

# **Seizing the Opportunity**

## **Special Products (SPs) and Special Safeguard Mechanism (SSM)**

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## FOREWORD

**T**o be candid, there was a bit of hesitancy on my part taking on the research on Special Products and Special Safeguard Mechanisms. For one, making the most affected sector understand what the WTO is and how it operates are already tough tasks. For another, as a network highly critical of WTO rules, pushing SP and SSM mechanisms within the whole agriculture deal in the WTO might even be misconstrued as a veiled attempt to strengthen the very institution which others so disdain.

Nevertheless embarking on this project drew inspiration from the defiant stance of a growing group of developing countries who insisted to protect the largest yet most marginalized sector in their respective economies – the men and women farmers and farm workers. Protecting rural livelihood, pushing for food security and rural development are noble, nay, minimum goals that have already found acceptance within the WTO's text – something which may be a token victory for some. Yet, we simply cannot let this "marginal" movement in the Agreement on Agriculture language pass without taking advantage of what it could possibly offer our own marginalized farmers. Indeed, it is a step out of the WTO's standard framework of free trade for free trade's sake – never mind the livelihood that it destroys.

Towards the end of this paper, you will find R1 pushing for protectionist tools which under WTO parlance will be taboo – quantitative restrictions, raising tariffs beyond bound rates and the like. To the extent that we have created our own definition of SP and SSM can very well be interpreted as a push to take agriculture out of the WTO disciplines.

*Seizing the Opportunity*

Last December, in the 6th WTO Ministerial meeting in Hong Kong, R1 was able to join forces with other civil society organizations (CSOs) in saying that the SP and SSM are not simply protective measures but overdue compensatory mechanisms for the lopsided Agreement on Agriculture. We hope to keep this group intact, challenging governments especially developed ones to listen to the call of their very own CSOs.

Wishful thinking, perhaps...but as they say, it is better to fight and perhaps lose than not putting up a fight at all.

Jessica Reyes-Cantos  
Lead Convenor



## **Introduction**

**T**he July framework's provisions on special products (SP) and special safeguard mechanism (SSM) are viewed by many net-importing developing countries as the main instruments with which to protect important agricultural sub-sectors from rapid liberalization. Current discussions in the World Trade Organization, particularly on the market access pillar of the framework paper on agriculture, reveal a level of ambition higher than the UR round<sup>1</sup>. In the face of mounting pressure to undertake greater market access openings in the ongoing negotiations, developing countries have limited recourse in upholding their defensive trade interests and in shielding their key sectors from liberalization. Two of these very limited recourse are the SP and SSM, while still in the process of further

<sup>1</sup> Current submissions in the WTO such as the US paper on market access proposes minimum tariff cuts of 55 %- 65% and maximum tariff cuts of 85% - 90% based for both developed and developing countries.

defining mechanisms, are openings which people's organizations and civil society groups can actively engage their own governments as well as build stronger alliances among developing countries.

The development of workable and appropriate modalities for these mechanisms is therefore of primary importance to net-importing developing countries like the Philippines. The resolution of issues on the selection, coverage and treatment of SP and SSM will input into developing countries' capability to provide market protection to their small farmers and agricultural stakeholders within the limited framework of the WTO. In particular, it will determine the number and type of products developing countries can protect as well as the level of protection that can be extended to these products. Civil society and stakeholders groups argue that the modalities for these mechanisms should provide for trade protection higher than current if these are to be useful for farmers and agricultural producers that are vulnerable and marginalized by trade liberalization.

The vagueness of the July framework agreement's provision on SP and SSM is seen as both an advantage and a disadvantage<sup>2</sup>. Civil society groups in the Philippines, in particular, have deplored the absence of clear "victories" for developing countries in the framework paper's stipulations on SP and SSM, noting the arduous negotiations process that developing countries will no doubt have to go through in order to secure market access protection for their key agricultural sub-sectors<sup>3</sup>. However, others have chosen to view this very vagueness as openings through which they can negotiate for market access flexibilities beyond what were provided and available in previous draft modalities in agriculture<sup>4</sup>. (R1 Position paper)

Despite these differences in perspective, what is clear though is that developing country members must maximize the market access flexibilities offered by SP and SSM. These are the only mechanisms in the July agreement that offers them the potential to heed their small farmers' call for trade protection, albeit only for a few commodities. In the Philippines, stakeholders from a wide range of agricultural subs-

<sup>2</sup> Paragraphs 41 and 42 of the July Framework Agreement

<sup>3</sup> Riza Bernabe, Praymer: July Framework Agreement, Philippine Peasant Institute

<sup>4</sup> Rice Watch and Action Network Position Paper on the G33

sectors are clamoring for increased tariff protection and are resisting further market access concessions, having been marginalized by the entry of less-priced imports<sup>5</sup> (Alyansa Agrikultura). This need for protection from further trade liberalization becomes more imperative in view of the fact that the same July agreement failed to sufficiently lay down the groundwork for the dismantling of trade distorting domestic support and export subsidies.

The G33, of which the Philippines is a member, recognizes this and has begun defining the parameters for the development of more detailed modalities for SP and SSM, particularly on the issues of selection, coverage and treatment<sup>6</sup>. However, the coalition faces difficult challenges within the WTO. The demand to aggressively liberalize, from developed countries like the US and Australia, among others, will no doubt weigh down on the G33's bid to use SP and SSM to shield small farmers and agricultural sub-sectors in developing countries from excessive market access commitments.

