Potential Impact of Designating Rice as a Special Product In Selected Countries in Asia

Ma. Dolores Bernabe

Rice Watch and Action Network

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Production Management: Hazel Tanchuling
Editors: Jessica Reyes-Cantos and Joyce Sierra
Cover and Layout Design: Nonoy C. Regalado

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Introduction

In the WTO negotiations after the Hong Kong Ministerial Meeting, Thailand and Malaysia, two countries outside the G33 coalition of developing nations, issued separate proposals prescribing stringent criteria in the designation of Special Products (SPs). These proposals, if adopted, will effectively narrow down the range of commodities that can have access to the SP facility. It will also undermine the right of developing countries to select the products to be designated as SP, a principle that has been affirmed in the Hong Kong Ministerial Declaration in 2005.

A major rice exporter, Thailand, is undoubtedly apprehensive about the impact of the developing countries' possible designation of rice as a special product on its export trade interest. The country has every reason to be concerned. By definition, Special Products are commodities that are crucial to a country's food security, livelihood security and rural development objectives. Therefore, the probability that rice will be designated as a special product for most developing countries is very high, considering that rice is the single most important food staple in Asia. It is also a major source of livelihood and income to a huge number of people in the rural areas in many developing countries in the region.

Almost 90% of rice is produced and consumed in Asia.[1] It feeds some 2.4 billion people in the region, ranking as the most important food item in most Asian countries such as Malaysia, China, Indonesia, the Philippines, Vietnam, Cambodia, Laos, Myanmar, among others.[2]

1. Rice crisis looms in Asia, Agriculture 21, FAO Website, http://www.fao.org/ag/magazine/9809/spot1.htm
2. Atlas of Rice and World Rice Statistics, International Rice Research Institute Website, http://www.irri.org/science/ricestat/

The major rice producers, namely China, Indonesia, Bangladesh, Vietnam Thailand and Burma are all in Asia, enabling the region to supply more than 520 million tons of rice to the world.[3]

However, long-term food security in Asia is becoming a major concern particularly in terms of rice production. Population growth consistently outpaces growth in the production of this staple good. The region's population is growing by at least 56 million a year, with experts forecasting the demand for rice to grow to 770 million tons by the year 2025.[4]

It is within this context that one can appreciate most developing countries' clamor to protect their food production systems as these are being displaced by aggressive trade liberalization policies. Countries in Asia need to safeguard the economic viability and sustainability of rice farming, if they are to continue meeting the grains requirements of their growing population.

On the other hand, exporting developing countries like Thailand, believe that providing market access flexibilities will be a disincentive to surplus rice production for exports. By limiting market access opportunities for Special Products such as rice, poor rice farmers in exporting countries like Thailand and Vietnam will have less reason to produce more. This will also have potential implications on the region's over-all rice supply.

In this context, there is a need to look at the potential impact of designating rice as a special product for major rice producing countries. It is important to examine the potential benefit of designating rice as an SP in terms of helping sustain the economic viability of rice farming. At the same time, it is important to look at its impact on countries that are surplus producers of rice, and their capacity to continue exporting this staple commodity to other markets.

The study will cover five countries in Asia, namely Indonesia, Thailand, Philippines, Malaysia, Vietnam and China. Though not yet a full-fledged member of the WTO, Vietnam was included in the study because the country has emerged as a major producer and exporter of rice over the last few years. It is presently undergoing the accession process to the multilateral organization.

The paper is divided into three parts. The first part gives a background on Special Products including its history and raison d' etre. It

3. See footnote number 1
4. Ibid

includes a discussion of the various proposals related to this trade facility, covering those put forward by the G33, the US, Malaysia and Thailand, and will also include a brief discussion of the World Bank (WB) paper on SPs. This section of the paper is intended to help familiarize readers with the different proposed modalities on SPs, including those related to coverage and treatment. These modalities will be applied on the rice industry of each country covered by the study in the last part of this paper.

The second part presents an assessment if the rice sector in each country indeed meets the criteria for Special Products. In particular, it includes an assessment of the rice sector's contribution to the realization of the country's food security, livelihood security and rural development objectives. This section of the paper will also present a brief overview of trends that characterize regional and global rice production and consumption.

The third and last part of the paper will apply the various proposed modalities on Special Products on the rice industry of each country. The application of these modalities intends to help simulate the potential impact of designating rice as a special product on key rice exporting and importing economies. The results of the study hope to contribute to current discussion in the WTO on Special Products.

Part 1
Special Products

Special products: origin and rationale

Paragraph 7 of the Hong Kong Ministerial Declaration provides that "developing countries shall designate a set of Special Products (SPs) based on the criteria of food security, livelihood security and rural development."[5] Though the declaration was conspicuously silent on the issue of coverage and treatment of SPs, developing countries welcomed the provision, hailing it as a tangible gain in their advocacy to secure market access flexibility for important agricultural commodities.

The advocacy for Special Products began as early as 2000, when a group of developing countries, namely Cuba, Dominican Republic, Honduras, Pakistan, among others, pushed for the creation of a development box.[6] The development box encompassed a host of special and differential treatment measures aimed at helping developing countries address the imbalances inherent in the Uruguay Round Agreement on Agriculture. One of its main features was the exemption of important agricultural commodities, especially those crucial to a nation's food security, from further market liberalization.

The idea of exempting a set of agricultural commodities, now referred to as Special Products, from normal market access commitments was adopted in the Harbinson draft of modalities, prior to the failed Cancun Ministerial meeting in 2003.[7] It was again included in the July Framework Agreement in 2004, which became the basis of

5. Hong Kong Ministerial Declaration, WT/MIN(05)/DEC, WTO website
6. Agreement on Agriculture: Special and differential treatment and a development box. G/AG/NG/W13, 23 June 2000
7. Negotiations on Agriculture: First draft of Modalities for Further Commitment, Special Session of the WTO Committee on Agriculture, TN/AG/W/1/Rev.1, 18 March 2003

trade talks in the run up to the WTO ministerial meeting in Hong Kong.[8]

There were many reasons why developing countries invested a lot of negotiating time and effort in ensuring the inclusion of SPs and Special Safeguard Mechanisms (SSM) in the Agreement on Agriculture. The first was that developing countries recognize the difficulty of submitting all products to progressive tariff reduction on account of domestic sensitivities. Indeed, there has been a growing clamor against trade liberalization from small agricultural stakeholders in many developing countries. The SP facility can help governments address these concerns, by giving developing country members the flexibility to safeguard certain commodity sectors - those important to food security, livelihood security and rural development - from trade liberalization.

Second, agriculture played an important role in the economy of most of these countries. A policy of blanket liberalization of agricultural markets was expected to have a negative impact on their capacity to meet their food security, livelihood security and rural development objectives. Having the option to declare some commodities as SPs will give them the opportunity to preserve policy space for commodities that are crucial to the attainment of these objectives.

Finally, the advocacy for SP and SSM can be seen as one way of exacting compensation for the inequities in the Uruguay Round Agreement on Agriculture. Developing countries asserted that the provisions of the AoA were inordinately skewed in favor of developed economies, requiring progressive market access commitments from the former while allowing the latter to maintain high levels of trade distorting subsidies. This unfair trading arrangement has resulted to major trade imbalances for many developing countries. SP and SSM were envisioned to help address these imbalances by providing developing countries with the necessary mechanism with which to preserve their current policy space against progressive trade liberalization.

The G33

The inclusion of Special Products as well as Special Safeguard Mechanism in the July Framework Agreement and later on in the Hong Kong Ministerial Declaration was the outcome of the strong lobby of a group

8. The July Framework Agreement, is embodied in the Decisions Adopted by the General Council, WT/L/579, August 1, 2004

of developing countries that form the Group of 33 (G33). The G33 traces its origin to the Alliance for SP and SSM, which was formed in July 2003 with the objective of ensuring that SP and SSM will be an integral part of any future agreement on agriculture. The Alliance underscored the importance of SP and SSM in helping developing countries undertake internal adjustments, especially in an environment marked by trade distortions and inaccessible export markets.[9]

The G33, as its name suggests, initially had 33 developing country members. It has now expanded to include 44 countries from Asia, Latin America and Africa, among others, with Indonesia acting as its lead convenor. The coalition has already put forward very concrete proposals on SP and SSM, encompassing recommended modalities on the coverage, selection and treatment of special products.

G33 Members

Antigua and Barbuda, Barbados, Belize, Benin, Botswana, China, Democratic Republic of Congo, Cote d'Ivoire, Cuba, Dominican Republic, Grenada, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Mauritius, Madagascar, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistam, Panama, Peru, Philippines, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Senegal, South Korea, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia and Zimbabwe

G33's position on the selection and coverage of Special Products

The G33 argued for developing countries' right to self-designate products that will be accorded SP status, for as long as these meet the general criteria of being important to a country's food security, livelihood security and rural development objectives. It rejected proposals to adopt very stringent criteria for SP identification, arguing that developing countries have very divergent agricultural sectors and that it is impossible to establish a uniform set of strict benchmarks that will

9. Statement and Declaration, Alliance of SP and SSM, Special Session of the WTO Committee on Agriculture, July 18, 2003

adequately capture each country's food security, livelihood security and rural development concerns.[10] The G33 likewise rejected the idea of setting uniform thresholds for each criterion, on the same grounds.

The Hong Kong Ministerial Declaration's affirmation of developing countries' right to self-designate special products is viewed by the G33 as a gain in the negotiations.[11] However, the declaration is silent on the issue of coverage and treatment of special products. It did not indicate how many commodities were entitled to the SP facility. The G33 proposed that SPs should comprise at least 20% of total agricultural tariff lines. Additionally, the declaration did not define the type of market access flexibility that should be accorded to SPs. The absence of clarity on the coverage and treatment of SPs dampened the aforementioned gain. In the end, the usefulness of SP as a trade facility for developing countries is as much a factor of how special products will be treated, and how many products will have access to this preferential treatment, as it is a factor of how special products will be selected.

Moreover, this gain, though already limited, is slowly being undermined by recent proposals seeking to set more stringent indicators for the criteria of food security, livelihood security and rural development. These proposals, if adopted will reverse the coalition's partial victory in the Hong Kong negotiations.

G33's position on the treatment of SPs

In its ministerial communiqué issued in Jakarta in June 2005, the G33 reiterated the provision of the July Framework agreement which very clearly stated that special products are "neither bound by the formula for tariff reductions nor by provisions related to tariff rate quotas (TRQs)". The coalition maintained its position that special products should be exempt from tariff reduction and TRQ commitments. It also stressed the importance of ensuring that there should be no concessions demanded for developing countries in exchange for the use of SP and SSM. The G33's position was clearly geared towards helping developing countries preserve sufficient policy space for important commodity sub-sectors, especially those crucial to its food security, livelihood security and rural development.

10. G33 Ministerial Communique, Jakarta, June 2005
11. See Annex A on Agriculture of the Hong Kong WTO Ministerial Declaration, WT/MIN(05)/Dec, 22 december 2005

However, prior to the Hong Kong Ministerial Meeting, the coalition expressed its openness to subject a proportion of SPs to tariff reduction, though at levels still lower than normal tariff cuts. To wit, if SPs will comprise twenty percent (20%) of total agricultural tariffs lines, 50% or half of these will be exempt from tariff reduction. Of the remaining 50%, half will be subjected to 5% cut, while the other half will have a 10% cut on import duties.

Table 1. SP Tariff Lines, Percent of Total Agricultural Tariff Lines, and Proposed Tariff Cuts

Percent of SP tariff lines	Percent of total agricultural tariff lines	Proposed tariff cuts
50%	10%	0%
25%	5%	5%
25%	5%	10%

The "softening" of the coalition's position on the treatment of SPs can be seen as its contribution to the movement in the negotiations and eventually deliver the Doha Round. Prior to the Hong Kong meeting, there was a strong pressure among many countries to ensure that the meeting will not turn out to be another Cancun because this will pose serious questions regarding the continued viability of the WTO.

Despite this softening of position, there are still apprehensions regarding the possible impact of the coalition's proposals on trade flows. Exporting countries were concerned that providing market access flexibilities on a set of products may constrict trade that runs counter to the expressed objectives and ideals of the WTO. As such, several proposals have emerged seeking to limit the effectiveness of SP and SSM. Among these proposals were those of Thailand and Malaysia, and the US.

Thailand's proposal on SP

On April 26, 2006, Thailand issued a non-paper containing its proposal on the selection and treatment of SPs.[12] While Thailand acknowledged that the selection of SPs was based on the criteria of food secu-

12. Thailand's proposal on special products, April 26, 2006.

rity, livelihood security and rural development, it nevertheless stressed the need for a transparent mechanism in identifying the products to be covered. In particular, it emphasized the need to develop a clear set of indicators for each criterion.

Thailand proposed two groups of indicators. The first group serves as the negative list, disqualifying certain products from SP designation. Based on this list, the following commodities cannot be assigned as SPs:

1. Products exported by developing countries that cumulatively constitute more than 50% of the world's total exports of that product;
2. Products imported by developing countries that cumulatively constitute more than 50% of the importing country's total import of that particular product.

The second list enumerates the qualifying indicators for a commodity to be declared as a special product. In particular, a product can be designated as an SP if:

1. a particular percentage of domestic consumption of that particular product is met through domestic production;
2. it accounts for a particular percentage of total agricultural output or GDP;
3. it contributes a particular percentage of the total nutritional requirement of the population.

Thailand did not propose any thresholds or values for the required percentages.

Thailand's position on the treatment of SPs directly contradicted that of the G33. It proposed that SPs should not be totally exempt from tariff reduction and TRQ expansion. Thailand said this will ensure that there is overall improvement in market access for all products, in keeping with the principle expressed in the July Framework Agreement, and later on in the Hong Kong Ministerial Declaration.

As a form of flexibility, Thailand proposed that SPs will have lesser tariff reduction compared to other products. In particular, tariff cuts on SPs will only be a percentage of the agreed formula tariff cuts for other products. Moreover, the paper also recommended the imposi-

tion of a tariff cap even for SPs although this will be higher compared to other products.

Finally, Thailand emphasized that SP facility must be viewed as a transitional measure and, as such, should expire at the end of the Doha Round implementation period.

The proposal was clearly an effort to restrict developing economies' access and gains from the SP facility. The proposed indicators will make it difficult for countries to cover a broad range of special products, as they were formulated in such a way that only commodities with substantial contribution to over-all agricultural output and nutritional requirement can qualify as special products. These effectively marginalized commodity sectors, which though not major contributors to total agricultural output, were nevertheless crucial to the food security, livelihood security and rural development especially of vulnerable communities. These are the sectors that should benefit most from SP flexibility.

Also, Thailand's proposed indicators did not capture one of the main considerations behind the creation of SP facility, which was to protect products that are vulnerable to displacement due to importation. The proponents of SP and SSM have justified these by showing the results of liberalization in terms of wide scale marginalization of poor agricultural stakeholders in developing countries.

Thailand's proposal that SPs should not be exempted from market access commitments was a reflection of its interest as an exporting developing country. It was understandably concerned that the SP facility will be used to limit their market access for their key export commodities, such as rice. The country was very straightforward when it said that the selection and treatment of SP should not undermine the development agenda of exporting developing countries where the welfare of many poor farmers depends on improved market access of a few export products.

