

**WTO AGRICULTURE NEGOTIATIONS**

Proposal by Norway

**Table of Contents**

<b><u>PART I: PROPOSAL</u></b>	<b>2</b>
<b>1. GENERAL PRINCIPLES</b>	<b>2</b>
<b>2. AREAS FOR NEGOTIATION</b>	<b>3</b>
2.1 Market access	3
2.2 Domestic support	4
2.3 Export competition	4
2.4 Special and differential treatment for developing countries	4
2.5 Other issues	5
<b><u>PART II: BACKGROUND ELEMENTS</u></b>	<b>6</b>
<b>3. EXPERIENCES AND EFFECTS OF THE EXISTING AGREEMENT</b>	<b>6</b>
<b>4. THE ISSUE OF JOINTNESS</b>	<b>7</b>
<b>5. DISPARITIES BETWEEN AND WITHIN COUNTRIES</b>	<b>8</b>
5.1 Demand side variations	8
5.2 Supply side variations	8
<b>6. APPROPRIATE POLICY COMBINATIONS FOR ADDRESSING NTCs</b>	<b>9</b>

**PART I: PROPOSAL**

## GENERAL PRINCIPLES

1. Article 20 recognises the "*long-term objective of substantial progressive reductions in support and protection*". However, while Article 20 represents an obligation to *continue* the reform process, the process should not necessarily be finalised by reaching the long-term objective in the ongoing negotiations. Moreover, the size of the reductions in support and protection should be determined by, among other things the experience gained from implementing the existing Agreement, the consequences of the Agreement, non-trade concerns (NTCs), special and differential treatment to developing countries and the objective of establishing a fair and market-oriented agricultural trading system.

2. In the Preamble to the *Marrakesh Agreement Establishing the World Trade Organization*, the Parties recognise that their relations in the field of trade and economic endeavour should allow for "*optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.*" The promotion of sustainable development and environmental concerns should be taken into account in the negotiations.

3. Other multilateral commitments of relevance to the reform process must also be taken into account. Furthermore, emerging issues relating to broader society concerns need to be adequately addressed in the reform process. This may also contribute to increased understanding in civil society for the continuation of the reform process.

4. Agricultural products are unique and most essential commodities in every society. NTCs include agriculture's multifunctional contributions to the viability of rural areas, food security, the cultural heritage and environmental benefits such as the agricultural landscape, agro-biological diversity, land conservation and high standards of plant, animal and public health. Furthermore, negative environmental effects should be minimised. As spelled out in the background part of this negotiation proposal, most NTCs are unique to agriculture and have public goods characteristics that may justify government intervention. Moreover, most of these public goods cannot be disassociated from the agricultural production activity itself, as they are provided *jointly* with, and therefore depend on, ongoing agricultural production. Further, agricultural production is biological and site-specific. All these special and multifunctional characteristics of the agricultural sector need to be recognised and call for continued special treatment of the agricultural sector within the multilateral trading system.

5. As continued and sustained safeguarding of NTCs requires on-going agricultural production, and as policy objectives and agricultural production conditions vary considerably among Members, the continuation of the reform process cannot be based on a *one-size-fits-all* approach. Due consideration must be given to the different situations in Member countries, including in developing countries and economies in transition, and the changing needs that characterise agricultural development. In particular, proper attention must be paid to the less favourable production conditions and narrow product range that certain countries, for climatic and other reasons, are facing.

6. Special attention should be paid to the interests of developing countries, in particular the least developed and net food-importing countries. Norway recognises that improved market access for agricultural products is of vital importance to many developing countries as a vehicle for economic growth and poverty alleviation. Furthermore, challenges faced by developing countries in terms of acute food insecurity and in cases where a large share of their population is dependent on agriculture should be carefully addressed in the negotiations to ensure adequate flexibility in national policy design to foster domestic agricultural production.

7. In order to achieve the objective to establish a fair and market-oriented agricultural trading system as referred to in Article 20, there is a need to acknowledge, *inter alia*, the right of every country, according to mutually agreed rules, to secure the coexistence of various types of agriculture.