Even in the absence of clear modalities on SPs, the internal process of defining the list of Special Products has already begun in the Philippines. During a meeting of the Task Force on the WTO for Agricultural Agreement Renegotiations, Department of Agriculture Undersecretary Segfredo Serrano, who is in charge of the negotiations on the Agreement on Agriculture, issued a call for SP justification<sup>7</sup>. Sectors were invited to justify possible inclusion on the SP list using the general criteria of food security, livelihood security and rural development, as set forth in the July framework agreement..

The selection of special products is expected to be a difficult, and at times, a divisive procedure. The aggressive tariff cuts attendant in current proposals in market access will drive many agricultural sectors to vie for SP status in order to avail of market access flexibilities. Non-government organizations and farmers' groups must intervene in this process to ensure that the sectors crucial to the important objectives of food and livelihood security and rural development are indeed the ones included in the SP list. More importantly they should

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<sup>5</sup> Common Agricultural Agenda by Alyansa Agrikultura

<sup>6</sup> G33 Communique issued in Jakarta Indonesia, June 2005

<sup>7</sup> TFWAAR Meeting

engage government towards the development of SP and SSM modalities that will fulfill the objectives of food security, livelihood security and rural development.

### **Objectives of the Study**

This research is intended to assist in the process of defining SP modalities that are appropriate to the Philippines given its food security and rural development objectives. On SSM, the paper hopes to provide input regarding triggers as well as the penalties for breaching these triggers.

Towards this end, the paper hopes to provide concrete recommendations on the following:

- ♦ Indicative list of special products based on a range of possible indicators for SPs
- ♦ Treatment of SPs
- ♦ Triggers and Penalties for SSM

The paper will look into the different issues and concerns surrounding SP and SSM, as well as current proposals on the same as inputs in formulating the recommendations.





### **History of SP and SSM**

The SP and SSM are direct outcomes of developing countries' lobby to address the imbalances of the current agreement as well as the need for more meaningful and useful expressions of special and differential treatment within the Agreement on Agriculture. In 2000, a group of developing countries including Cuba, Dominican Republic, Honduras, Pakistan among others, put forward a proposal for a development box.<sup>8</sup> A key component of this proposal was the exemption of a group of products, mainly food crops, from commitments in market access and domestic support in recognition of the importance of these commodities in addressing the food security objectives of developing countries. These included a set of measures

<sup>8</sup> Submission to the WTO entitled Agreement on Agriculture: Special and Differential Treatment and a Development Box, by Cuba, Dominican Republic, Honduras, Pakistan, Haiti, Nicaragua, Kenya, Uganda, Zimbabwe, Sri Lanka and El Salvador, G/AG/NG/W/13, [www.wto.org](http://www.wto.org), June 2000

that would, among others, exempt from reduction of domestic support capital expenditures and operating subsidies for internal transport of food security crops from surplus to deficit areas and linking tariff bindings of developing countries to the progress in the reduction of domestic support and export subsidies by developed countries.

The Harbinson draft modalities of the Agreement on Agriculture, so called because it was prepared by the WTO Committee on Agriculture during the chairmanship of Stuart Harbinson, included provisions pertaining to strategic products and special safeguards mechanism for developing countries<sup>9</sup>. In brief, the Harbinson draft proposed that developing countries be allowed to declare a set of products that would have smaller tariff cuts and would be exempted from expansion of tariff quota volumes compared to ordinary products. This special treatment was justified on the grounds of food security, livelihood security and rural development and was viewed as an important step to accommodate the concerns of a large number of developing countries. The flexibilities proposed for strategic products were over and above the usual special and differential treatment on market access which generally allows developing countries to undertake smaller tariff cuts along longer implementation periods compared to developed countries.

The Philippines is one of the supporters of what was then referred to as strategic products. In March 2003, it was signatory to a submission to the WTO supporting the provisions on strategic products, arguing that “the agriculture sector contributes a myriad of ways to promote food and livelihood security in developing countries and is critical to rural development” and that “undertaking further tariff reduction commitments on all agriculture products would be difficult”<sup>10</sup>.

In the second version of the Harbinson draft, the term strategic products was replaced by special products or SPs following a debate

<sup>9</sup> Paragraphs 11 and 14 of the the Harbinson Draft Modalities for Agriculture, TN/AG/W/1 Rev.1, [www.wto.org](http://www.wto.org) March 2003

<sup>10</sup> Submission on Strategic Products by Cuba, Dominican Republic, Honduras, India, Indonesia, Republic of Korea, Nigeria, Turkey, Peru, Philippines, Sri Lanka and Venezuela JOB (03)/59

among developing countries on how this set of products should be called.

An Alliance for SP and SSM was formed in July 2003 essentially to safeguard the inclusion of these mechanism in future agreement on agriculture. The group, which was later named the Group of 33 (G33) invoked the spirit of the Doha Development Agenda and asserted that “unbridled liberalization that has singularly and mistakenly focused only on tariffs elimination” contradicts the Doha mandate<sup>11</sup>. It will be recalled that the Doha Development Agenda, so-named because it was firmed up during the 4<sup>th</sup> WTO Ministerial Meeting in Doha, Qatar, recognized that special and differential treatment should be an integral part of all aspects of the negotiations and should enable developing countries to take account of their development needs, including food security and rural development.<sup>12</sup> The alliance went on to further to declare that “no agreement in the modalities of the agriculture negotiations can ever be viable without these elements together (SP and SSM) as a package in the market access pillar”<sup>13</sup>.

