

SPECIFIC MODALITIES INPUT ON SPECIAL PRODUCTS

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To enable developing countries to effectively take into account their developing needs, Ministers agreed in paragraph 13 of the Doha Ministerial Declaration that "Special and Differential Treatment shall be an integral part of all elements of the negotiations and shall be embodied in the Schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated". Furthermore, the launched of a new round of negotiation in Doha has also been hailed as the launch of a Development Round. For these reasons, many developing countries, is of the position that unless the developmental concerns of developing countries, including on the issue of food security and rural development, are fully and adequately addressed, it would be difficult for them to join any consensus on agricultural modalities.

Objective of Special Products.

For developing countries that are largely agrarian, development of the rural sector is critical for the overall economic development of the country. This has in fact been borne out by the experience of many developed countries, where sustained economic growth was achieved after development of the potential in the agricultural sector. In contrast, however, for a large number of developing countries, their agricultural sector has been marginalized and under-developed. There has been an ever-increasing wealth gap between the urban and rural sectors, with consequent social and political ramifications.

Rural development is critical for ensuring overall economic development, including the attainment of food security and the alleviation poverty. From an economic perspective, development of the rural economy and the general level of income of the rural sector, also affect a country's ability to embark on the road to broad-based economic development. Failure in the development of the rural sector would result in a country's population to suffer from acute malnutrition and the vicious cycle of poverty in the rural areas. In the end, the final goal of attaining an overall satisfactory level of economic development for the country as a whole is subverted.

It is our view that the issue of food security and rural development, should not be looked narrowly, but rather viewed as an integral part of the developing countries developmental objectives. The characteristic of farmers in most developing countries are either farmers with land of less than a 1/2 hectare, farmers renting their land or farmers working for landowners -on very low wages. Given these conditions it is thus impossible for farmers in developing countries to compete with rich, large-scale overseas producers providing cheap and often subsidies agricultural products in the local market. It is therefore important to keep in mind that for developing countries, any approach taken to deal with food security and rural development, is not to seek market for export expansion or to limit market access to local market, but rather it is more to effectively deal with the attainment of self-reliance in food production and the alleviation of poverty, which in turn plays integral part in the overall economic development of the country.

Selection of Special Products (SP).

To address food security and rural development, we will try to provide a brief outline of possible approaches that can be taken to select SP. In our view the main approaches that can be used to select SP are namely, self-declaration by number based approach and criteria based approach.

1. Self-declaration by number based approach.

We believe individual developing countries are in the best position to identify which of their agricultural products are most important to achieving their food security and rural development objectives. A self-declaration by number based approach would require developing countries to declare a list agricultural products as SP. Members of the CoA can determine the total number of products each developing country as SP. One method of determining the number of SP is, agreeing a certain percentage of products from the total number in the tariff line of developing members schedule to be included as SP. For example, the CoA can for instance come to agreement that developing countries can include up to 5% of agricultural products in their tariff line as SP. Thus a developing country, which has a total of 1000 products (9 digit HS) in their tariff line for example, can therefore declare or include up to 50 products as SP.

In our view, self declaration by number based approach would be easy to implement and provide the certainty to all members, that there is maximum number of products that can be declare as SP. However, in setting a limit in the total number of SP, it is important that members pay full attention on the absolute number of products that each country needs to achieve its development objective. Setting a very limited number of products that can be declared, as SP would render the SP instrument useless as development tool. However, setting the number of SP in too large numbers would make the SP instrument open for abuses.

II. Criteria Based Approach.

One of the most mentioned approached to selecting SP is the criteria based approached. Using criteria based approach, WTO members would agree on a list of criteria that is required to be fulfilled agriculture product, before a developing country can declare it as an SP. While it may be possible for WTO members to agree on a list of criteria, however using the list of criteria as measurement system or in a quantitative manner, to enable us to compare the eligibility of one agricultural product with another as an SP, may remain difficult. Furthermore, many developing countries may not have the needed statistics or data, which would make it difficult for them to use a criteria approach. For example, if one criterion for an SP were the percentage contribution of the agricultural product in the total daily dietary requirement, for countries that do not have such statistic, it would be difficult for them to use the criteria approach.

In our view, it is important to ensure that the criteria based approach should be quantitative in nature to ensure a generalized application in all eligible WTO members and to enable an objective judgment, monitoring and evaluation. Accordingly, the criteria should be based on a logical framework, quantitative in nature, easily measureable and comparable between countries. We have identified a simple method by which the WTO members can select their SP.

It is agreeable that SP is an agricultural product which has strategic roles in achieving development goals, namely, stable and sustainable rural development, food security and social livelihood. The appropriate criteria for SP should, therefore, be determined using some measurable indicators which are highly related with the three development goals. Some possible indicators are:

1. Contribution (percentage share) of the product in total value of domestic agricultural production (rural development).
2. Contribution (percentage share) of the product in people diet, calorie and protein of domestic apparent consumption (food security).
3. Contribution (percentage share) of the product in total agricultural employment absorption (rural livelihood).
4. Import dependency of the product (vulnerability).
5. Incidence of import surge of the product (fragility).
6. Long-term trend domestic production of the product (sustainability).

