. Negotiations on the reduction and eventually phasing out of export subsidies cannot be completed without parallel reform of domestic support measures first, and without considering a corresponding reduction of import tariffs and non-tariff barriers to trade.

Between the basic agricultural raw materials and processed goods sectors: The Marrakech Agreement created distinct commitments in the raw materials and the processed goods sectors. This led to serious distortions to the disadvantage of the high-value added products sector. Thus, equal treatment between the two sectors is crucial in these negotiations in order to avoid distortions in competition.

Within the three pillars of the negotiations: All export support measures (State Trading Enterprises, Export Refunds, Export Credits and Food Aid) need to be disciplined and eventually phased out in a coherent manner.

CAOBISCO

CAOBISCO represents 2200 companies, over 300,000 employees in the European Union and a turnover of 44 billion Euros. In 2003, our members exported products worth a total of 3.4 billion Euros to countries not belonging to the European Union. This represents more than 10% of the production volume of the CAOBISCO sector and 10% of the total EU agri-food exports in value terms.

The industry is the largest single consumer of refined sugar (30%) and full priced dairy products in the European Union, and a major consumer of cereals and wheat products. It also consumes 48% of the world cocoa bean production.

CAOBISCO Priorities

CAOBISCO supports the European Union, which as a global leader has taken measures to favour substantial agricultural reforms domestically. We urge other WTO partners of the developed world to do the same. CAOBISCO would like to emphasize the following points, which are important in the negotiations.

I MARKET ACCESS – coherence of treatment of commodities and their processed products

The **market access formula** based on the former G-20 proposal and as taken into account by other WTO partners as the basis for negotiations, would improve market access both for processed food products and raw materials. Flexibilities, no cap, as suggested by the EU, would only repeat the same mechanism as the Uruguay Round formula, and will be insufficient to stop CAOBISCO industries from facing unreasonable barriers to trade.

- It is essential that tariff lines for which a minimum reduction applied in the Uruguay Round, should undergo a substantial reduction during the Doha Round. The chosen **formula** must create real improvements in market access opportunities for the CAOBISCO sector. No tariff line should be exempted from any reduction commitments in developed countries.
- **Sensitive products** should be limited for developed countries and excluded for commodities such as sugar. Derogations for sugar need to stop, not only through internal reforms of the EU sugar reform, but also in multilateral trade commitments, so as to preserve the competitiveness of European added-value products on the international market and the sustainability of the sugar regime in Europe, as well as the sustainable development of developing countries.
- CAOBISCO totally opposes maintaining the **special safeguard clause** for developed countries. So far, it has only led to distortions, protecting the sugar sector to the disadvantage of the industrial users of sugar, consumers and developing countries. It is essential that the agreement in Hong Kong commits developed partners to either eliminate the safeguard clause or at least fundamentally review its structure and its criteria for determination of the additional duty, so as to get rid of any abuse of application.
- If the EU designates sugar or any other raw material (used by CAOBISCO manufacturers) as a sensitive product and the special safeguard clause is maintained, then processed products such as CAOBISCO products must have the same level of reduction commitments in import tariffs as agricultural commodities, in respect of the **coherence principle**. However, if the EU decides to categorise sugar as a sensitive product, it should be ensured that the Tariff Rate Quotas (TRQs) for sugar from MFN countries should at least amount to 10% EU sugar production today, and at a zero tariff rate.
- Therefore, CAOBISCO supports the EU on the **simplification of tariffs**. A return ticket is vital so as to maintain specific tariffs and protect the EU market from a competitive disadvantage, due to the high cost of agricultural raw materials. As regards mixed tariffs (in the Non Annex 1 sector, 40 out of 50 are CAOBISCO products), we would be prepared to simplify the Meursing table, but the alternative needs to reflect the variability of raw material values.
- Tackling **tariff peaks and tariff escalation** is essential to open the internal market to competitive raw materials. Because of the linkage between basic agricultural products and processed goods, this means related reduction in the tariffs for processed goods. Furthermore, reducing escalation will help developing countries in their capacity building efforts. CAOBISCO is willing to let go its industrial protection through tariffs even though labour costs are much higher in the EU than in other developed countries.