Malaysia's proposal on SP

Malaysia also expressed its concern over the potential impact of the SP facility on the food security, livelihood security and rural development of exporting countries. Malaysia, a net exporting country, asserted that "exporting developing economies have large number of poor farmers whose very income depends on one or two crops that are

produced and exported".[13] The fact that developing countries form part of their export markets indicated that they may not possibly take full advantage of market access openings due to SP flexibilities.

It is in this context that one can understand Malaysia's efforts to put stringent indicators in the selection of SPs. This, despite very clear provision in the Hong Kong Ministerial Meeting that developing countries have the right to self-designate SPs based on the general criteria mentioned earlier. In particular, the country put forward the following indicators for the selection of special products:

1. A product of which more than 75% of world trade is represented by developing countries' exports cannot be designated as special product;
2. A commodity can be declared as a special product if its domestic production meets a particular percentage of domestic consumption;
3. A commodity can be declared as a special product if it accounts for a particular percentage of total agricultural output or GDP;
4. A commodity can be declared as a special product if it accounts for a particular percentage of total employment;
5. A commodity can be declared as a special product if it contributes a particular percentage of the total nutritional requirement of the population.

Malaysia proposed that market access flexibility for special products should be in the form of longer implementation period and lesser tariff cuts. It supported SPs' exemption from tariff reduction, as espoused by the G33, but only for commodities that have import duties lower than 20%. Malaysia also emphasized the need for TRQ expansion for SPs that presently have TRQs. As a form of flexibility, it recommended that the volume of TRQ expansion should be lesser compared to the volume of TRQ expansion for other products. It also proposed higher tariff caps for SPs.

The proposals of Malaysia and Thailand were clearly cast in the same mold. In fact, they were almost identical in structure, substance and in some parts, even in wording. These are of special interest because these represent a break in the ranks of developing countries.

13. Discussion on Special Products, Contribution by Malaysia, March 23, 2006

Developing countries have shown remarkable unity in arguing against the proliferation of trade distorting subsidies, and have resulted to a very clear delineation of position between developed and developing countries on this. However, Malaysia and Thailand's proposals on SPs implied that there was no unified developing country support for this trade facility, despite the fact that the G33's broad membership underscored huge developing country backing for SP and SSM.

Pakistan's proposal on SP

Pakistan, a member of G33 and G20, released a paper detailing its proposal on the selection, coverage and treatment of special products.[14] It was quick to point out that this proposal did not in anyway reflect the position of the G33 and the G20.

Different options for the selection and coverage of special products

The paper outlined five basic options in designating SPs. The first option adopted an indicator-based approach to identify the commodities that should be assigned as SP. Below are the indicators prescribed under this approach:

1. Share of production of a product in total agricultural production (rural development).
2. Share of consumption of a product in total apparent food consumption (food security)
3. Share of domestic consumption by domestic production of a product (food security)
4. Share of employment of the product in the total agricultural labor force or in total agriculture employment (livelihood security)

Each of these indicators measured a commodity's importance in terms of meeting a country's food security, livelihood security and rural development objectives.

The second option adopted the use of negative indicators. Products falling under these indicators were disqualified from being designated as a special product. The negative indicators were:

14. Special Products: Possible Elements for Discussion, paper by Pakistan January 19, 2007

1. Products exported by developing countries that cumulatively constitute more than a certain percentage of world exports of that product;
2. Products imported from developing countries that cumulatively constitute more than a certain percentage of the importing country's total import of such product;
3. The total imports of staple food products represent more than a certain percentage of domestic consumption.

Pakistan argued that these indicators will ensure that SP selection will not harm the livelihood security and rural development of exporting countries, a consideration also raised by Thailand and Malaysia. The last negative indicator was introduced to ensure that the SP facility would not undermine market access flexibility of products the domestic consumption of which is largely dependent on imports.

The third option offered incentives for developing countries that choose to limit their number of SPs. A developing country with fewer SPs will have more flexible market access treatment for their SPs compared to those opting to have a bigger number of products covered by the SP facility. However, the modalities to quantify and operationalize the trade off between the coverage and treatment of SPs are expectedly difficult to formulate.

The fourth option sought to limit SP selection to products where the difference between the bound and the applied rate is small. These products could not obviously absorb any more tariff cuts, and therefore require market access flexibility. However, Pakistan acknowledged that this might result to countries increasing their applied rate nearer the bound rate in order to qualify for SP coverage.

The fifth and last option basically proposed the creation of an over-all cap for the number of commodities that would be accorded flexibilities under the sensitive and special products.

Treatment

On the matter of treatment, Pakistan proposed an inverse relationship between the number of special products and a flexible formula deviating from agreed normal tariff cuts, which was essentially the same principle guiding option 4 above. It also forwarded the following specific recommendations pertaining to the nature of market access flexibilities that should be accorded to SPs.

1. SPs should be subject to tariff cuts, though at levels lower than the cuts for other products;
2. SPs should have access to longer implementation period and lesser cuts, over and above current special and differential measures given to developing countries;
3. Special products with TRQs are subject to TRQ expansion;
4. No products shall have access to both SP and SSM.
5. There will be tiers for SPs based on the level of deviation from the normal tariff cuts

Pakistan's proposal was more constricting in terms of a developing country's access to and gains from SP than those put forward by Malaysia and Thailand. The various options on SP selection and coverage, if adopted will reverse the intent of the Hong Kong Ministerial Meeting, which very clearly underscored developing countries' right to self-designate SPs. Meanwhile, the recommendations on the treatment of SPs were very clearly incongruous with the G33's position. It did not acknowledge the option of SPs' exemption from tariff reduction commitments. It proposed the expansion of TRQ, which was firmly opposed by the G33 as expressed in the coalition's various statements. More significantly, it regarded SP and SSM as mutually exclusive facilities, a major deviation from the G33 position that all SPs should have access to SSM.

The fact that Pakistan is a member of G33 made this proposal even more critical, as it may indicate a crack in the developing country formation's armor, so to speak.

The US proposal on SP

The United States is the biggest critic of SPs. US Trade Representative Ambassador Susan Schwab has consistently expressed the US' objection to this trade facility. It was referred to as part of the three S's, along with sensitive products and special safeguard measures that "create uncertainty and unacceptable imbalance between market access and the other two pillars[15] of domestic support and export competition."

In May 2006, the United States put forward its proposal on the

15. Statement of the United States of America to the Trade Negotiations Committee by the United States Trade Representative Susan C. Scwhab, Geneva, June 30, 2006.

coverage and treatment of SPs.[16] The proposal affirmed the US' very vocal criticism of SPs and this can only be viewed as part of its effort to undermine the said trade facility. It recommended that special products be limited to only five tariff lines. To say that this is a marked deviation from current and dominant proposal on SP coverage is a gross understatement.

As mentioned earlier, the G33 recommended that SPs should comprise at least 20% of total agricultural tariff lines. Joseph Purugganan of the Stop the New Round Coalition pointed out that the US proposal, while so ridiculously low that it can no longer be considered credible, nevertheless had the effect of drastically pulling down the final number of commodities that can be declared as SPs.

The US proposal also forwarded several indicators to guide the SP selection process. In particular, it proposed that:

1. Special products should only be limited to products that are produced domestically or are close substitutes of products produced domestically;
2. A commodity cannot be declared as SP if it is exported from a country on an MFN basis;
3. A commodity cannot be declared as SP if it is a net exported product.

These indicators, if adopted, will drastically limit the range of products that can be covered by SPs, and will effectively negate the Hong Kong Ministerial Declaration's provision on developing countries' right to self-designate products under SP.

In terms of treatment, the US paper recommended the following:

1. Special products will be applied a percentage of the formula tariff cut for other products. As a form of flexibility the tariff cut for SPs will be lower than the tariff cut required for sensitive products;
2. All SPs with TRQ will be subject to TRQ expansion, although at volumes smaller than the TRQ expansion required for other products;
3. There will be no in-qouta duties for any TRQ.

16. United States Communication on Special Products, Special Session of the Committee on Agriculture, JOB(06)137, May 3, 2006

The treatment proposed by the US, particularly on TRQ expansion and on the elimination of in-qouta duties, means that there will be virtually no flexibility accorded to SPs with reference to existing TRQs. Moreover, as with the other proposals, the SPs' exemption from tariff reduction—the core flexibility envisioned by the G33 for special products—is out of the question.

World Bank Paper on Special Products

In September 2006, the World Bank released a paper on the "Potential Implications of Agricultural Special Products For Poverty in Low Income Countries".[17] The paper, authored by Maros Ivanic and Will Martin, simulated the potential impact of the SP facility on four countries, namely Pakistan, Zambia, Vietnam and Nicaragua. It presented five scenarios in analyzing the effect of special products on these countries. These scenarios were premised on the assumption that the SP mechanism is geared toward increasing the prices and/or tariff protection of products assigned as SPs. The paper concluded that the SP mechanism would lead to higher levels of poverty and can in fact reverse decades of development progress. It further asserted that for poverty to be reduced, developing countries must be careful in availing of the SP facility.

However, these conclusions were derived using faulty assumptions. For instance, contrary to the presented scenarios, the SP facility as envisioned and proposed by the G33 was not meant to increase prices nor tariff rates. Moreover, errors in the methodology and design of the paper, such as the selection of products as well as of the countries covered by the study undermined the accuracy of the WB paper.[18]

The WB Paper was roundly criticized not only by the G33, but also by many international non-government organizations.[19] The clamor against the paper prompted the World Bank, not only to withdraw the said article from its website but also to issue a disclaimer,

17. Maros Ivanic and Will Martin, Potential Implications of Agricultural Special Products for Poverty in Low Income Countries, World Bank, Spetember 2006.
18. Polaski, Sandra, Assessment of the draft paper "Implications of Agricultural Special Products on Low Income Countries ny Maros Ivanich and Will Martin", Carnegie Endowment for International Peace, September 18, 2006.
19. G33 blasts World Bank paper on Special Products as anti-development, Press Information Bureau, Government of India, January 12, 2007.

emphasizing that the paper does not reflect the Bank's official position.

Developments in the negotiations

Recent developments in the negotiations showed that the focus of discussions on modalities to identify SPs seems to have shifted back to the issue of indicators. The G33, since its ministerial meeting in Indonesia in March 2007 has began to constructively work on developing indicators on food security, livelihood security and rural development, in line with the mandate set in the Hong Kong Ministerial Declaration. At present, it has 12 indicators for selecting the special products.

ILLUSTRATIVE LIST OF INDICATORS FOR DESIGNATION OF SPECIAL PRODUCTS

1. The product is a staple food, or is part of the basic food basket of the developing country Member through, *inter alia,* laws and regulations, including administrative guidelines or national development plan or policy or historical usage, or the product contributes significantly to the nutritional or caloric intake of the population.
2. A significant proportion of the domestic consumption of the product in its natural, unprocessed or processed form, in a particular region or at a national level, is met through domestic production in the developing country member concerned.
3. Domestic consumption of the product in the developing country Member is significant in relation to total world exports of that product; or a significant proportion of total world exports of the product are accounted for by the largest exporting country.
4. A significant proportion of the total domestic production of the product in a particular region or at the national level is produced on farms or operational land holdings of up to and including 10 Hectares, or is produced on farm or operational land holdings which are of a size equal to or less than the average farm size of the

developing country member concerned, or a significant proportion of the farms or operational land holdings producing the product are up to and including 10 Hectares in size or of the average farm size or less of the developing country member concerned.

5. A significant proportion of the total agricultural population or rural labour force, in a particular region or at the national level, is employed in the production of the product.
6. A significant proportion of the producers of the product, in a particular region or at the national level, are low income, resource poor, or subsistence farmers, including disadvantaged or vulnerable communities and women or a significant proportion of the domestic production of the product is produced in disadvantaged regions and areas including, *inter alia,* drought- prone or hilly or mountainous regions.
7. A significant proportion of the total value of agricultural production or agricultural income of households, in a particular region or at the national level, is derived from the production of the product
8. A relatively low proportion of the product is processed in the developing country member as compared to the world average; or the product contributes a relatively high proportion to value addition in the rural areas, in a particular region or at the national level, through its linkages to non-farm rural economic activities, including handicrafts and cottage industries or any other form of rural value addition.
9. A significant proportion of the agricultural customs tariff revenue is derived from the product in a developing country Member.
10. A significant proportion of the total food expenditure, or of the total income, of households in a particular region or at the national level in the developing country Member concerned, is spent on the product
11. The product in respect of which product specific AMS or blue box support has been notified by any WTO member and which has been exported by that notifying Member during any year from 1995 to the starting date of the implementation of Doha round.
12. The productivity per worker or per hectare of the product in the developing country Member, in a particular region or at the national level, is relatively low as compared to the average productivity in the world.

Source: Annex, G33 Contribution on the Indicators Guiding the Designation of Any Agricultural Product as a Special Product (SP) by Any Developing Country

However, several countries have raised concerns about the availability and verifiability of data used to apply these indicators. In particular, the US insisted that the figures that should be used for the indicators must be internationally verifiable, implicitly rejecting the use of nationally and locally available data (i.e. regional or provincial). This can be problematic as developing countries have varying levels of capability in gathering internationally verifiable figures. Moreover, international data is not always available for all products, effectively limiting the range of commodities that can be considered as SPs.

The renewed focus on the indicators as well as on the stringent requirement for internationally verifiable data severely undermined the principle of self-designation in the selection of special products, which the G33 had gained during the Hong Kong Ministerial Meeting. The indicators will be used mainly to demonstrate the products' critical link to food security, livelihood security and rural development and not as rigorous filters to screen the commodities that will be designated as SPs.

Canada's proposal

Canada ventilated a proposal seeking to strike a balance between some Members' demand for data verifiability on one hand, and developing countries' concerns about data sourcing, on the other. It proposed two tracks in identifying SPs. The first track made use of a limited set of indicators for which internationally verifiable data are required. All commodities that will meet the set threshold for these indicators will qualify as SPs. This means that there is no limit to the number of commodities that can be designated as SPs, for as long as commodities meet the requirements of the indicators, particularly in terms of thresholds, and use of internationally verifiable data.

The second track included indicators for which national and local data may be used. Unlike the first track, the number of products that could qualify under this track will be limited. Members can pose challenge on the SPs identified under this track. Hence, countries should be able to demonstrate the link of the commodities selected as SPs to the country's food security, livelihood security and rural development objectives.

Canada's proposed two-track system essentially provided parameters through which international and national and local data may be

used in applying the indicators. In this sense, it can be viewed as a positive contribution to the negotiations.

Canada also introduced the concept of having a minimum number of SPs that later appeared in the draft modalities of WTO's Committee on Agriculture Chairman Crawford Falconer. This is important, in the light of increasing demand to limit the indicators to those with internationally verifiable data coupled with the pressure to establish thresholds for each indicator. This increases the possibility that some developing economies may not be able to avail of the SP facility given the Member's varying levels of capability in terms of data generation and consolidation.