## 2. AREAS FOR NEGOTIATION

8. In the continuation of the reform process, there is a need to proceed progressively and cautiously through a balanced approach in which commitments are made "*in an equitable way among all Members*", as prescribed in the Preamble to the Agreement, and where all concerns referred to in Article 20 are taken into account. The various interests of all WTO Members, in particular the special needs of developing countries, should be reflected and valid and legitimate NTCs of a multifunctional agriculture should be fully recognised and adequately addressed while trade distortions are minimised.

9. Every Member should be granted flexibility in national policy design to foster domestic agricultural production necessary to address domestic NTCs, based on each country's production conditions and potentials, policy objectives and historical and cultural background. Domestic production of key agricultural products is of vital importance to Norway as a means of safeguarding domestic NTCs. As a result of differences in production conditions between and within countries and in order to be able to sustain domestic production required to properly address NTCs, countries with a comparative disadvantage need to be allowed to have recourse to a policy measure combination that includes, to a large extent, the use of production-related policy measures. On the other hand, export competition measures should not be deemed part of a long-term strategy to address NTCs. Provided that NTCs are safeguarded, such measures could be subject to stricter disciplines.

### 2.1 Market access

10. Improved market access is a key element in the agricultural reform process. Negotiations on market access must take into account all legitimate interests, including the special needs of developing countries.

11. Agricultural imports to Norway are subject to no or very low bound tariffs on a number of agricultural products, such as sugar, oil-seeds and oil products, fibres, rice, maize, tropical products and to a large extent fruits and vegetables. Overall, measured on a calorie basis, around 50 per cent of Norway's domestic agricultural consumption requirements are met through imports. Domestic production is characterised by a relatively narrow product range, as only relatively few products are produced domestically due to disadvantaged and unfavourable production conditions. Such products are generally subject to high tariff levels.

12. On the basis of the above, Norway would like to make the following proposals:

- Modalities on further market access commitments must be designed to allow Members to make only limited MFN tariff reductions on their key agricultural products.
- When considering further MFN tariff reductions, special attention should be paid to products of particular interest to developing countries (see also Section 2.4).
- For countries with low self-sufficiency and a narrow product range resulting from for example natural production conditions domestic production of key agricultural products is sensitive to further increases in minimum access quotas. Modalities on minimum access quotas should be designed accordingly.
- Tariff quotas should be administered in ways that are transparent, equitable and do not place developing countries at a disadvantage (see also Section 2.4).

- Given the special character of agriculture, the Special Safeguard (SSG) mechanism should be continued for the purpose of providing sufficient protection against sudden import surges and price fluctuations (see also Section 2.4).

## **2.2 Domestic support**

13. Norway would like to make the following proposal:

- Based on existing bound commitments, AMS should be divided into two categories. The first category would consist of domestic support to agricultural production destined for the domestic market. Such support should be subject to less stringent reduction commitments. The second category would consist of AMS support to export-oriented production. This support should be subject to further reductions.
- Within each of the two categories suggested above, the non-product specificity of the AMS support should be maintained in order to allow for flexibility to reallocate support among productions.
- The Blue Box should be maintained.
- The Green Box should be maintained.
- Monetary domestic support commitments should be subject to annual inflation adjustments.
- Special attention must be paid to the needs of developing countries in the area of domestic support (see also Section 2.4).

## **2.3 Export competition**

14. As part of a balanced approach through which NTCs of a multifunctional agriculture are fully addressed (see above), Norway acknowledges the need for stricter disciplines on export competition measures.<sup>1</sup>

15. It should be ensured that the subsidy element of all forms of export competition measures, such as direct export subsidies, export credits, state trading export enterprises and food aid, are treated equally in the continuation of the reform process, without restricting the availability of genuine food aid in fully grant form and while taking fully into account possible negative effects of the reform process on net-food importing developing countries.

## **2.4 Special and differential treatment for developing countries**

16. Special and differential treatment (S&D) for developing countries is an integral part of the Agreement and is particularly important for least developed countries. S&D should be further developed in the areas of market access, domestic support and export competition. Moreover, trade-related technical assistance to developing countries should be increased considerably.

17. S&D is a complement to, not a substitute for, the more general rules of the multilateral trading system. However, undesirable and unnecessary fragmentation of the system should be avoided. Given that the development situation and the agricultural policy environment are continuously changing, S&D measures may not be sufficient to meet the future needs of countries, which are developing countries today. Therefore, in the continuation of the reform process it should

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<sup>1</sup> It should be noted, however, that in Norway such stricter disciplines may have a substantial negative impact domestically. At present, around 10 per cent of Norwegian milk production is processed to cheese for subsidised exports. Many dairy farms are located in remote rural areas where few or no alternative employment opportunities exist.

be ensured that the general rules of the agricultural trading system are refined in ways that meet the long-term needs of all countries.