The 5th WTO Ministerial Meeting in Cancun Mexico in September of 2003 failed to produce a new set modalities for agriculture and the other agreements. Instead, it highlighted the growing conflict between developed and developing countries. Moreover, it exposed the crisis within the multilateral organization. This crisis is, to a large extent, brought about by its members’ negative experience with indiscriminate liberalization as well as developed countries’ narrow-minded pursuit of the agenda of maintaining trade distorting domestic support and export subsidies.

The July Framework agreement which came out months after the failed ministerial meeting included very general provisions on SP and SSM, below:

“Paragraph 41: Developing country members will have the flex-

<sup>11</sup> Statement and Declaration by the Alliance for SP and SSM during the COA Formal Special Session of July 18, 2003. The Alliance Statement and Declaration is supported by Cuba, Dominical Republic, Honduras, India, Indonesia, Kenya, Mauritius, Nigeria, Pakistan, Panama, Peru Philippines, Turkey, Uganda, Venezuela and Zimbabwe.

<sup>12</sup> Paragraph 3 of Doha Development Agenda, WT/MIN(01)/DEC/1, [www.wto.org](http://www.wto.org), 20 November 2001

<sup>13</sup> see 11

ibility to designate an appropriate number of products as Special Products, based on criteria of food security, livelihood security and rural development needs. These products will be eligible for more flexible treatment. The criteria and treatment of these products will be further specified during the negotiations phase and will recognize the fundamental importance of Special Products to developing countries.

Paragraph 42: A Special Safeguard Mechanism will be established for use by developing country members.”

The development of specific modalities for the implementation of SP and SSM – the selection, number or coverage, as well as treatment – will be determined in the coming negotiations.

### **Rationale Behind the SP and SSM**

The provisions relating to SP and SSM are proposed and discussed within the general framework of special and differential treatment. The countries that put forward the idea of a development box which contained the first proposals for these mechanisms maintained that “special advantages and flexibility must be given to developing countries” in “acknowledgement of the fact that they have very different economic, social, financial, technological and development circumstances as compared to developed countries”<sup>14</sup>.

Many have raised questions regarding the rationality of SP and SSM. Some argued that these mechanisms will slow down agricultural trade and increase food insecurity by limiting the movement of food products among countries. For instance, the Cairns Group in May 2003 circulated a paper that looked into the possible impact of designating a number of products as SP on international trade. According to this paper, designating only, say 10 special products can cover 75% of the imports of large developing countries as India<sup>15</sup>.

Nevertheless, the idea of designating a set of products as SPs and providing them with market access flexibilities is endorsed not only

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<sup>14</sup> Submission to the WTO entitled Agreement on Agriculture: Special and Differential Treatment and a Development Box, by Cuba, Dominican Republic, Honduras, Pakistan, Haiti, Nicaragua, Kenya, Uganda, Zimbabwe, Sri Lanka and El Salvador, G/AG/NG/W/13 www.wto.org, June 2000

<sup>15</sup> Cairns Paper on Special Products, May 2003

by developing countries but by international civil society organizations<sup>16</sup> as well. Central to their support for SPs is the idea that agriculture is a very significant sector in the economies of developing countries and that liberalization has endangered this sector, which plays a very crucial role in attaining food security objectives.

SP and SSM are also viewed as compensatory mechanisms for the imbalances of the current agreement on ag-

riculture. Developing countries maintain that unequal trade rules in the AoA have resulted to a more inequitable playing field. They argue that trade-distorting subsidies in OECD countries have actually increased during the implementation of the AoA, growing from US\$ 247 in 1986-1988 to US\$ 274 in 1998. They also argue that import barriers for sensitive products in rich countries have actually risen instead of decreased, as should have been expected under the agreement. The EU's final bindings for the year 2000, for instance, are almost two thirds the actual tariff equivalent for 1989-1993.

It is within this context that developing countries demand maximum market access flexibilities for SPs. In the Philippines, this demand is bolstered by the growing internal clamor for increased market protection among agricultural stakeholders, especially small farmers. In view of current proposals to reduce tariff rates at a rate even faster than that prescribed in the UR round, the country has no recourse but to use the SP and SSM facility to heed its stakeholders' call for trade protection.

As such, the outcome of discussions on the selection, coverage and treatment of SPs as well as the final modalities on SSM will have

*SP and SSM are also viewed as compensatory mechanisms for the imbalances of the current agreement on agriculture.*

<sup>16</sup> Proposal for a Development Box in the WTO agreement on Agriculture by Duncan Green, CAFOD and Shishir Priyadarshi, South Centre

important implications on the country's capacity to safeguard some agricultural sub-sectors from liberalization.

## **Selection**

One of the very few positive provisions of the Hong Kong Ministerial Declaration is that which acknowledges the right of developing countries to self-designate SPs.

Earlier discussions regarding the selection of special products revolved around two main modes of identifying SPs – self-selection and the use of objective screening criteria.

Under self-selection, countries are free to choose which products would be accorded SP status, indicating that a country's choice of SPs will be completely unchallenged. Proponents of this mode of selection argue that different countries have different development objectives and priorities and should have the flexibility to identify which commodities to protect on account of these differences. Moreover, they argue that given the diversity of the agricultural sector of developing countries in terms of structure, capacities and level of development, it is impossible to prescribe a uniform set of criteria and thresholds in identifying SPs.

Critiques of self-selection argue that the absence of specific limits on the use of SP modality will make it vulnerable to abuse, and may actually set back the market access agenda of the Agreement on Agriculture<sup>17</sup>. Some studies show that increasing protection for only a few but key trade products will already result in a major reduction in trade as countries will import less<sup>18</sup>. An UNCTAD study, for instance, claimed that developing country imports will decline by as much as US\$ 970 M if food products such as rice, maize, pulses and oilseeds are subjected to lower tariff reduction commitments, on account of being declared SPs. This reduction in importation, the paper further argued, will lead to a decline in global welfare by as much as US\$523M.