Falconer's views on the SP negotiations

Ambassador Crawford Falconer, in his challenge paper, showed his inclination to set a specific and identified set of number of special products. He estimated that the "center of gravity" for the said figure is anywhere between 5% - 8% of total agricultural tariff lines. This number of SPs was calibrated to be bigger than the allowable number of sensitive products, which he estimated to be around 1% to 5% of the total agricultural tariff lines. The indicators will be employed largely to ensure that the commodities designated as SPs will be indeed linked to the food security, livelihood security and rural development objectives of each developing country.

With respect to treatment, the challenge paper dismissed the possibility of exempting SPs from tariff reduction. Instead, it indicated the tariff cuts of SPs to range from 10% to 20%. This proposed tariff cut is greater than the G33's proposed tariff cut of 5% to 10% for special products.

Falconer's draft modalities on agriculture, released in July 2007, contained his suggestions on the "possible orientation" of the ongoing negotiations on SPs. However, unlike his challenge paper released earlier focusing more on the number of SPs, the latest draft mirrored the shift in the focus of the discussion on SP selection from numbers to indicators. It affirmed that the indicators proposed by the G33 would serve as the starting point of discussions. However, contrary to G33's position, it also underscored the need to establish thresholds for each indicator. It also affirmed the importance of having verifiable and accessible data in applying the indicators. However, it conceded that

apart from international data, countries may use national data for as long as these are accessible to other members of the WTO.

The paper also acknowledged the need to avoid the adoption of a "one-size fits all" approach to SP selection in view of the "country-specific nature of Special Products". In this regard, it introduced the option of developing countries to have a minimum number of SPs, regardless of the number of products that may be qualified through the indicators. As in his earlier paper, Falconer indicated that the number of special products should be greater than the number of sensitive products.

The negotiation on special products is still unfolding. The WTO members are currently in the process of evaluating Falconer's draft modalities, not only on SPs, but also on other aspects of the AoA. The final modalities that will be agreed upon by the members will determine the relevance as well as usefulness of SP as a trade facility that can help countries nurture commodity sectors, such as rice, that are essential to their food security, livelihood security and rural development objectives.

Part 2
Rice in Asia

Profile of rice production

The impact of designating rice as a special product on rice production volumes and on food security will have to take into consideration the current global configuration as well as trends in rice production and consumption. The possible effect of the SP facility on the future supply of rice is an important concern, especially in view of the fact that it is a staple food to a significant portion of the world's population, and is an important source of income for many poor farmers in developing countries.

More than 114 countries worldwide produce rice. However, only 50 of these produce the commodity at volumes greater than 100 metric tons. Discussion on rice production will definitely have to focus on Asia, where 90% of the world's supply of rice is produced and consumed.[20] Nine out of the world's top ten rice producing countries are in the region, with China and India accounting for half of the total world's supply of the staple grain. The other top rice producers are Indonesia, Bangladesh, Vietnam, Thailand, Myanmar, Philippines, Brazil and Japan (please see Table 2).[21] With the exception of Japan, most of the key rice producers are developing countries, and as such have access to the SP facility.

Because these countries are major contributors to the world's overall supply of rice, it is clear that the effect of the SP facility on these countries' domestic rice production will also bear on the global supply of the commodity.

20. Rice around the world (excerpted from the 3rd edition of the Rice Almanac) International Rice Research Institute (IRRI) website
21. FAOSTAT

Table 2. Top 10 Rice Producer in the World, 2005

Country	Volume of production (in '000 metric tons)
China	185,454
India	129,000
Indonesia	53,984
Bangladesh	40,054
Vietnam	36,341
Thailand	27,000
Myanmar	24,500
Philippines	14,800
Brazil	13,140
Japan	10,989

Source: Faostat

Trends in rice consumption and demand

At the moment, Asia is able to produce enough rice to meet its requirements. In 2004, it produced approximately 558 million tons of the cereal to sustain the dietary needs of its rapidly growing population.[22] Rice accounts for 50% to 80% of the population's caloric requirement in countries such as Bangladesh, Cambodia, Indonesia, Lao PDR, Myanmar, Thailand, and Vietnam.[23] However, the demand for rice in the region is expected to expand not only in response to population growth but also due to improvements in incomes. According to the Food and Agriculture Organization (FAO), the region's demand for rice is expected to reach 770 million metric tons by the year 2025.[24]

Outside Asia, the demand for the cereal is also expected to balloon in some parts of West Africa, where the commodity is considered a food staple. Rice consumption in the region had doubled over the last nine years. At present, 40% of the African region's demand for rice is met through importation.[25] The increase in rice demand, as evidenced by the rapid rise in the region's rice importation will also exert pressure on the future supply of this staple commodity.[26]

22. Computed based on data from article entitled "Rice around the world"
23. Rice around the world (excerpted from the 3rd edition of the Rice Almanac) International Rice Research Institute (IRRI) website
24. Rice crisis looms in Asia, Agriculture 21, Food and Agriculture Organizations Website, 1998
25. Economists draw attention to Africa's Looming Rice Crises, a news release by tge African Rice Center, Cotonou Benin, 28 June 2007, http://www.warda.org/warda/newsrel-ricecrisis-jun07.asp
26. Report of the Fifth External Programme and Management Review of International Rice Research Institute, FAO, 1998

Although rice production volumes have exhibited positive growth throughout the last four decades, the rate of growth has been declining as a result of many factors. First, the investments in rice production in many rice-producing countries has been on a relative decline. According to FAO, the massive increases in yield and production volumes in the late 1960s to the early 1980's has created an air of complacency in terms of pursuing further improvement in rice production, through irrigation, extension services, better and newer production technology, among others. This has caused the slowing down of production growth in the sector.

Second, the adopters of Green Revolution technology had already reached their yield ceiling, thereby putting a cap on further increases in current output. It may be recalled that the growth in rice production in the 1970s was largely on account of the increase in yield brought about by the adoption of the technology package attendant to the Green Revolution. The increase in yield then was very high because it started off from a very low yield base. Unless significant improvements in rice production technologies are discovered in the near future, the growth rate in rice yield charted over the last four decades may be difficult to attain.

Third, the rice sector has been affected by tight fiscal disciplines. Many rice-producing countries have to manage their already tight resources through cuts in public investments. Though rice remains an important agricultural commodity in many Asian countries, inadequate budgetary resources on the part of governments contribute to the narrowing down of the delivery of support services to the rice industry. These include services essential to sustaining and improving rice productivity.

Finally, the escalating liberalization of the rice industry, apart from decreasing pressure to improve domestic production, has undermined the economic viability of local rice farming. Poor farmers moving out of rice production toward high value crops production had been observed in many countries in Asia. In many cases, farmers move out of agriculture altogether, seeking employment in the manufacturing and services sectors. As a result of all these factors, production growth rates dropped from 3% in 1967-1985 to 1.7% in 1985-1995, and even further down to the current rate of 1.35%.[27]

27. Ibid

The trend of increasing demand worldwide and declining rice production growth rates do not bode well for future global sufficiency in rice. According to estimates by FAO and IRRI, world rice production should grow by a minimum of 1.66% per year from the current 1.35% in order to keep up with the growth in demand.[28] It is clear that policies to sustain the economic viability of local rice farming, and provide incentives to increase production are very crucial in resolving the looming problem of insufficient rice supply, not only in Asia, but in the world as well.

Meanwhile, developing countries where rice is a staple food derive a greater sense of food security from ensuring that they have access to domestic sources of rice, for three reasons. First, the volume of rice presently being traded in the world market is very limited. Indeed, only 6% to 7% of the total world supply of the commodity is traded internationally, as the bulk of supply is used for domestic consumption.[29] In this context, rice consuming countries that are highly dependent on the world market for its supply of the staple grain will have high levels of food insecurity, and will be especially vulnerable to fluctuations in the world supply of rice.

Second, the growing demand from Asia and from West Africa puts a pressure on the already tight supply of rice in the international market, and will likely result to price increases, which developing countries can not afford. Lester Brown, head of the Earth Policy Institute and author of numerous books, among them on global rice trends, warned climbing food prices, especially in rice where consumption consistently outpaces production. According to him, food prices are likely to continue rising unless important production constraints are addressed in a sustainable manner.[30]

Third, depending on rice importation to meet domestic demand for rice will bear the most on developing countries' limited foreign exchange reserves. This undermines the concept of sustainable food security, as countries' access to rice will be greatly influenced by movements in foreign exchange rates as well as the availability of foreign exchange reserves.[31] For instance, a country with weak domestic cur-

28. Ibid.
29. Rice around the world (excerpted from the 3rd edition of the Rice Almanac) International Rice Research Institute (IRRI) website
30. Brown, Lester, World food prices rising: Environmental neglect shrinking harvests in key countries, April 28, 2004-8, Earth Policy Council
31. Bernabe, Farm News and Views

rency against the dollar and a limited foreign exchange reserve will have difficulty accessing less-priced and adequate supply of rice from the international market.

The foregoing highlight the reasons why countries especially those where rice is a staple food need to sustain domestic rice production to meet domestic consumption.

Rice as a special product in selected Asian countries

This section of the study will look into the factors that will influence the possible inclusion of rice as a special product in selected Asian countries, namely China, Vietnam, Thailand, Indonesia, the Philippines and Malaysia. The general criteria for SP selection, namely food security, livelihood security and rural development provided the framework for evaluating the commodity's significance in the agricultural sector of these economies.

China

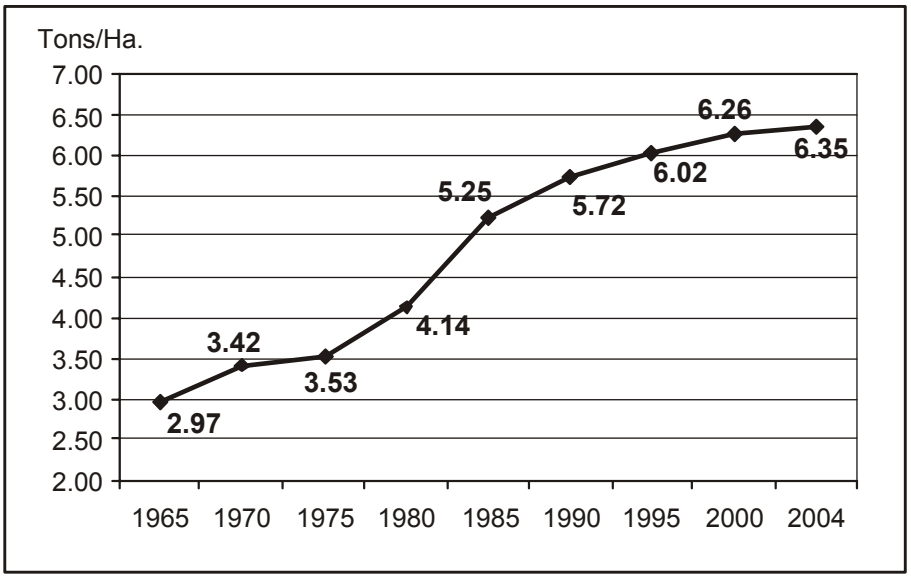
Background

China is the number one producer of rice, accounting for more than one third of the world's total supply of the staple commodity.[32] China's dominance in the world rice industry is a function of the large area of land devoted to rice production as well as its high yield in terms of rice output per hectare.[33] China's rice yield is one of the highest in Asia, next only to Japan and South Korea.[34] This allowed the country to produce the commodity at larger volumes compared to India, even though the latter has a bigger expanse of land devoted to rice production.

China's adoption of high yielding production technologies enabled it to chart remarkable improvements in rice yield in the past four decades. Rice yield per hectare has gone up from 2.97 metric tons per hectare in 1965 to the current high level of 6.35 metric tons in 2004. However, it is clear that the growth in yield is already approaching its ceiling, and, in fact, seems to have tapered off in the latter part of the 1980s.

32. Based on data from FAOSTAT
33. China, Rice Around the World, International Rice Research Institute Website
34. Based on the Table on Rough Rice Yield per Country from the World Rice Statistics

Figure 1
Rough Rice Yield in China, 1965-2004



Source of data: World Rice Statistics

The decline in yield growth in China indicates that future growth in the rice production volume within the region may not be as substantial as observed in the past few decades. Improvements in rice output will depend on major technological developments in rice production.

Food security

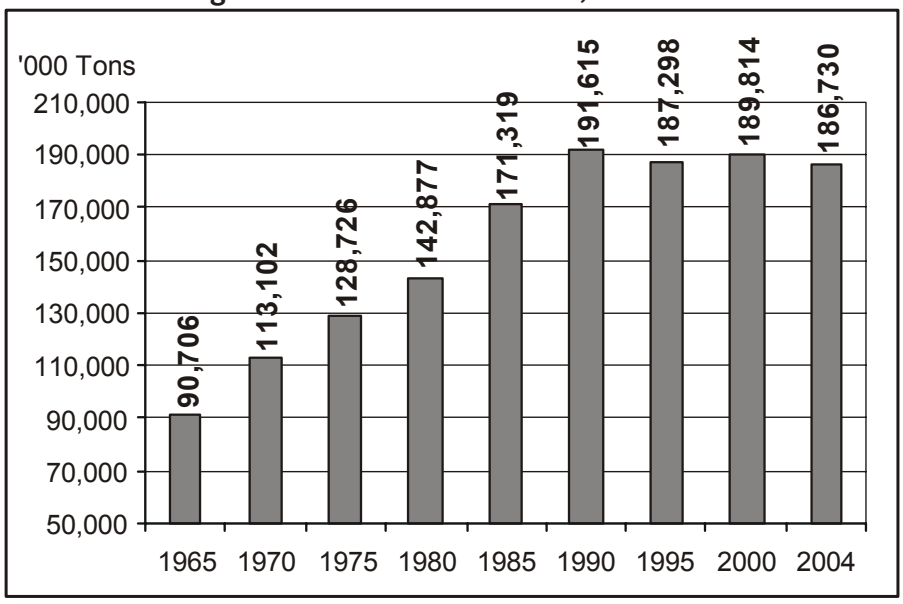
Rice is a food staple in China. It accounts for one third of the population's caloric intake, and supplies one fifth of the population's protein consumption, along with wheat. The commodity's contribution to over-all caloric and protein intake had actually been higher in previous years. Its share in the food basket is slowly declining as the population gains access to more diversified food choices.[35]

China's rice production has more than doubled over the last four decades. In 1965, rice production was at 90.7 million metric tons. This has grown to 186.7 million metric tons in 2004.[36] The steady growth in rice production, coupled with the country's highly effective population control policy, enabled it to sufficiently meet its food consumption requirements, as evidenced by its high production to con-

35. See footnote no. 12
36. From the Table on Rough Production per country, from the World Rice Statistics

sumption ratio. Rice production volume, based on 2002-2004 average, was at 341,364,000 metric tons, while consumption was at 225,846,000, resulting to a positive production to consumption ratio of 1.5.[37]

Figure 2
Rough Rice Production in China, 1965-2004



Source of data: World Rice Statistics

However, recent developments in the rice industry such as the decline in the area of lands devoted to rice production, crop shifting, as well as movement of labor from agriculture to industry and services were expected to put a downward pressure on domestic rice production. It is clear that China needs to find ways to further expand its rice yield if it is to maintain its positive production to consumption ratio.