18. In order to enable developing countries, in particular the least-developed, to take full advantage of the multilateral trading system, Norway would like to submit the following concrete proposals for consideration with respect to S&D:

- When considering further MFN tariff reductions, special attention should be paid to products of particular interest to developing countries.
- Market access for products originating in LDCs should be improved in terms of predictability and product coverage. Both developed countries and the more developed of the developing countries should as a first step grant duty-free and quota-free market access on a preferential basis for essentially all products from LDCs.
- Tariff quotas should be administered in ways that are transparent, equitable and do not place developing countries at a disadvantage.
- Developing countries, in particular the least developed, should be given the opportunity to benefit from a preferential allocation of existing tariff quotas, for instance through preferential in-quota tariff rates.
- The right to have recourse to the SSG provisions should be extended to all developing countries that do not have this right today.
- *De minimis* levels should be increased for developing countries.
- S&D domestic support provisions adapted to the specific situation of developing countries should be expanded as a supplement to the existing Green Box measures.
- The *Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries* should be reviewed in order to ensure its effective implementation.

19. Norway will carefully evaluate the various proposals on S&D submitted by developing countries in the context of the negotiations.

## **2.5 Other issues**

20. The Peace Clause should be maintained as an integral part of the Agreement on Agriculture in order to preserve the role of this specific agreement *vis-à-vis* the Agreement on Subsidies and Countervailing Measures and the relevant GATT 1994 provisions.

## **PART II: BACKGROUND ELEMENTS**

### **3. EXPERIENCES AND EFFECTS OF THE EXISTING AGREEMENT**

21. Since the implementation of the AoA began in 1995, significant progress has been made in reforming agricultural policy and making the agricultural sector more market-oriented. Through the AoA, increased attention is now being paid to the level of support and protection and to different types of policy measures, both internationally and domestically.

22. The AoA has brought *enhanced predictability and stability* to the sector. The transformation of non-tariff import measures into bound customs duties and binding commitments on domestic support and export subsidies represented a major shift in and streamlining of market access and support regimes.

23. Reviews of Members' support and protection schemes and the establishment of binding schedules and the procedure of annual notifications, publicly available through the Internet, represent an important step towards *increased transparency*, both among Members and *vis-à-vis* other stakeholders.

24. The AoA has also had a *disciplinary effect* on agricultural policy design, compared with the pre-UR situation, also in cases in which countries have not reached their bindings. For instance, many countries undertook reforms during the UR negotiations in anticipation of the final outcome.

25. In Norway's case, domestic support commitments have been a binding constraint in the determination of target prices and/or base deficiency payments. Our export subsidy commitments have been a major force in changing the Norwegian dairy and milk marketing regime, and have for example led to substantial reductions in milk quotas.

26. According to background information provided by the Secretariat, *developing countries' agricultural trade performance has improved* during the period 1990-98, with significant and important increases in the value of exports from developing countries and their share of world agricultural exports.

27. Since 1995, Norwegian total imports of agricultural products have increased by 23 per cent in nominal value terms. In 1999 the unweighted average MFN tariff on agricultural products was 39.7 per cent.<sup>2</sup> The value of total imports of agricultural products in 1999 amounted to USD 2 billion with an average applied tariff of 6.5 per cent.

28. It is acknowledged that the existing commitments have contributed significantly to the long-term objective of fundamental reform. There is, however, an increasing awareness that in negotiations on further reductions in support and protection, society objectives related to NTCs should be taken into account. This may restrict the size, speed and distribution of future reductions. In the continuation of the reform process, there is therefore a need to proceed cautiously and to take the specific situation of each country fully into account.

29. The WTO policy reform must be undertaken in ways consistent with other relevant multilateral commitments, such as the Convention on Biological Diversity and commitments relating to the right to food. Since the Universal Declaration of Human Rights was adopted by the United

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<sup>2</sup> Including ad valorem equivalents of specific duties. Agricultural products defined according to the Agreement on Agriculture. See WT/TPR/S/70.