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<sup>17</sup> Tim Ruffer, *Thinking through the Details*, Oxford Policy Management, June 2003

<sup>18</sup> See, for instance, papers on Special Products by Cairns (May 2003), Tim Ruffer (June 2003), Diaz-Bonilla (2003) and UNCTAD

Building on these arguments, proponents of the use of objective criteria sought to limit which products will be declared as SPs. They propose the use of screening standards in determining the composition of each developing country member's list of SPs, arguing that these should be transparent and easily verifiable. This mode of selection is rejected by developing country members, the main demandeurs of the SP facility, by pushing for maximum flexibility in designating special products.

### **SP Criteria in the July Framework**

The July framework did establish the general criteria for selecting special products. It prescribed food security, livelihood security and rural development needs as the main standards in choosing SPs. The relative generality of these criteria posed questions on how these can be particularized in the coming negotiations. There are proposals to limit the coverage of SPs by confining its application to products that have no or little participation in the market. The US for instance, is proposing that SPs be limited to products being produced by subsistence farmers.

This proposal was of course rejected by developing country members, especially those from the G33. The coalition, in various statements have strongly argued for flexibility in choosing SPs for as long the choice of special products can be justified within the bounds of the general criteria of food security, livelihood security and rural development needs as set out in the July framework.

Thus, what are currently being discussed and developed by the coalition are possible indicators that would reflect these three general criteria. The G33 maintained that "the application of a common set of indicators across the developing world for purposes of designating SP is simply not feasible". They further argue that it "is not possible to establish a multilaterally agreed threshold level for each plausible indicator that may be thought of, capable of capturing the size and diversity of the agriculture sector in all developing countries"<sup>19</sup> G33 Communique issued in Jakarta Indonesia, June 2005.

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<sup>19</sup> G33 Communique issued in Jakarta Indonesia, June 2005

### **Developing Indicators for SPs**

In developing indicators, the G33 was careful to point out these should not be construed as standards which will determine the inclusion of products in the SP list. They argue that indicators are being developed for the purpose of helping rationalize a developing country members' selection of SPs and to ensure that they meet the three general standards provided in the July framework agreement.

Emerging proposals on indicators for each of the criteria can generally be categorized based on the following characteristics:

1. National or macro-based indicators referring to SP data as they relate to national or aggregate figures or records. Examples of this type of indicators are the contribution of an SP to the value or volume of total agricultural production, total land area devoted to SP production vis-à-vis total agricultural lands, number of farmers involved in the production of SP vis-à-vis total agricultural employment, etc. This will also include trade-based indicators such as total importation of an SP vis-à-vis a country's total agricultural imports, total importation as a percentage of total production of the SP products, etc.
2. Sector-specific data pertaining to information particular to the sector producing SP. Examples of this indicator include the average income of SP producers, the backward and forward linkages in the production of SPs, among others.
3. Concern specific indicators look into factors more directly relevant to the three general criteria provided in the July framework. This will include indicators such as number of SP producers below a particular poverty level, the contribution of an SP product in the food basket of a developing country, the poverty level in the geographical area or location of SP production, etc.

The list of possible SP indicators is very long. Below are some of the proposed indicators put forward by developing country members and other organizations.



### **Food Security**

- ♦ Strategic food commodities and staples, or staples consumed by an X percentage of the population;
- ♦ Food commodities belonging to a basket essential to food security as may be enshrined in a country's law(s) and statutes;
- ♦ Any agricultural product, the income derived from which determines to a large extent the food security and subsistence of farm families in a sector or region

### **Livelihood Security**

- ♦ proportion of poor, subsistence or resource poor farmers dependent on cultivation of the product, at the national or regional scale;
- ♦ proportion of hectareage or some other indicator of relative sector or subsector size to national and regional aggregate;
- ♦ average or threshold proportion of farmers or farm households below some poverty or income level threshold;
- ♦ proportion or contribution to employment at the national or regional levels;
- ♦ indicators of threat to rural livelihood security – products whose imports competition, inclusive of close substitutes, are recipients of trade-distorting domestic support.

### **Rural Development**

- ♦ Contribution of the sector or product to national or regional agriculture output (as percentage of Gross Value Added in agriculture );
- ♦ Products the production systems of which dominate the agriculture economy of defined sectors of the population such as indigenous peoples and threatened or vulnerable groups that are the focus of government preferential option development programs, including peace and reconciliation initiatives to protect social stability and order;

- ♦ Products clearly identified in a country's development programs and statutes as critical and strategic to national development or development of a region within the country.

In the main, the G33 has sufficiently laid down the arguments for exercising maximum flexibility in choosing its list of Special Products. The above-listed indicators can be used to rationalize SP designation and should not be viewed as standards with corresponding thresholds, with which products must be measured in order to qualify for SP status. Again, this flexibility is justified in consideration of the diversity in the agriculture sector across developing nations.

Some of these indicators will be applied in the Philippine setting later. The paper will also provide recommendations on what are the most suitable indicators in view of the country's food security, livelihood security and rural development objectives.

### **Data Availability**

The broadness of the list of SP indicators is tempered by problems related to data availability. While governments as well as international institutions such as the Food and Agricultural Organization can provide data for some of the national or macro-based indicators, information required for the application of sector and concern-specific indicators are not readily available. Unfortunately, as will be shown later in the case of the Philippines, many potential SPs fall through the cracks when using macro-based indicators. The problem of limited data will no doubt restrict developing country members' capability to use a wide range of indicators in determining SPs.