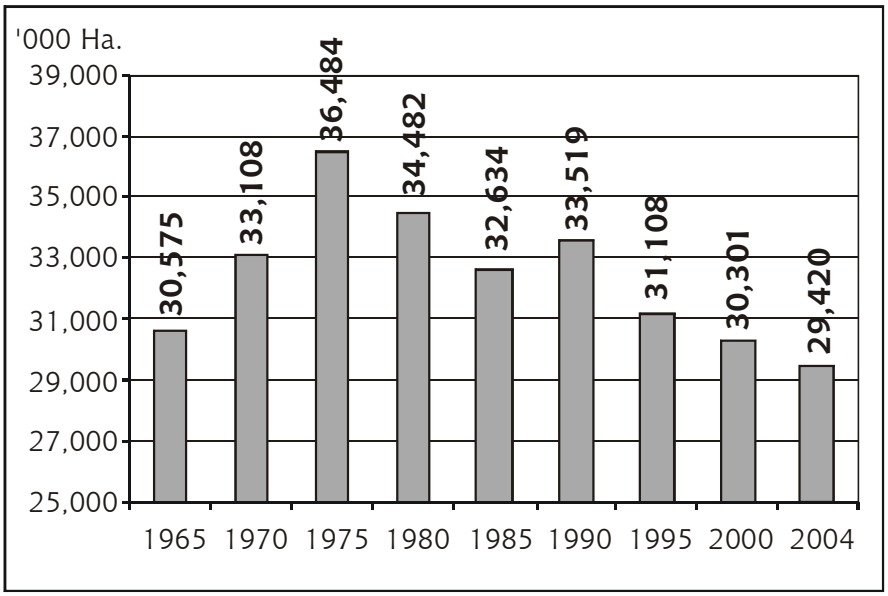
Livelihood security and rural development

Rice is also important to China from a livelihood security and rural development perspective. The commodity is planted to 30 million hectares, or nearly 6% of the country's total agricultural area.[38] However, the number of hectares devoted to rice production has been declining in the last few decades, from 36,484 in 1970.[39] Again, the decline in the number of hectares devoted to rice farming is indicative

37. From the Food Balance Table, from the World Rice Statistics
38. Author's computation based on data from article on China, Rice Around the World in the IRRI website
39. Data from the Table on Rice Area per country, from the World Rice Statistics

of the changing priorities in China's agricultural sector as well as in its economy. This change poses a challenge to the world's future supply of rice and its sufficiency to meet the demand.

Figure 3
Rough Rice Area in China, 1965-2004



Source of data: World Rice Statistics

China is a consistent net exporter of rice, except in 1995 when it imported 1.6 million metric tons of the commodity.[40] The country's main export destinations are the Philippines, Indonesia, South and North Korea, Japan, Iraq, Cote d' Ivoire and Cuba, among others. The country also imports rice mainly from Thailand.[41]

Rice as a special product in China

It is clear that rice is an important commodity in China for reasons of food security, livelihood security and rural development. However, there are many factors that may affect the country's decision to designate rice as a special product. The fact that China is a net rice exporter indicates that, at the moment, the commodity is not vulnerable to displacement by imports and, as such, has lesser need for the SP facility for rice compared to other countries. Moreover, China is presently encouraging agricultural producers to shift from land and labor inten-

40. From the Table on Imports of Milled Rice per country, from the World Rice Statistics
41. Hsin Hui and Guicai Liu, Tradeoffs between Quantity and Quality of China's Rice, China: Agriculture in Transition, Economic Research Services, United States Department of Agriculture

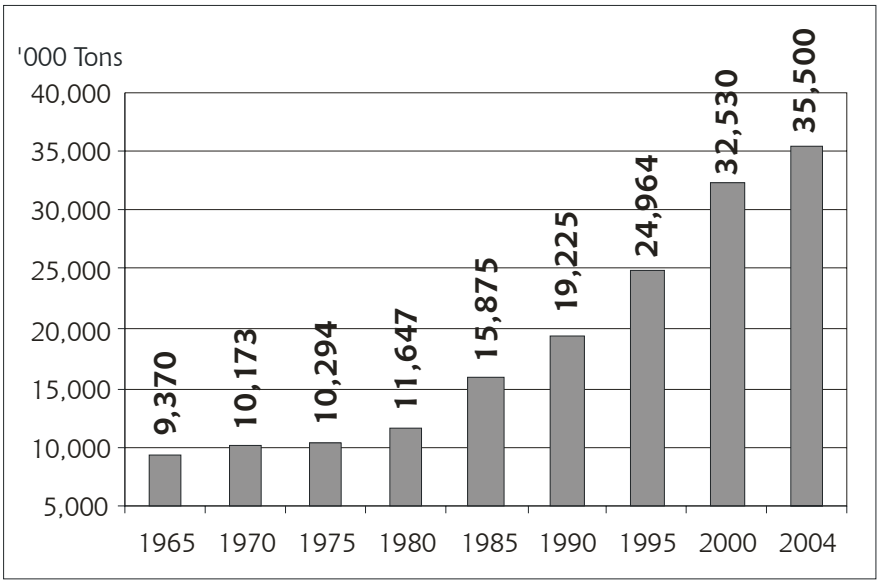
sive crops such as rice, towards agricultural products that are of higher value and requires additional processing. This may provide the country with lesser incentive to declare rice as a special product. However, this evaluation does not consider political decisions when selecting products that will be designated as SP.

Vietnam

Background

Vietnam is the fifth largest producer of rice, and the second biggest exporter of the commodity, next only to Thailand.[42] The country has exhibited phenomenal growth in rice production, with rice volumes more than tripling in the last four decades, from 9.3 million metric tons in 1965 to 35.5 million metric tons in 2004.[43]

Figure 4
Rough Rice Production in Vietnam, 1965-2004



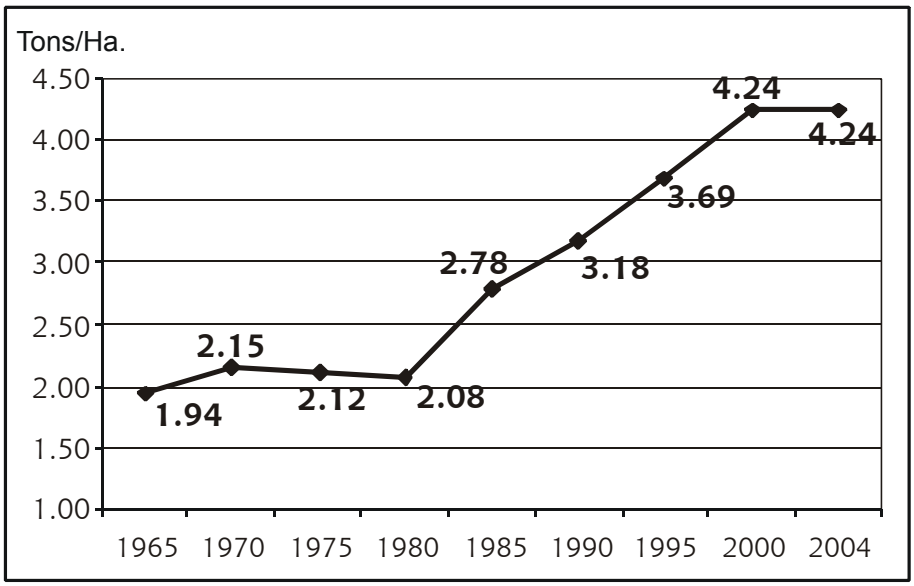
Source of data: World Rice Statistics

The remarkable growth in rice output is a result of many factors, namely (1) the expansion of land area devoted to rice farming, (2) increased public investment in rice production, and (3) effective policy reform in the rice industry. In particular, the country invested a lot of resources in flood control and drainage, irrigation systems and rice pro-

42. Based on data from FAOSTAT
43. From the Table on Rough Production per country, from the World Rice Statistics

duction technologies. It focused on increasing crop intensity by adopting short-term yield rice varieties.[44] These interventions helped raise rice yield, from a low 1.94 metric tons per hectare in 1965 to 4.8 metric tons in 2004.[45] These factors were also instrumental in transforming Vietnam from a chronic rice importer to a major rice exporter in the world market.

Figure 5
Rough Rice Yield in Vietnam, 1965-2004



Source of data: World Rice Statistics

Food security

Rice is the most important food item in the country. The Vietnam Living Standard Survey conducted in 1992-1993, reported that rice is consumed in 99.9 % of the total Vietnamese households, affirming the commodity's significance in the Vietnamese food basket. Rice consumption alone accounts for 75% per cent of caloric intake of households, and 30% of total household consumption expenditures.[46] The expansion in rice output has also resulted to an increase in per rice capita consumption, from 130 kilograms in 1975 to 170.3 kilograms in 1999.[47]

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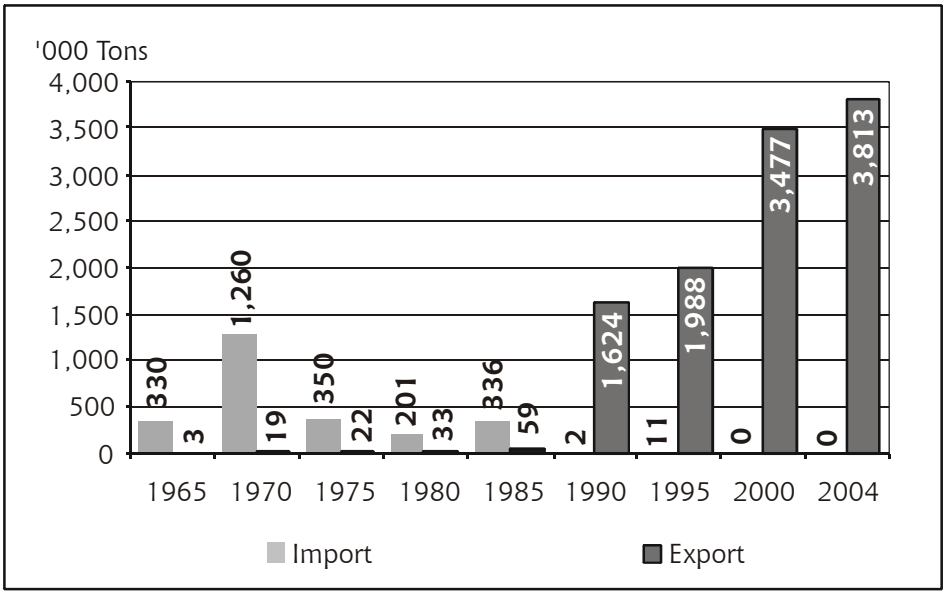
44. Vietnam, Rice Around the World, International Rice Research Institute Website
45. From the Table on Rough Yield per country, from the World Rice Statistics
46. Nicholas Minot and Francesco Goletti, Rice Market Liberalization and Poverty in Viet Nam, 1999
47. Ibid.

Livelihood security and rural development

The significance of the rice sector to the country's agricultural sector is reflected in the country's land allocation pattern. Out of Vietnam's 5.2 million hectares of arable lands, 4.2 million hectares are devoted to rice production. Improved cropping intensity enabled Vietnam to further increase land for rice production, from 4.7 million hectares in the 1970s to 7.4 million in 2004. The fact that the total area devoted to rice production has been increasing through the years indicates that rice has become even more important as a source of income for a growing number of people and households throughout the country. Indeed, eighty per cent of Vietnam's population lives in the rural areas, particularly near the Red River Delta and the Mekong River Delta, where rice farming is the main source of livelihood.

The growth in rice production allowed Vietnam to drastically reduce rice imports and enabled it to become the second largest rice exporter in the world. In the 1960s to the 1970s, Vietnam used to rack up huge rice imports, importing as much as 1.26 million metric tons in 1970. Now, the country regularly exports rice with export earnings reaching as high as US $ 1.02 billion in 1999. In 2003, rice exports were at US $ 727 million.

Figure 6
Vietnam's Import and Export of Milled Rice, 1965-2004



Source of data: World Rice Statistics

Despite the huge export earning, IRRI reported that rice farming is still characterized by low profitability. This poses a serious threat to the rice sector's continued growth. At the same time, it renders the rice industry vulnerable to crop shifting and to labor movement to other, more economically rewarding sectors.[48] IRRI reported that poor rice farmers have been trying to diversify into other crops such as vegetable and fruits, but are constrained from doing so because of the limited markets for these products.

Rice as a special product for Vietnam

At the moment, Vietnam is still undergoing the accession process in the WTO. Hence, the impact of the SP facility on the country's rice sector will depend largely on the result of this process. Nevertheless, rice is clearly important to Vietnam in terms of food security, livelihood security and rural development. However, the fact that the country is presently the second biggest exporter of rice in the world market may make it difficult for the country to designate rice as a special product in case it becomes a member of the WTO.

Again, as with the case of China, this evaluation does not consider political and other economic factors. The fact that the industry is characterized by low profitability indicates that poorer stakeholders in the sector have high levels of vulnerability. These need to be addressed through a combination of trade and production policies.

Thailand

Thailand is the number one exporter of rice in the world. Its rice exports have more than tripled in the last four decades, growing from only 1.8 million metric tons in 1965 to 8.3 million metric tons in 2003. The country's development as the global top rice exporter is an outcome of two main factors. One of these is the expansion of land area devoted to rice production. Rice lands have broadened by 67% over the last four decades, from 6.2 million hectares in 1965 to 9.8 million hectares in 2004, as the country focused on developing the sector for exports.[49]

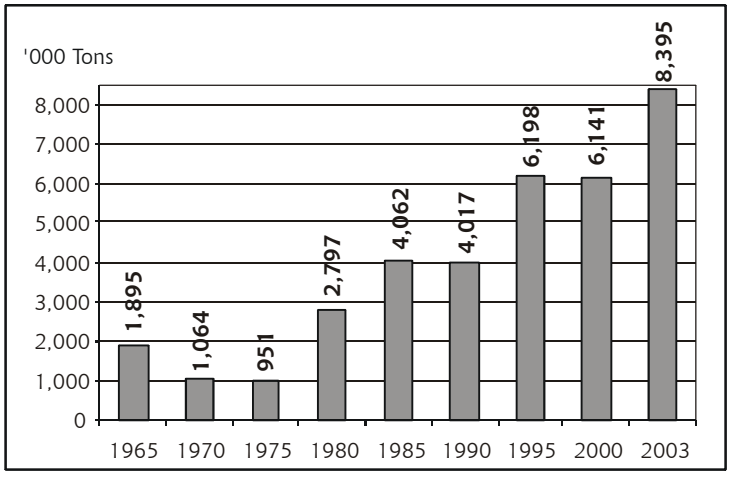
The expansion of land area devoted to rice production compensated for the country's rather low yield. Thailand, despite being the top rice exporter, has one of the lowest yield levels in the world. The

48. See footnote number 23
49. All data are from the World Rice Statistics

country's rice yield in 2004 was at 2.57 metric tons per hectare, well below the yield levels of China, Japan, South Korea and Vietnam which were above 6 metric tons per hectare for the same year. Rice yield grew very slowly, and to a very limited extent, from 1.78 metric tons per hectare in 1965 to the 2004 level of 2.57 metric tons per hectare.[50]

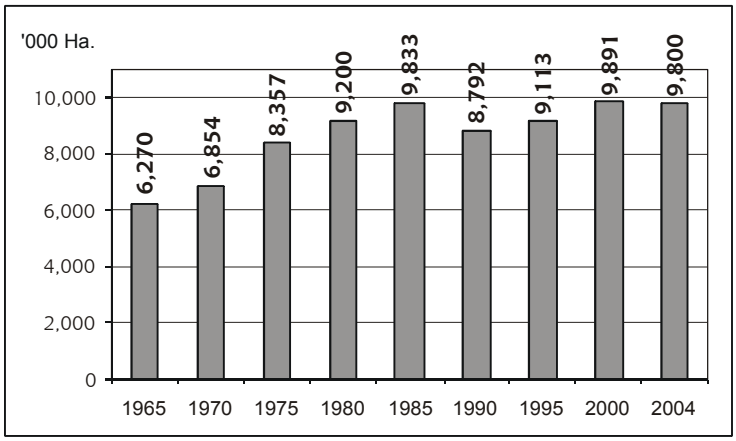
The other factor relates to the country's declining domestic demand. This trend, which will be discussed more in the succeeding parts, freed up the rice supply for the export market. The combination of expanding land area, coupled with shrinking domestic consumption resulted to the country's sufficient grain surplus for the international market.