The first three indicators show the relative importance of individual product in dynamiting rural economy, food availability and employment creation, the three agreeable development goals. The commonly used norm on degree of significance in statistics can be used as the norm on the degree to which the product is important to achieving the development goals:

- a. Less than 5.0 percent: insignificant contribution
- b. 5.0 – 10.0 percent: significant contribution
- c. More than 10.0 percent: major contribution

Based on its contribution in the development goals, an agricultural product can be said is a SP if:

- a. I has major contribution (more than 10 percent) in anyone of the three development indicators.
- b. I has significant contribution (more than 5 percent) in at least two of the three development indicators.

If we assign one score for each percentage point of the contribution than the minimum threshold total score as the sufficient condition for an SP is 10 (example in Table 1).

Another proposed criteria for SP is friskiness, either of instability due to short-term exposure to international market, or of eminent threat to long-term sustainability. Short-term risk threat is indicated by import dependency (vulnerability) and historical incidence of import surge (fragility). A commodity is said vulnerable under trade liberalization regime if import dependency is higher

than 10 percent. Import surge is defined as 10 percent negative deviation from a 5-year moving average of import. An import surge indicates a large temporary short fall of domestic supply or external penetration which is a serious threat to domestic economy. Incidence of import surge is computed as percentage frequency of occurrence during a certain period (say 15 – 20 years). A commodity is said to be fragile, and hence meets the SP criterion, if frequency of import surge occurrence is more than 33%, i.e. once in three years.

The last indicators is domestic production trend particularly since the Ana implementation. The indicator can be computed as the exponential trend of the commodity production. A commodity is said under threat of unsustainability if the long-term production trend is negative.

An exercise of using the proposed method for four commodities in Indonesia is presented in Table 1 and 2. The development roles indicator alone is sufficient to conclude that rice, maize, soybean and sugar are SP for Indonesia. Import dependency indicator reveals that soybean and sugar are highly vulnerable. Incidence of import surge indicators that the four commodities are highly fragile. Whereas, the production trend indicators show that soybean and sugar are in danger of long-term unsustainability. The four commodities are SP for Indonesia.

Treatment of Special Products.

The Chairman of the CoA in his first draft modalities only provided special treatment for SP under the market access pillar. It was proposed that SP were given lower reduction commitment and given access to an SSM subject to a normal tariff reduction. Whilst in our view this is a good starting point for further discussion, we do not believe that the proposed flexibilities for SP in the market access pillar, would meaningfully allow developing countries address food security and rural development, nor would it effectively contribute to developing countries developmental goals.

Many developing countries currently already have very low bound agricultural tariffs. Tariffs for their SP are often also bound very low. For these countries, the current proposal to further reduce SP tariffs by 10%, or reduce by a higher rate in order to be eligible for SSM would not be appropriate, especially when developed countries are still allowed to provide support for their SP. For example, some of

Indonesia's SP tariffs are currently bound at 27% and 40%. With the CoA Chair current proposal, Indonesia would have to reduce the bound tariff for these SP to 24.3% and to 36%, or to 19.71% and to 29.2% if it is to have access to SSM. We do not believe these level of tariffs would be effective to provide protection of the domestic market from cheap subsidized SP. **We proposed that developing countries would be allowed to exclude all SP from tariff reduction.** In the same vain, we would also propose that all SP with bound tariff equal or less than 40% have unconditional access to SSM.

Indonesia recognized the difficulties many developing countries have on applying *ad valorem* tariff, on their imports. These difficulties arise due to the lack of administrative infrastructure in tariff enforcement and lack of awareness in good governance. As SP will tend to be products, which are in high demand in the domestic market, and protected by a relatively high tariff, there will be incentives to smuggle cheap subsidize SP from abroad. For these reason, we proposed that developing countries be given greater flexibilities to use of non-*ad valorem* tariff or specific tariff, for SP. We believe this is important, as it will provide greater certainty and assurance of effective tariff implementation as well as ensuring certainty for government on revenue received from tariff.

We do not believed that developing countries food security and rural development objectives can be achieved merely by reducing tariff of SP by a smaller percentage from their already low bound tariffs. We are of the view, that developing countries can only achieve food security and rural development objectives, only if there's adequate protection for SP from subsidized cheap import combined with well-targeted programs and support to achieve such objectives. In this regard we are of the position that SP must not only be given flexibilities in market access but also in the area of domestic support.

Thank you.

Table 1. Development Role Indicators of SP for Selected Commodities in Indonesia.

Commodities	Agricultural production contribution (%)	Nutrition diet contribution (%)		Agricultural employment contribution	Total score *)
		Calorie	Protein		
	1	2	3	4	$5 = 1 + \text{Max}(2, 3) + 4$
Rice	28.28*	51.42*	43.39*	29.64*	109.34*
Maize	2.86	8.23	3.36	5.70	16.79*
Soybean	2.83	2.75	11.60*	5.59	20.02*
Sugar	3.27	6.19	0.07	2.42	12.88*

Note: * indicators above the threshold of the SP criterion.

Table 2. Friskiness Indicators of Special Product for Selected Commodities in Indonesia.

Commodity	Import dependency (%)	Incidence of import surge ¹⁾	Production of trend (%) ²⁾
Rice	6.53	65 [*]	0.22
Maize	5.89	40 [*]	0.61
Soybean	45.69 [*]	45 [*]	-11.04 [*]
Sugar	42.05 [*]	55 [*]	-4.09 [*]

Notes:

* indicators above the threshold of the SP criterion

1) Percentage frequency during 1982 – 2001

2) Exponential trend, 1996 – 2001