Developed country members will expectedly push for indicators based on data with high degree of verifiability as a way of eliminating arbitrariness in SP selection. However, this demand is weakened by arguments that the WTO has not set a clear precedent in addressing data verifiability as evidenced by its current system of subsidy notification.

### **SP Coverage**

The flexibility of being able to use a wide array of indicators is

inadvertently tied to questions relating to the coverage of SPs. The text of the July framework agreement is sufficiently ambiguous on the question of how many commodities can be declared as SPs, prompting some developing countries to argue that indicators based on the three general criteria should be the supreme arbiter of which products should be designated as SP or not. This means that developing countries can justify the designation of a number of products as SP for as long as there are indicators that can justify their inclusion in the list.

However, current talks in the WTO on the issue of SP coverage lean towards developing a more definite way of determining the appropriate number of tariff lines that can be accorded SP status.

Discussions on the coverage or number of products that can be declared as SPs arise from the following ambiguities in the July framework:

1. Paragraph 41 did not indicate the actual number of products that can be designated as SPs
2. Unlike the Harbinson draft, which proposed a 6 or 8 digit SP level in choosing SPs, the July framework merely mandated countries to choose an “appropriate number of products” for the same. For most developing country members, products refer to general product grouping such as rice, corn, swine etc., which are mainly classified at the 4 digit HS level.

The Hong Kong Ministerial Declaration restored the use of the word tariff lines, instead of products for SPs, although it did not specify the HS level.

The provisions of the July Framework agreement and the subsequent Hong Kong Declaration on special products, particularly on matters of coverage and treatment are very vague. This is obviously a compromise to accommodate the demands of G33 for the said mechanisms, without dismissing the concerns of developed, and even some developing country members, regarding the possible impact of SP on trade. In a sense the WTO was able to secure the support of demanders of the SP and SSM facility for the Hong Kong declaration by moving crucial and expectedly highly contentious decisions points such as SP coverage and treatment in the Geneva negotiations in 2006.

Nevertheless, the vagueness of current provisions on SP provides an opening for developing countries to push for the maximum number of special products. Optimizing this opening is very important in view of the fact that current proposals on market access are very aggressive in demanding liberalization commitments. This puts pressure on developing countries to push for a greater number of SPs as this, as well as SSM, are the only GATT-legal facilities that would still allow them the flexibility to safeguard vulnerable and strategic agricultural sub-sectors from rapid liberalization

Nowhere is this more true than in the Philippines where tariff rates are very low compared to other developing and even some developed countries<sup>20</sup>. Table 1 shows the country's general tariff structure for agricultural products. Out of the total 802 tariff lines, 259 tariff lines are within the 0-30% range while 543 tariff lines fall un-

**Table 1: Philippine Tariff Structure**

Tariff Thresholds	Number of Agricultural Tariff Lines
0-30	259
31-60	543
Total Agricultural Tariff Lines	802

Source: TF-WAAR Materials on Market Access

Despite developing countries' efforts to optimize the number of SPs through an exhaustive array of indicators, current discussions in the WTO are, nevertheless, geared towards identifying an "appropriate number" of special products. Several proposals have already emerged, from trading blocs within the WTO as well as other organizations, on how to arrive at this number. Below are some of the proposals:

1. Number of SPs as a percentage of total agricultural tariff lines  
This will benefit developing countries with more developed tariff structures such as Indonesia, China and Mexico, among others. Countries such as India and Thailand, and to some ex-

<sup>20</sup> The ending bound rates for most agricultural products in the Philippines ranges from 10-50%, with bound rates for sensitive products generally pegged from 40%-50%

tent, the Philippines, have smaller numbers of tariff lines and as such will be disadvantaged by this proposal. Discussions within the WTO place SP allocation at 10% - 20% of total agricultural tariff lines.

Table 2 shows the comparative number of agricultural tariff lines among selected developing countries.

**Table 2: Number of Agricultural Tariff Lines  
of Selected Developing Countries**

COUNTRIES	Number of Agricultural Tariff Lines
India	692
South Africa	761
Brazil	959
Indonesia	1,076
Thailand	774
Philippines	802
Mexico	1,080
China	1,044

Source: TF-WAAR Materials on Market Access

2. Number of SPs based on a developing country's size/ population and level of development<sup>21</sup>

The rationale is that a country with a bigger population base is likely to have a more diversified agricultural sector compared to a country with a smaller population, and as such, should enjoy a greater number of SP allocation. Meanwhile, countries with lower levels of development are expected to have more vulnerable sectors compared to countries experiencing higher levels of development, thereby entitling them to more SP allocation. This will be beneficial for countries like China, Indonesia, India and the Philippines which have huge population bases as well as for countries with "lower levels of development", usually expressed in Gross Domestic Product (GDP) or GDP/per capita.

3. Total of all SPs should account for less than a defined percentage of agricultural imports.<sup>22</sup>

<sup>21</sup> Tim Ruffer, Thinking through the Details, Oxford Policy Management, June 2003

<sup>22</sup> See footnote 21

This proposal gives a developing country the flexibility to choose whatever products it want to nominate as SPs for as long as the aggregate imports of these products is less than a defined percentage of total agricultural imports. In this case, the import volume becomes the main determinant of SP allocation. One rationale for this is that it will be easy to monitor and limit the impact of SPs on trade by setting the cap on the amount of imports that might be possibly affected by SP designations. This proposal will also eliminate discussions on the appropriate HS level for SPs since the volume of imports will determine whether a particular product can still be declared as SP or not. However, this will most likely raise questions regarding predictability since it indicates that the list of SPs will be fluid. Moreover, the cap on SPs based on import volumes may not meet the interest of some developing countries who are seeking SP protection precisely to safeguard sectors that have already been ravaged by too much importation.