Figure 7
Exports of Milled Rice in Thailand, 1965-2004



Source of data: World Rice Statistics

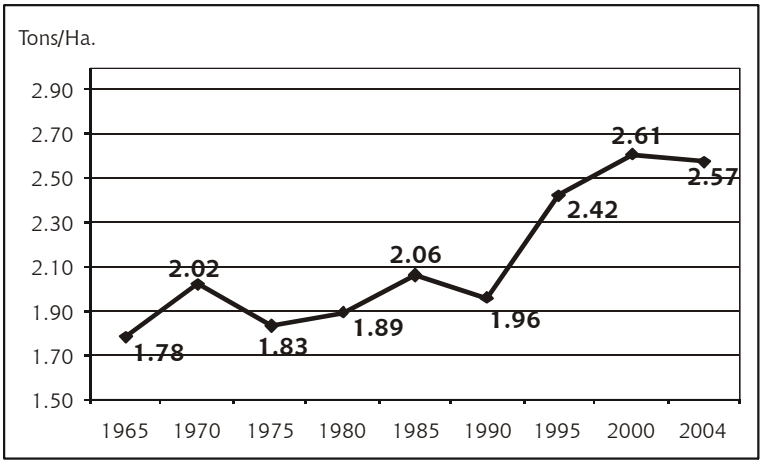
Figure 8
Rough Rice Area in Thailand, 1965-2004



Source of data: World Rice Statistics

50. Data from the World Rice Statistics

Figure 9
Rough Rice Yield in Thailand, 1965-2004



Source of data: World Rice Statistics

Food security

Rice is a staple in the Thai diet but the commodity's significance in the people's food basket is waning. The share of rice in household food expenditures has been on a decline, scaling down from 17.1% in 1990 to 10.8 % in 2002. Rising income has encouraged the people to consume less rice in favor of a more diversified diet that includes more meat, fruits and vegetables.[51] This change in rice consumption pattern is also reflected in the drop of per capita rice consumption. Per capita consumption went down from 119 kilogram in 1990 to 101 kilograms in 2002.[52]

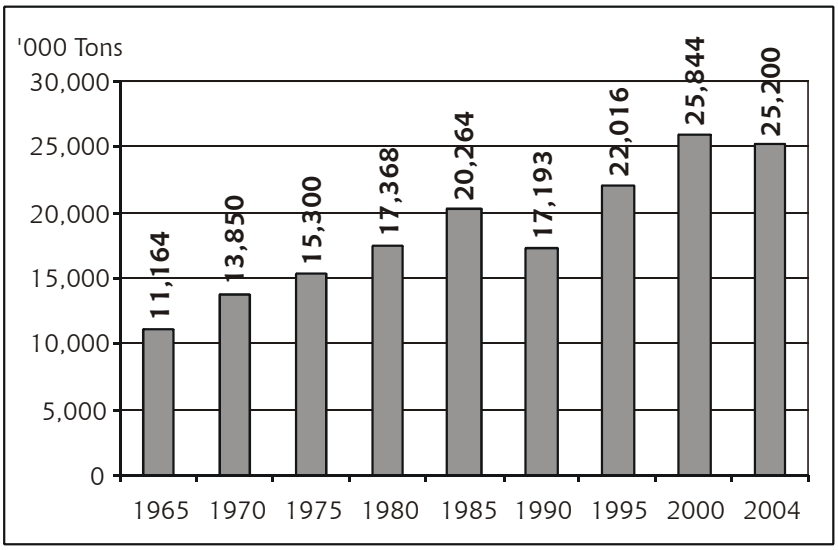
Livelihood security and rural development

Half of Thailand's agricultural labor force is into rice farming. The fact that agricultural labor force accounts for 46.6 % or nearly half of the total employment in 2003 magnifies the significance of the commodity in the country's whole economy.[53] In addition, rice is planted in 55% or more than half of the country's arable lands. All these underscore the importance of the commodity as the main source of income and livelihood in the rural areas, as well as the most relevant commodity in terms of its role in rural development.[54]

51. Isvilanonda Somporn, Rice Consumption in Thailand,: The slackening demand, paper presented to the Asian Science Seminar on "Development Strategy for Sustainable Food System" during November 26 to December 5, 2006 at Nihon University College of Bioresource Sciences, Fujisawa City, Kanagawa, Japan.
52. Ibid.
53. From the ASEAN Statistical Yearbook, 2005
54. Thailand, Rice Around the World, IRRI Website

Based on 2002-2004 average, more than one third of Thailand's total rice produce goes to the export market.[55] Rice export is an important source of dollar revenues for Thailand. In 2003, the export earning from the staple grain was at US $ 1.8 billion. Its highest export earning from rice was in 1997 at US 2.1 billion.[56] It is within this context that one can understand the rationale behind Thailand's concern over the possible impact of SP on exporting developing countries' food security, livelihood security and rural development.

Figure 10
Rough Rice Production in Thailand, 1965-2004



Source of data: World Rice Statistics

However, there are indications that Thailand's increasing share in the export market does not necessarily translate to better incomes and improved welfare for many poor rice farmers. A study conducted by FAO reported that Thai rice farmers are still very poor despite the country's impressive export performance.[57]

Rice as a special product in Thailand

Rice is definitely an important product in Thailand in terms of food security, livelihood security and rural development. However, it is clear that the country has little reason to declare it as an SP in view of its current position as a key rice exporter.

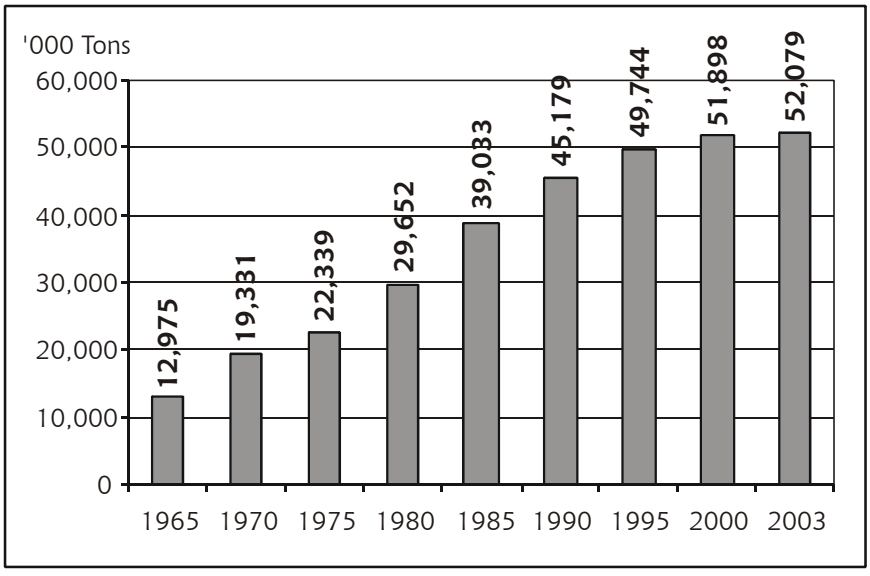
55. Food Balance Sheet, World Rice Statsitics
56. Data from the World Rice Statistics
57. Vanichamont, Pramote, Thai Rice: Sustainable Life For Rice Growers, paper presented during the FAO Rice Conference in Rome, Italy, February 12-13, 2004.

Indonesia

Indonesia is the third biggest rice producer in the world, next only to China and India.[58] Despite its huge production, it is also the number one importer of the staple grain. Imports are incurred primarily to help meet the consumption requirements of its huge population, which in 2005 reached 219 million people.[59]

Indonesia's status as top rice importer draws attention away from the fact that it has one of the most impressive track records in Asia, in terms of growth in rice output. The country registered remarkable growth in rice production, with production volume growing from only 12.9 million metric tons in 1965 to 52.0 million metric tons in 2003.[60] The unparalleled rise in output of the staple good is an outcome of government's increased intervention in the sector. Government promoted the adoption of high yielding varieties, extended fertilizer subsidies for poor rice farmers, and implemented policies to stabilize the price of rice. Public investments in irrigation, farm to market roads and other rural infrastructure were also undertaken to help improve the output.

Figure 11
Rough Rice Production in Indonesia, 1965-2004

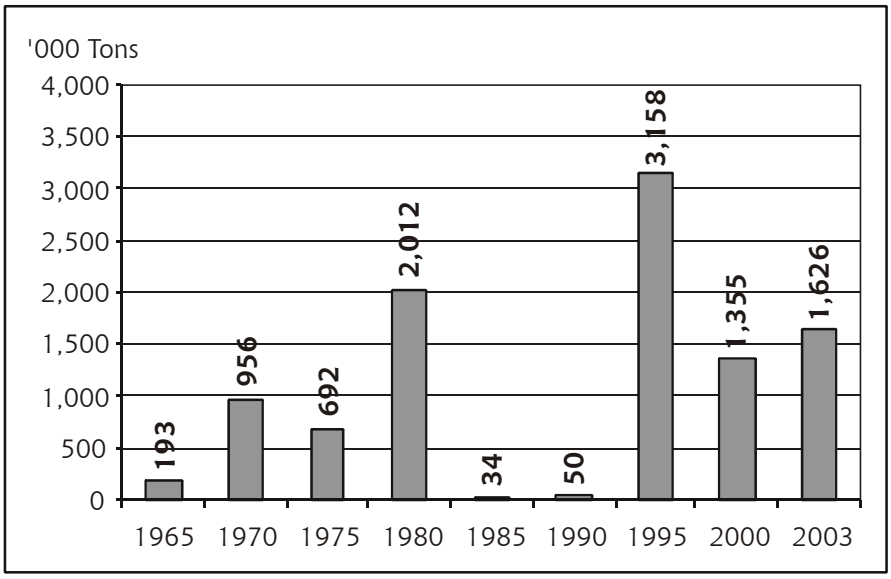


Source of data: World Rice Statistics

58. Faostat
59. ASEAN Statistical Yearbook 2005
60. Based on data from the World Rice Statistics

However, the growth in production is clearly not enough to meet the food requirements of Indonesia's rapidly growing population, as evidenced by its yearly rice importation. The country is one of the biggest rice importers in Asia, with import volume reaching as high as 4 million metric tons in 1999. In 2003, rice imports were at 1.6 million metric tons, equivalent to 13% of Asia's total imports for the same year.[61]

Figure 12
Rough Rice Imports of Indonesia, 1965-2004



Source of data: World Rice Statistics

Food security

Rice is very important to Indonesia's food security. It accounts for 51.4 % or more than half of caloric requirement of the population, and 42.9% or nearly half of protein intake.[62] Compared to other countries, Indonesia enjoys a high per capita rice consumption of 154 kg of milled rice per year.[63] However, as discussed in the previous section, production is not sufficient to cover the consumption requirements of its huge population, forcing it to rely on importation to augment domestic supply.

A substantial percentage of household resources, especially among the poor are allocated for rice consumption. In particular, rice accounts

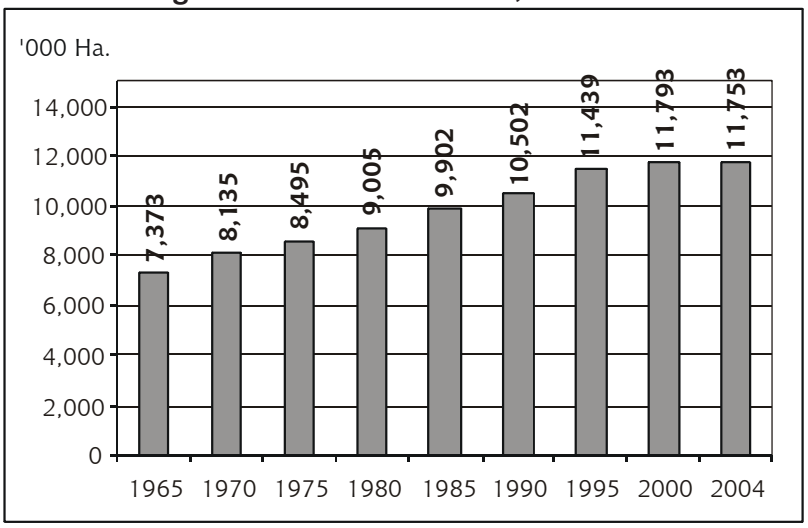
61. Based on data from the World Rice Statistics
62. Kennedy etal, Nutritional contribution of rice and impact of biotechnology and biodiversity in rice consuming countries, FAO
63. Indonesia, Rice Around the World, IRRI Website

for 20% of total expenditures among the poorest section of the population in the urban areas.[64]

Livelihood security and rural development

Rice is planted in nearly 40% of the country's total arable lands. The area devoted to rice production has steadily increased over the last four decades, from only 7.2 million hectares in 1965 to 11.7 million hectares in 2003.[65] The commodity is planted in nearly half of the country's total agricultural lands making it as a primary source of livelihood and income to many people in the rural areas.

Figure 13
Rough Rice Area in Indonesia, 1965-2004



Source of data: World Rice Statistics

Recognizing the importance of the rice industry to the agriculture sector and to the entire economy, the government adopted trade policies geared towards protecting poor rice farmers from importation. However, these policies are slowly being eroded by the conditions set by institutions, such as the International Monetary Fund (IMF). For instance, the government used to regulate the entry of imported rice into the local market by ensuring that all imports are coursed through its state trading enterprise, the Bulog. However, in 1998, the government allowed private sector to undertake rice importation, releasing the Bulog's sole authority to import rice.[66]

64. Ibid
65. Data from the World Rice Statsitics
66. Leith, Jennifer etal, Indonesia Rice Tariff, Poverty and Social Impact Analysis, March 2003

Poor rice farmers have expressed concern over the possible impact of liberalizing rice importation. The concern stemmed from the fact that domestic rice prices, especially from 2000 onwards, were generally higher compared to world prices, rendering local producers vulnerable to displacement by lesser-priced rice imports.