- CAOBISCO believes that WTO members should only use Tariff Rate Quotas as a temporary measure. In general, quotas should increase gradually while tariffs outside quotas should simultaneously decrease. Consequently, quotas, which can be trade distorting, would no longer need to exist. Although, CAOBISCO supports the EU's objective to establish clearer common rules and disciplines for the administration of **Tariff Rate Quotas**, those under the sensitive product status must be accompanied by a stringent tariff reduction commitment.

II EXPORT COMPETITION – refunds accompanied by market price cuts and parallelism of export support instruments

In the Uruguay Round, the commitments on reducing EU export refunds were agreed independently of cuts in domestic support. This has created many difficulties for the CAOBISCO industries, faced with an available EU budget, which is insufficient to continue exporting competitively, given the high priced European raw materials they are forced to use. The cuts in domestic support did not immediately lead to price reductions for sugar and dairy products, the key raw materials for the CAOBISCO industries. It is acknowledged that price reductions for dairy products have in the mean time been instigated, although so far, not enough to ensure alignment with world market prices. The reform of the sugar regime foresees an internal reference price cut of 36% over four years. The actual impact of the price reduction on the actual market price remains to be seen. The market price for sugar should still be 2x higher than the world market price.

It is crucial that the phasing-out of export refunds regarding processed goods is **conditional** on equivalent reductions in the domestic prices of agricultural raw materials or greater access to raw materials from the world market available to the industry at a competitive price.

- CAOBISCO could live without export subsidies. But we still believe that export refunds attributed to the EU food-processing industry cannot be considered as subsidies as such, as they compensate for the high domestic prices of EU raw materials. **Refunds need to be maintained whilst price differentials on raw materials continue.**
- In a 2003 study, CAOBISCO has estimated that the export refund forms an average of **9% of the export price of CAOBISCO products**. The elimination of export refunds would for the time being be too large to be absorbed by manufacturers, and too large to be accommodated within the export market without increasing the product price. Since CAOBISCO products have an average demand/price elasticity of 4 across destination countries, a 9% price increase is predicted to give a **36% reduction in export volumes amounting to 400,000 tonnes** of finished products. Up to **10,000 jobs** in the EU would be lost. Therefore, CAOBISCO places a lot of hope in the price cut proposed for the reform of the EU sugar regime, the Everything But Arms Initiative (EBA), but also in parallel to an important reduction of the import tariff on sugar.
- CAOBISCO supports the EU on the need for **parallelism of the elimination of all forms of export support measures**, such as export credits, food aid, the functioning of state trading enterprises. We strongly maintain that if these other instruments are not adequately addressed, no concessions on export subsidies should be made.

III DOMESTIC SUPPORT – eliminate all forms of trade-distorting support

Domestic agricultural support policies continue to distort international trade. The development of a world market for processed agricultural products can only be achieved if food-processing industries have worldwide access to raw materials at competitive prices.

So far, commitments to reduce domestic support measures have been insufficient, due to the exemptions of green and blue box instruments which have been favoured by policy-makers although they continue to affect production and prices of raw materials, and dictate whether or not export subsidies are needed.

- It is therefore crucial for CAOBISCO that all forms of trade-distorting support are reduced to a maximum and that cuts to AMS are made **product specific**, at least by including a minimum figure, so that every sector bears a fair share of the burden of any WTO agreement.
- **Blue and green box measures** should be reviewed and clearly defined in light of their impact on the competitiveness of both agricultural products and high value-added food products on the world market. If measures are considered to affect trade and production, they should all be placed in the Amber Box.

OTHER IMPORTANT AREAS

Special treatment for developing countries

CAOBISCO recognises the need to grant special and differential treatment to developing and least developed countries to ensure that they benefit fully from the multilateral trade system and supports the EU's approach to intensify all forms of assistance to developing countries, in particular the substantial liberalisation in sectors where developing countries are competitive.

Non trade concerns

CAOBISCO shares the concerns about the preservation of the multifunctional nature of agriculture and the maintenance of the socio-economic network. CAOBISCO members seek to produce high quality products in an environmentally sustainable manner. However it is necessary to establish multilateral standards and objective criteria in order to pursue these objectives while avoiding the emergence of new non-tariff barriers.

Non-tariff barriers

NTBs need to be seriously tackled in this new Round. Unilateral measures creating a trade barrier are often disguised as standards, certification, labelling, etc. and with the pretext of consumer protection or public health issues. Common international standards need to create a framework, so as to ensure the consumer of the high quality of the product. For food and drink there exists an excellent international body to issue such standards, the Codex Alimentarius.



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