### **Harmonized System (HS) Level of SPs**

A complementary issue related to the number of SPs is the question of at what HS level should these special products be designated. As mentioned earlier, the July framework used the word “product” when it referred to SPs. In the Philippines, as in most countries, this refers to general product groupings such as rice, corn, swine, poultry, etc. This product grouping is usually indicated at the 4 digit HS level.

The Hong Kong Declaration narrowed down discussions by stating that SPs are tariff lines (instead of products). However, as with the July framework agreement it did not specify the HS level for special products.

There is a general perception in the WTO that the negotiations on the HS level is inextricably linked to negotiations on the number of SPs. In particular, an agreement to use 4 digit HS level - because it already covers a wider range of products - will most likely secure a smaller number of allowable SPs compared to an agreement to use 8 digit HS level, which is more specific and might warrant a bigger

number of special products.

For the Philippines, however, SPs, along with SSM are the only elements within the July framework that afford developing countries the potential to secure agricultural sub-sectors from further market access liberalization. As such, the country should push for maximum number of SPs at the broadest possible HS level. Otherwise, it will have utmost difficulty in allocating SP status among its many stakeholders who are clamoring for increased market

protection. Moreover, in view of the Philippines' relative low tariff structure, as well as the very ambitious market access proposals currently being tabled in the WTO, the country has no choice but to push for the inclusion of the greatest possible number of products in the SP list.

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### **Treatment**

There have been several proposals on how to actualize market access flexibilities for SPs from members of the WTO as well as from international organizations and civil society groups. Below is a listing of the proposed modalities for special products, ranked according to the level of protection they accord local agricultural producers.

1. SPs should be exempt from tariff reduction and minimum access volume (MAV) or tariff rate quota (TRQ) commitments. They should have access to higher forms of market protection such as tariffs beyond the bound rate, re-imposition of QRs and the application of specific duties. Moreover, SPs should be eligible for uncapped levels of domestic support.

This proposal is endorsed by civil society groups such as the

Rice Watch and Action Network and the CSO Bogor Initiative. This proposal reflects the demands of agricultural stakeholders across developing countries for increased trade protection for crucial products, for reasons of food security, livelihood security, rural development and poverty alleviation, among others.

Oppositors of this proposal within the WTO argue that it cannot be accommodated within the framework of the current negotiations, as it represents a regression of the market access agenda of the agreement. They point to Paragraph 29 of the July Framework which states that “each Member (other than the LDCs) will make a contribution” to ensure “substantial trade expansion.” However, a closer analysis of this section of the framework agreement will show that this provision refers specifically to the tiered formula for reduction and not to the whole market access package. The determination of the selection, coverage and treatment, as provided for in paragraph 41 of the said agreement is left entirely to future negotiations.

2. SPs should be exempt from tariff reduction and TRQ commitments.

This represents the original G33 position. As noted earlier, this proposed treatment, though an improvement from the previous proposals that centered on minimal tariff cuts for SP, still falls short of the demands of small agricultural stakeholders in developing countries. The call for increased tariff rates, espoused by small agricultural stakeholders in developing nations like the Philippines, cannot be accommodated within the context of this proposal.

At the WTO level, developed countries like the US and even some developing country members like Thailand have voiced out their apprehension regarding this proposal.

3. Minimum tariff cuts for SPs

The application of minimum tariff cuts is the most dominant and acceptable mode of treatment of SPs in the WTO, but not satisfactory to agricultural stakeholders, especially to small farmers in developing countries. As noted earlier, initial discussions



on the treatment of SPs revolved around smaller tariff cuts, which ranged from 5% to 10%.

This proposal dismisses small farmers call for increased market protection for key agricultural sub-sectors, by forging ahead with the WTO's liberalization agenda, albeit at a slower rate.

#### 4. Maximum Deviation Approach

This proposal was developed by Panos Konendreas from the Food and Agriculture Organization in Geneva. The idea is to provide each developing country with a number of percentage points (referred to as Special Products Percentage points or SPPs) that it can use to shield designated SPs from the cuts called for in the standard tariff reduction formula. For example if a country has 100 SPPs, and its standard reduction figure for a designated SP, say corn, is at 20%, it can use 10 points off its SPPs to reduce corn tariffs by only 10%. It will then have 90 SPPs more to deviate or cut down from the standard tariff reduction rates of its other designated SPs.

This proposal, while innovative, operates within the framework that special products should in principle be subject to tariff cuts. While it may give developing countries the flexibility to actually exempt some of its SPs from tariff reduction by manipulating the allocation of SPs, it can only do so by maintaining the standard tariff cuts in the other SPs. For developing countries, SPs are so indicated precisely because of their need for more flexible treatment from the general tariff reduction formula. As such, this proposal falls short of the demands of small agricultural stakeholders

### **Discussions within the WTO on SP treatment**

From the perspective of providing trade protection to small agricultural stakeholders, the G33's proposed exemption of SPs from tariff reduction is an improvement from earlier proposals on the treatment of special products. Previously, discussions on market access flexibility for SPs revolved around the application of smaller tariff cuts along a longer time frame. Indeed, the SP provision under the

Harbinson proposal, which provided the basis of agricultural discussions prior to the failed Cancun Ministerial Meeting, proposed minimum tariff cuts of 5% - 10%. These proposed rates are smaller compared to the rate of tariff reduction for ordinary products or non-SPs. The smallest proposed tariff cut, which falls under the last tier of Harbinson's three tiered tariff reduction proposal, was then placed at 30%.