Moreover, rice importation has also proven to be costly in terms of foreign reserves. In 2003, Indonesia paid a total of US $ 332.82 million for its rice imports, money that could have gone a long way had it been invested in developing the local rice industry.[67]

Rice as a special product in Indonesia

Rice is important to Indonesia in terms of food security, livelihood security and rural development. Indonesia maintained its generally defensive stance when it comes to rice trade. Domestic rice prices are generally higher compared to world prices, increasing the possibility that the country will designate rice as a special product.

Philippines

The Philippines belongs to the top ten rice producers of the world, producing 14.8 million metric tons of paddy rice in 2005.[68] The country's current production volume represents a marked increase from past paddy output, which in 1965 was only at 4 million metric tons. The improvement in production is a result of many factors, including the expansion of area devoted to rice farming and improvements in yield. Rice lands increased from 3.1 million hectares on 1965 to 4.0 million hectares in 2004. At the same time, yield picked up from only 1.31 metric tons per hectare to 3.55 metric tons per hectare, over the same period.[69]

Increased investment in the rice sector, particularly in irrigation, technology extension, credit, farm-to-market roads, among others helped improve the condition. These investments formed part of the Green Revolution technology package, which the country adopted in the 1970s to the 1980s, geared to improve rice output and achieve rice self-sufficiency.[70]

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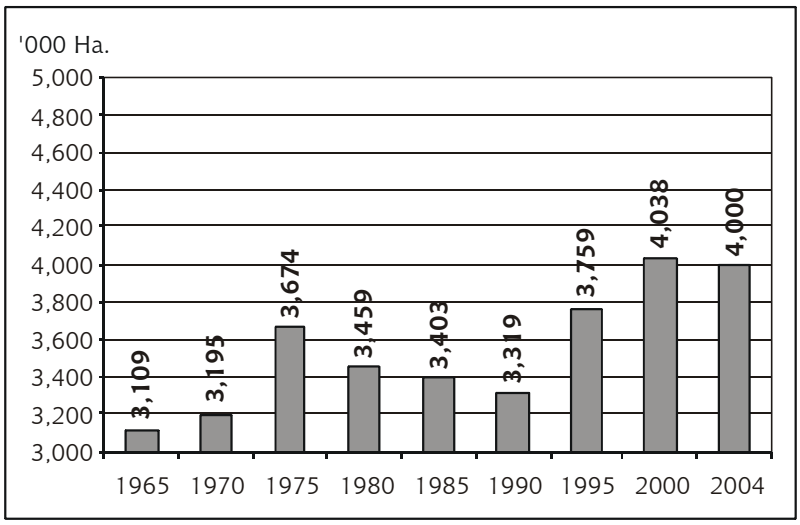
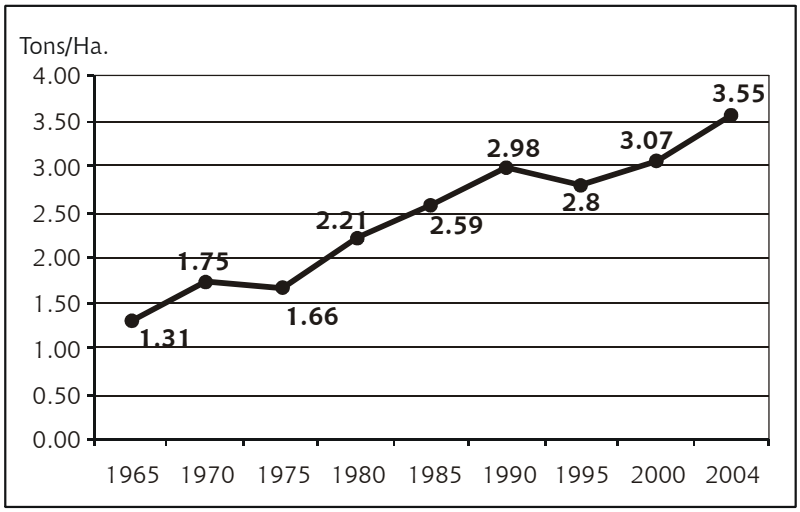
67. Data from the World Rice Statistics
68. Based on data from Faostat
69. All data from the World Rice Statistics
70. Philippines, Rice Around the World, IRRI Website

Figure 14
Rough Rice Area in Philippines, 1965-2004



Source of data: World Rice Statistics

Figure 15
Rough Rice Yield in Philippines, 1965-2004



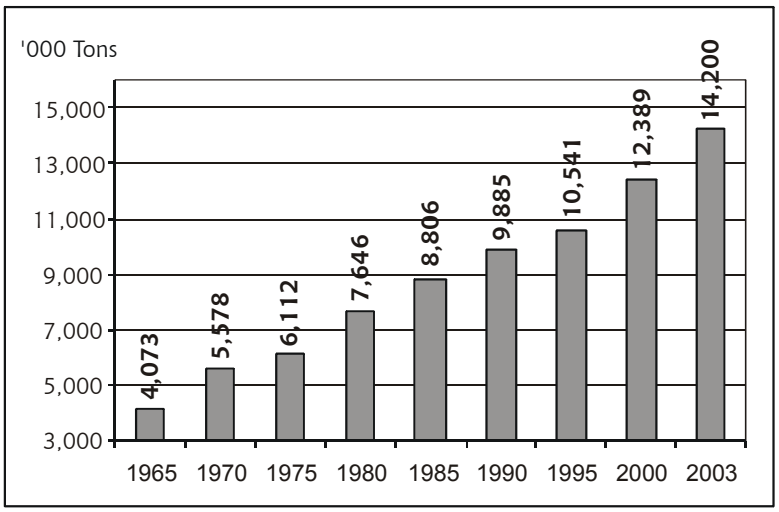
Source of data: World Rice Statistics

Food security

Government's effort to achieve self-sufficiency in rice is reflective of the staple grain's importance to the country's food security. Indeed, in the Philippines, food security is synonymous to rice self-sufficiency. This is understandable in view of the fact that the commodity accounts for 40.9% and 30.1% of the population's caloric and protein intake, respectively.[71] However, per capita rice consumption is relatively low compared to other countries, at 99.7 kg per year in 1999.

71. Kennedy etal, Nutritional contribution of rice and impact of biotechnology and biodiversity in rice consuming countries, FAO

Figure 16
Rough Rice Production in Philippines, 1965-2004



Source of data: World Rice Statistics

Despite the growth in production, the country continues to depend on imports to bridge the gap between domestic supply and the population's consumption requirement. Except for 1998, rice imports have always accounted for less than 10% of total rice supply from the 1990s to the present. This indicated that a substantial portion of the country requirement for the commodity is met through local production.

Livelihood security and rural development

Rice is planted in almost all provinces in the Philippines which made the commodity a significant source of livelihood to many people in the rural areas. All in all, rice is planted in 40% of the country's total arable lands. Estimates placed the number of farmers directly engaged in rice production at 4.4 million.

Rice production is important not only to the country's agricultural sector, but to the whole economy as well. It accounts for 19% of Gross Value Added in agriculture in 2003, and 2.7% of the country gross domestic output.

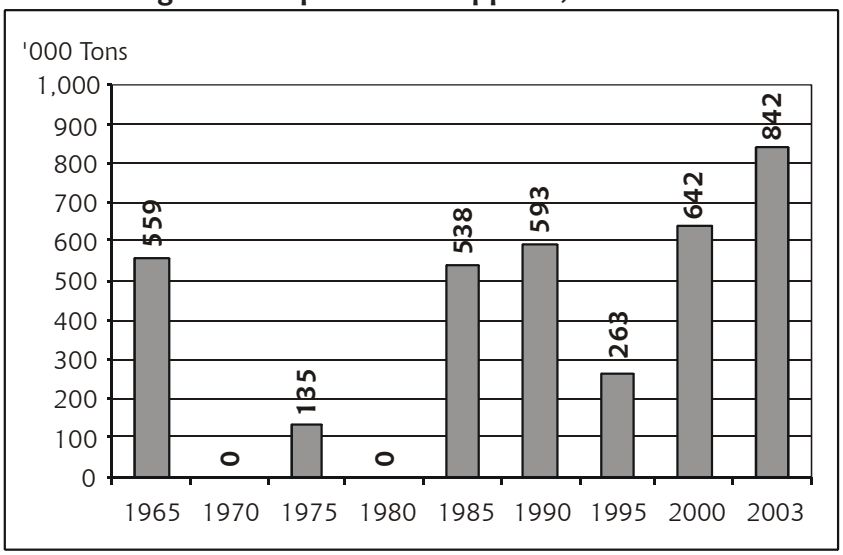
Government currently maintains a Quantitative Restriction (QR) on rice importation, having negotiated for the sector's exemption from tariff regime under Annex 5 of the Agreement on Agriculture. Despite the existence of the QR, the country has been a consistent importer of rice since the latter part of the 1980s to the present. Imports were incurred mainly to augment domestic production. The highest import

volume was in 1998, when the country sourced 2.1 million metric tons from the international market. In 2005, the Philippines imported 1,027,665 metric tons. Poor rice farmers have expressed concern over the high volume of importation as well as the timing of the release of imported rice into the market.

The National Food Authority (NFA), the Philippines' state trading enterprise, used to be the sole importer of rice. However, in 2001, the government allowed private sector, particularly, farmer groups to import the commodity. The NFA is also mandated to keep the farm gate prices of paddy rice high while keeping retail rice prices low. It fulfills this mandate by buying paddy at a given floor price and selling it to the market at a low price.

The influx of lesser-priced imported rice has always been a major cause of apprehension among many poor rice farmers, mainly because domestic prices are generally higher compared to world prices. Importation has also contributed to drain the country's foreign reserve. In 2004, the Philippines paid more than US $ 232 million for rice imports.

Figure 17
Rough Rice Imports of Philippines, 1965-2004



Source of data: World Rice Statistics

Rice as a special product in the Philippines

As mentioned earlier, the Philippines was allowed to maintain QR on rice importation by virtue of Annex A of the Agreement on Agricul-

ture.[72] This means that the country will continue to enjoy exemption from trade liberalization—a flexibility that is clearly superior than the proposed flexibilities on the treatment of SPs. Therefore, one may argue that, for the Philippines, there is little value in declaring rice as SP since it is exempted from tariff formula and consequently from tariff reduction. Nevertheless, in view of the importance of rice industry to the Philippines' food security, livelihood security and rural development objectives, there is great pressure for government to designate rice as SP in anticipation of the possible expiration of the QR on rice imports. In case rice is indeed declared as SP, the market access flexibility should be applied on the rice in-quota rate, which at present, is pegged at 50%.

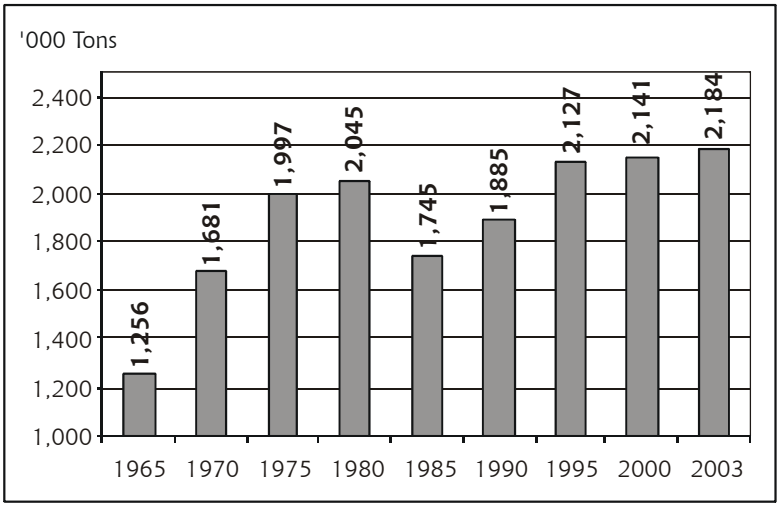
Malaysia

Rice is considered a security crop in Malaysia, and as such, is a recipient of extensive support from government. Government provides fertilizer subsidy, price support and price subsidy to poor rice farmers as a way of encouraging rice farming. In fact, the bulk of Malaysia' rice production comes from 8 granaries which serve as the foci of support to the country's rice industry, particularly in terms of rural infrastructure, such as irrigation. The areas covered by these granaries comprise 57% or more than half of total rice lands.[73]

However, government support is clearly not enough to spur substantial improvements in production. Rice output was only 2.1 million metric tons in 2003, a minimal increase from the production levels in 1965, which was at 1.2 million metric tons. The low production volume mirrors the industry's rather slow improvement in terms of yield as well as the very limited expansion of lands devoted to rice production, a factor that has contributed to the rapid rise in rice output in most Asian countries. Rice yield per hectare improved from 2.16 metric tons per hectare in 1965 to 3.26 metric tons per hectare in 2004. Meanwhile the coverage of rice lands waxed and waned over the last four decades as farmers moved in and out of rice farming to more profitable crops. The area dedicated to rice farming barely expanded from 582 hectares in 1965 to 670 hectares in 2004.[74]

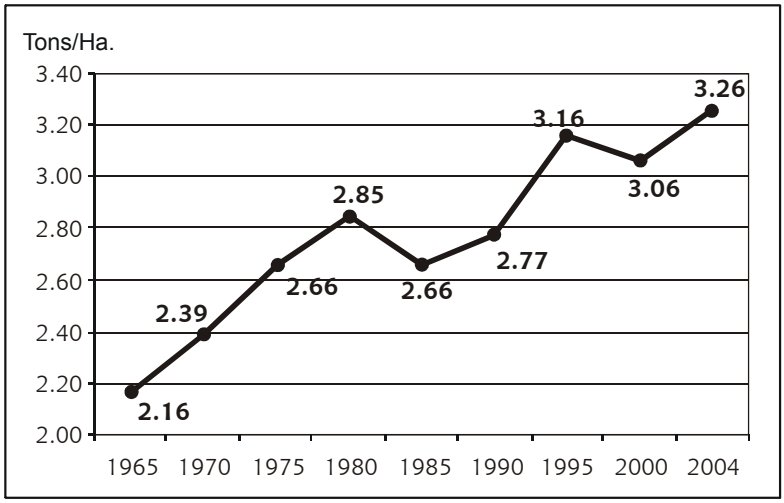
72. Based on text of Annex A of the Agreement on Agriculture
73. Rice in Malaysia, Consumers International Website
74. All data from the World Rice Statistics

Figure 18
Rough Rice Production in Malaysia, 1965-2004



Source of data: World Rice Statistics

Figure 19
Rough Rice Yield in Malaysia, 1965-2004



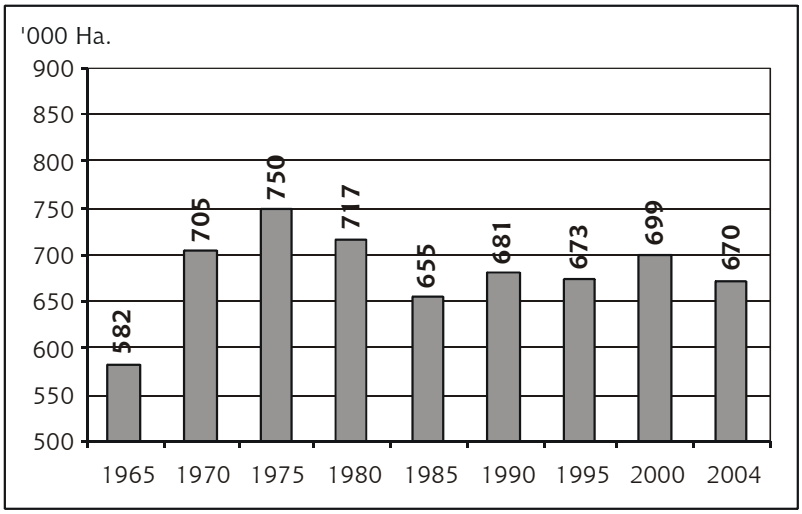
Source of data: World Rice Statistics

Malaysia's state trading enterprise, the BERNAS, is involved in the procurement, processing, trading, importation and distribution of rice. It also manages the public funds for rice subsidies.