Nations in 1948, a number of international legal instruments and recommendations relating to nutritional concerns and the right to food have been developed, recognising the fundamental right of everyone to be free from hunger and emphasising the responsibility of the state in this respect<sup>3</sup>.

#### 4. THE ISSUE OF JOINTNESS

30. Taking account of NTCs, including food security and the need to protect the environment, is an integral part of the UR outcome and the mandate for continuing the reform process. During the Uruguay Round Norway stressed the importance of NTCs as vital elements of the overall reform process. While different countries are giving different weights and priorities to individual NTCs in a multifunctional agriculture, their safeguarding is a legitimate key priority in both developing and developed countries.

31. On the basis of the comprehensive examination of NTCs during the Analysis and Information Exchange Process of the WTO Committee on Agriculture, three conclusions can be drawn with regard to NTCs, conclusions that have important implications for the continuation of the reform process.

32. *First, NTCs are often unique or specific to agriculture.* Most of the actual NTCs safeguarded by agriculture cannot be provided by other sectors. Of the various NTCs listed so far by WTO Members, the viability of rural areas is probably among the few in which sectors other than agriculture can play, and are playing, an important role. However, in remote regions of many developed countries or in the case of developing countries with predominantly agrarian economies, agriculture's contribution to rural employment and economic and social viability is fundamental.

33. *Second, NTCs often have public goods characteristics.* While private goods can be exchanged in a market, NTCs often have public goods characteristics for which, by definition, functioning markets are lacking. Furthermore, the scope for market creation seems to be limited. While market creation is possible in certain cases, government intervention may be justified in order to correct the underprovisioning of NTCs with public good characteristics and to internalise externalities.

34. *Third, most NTCs can only be safeguarded jointly with agricultural production.* Most NTCs cannot be disassociated from agricultural production. This joint production relationship is complex and may relate to certain types of input use, farming practices or technologies, to agricultural output, or to a combination of all these elements.<sup>4</sup> For instance, as part of a country's policy to ensure long-term food security, a certain degree of domestic food production may, in addition to other factors such as stable access to world markets and stockholding, be judged as essential. Therefore, continued and sustained safeguarding of NTCs requires a viable domestic agricultural sector with agricultural production.

35. Furthermore, since agricultural production is biological and site-specific, it has many special features. All the special and multifunctional characteristics of the agricultural sector need to be recognised and call for special treatment within the multilateral trading system. This will benefit both developing and developed countries.

#### 5. DISPARITIES BETWEEN AND WITHIN COUNTRIES

36. As discussed in Section 4, contrary to most private goods for which international markets exist, NTCs, in general, cannot be ensured through trade, but need to be provided by domestic agricultural production. To some extent food security represents an exception, as both domestic

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<sup>3</sup> See also G/AG/NG/W/36.Rev.1, Note on Non-trade Concerns, Attachment 6.

<sup>4</sup> The issue of jointness is further substantiated in the AIE papers AIE/22, AIE/48, AIE/57 and AIE/68.

production and a predictable and stable trading system contribute to increased food security. The domestic safeguarding of NTCs varies substantially from country to country, as well as within countries, depending on national priorities (i.e. demand side variations) and the cost levels that each country's agricultural sector is facing (i.e. supply side variations).

37. One particular aspect that needs to be duly taken into account in the negotiations is the narrow product range that many countries rely on when addressing NTCs. The dependence on a relatively limited number of commodities could be related to specific supply side constraints, for instance climatic conditions.<sup>5</sup> Dependence on specific commodities may also be related to the specific public goods that these commodities provide, for instance the contribution made by production of a specific commodity to land conservation (e.g. the importance of paddy fields in flood control and prevention of land slides and soil erosion).

### **5.1 Demand side variations**

38. On the demand side, for a number of reasons related to for instance their cultural, economic, or historical backgrounds, countries are demanding different goods and services from their agriculture, thus giving different weights and priorities to different NTCs in a multifunctional agriculture.

39. For instance, predominantly agrarian countries or countries with few alternative employment opportunities for their rural populations, tend to put more emphasis on agriculture as a rural employment generator than countries whose rural population can relatively easily find jobs in other sectors. Moreover, countries with low population densities tend to put more emphasis on decentralised settlement policies. Furthermore, in countries in which farming has been an economic activity since ancient times, agriculture makes important contributions to biodiversity and the cultural heritage. A third example is the issue of food security, which is approached differently in net food-importing versus net food-exporting countries. A fourth example is environmental and food safety issues, for which consumer sensitivity varies between countries.