In a recent report by the Chairman of the Committee on Agriculture to the WTO Trade Negotiations Committee, there was an extensive discussion on the status of the negotiations on SP and SSM. The report indicated that there is some convergence on the treatment of special products, noting the previous divergence of position on the same, with the G33 arguing for exemption from market access commitment and automatic access to SSM, and with others demanding a degree of market access opening, although smaller than those for ordinary products. In particular, the Chairman introduced the emergence of a proposal to implement a tripartite categorization of special products. Under this proposal, SPs will have a zero, 5% or 10% tariff cut depending on a product's level of sensitivity.

However, the proposal to apply tariff cuts, albeit smaller, on special products remains unacceptable to agricultural stakeholders in the Philippines. In particular, corn and vegetable farmers as well as poultry and hograisers, are clamoring for increased market protection on account of the negative impact of trade liberalization on their sectors. Moreover, small farmers' groups and peasant organizations comprising broad civil society networks such as the Stop the New Round! coalition and the Alyansa Agrikultura are demanding the Philippine government to increase tariff rates as a way of protecting their livelihood from the onslaught of liberalization.

The G33's current position that SPs should be exempt from tariff reduction and TRQ commitments, though welcome, still falls short of the actual demands of agricultural stakeholders. It is also a step back from the spirit and intent of the Development Box proposal where the idea of SP originated. The Development Box proposal went beyond tariff reduction exemptions and pushed that developing coun-

tries be “allow(ed) to re-evaluate and adjust their tariff levels” and to “raise their tariff bindings on key products”.

The proponents of the Development Box offered very compelling arguments for the special treatment of key products that went beyond the limited special and differential treatment framework. They pointed out that “developing countries on the whole are not benefiting economically from agricultural liberalization,” and that apart from the worsening of balance of payments situations among developing economies, “from a socio-economic perspective, food security, unemployment and poverty seems to have also deteriorated.” Thus, they demanded a “systematic review that seeks to re-balance the rules and implement measures and reforms.”

It is clear then that the original idea behind SPs was not drawn merely from a simple special and differential treatment (S & D) perspective but rather as a facility that would allow developing countries the opportunity to rebalance the inequities of the current agreement. Allowing developing countries to recalibrate and even raise their tariff bindings on key products is an essential component of their recommendations towards this rebalancing.

Viewed within this context, the proposed tripartite categorization of SPs, as mentioned in the Chairman’s report is seen by many as an emasculation of the original idea behind special products. For agricultural stakeholders in the Philippines, this means that the chances of getting their advocacy agenda of increased trade protection becomes narrower and narrower within the current framework of the negotiations.

### **Market access proposals**

The need for increased protection for key agricultural products through the SP facility cannot be overemphasized in view of the developments in the negotiations on the run-up to the WTO Hong Kong Ministerial meeting. Proposals from various negotiating blocks reveal ambitious targets on the market access pillar of the Agreement on Agriculture. The US, which offers the most aggressive proposal of all, recommends tariff cuts that start at 55%-65% for the first tier to as much as 85% - 90% in the fourth tier for developed countries,

**Table 3: Overview of Some Market Access Proposals**

Negotiating Blocs	Developed Countries		Developing Countries	
	Tiers	Cuts	Tiers	Cuts
US	0-20%	55-65%	Slightly smaller reductions than developed countries; longer implementation period	
	20-40%	65-75%		
	40-60%	75-85%		
	60%-	85-90%		
EC	0-30%	20%	Does not define	
	30-60%	30%		
	60-90%	40%		
	90%	50%		
G-20	0-20%	45%	0-30%	25%
	20-50%	55%	30-80%	30%
	50-75%	65%	80-130%	35%
	75%-	75%	130%	40%

All these proposals translate to tariff cuts higher than those mandated in the UR AoA, which required developed and developing countries to reduce tariff rates by an average of 24% and 36%, with minimum tariff cuts of 10% and 15% respectively.

Given these aggressive market access proposals, developing countries with predominantly defensive interest like the Philippines, have to rely on the SP and SSM facility to safeguard crucial agricultural sub-sectors from blanket liberalization. It is important that they secure the maximum flexibility possible in the treatment of special products since, apart from SSM, these are the only elements in the July framework that offers them the potential, though very limited, to heed their agricultural stakeholders' demand for trade protection, within the confines of the multilateral trade institution.

The G33 must press for the maximum position in negotiating for the treatment of SPs. In particular, it should push for increased levels of protection for special products to include measures such as the imposition of tariff rates higher than the current bound rates, quantitative restrictions and special duties. This position is justified when viewed, not within the limited confines of the S & D framework, but in recognition of the need to rebalance the inequitable provisions and implementation of the current agreement on agriculture.



### **Special Safeguard Mechanism**

In the statement and declaration of the Alliance of SP and SSM, developing countries called for the integration of special safeguard mechanism (SSM) as a balancing feature that must be part of any new agreement on agriculture. They stressed that “no agreement in the modalities of agriculture negotiations can ever be viable without SP and SSM as a package in the market access pillar.”