Food security

Rice is one of the main food items consumed in Malaysia along with wheat, meat, sugar and honey, and oil and fat. Rice accounts for 29.8% or nearly one third of the population's caloric intake, and contributes 20% or one fifth of the population's protein consumption. However,

Figure 20
Rough Rice Area in Malaysia, 1965-2004



Source of data: World Rice Statistics

per capita rice consumption, at 88.4 kg per year, is low compared to other countries in Asia.[75] Similarly, expenditure on rice is relatively small, comprising only of 3% of household income compared to other countries in the region.[76]

Malaysia's self-sufficiency level in rice ranges from 65% to 72%, indicating that a substantial portion of the country's rice requirement is dependent on imports. The volume of imported rice in 2003 was at 360,000 metric tons, and is sourced mainly from Thailand. The country's low self-sufficiency level makes it highly dependent on the world market to meet its rice requirement. However, achieving high levels of self-sufficiency remains a challenge in view of the fact that many rice farmers are enticed to leave rice farming in favor of high value cash crops such as palm oil and rubber, the country's main agricultural products for export.

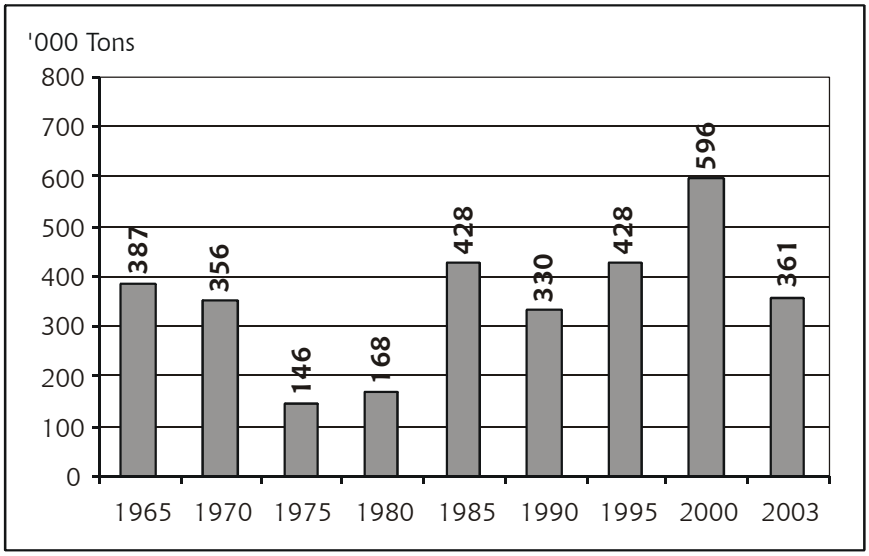
Livelihood security and rural development

Interventions in the rice industry are closely linked to government efforts to alleviate poverty in the rural areas, mainly because the rice sector has a high concentration of resource poor farmers. Most rice farmers are poor with average farm size of not exceeding 1 hectare.

75. Malaysia, Rice Around the World, IRRI Website
76. See Yee Ai, Rice Cultivation, A growing concern, Star Paper, January 5, 1999

In recent years, poor rice producers have been very vocal about the impact of importation on their livelihood. Though rice imports were found to fluctuate over the years, the commodity remains one of the country's top import items. In 2003, Malaysia paid US $ 135 million for rice imports. Proposals to further reduce current tariffs on rice have been met with strong opposition by rice farmer groups.

Figure 21
Rough Rice Imports of Malaysia, 1965-2004



Source of data: World Rice Statistics

Rice as a special product in Malaysia

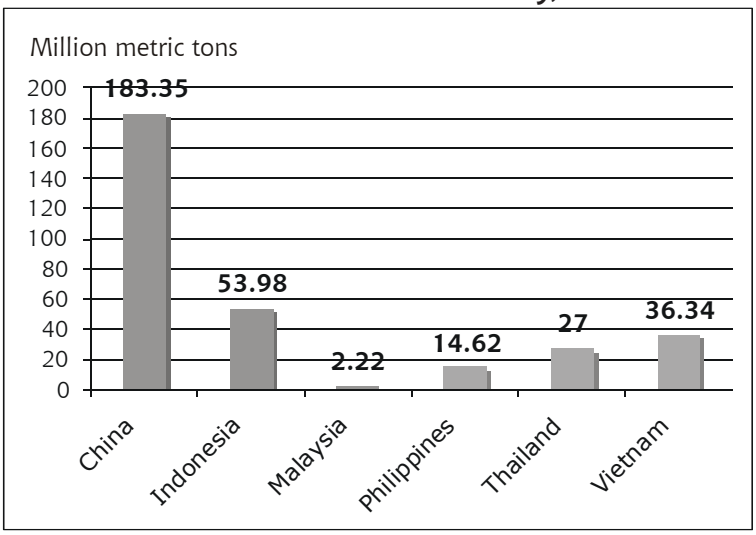
Rice is important to Malaysia in terms of food security, livelihood security and rural development, though probably to a lesser extent compared to its other Asian neighbors. Designating rice as a special product will help the industry as it is characterized by low self-sufficiency in rice output and poverty among its stakeholders.

Comparative country analysis

A comparative analysis of rice data across the countries covered by the study will provide interesting insights into the current state of world rice supply and demand. China's rice production volume of 183.5 million metric tons in 2004 is higher than the combined production volumes of the other five countries covered by study, at only 134.16 million metric tons during the same year (Figure 22). This indicates that though widely evident worldwide, rice supply is mainly

concentrated in a few countries. With the exception of Malaysia, the countries covered in the study are among the world's top ten producers of rice. It also underscores China's very influential role in determining the world rice stocks.

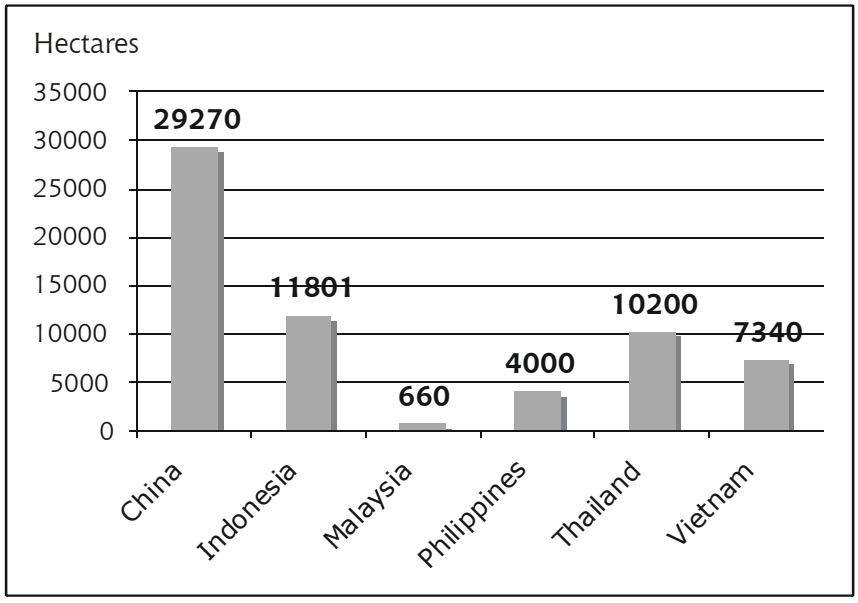
Figure 22
Comparative Production Volumes,
Six Countries Covered in the Study, 2004



China is the world's biggest producer of rice in view of the extent of land devoted to rice faming. Among the countries cited by the study, China has the largest coverage of land for rice farming, at 29.27 million hectares. Indonesia and Thailand followed at 11.8 and 10.8 million hectares, respectively. Vietnam and the Philippines have smaller expanse of rice lands at 7.3 million hectares and at 4.0 million hectares, respectively. Meanwhile, Malaysia, with 660 hectares, has the lowest hectarage of land devoted to rice production among the countries in the study.

The ranking of countries in terms of rice land area does not automatically translate to similar ranking in terms of rice production volume. For instance, although Thailand placed third in terms of rice land area, it only placed fourth in terms of rice production. On the other hand, Vietnam ranked fourth in terms of rice land area but ranked third in terms of volume of rice output. The gap in rice production between countries such as China and Indonesia is not commensurate to the difference in the rice land area covered between these two countries. These relational gaps in hectarage and production can be attributed to differences in yield levels.

Figure 23
Hectares of Rice Land Among the Six Countries



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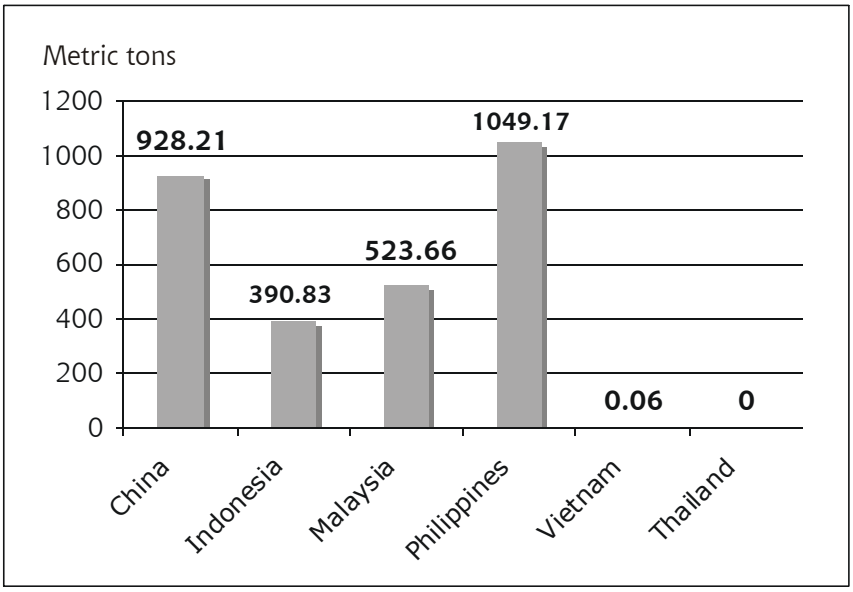
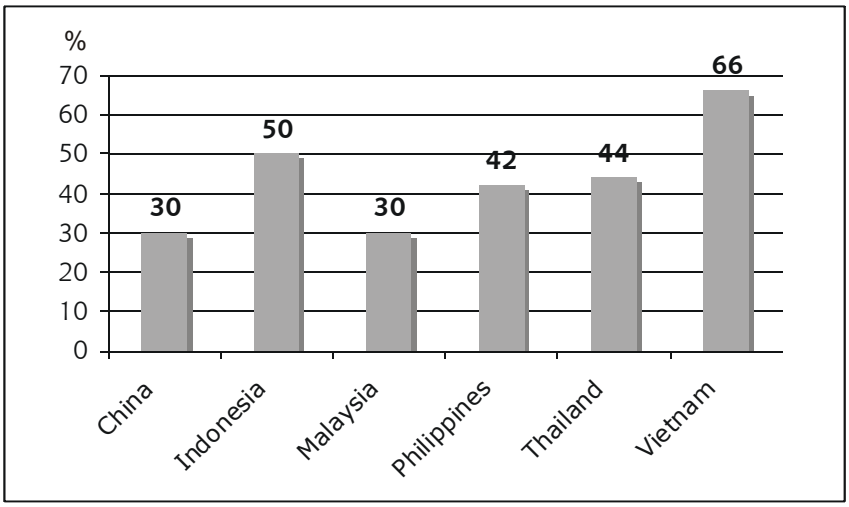
China has the highest yield level at 6.26 metric tons per hectare, which is at least 26% higher than the yield levels of the other countries covered in the study. Vietnam charted the second highest yield level at 4.95 metric tons per hectare. This is the reason why it has a higher ranking in terms of production relative to Thailand, despite the latter's greater rice land area coverage. Thailand has the lowest productivity among the six countries, affirming the study's earlier observation that the country's strength in terms of rice production is largely a function of its land resource rather than improvements in yield.

Figure 24
Rice Importation of Selected Countries (2004)



As pointed out earlier, rice plays a very important role in meeting the food security objectives of many countries, especially those in Asia, where the grain is considered a staple food. Rice provides a high percentage of the population's caloric intake in the countries covered by the study, with percentage values ranging from as high as 66%, in the case if Vietnam, and 30% in the case of China and Thailand.

Figure 25
Percentage of Calorie as Supplied by Rice in the Six Countries



Conclusion

It is clear that rice is indeed important in terms of food security, livelihood security and rural development in all six countries covered by the study. It is in this context that each of these countries can easily justify including rice in its list of special products. However, Vietnam, Thailand and China may have little incentive to get rice assigned as SP mainly because they export rice and, as such, may require minimal market access flexibilities for the staple grain. In fact, Thailand has expressed concern over the SP facility precisely because of its possible effect on rice exports. On the other hand, Indonesia, Malaysia and the Philippines, have greater need for the SP facility on account of their status as net rice importers.

Part 3
Rice as a Special Product

The study's analytical framework

The study is guided by two analytical questions to assess the impact of designating rice as a special product:

Will designating rice as a special product limit rice trade between developing countries?

One of the concerns raised by developing countries like Thailand, Malaysia and even Pakistan, which is a G33 member country was related to the effect of SPs on South-South trade. They asserted that market access flexibilities associated with the SP facility will undermine the food security, livelihood security and rural development objectives of exporting developing countries. To validate this concern, the study assessed whether designating rice as a special product will lead to narrowing down of markets of rice, or not. In particular, the study looked at how the proposed modalities on SP treatment will affect current protection level of rice. At the same time, it studied the reasons why countries are importing rice and see whether the import patterns will be sensitive to SP designation, or not. Finally, the study discussed the trend in global rice trade, looking at world import and export of rice over the last few decades.

How will the designation of rice as a special product impact on the competitiveness level of each country?

The study used three scenarios in assessing the potential impact of designating rice as a special product on developing countries' level of

competitiveness in rice. These scenarios focused on two possible treatments of special products, based on current proposals on SP modalities—smaller tariff cuts at 5 % and 10 % tariff reduction, and zero tariff reduction. The third scenario is on the possibility that rice will not be declared as SP by the countries covered by the study, and as such will be covered by the normal tariff reduction schedule.

To gauge the country's level of competitiveness in rice, the study compared domestic prices vis-à-vis an international benchmark price for rice, plus different levels of tariffs. The tariff levels vary with each of the SP treatment scenarios mentioned above.

Will designating rice as a special product limit rice trade between developing countries?