### **5.2 Supply side variations**

40. On the supply side, world agriculture is facing a considerable diversity of production conditions, between and within countries and regions, due to natural conditions (e.g. climate, soils and topography), social and cultural conditions (e.g. agrarian structure) and institutional and economic conditions (e.g. infrastructure and labour costs).

41. Many developing countries, due to for instance poor soils, difficult climatic conditions (e.g. low and erratic rainfall), small farms, poor infrastructure and limited access to new technologies are facing production costs above world average. These differences in production conditions help to determine the extent to which the various WTO Members are able to compete in world agricultural markets.

42. As a result of this considerable diversity of production conditions, agricultural production costs vary substantially within and between countries. In case of dairy production, current production costs are as much as six to seven times higher in Norway, compared with the most cost-efficient producers. The corresponding figure for wheat/barley is four to five times the most efficient producing country and indicates the same disparity between countries<sup>6</sup>.

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<sup>5</sup> In Norway, for instance,  $\frac{3}{4}$  of the arable land is only suitable for fodder production (basically grass production) for the purpose of dairy and meat production.

<sup>6</sup> Source: International Farm Comparison Network and Norwegian Agricultural Economics Research Institute.



43. In agriculture, Norway faces unusually high production costs for a number of reasons.<sup>7</sup> All the disadvantages stemming from a harsh climate, long distances, a difficult topography, a low population density and a small-scale structure, combined with a general high cost level, result in high costs and a very low degree of competitiveness at world market prices.

44. Structural adjustment of the agricultural sector has contributed and will continue to contribute to reductions in overall cost levels. However, in many countries like Norway the scope for such reductions is relatively limited. Firstly, in many countries the potential for structural adjustment in terms of large-scale production is restricted by natural conditions, partly because fields and farms are relatively scattered. Secondly, the data presented in Table 1 indicate that even with a shift to larger production units, overall costs would still be very high, suggesting that costs relating to labour and natural conditions are very important. In addition, extensive structural adjustment would have a considerable negative impact on important NTCs such as rural employment, agricultural landscapes and bio-diversity

## 6. APPROPRIATE POLICY COMBINATIONS FOR ADDRESSING NTCs

45. As pointed out in Section 4, most NTCs depend on a viable agricultural production. Based on the discussion in Section 5, it seems clear that because of the wide variations in costs, the NTCs of countries with disadvantaged and unfavourable production conditions cannot be safeguarded without considerable levels of transfers to the agricultural sector.

46. In the long run, production will only take place if it is profitable at the farm level, i.e. if farm production revenues cover production costs. Figure 1 shows production costs and revenues of a dairy *reference farm* in Norway, comparing the present situation with a "world-market-only" scenario in which all Blue and Amber box support, including tariff protection, has been replaced by Green Box support.<sup>8</sup> There are two major reasons why such a "world-market-only" scenario does not seem to be possible in Norway, if NTCs are to be safeguarded.

47. First, Figure 1 clearly indicates that, in the long run, the "world-market-only" scenario is not likely to provide sufficient financial incentives to farmers to continue the production that is required to safeguard NTCs. At present, production-related policy measures<sup>9</sup> amount to 61 per cent of total revenues. While total production costs would decrease slightly under a "world-market-only" scenario, mainly due to reduced fodder prices, this reduction is far from sufficient to offset the elimination of production-related policy measures that would occur under this scenario. If the farmer is profit-maximizing and if Green Box measures are fully decoupled from production, such support would not be taken into account when the farmer is making his/her production decisions. With world market