Current proposals on SP treatment in the WTO are focused on two main possible modalities, namely the exemption of SPs from tariff reduction and the application of lower tariff cuts on commodities declared as SPs. The G33, in particular have proposed that fifty percent of the SPs are exempted from tariff reduction. The other proposals limited the market access flexibility of SPs to tariff cuts lower than the normal tariff reduction schedule for developing countries.

The resulting rice tariffs for each of the six countries once these modalities are applied can be seen in the table below:

Table 3. Rice Tariffs in Selected Countries

Countries	Current Bound Tariffs	No tariff cuts	Minimal tariff cut of 5%
Thailand	40	40	38
Malaysia	52	52	49.4
Indonesia	160	160	152
China	65	65	61.75
Philippines	50	50	47.5

Source: WTO, Country Schedule of Concessions

It is clear that SP will not result to the tightening of markets as it will, at most, only maintain countries' current level of tariff protection. The 5% tariff cut will still result to a level of market access opening and as such cannot be perceived as a contraction of rice markets.

Similarly, exempting rice from tariff reduction while helping countries maintain their policy space for the commodity, will definitely not inhibit rice trade.

Moreover, since rice is a staple food item, countries will import the commodity to meet the gap between production and domestic requirement, whether rice is declared as a special product, or not.

Finally, trends indicated that even with high levels of protection, rice trade has been generally growing over the last four decades, mainly in response to changes in production and consumption patterns across countries. World exports have increased from 6.3 million metric tons in 1961 to 27.5 million metric tons in 2003. A substantial portion of these exports came from Asia, which accounted for nearly 70% of world export in the 1960s, and up to 74% of total world exports in 2003.

How will the designation of rice as a special product impact on the competitiveness level of each country?

This section of the paper aims to look at the possible impact of proposed modalities on SP treatment on the level of competitiveness of rice sectors across countries. The study compared domestic price and import price once market access flexibilities, in the form of minimal tariff cuts or exemption from tariff reduction are introduced into the equation. The study also looked into the scenario where rice is not declared as a special product.

First scenario: Rice as a special product will be subjected to minimal tariff cuts of 5% and 10%.

The first scenario simulated the impact of 5% and 10% tariff cuts on current import duties on rice. The results of the simulation can be seen in the table below.

Although the actual cut for Indonesia, in terms of absolute tariff points, is higher compared to others, it is evident that the country will still be able maintain higher levels of protection than the rest. To wit, a 5% tariff cut for Indonesia will result to a new base rate of 152%, while a 10% tariff reduction will yield a base rate of 144%.

On the other hand, countries such as Malaysia and Thailand will have lower cuts in terms of absolute tariff points. However, they will be left with lower tariff protection levels compared to Indonesia because they have lower bound rates, to start with. Malaysia for instance,

will be left with a tariff rate of 49.4 % and 46.8%, after a 5 and 10% cut, respectively. The Philippines has a special case because, as mentioned earlier, it has a quantitative restriction on rice importation. However, it maintains a 50% tariff rate for in-qouta imports.

The data in the table below indicate that the SP facility will be most useful for commodities that have higher tariff rates compared to products with import duties that are already low.

Table 4. Bound Tariffs for Rice at 5% and 10% cut

Countries	Rice tariffs at 5% cut	Rice tariffs at 10% cut
Thailand	38	36
Malaysia	49.4	46.8
Indonesia	152	144
China	61.75	58.5
Philippines	47.5	45

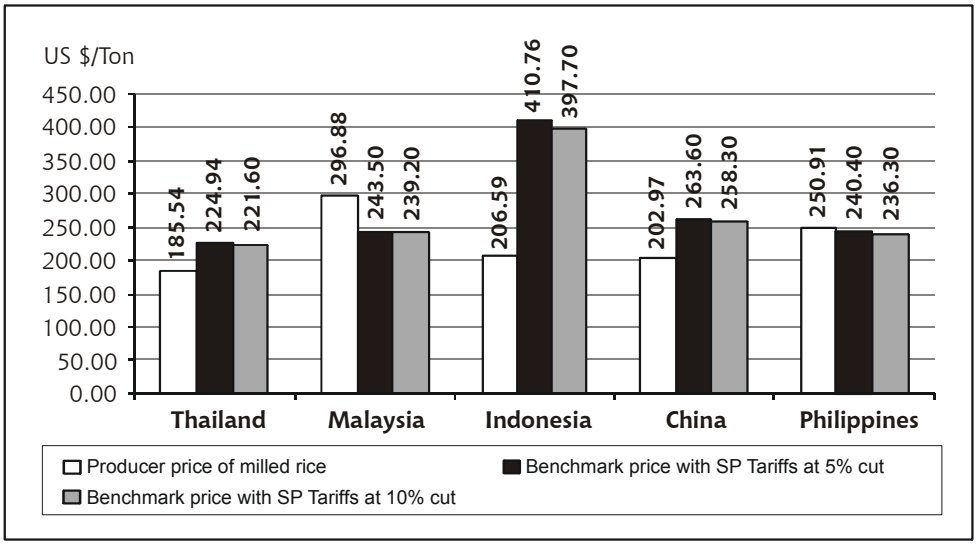
Source: Computed using data from previous table

It is important to look at the effect of more flexible tariff reduction treatment on the countries' capacity to safeguard local producers from displacement due to imports. Using 2003 data, the study compared the producer price of rice in each of the countries covered by the study with an international benchmark price upon which SP tariffs were applied. By doing this, one can gauge the sufficiency of more flexible tariff arrangement to protect local rice sector in the event that it is included in the SPs. The study used the 2003 price of 25% broken Vietnam rice, at US $ 163 as benchmark. It also used bound tariff rates in all computation.

The data on Figure 27 show that a 5% tariff cut will render countries such as Malaysia and the Philippines vulnerable to import displacement. The producer price of Malaysia at US $ 296.875 and the Philippines at US $ 250.907 are still higher, and therefore less competitive than the import price with tariffs at US $ 243.5 and US $ 240.4, respectively. This means that current bound rates, when reduced by 5% is not sufficient to help domestic price compete with the import price. However, countries such as Thailand, Indonesia and China, will still be competitive vis-à-vis imports, assuming they raise their tariffs up to the bound levels.

A 10% tariff cut will yield the same result.

Figure 26
Producer Price of Milled Rice in US $/ton (2003)[77]
Benchmark price of rice with SP tariffs at 5% cut,[78]
and Benchmark price of rice plus SP tariffs with 10% cuts



Source: Computed using data from FAOSTAT, World Rice Statistics and from tables above

Second scenario: Exemption from tariff reduction

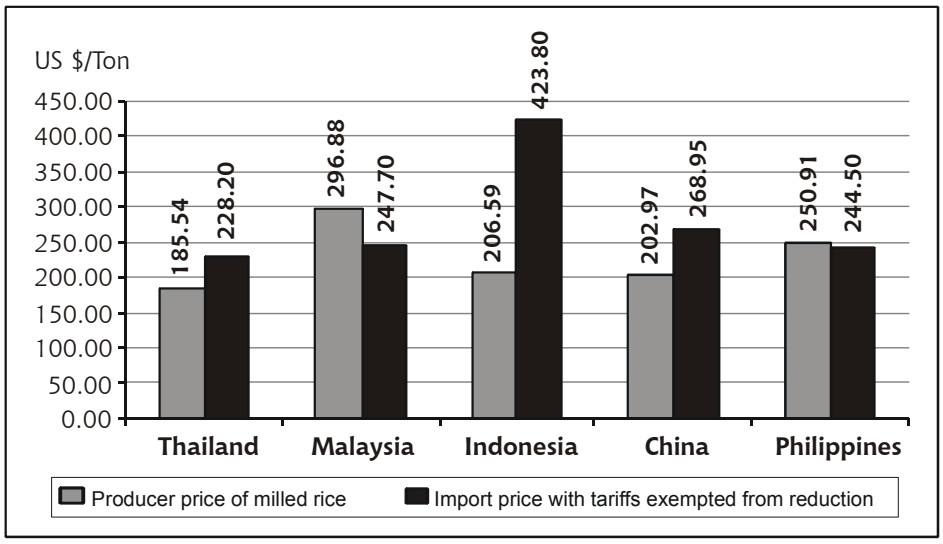
The G33's original position is to exempt all SPs from tariff reduction. Under this scenario, Malaysia and the Philippines are once again, the ones in danger of being displaced by rice imports from Vietnam and Thailand. At current bound rates, the resulting import prices for Malaysia will be at US $ 247.7 per metric ton and the Philippines at US $ 244.5, still lower compared to their producer prices. This indicated these countries' level of bound tariff of rice are presently not sufficient to protect their poor rice farmers from the entry of lower-priced rice from other countries.

Third scenario: Rice will not be declared as SP

Excluding rice from the SP list means it will be subjected to normal tariff cuts for developing countries. Several proposals have already been put forward to flesh out the degree of tariff cuts for developed and

77. Derived by dividing producer rice prices from FAOSTAT by milling recovery figure per country, from the World Rice Statistics
78. Used 2003 prices for Vietnam rice, 25% broken at US $ 163.

Figure 27
Producer Price of Milled Rice in US $/ton (2003)
and Import Price with Tariff Cut Exemption



Source: Computed using data from FAOSTAT, World Rice Statistics and from tables above

developing countries, based on the current bound levels of import duties. These proposals, including those of the US, the EU and the G20 follows the four tiered tariff reduction structure mandated in the Hong Kong Ministerial Meeting.

The study will use the G20 proposal as the basis for approximating the tariff cuts, mainly because this has been regarded in the WTO as the landing zone of market access proposals. In particular, the G20 recommended the following tariff reduction schedule for developed and developing countries.

Third scenario: Rice will not be declared as SP

Excluding rice from the SP list means it will be subjected to normal tariff cuts for developing countries. Several proposals have already been put forward to flesh out the degree of tariff cuts for developed and developing countries, based on the current bound levels of import duties. These proposals, including those of the US, the EU and the G20 follows the four tiered tariff reduction structure mandated in the Hong Kong Ministerial Meeting.

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recommended the following tariff reduction schedule for developed and developing countries.

Table 5. G20 Tariff Reduction Proposal

Developed Countries		Developing Countries	
Tiers	**Cut**	**Tiers**	**Cut**
0-20%	45%	0-30%	25%
20-50%	55%	30-80%	30%
50-75%	65%	80-130%	35%
>75%	75%	> 130%	40%

Source: Computed using data from FAOSTAT, World Rice Statistics and from tables above

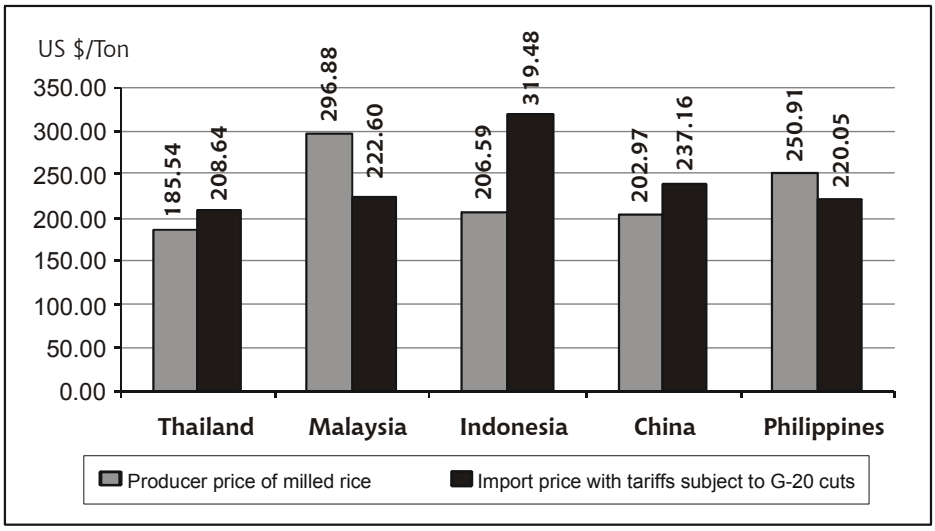
Using the G20 proposal, all the other countries covered in the study, except Indonesia can be classified into the second band, which has a tariff range of 30% to 80%. Indonesia's current tariff rate puts it into the top most band with the highest required tariff reduction. Hence, the applicable tariff rate for Indonesia, following the G20 proposal is 40%, while that of the other countries is 30%. The table below presents the resulting tariff rate for rice, upon the application of the G20 tariff reduction schedule, for developing countries. As with the previous scenarios, Malaysia and the Philippines emerged as the most vulnerable to displacement.

Table 6. Resulting Rice Tariffs with G20 Proposed Cut

Country	Resulting rice tariffs with G20 cut
Thailand	28.0
Malaysia	36.6
Indonesia	96.0
China	45.5
Philippines	35.0
Vietnam	

Source: Computed using data from countries schedule of commitments in the WTO

Figure 28
Producer price of milled rice, and
Import price of rice with tariffs subject to G-20 cuts



Source: Computed using data from FAOSTAT, World Rice Statistics and from tables above

For countries like the Philippines and Malaysia that have very high producer prices, the G33's maximum proposal of exempting SPs from tariff reduction is evidently not enough to safeguard poor rice farmers from possible displacement due to the entry of lower-priced imports. The current tariff covers for rice in these countries are clearly not sufficient to bridge the gap between domestic and import prices. It is in this context that these countries may find recourse in the proposals of civil society organizations that seek to provide SPs with market access flexibilities that go beyond current protection levels. In particular, organizations and networks such as the Rice Watch and Action Network (R1) and the G33 CSO Bogor Initiative, among others have proposed that SPs be allowed to have tariff rates above the current bound rates. They argued these will provide the government with the necessary policy space to protect the sectors important to food security, livelihood security and rural development, such as the rice industry, from rapid trade liberalization.

Impact on South-South Trade

The assertion that SPs will have a negative impact on South-South Trade is based on the assumption that SPs will have higher levels of protection. However, as pointed out earlier, the maximum market access flexibility proposal for SPs is the exemption from tariff reduction.

This means that developing countries will have to maintain the same level of market opening for their special products.

In fact, current discussions on modalities on treatment for SPs are focused more on the degree of flexibility in terms of tariff cuts. This indicates that commodities included in the SP list will likely be subjected to tariff reduction, although at levels lower than the formula tariff cuts for regular products. Hence, the assertion that the SP facility will be a deterrent to South-South trade, because it will lead to higher levels of protection, is clearly without basis in the context of current proposals on SP modalities.

Moreover, countries are bound to import rice whether or not it is declared a special product precisely because it is a staple food. The cases of Indonesia and the Philippines, both consistent importers of rice, illustrated how countries, even with high levels of trade protection unilaterally relaxed their trade restrictions to undertake importation. Indonesia's bound rate for rice is 160% although its applied tariff rate is 0%. The Philippines, on the other hand, has a Quantitative Restriction on rice importation. Yet both countries have consistently resorted to importation to supplement domestic rice production. Indonesia and the Philippines are still strongly working to preserve their trade policy space in rice to retain their capability to safeguard the economic viability of their poor farmers when necessary. In the light of the importance of rice to their food security, livelihood security and rural development, these countries' position is understandable, and in fact, recognized and affirmed in the Hong Kong Ministerial Declaration.