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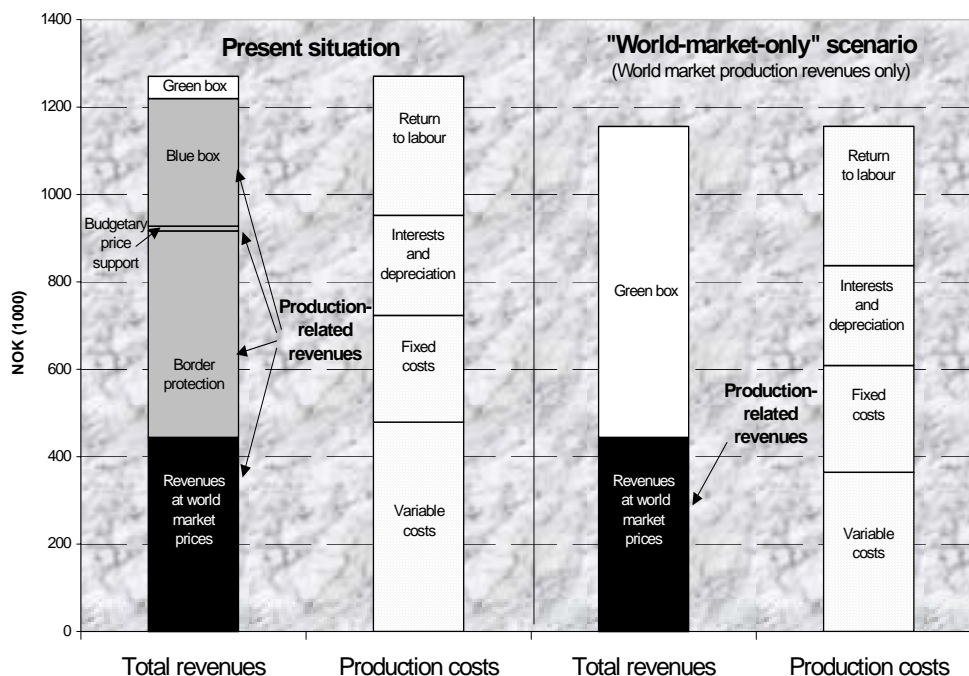
<sup>7</sup> Average farm and field size of around 14ha and 1.5ha arable land, respectively, average cow herd of 13 cows and steep gradients (nearly 20 per cent of arable land have a gradient exceeding 1:5) are typical for Norwegian agriculture. The arctic and subarctic conditions in Norway are characterised by harsh climate, low temperatures and a short growing season, which varies between 100 and 190 days, depending to a large extent on latitude. The indoor period for livestock varies from around 230 to 290 days a year.

<sup>8</sup> Note that the type farm presented in Figure 1 is far above the national average farm size and productivity. The conclusions drawn in this Section are based on the analysis in AIE/68.

<sup>9</sup> In Norway, production-related measures consist of Blue Box measures and AMS, including market price support. At present, market price support provided through tariff protection amounts to 41 per cent of the total Producer Support Estimate (among the lowest in the OECD), according to OECD figures for 1997-99. In many countries, a shift from tariff protection to budgetary support would be subject to budgetary constraints. Moreover, none of these different production-related policy measures have similar effects on production. Blue Box measures, for instance, such as livestock and acreage support, do not have any impact on production beyond the quantitative production ceilings that the production-limiting programme establishes.

prices only, production revenues would only cover 38 per cent of total production costs, which is clearly not sufficient to ensure a profitable farm production in the long run.<sup>10</sup>

**Figure 1:** Revenues and costs (1998) on a dairy farm with 23 cows in Eastern Norway (2.5 man years)



**Source:** Reference farm number 15, Norwegian Budget Committee for Agriculture (world prices from the OECD). Data compiled by the Norwegian Agricultural Economics Research Institute and the Ministry of Agriculture, Norway.

48. Secondly, whereas, as an alternative to production-related support, it has been suggested that Green Box measures be targeted directly towards a number of NTC-related criteria in order to safeguard NTCs such as bio-diversity, the cultural heritage or agricultural landscape, extensive detailed targeting is probably not feasible in practice. Such targeting will most likely involve very high administration and control costs, especially in areas where the agricultural sector consists of a large number of small-sized farmers. Maximum targeting of policies is of course desirable. However, there is certainly a trade-off between precision on the one hand, and administration and control costs on the other hand. Therefore, while targeting should be pursued in national policy design, too extensive and detailed targeting does not seem to be feasible.

<sup>10</sup> Remuneration of equity capital has not been included in the production costs shown in Figure 1. Moreover, remuneration of labour (per man-year) refers to actual observed remuneration and is very low compared with other sectors (only around 53 per cent of the average wage of a qualified worker in the industrial sector in Norway).