Moreover, they pointed out that the SSM, which is designed to address developing country Members’ susceptibility to import surges, should be an improvement over the existing Special Safeguards Duty or SSG. It may be recalled that the SSG is the facility in the UR AoA which deals with import surges and price depression. It allows countries to apply additional duties once the price of a particular good falls below a defined level, identified as the price trigger level, or once the import volume of a particular good exceeds a certain level, known as the volume trigger level. The volume and price trigger lev-

els of the SSG were computed based on a formula prescribed in the AoA, using data from the base period of 1986-1988.

The SSG is available to both developed and developing countries. It is applicable only to products that were previously protected by quantitative restrictions, which were then tariffed as part of the country's commitment to GATT. Developed countries are able to maximize this facility compared to developing countries, which have difficulty in breaching the triggers.

It is in this context that developing countries argued for an improved safeguard facility. They maintained that SSM should be an S & D provision, with exclusive recourse being available to developing countries. This demand was addressed in paragraph 42 the July Framework agreement, which provided for the establishment of SSM, exclusively for use by developing country Members. However, as with SPs, the July document did not provide any indications on the features and implementation of SSM, leaving these details to future negotiations.

### **G33 Proposal on SSM**

The G33, as the main demandeur of the SSM facility, has already put forward concrete proposals to flesh out the modalities for the implementation of this new safeguard mechanism. The SSM proposal is guided by the following principles, which were laid down in the G33 communiqué issued in Jakarta, Indonesia in June 2005:

1. The SSM shall be available to all agricultural products of developing countries, including SPs;
2. The SSM will employ price and volume triggers;
3. SSM should not be linked to the level of tariffs and to commitments on tariff reduction as this will undermine the nature and objectives of this facility;
4. SSM should be simple, effective and easy to implement and must take into account developing countries institutional capacities and resources.

## **SSM Triggers**

The coalition proposed the use of volume and price triggers as a way of determining whether import surges or price depression has indeed occurred. The volume trigger will be computed based on the average annual volume of imports for the most recent three year period preceding that year for which data are available. This trigger will also be known as the average import volume.

The price trigger on the other hand, will be computed based on the average monthly price of the product in question for the most recent three-year period preceding that year for which data are available. This trigger will also be known as the average monthly price.

Unlike in SSG, where the triggers were static having been computed using a formula based on 1986-1988 levels, the proposed SSM will employ a moving trigger based on the most recent data.

## **Remedies**

The G33 had earlier identified additional duties as well as the possibility of using tenured quantitative restrictions as remedies in cases where either the price or volume triggers are breached. The inclusion of tenured QRs as a proposed remedy was a welcome development for agricultural stakeholders' groups that were clamoring for the revival of this form of protection against unwarranted importation. Indeed, the reimposition of QRs is a staple call in the trade advocacy agenda of many small farmers groups.

Unfortunately, the recommendation to use tenured QRs a remedy against import surges and price depressions was dropped in the coalition's formal and technical proposal on SSM. This decision is said to be a tactical concession, since the whole SSM proposal is weighed down by the unacceptability of QRs, though tenured, as a remedy, to developed countries as well as to some developing countries with aggressive export interests.

Instead, the SSM proposal identified a tiered approach in determining the additional duties to be imposed in cases of surges in import volume. In particular, it identified four ranges of import surges and prescribed the remedies for each range. The additional duty is

expressed as a percentage of the bound duty or as actual percentage points, whichever is higher. The actual figures for the ranges as well as the additional duties are still under negotiations. Depending on the outcome of negotiations on SSM, it is possible for developing countries to impose tariffs higher than the bound rate, as demanded by agricultural stakeholders, through this facility. However, whatever increases in tariffs might be possible under SSM are temporary in nature and as such do not truly reflect the small farmers' demand for a more strategic raising of tariffs as a way of safeguarding the continued viability of their sectors.

The remedy for breaching the price triggers is more straightforward. The G33 proposal suggests that in cases where the price triggers are breached, additional duties should be imposed to allow the import price to equalize with the trigger price.

### **Improving the SSM proposal**

While the SSM proposal will indeed provide developing countries with better mechanisms to address import surges and price depressions, there are specific areas where the mechanism can be improved. These are:

1. Establishing the use of subsidy triggers

The SSM is designed to provide an effective remedy for developing countries against import surges and price depression. For this reason, the triggers are based on import prices and volumes. However, import surges and price depression are usually indications of a bigger and more persistent problem in agricultural trade, namely, the high levels of subsidization of agricultural products, especially by developed countries. While there are indeed countervailing measures to address these problems, in many cases these are not sufficient. Moreover, their use and implementation are too cumbersome to be useful for developing countries. Hence, developing countries must push that the SSM, as an S&D facility be maximized also as a mitigating mechanism against trade distorting subsidies.

2. Safeguarding the access of all agricultural products to SSM



The G33, in earlier statements have indicated that all agricultural products, including SPs will have access to SSM. In the formal proposal, however, access to SSM is confined to “any agricultural products to be listed in Annex 1 of the Agreement.” While the composition of the products in Annex 1 are yet to be identified, the creation of a list opens the possibility that some products may not be included in the list and as such may not have access to SSM. In a sense this represents an opportunity to emasculate the initial intent of G33 of opening the SSM facility to all agricultural products. Others have argued however, that the referral to an Annex 1 listing is merely a matter of making the G33 proposal consistent with the general language architecture of the WTO. At any rate, what is essential is that the original intent of making SSM available to all agricultural products is achieved in the new set of modalities for agriculture, whether through a general statement or by including all agricultural tariff lines in the proposed Annex 1.

3. Use of domestic farm price instead of the c.i.f. import price in computing the trigger price.

The G33 proposed formula for the triggers are based on import data, however this import data is not reflective of the production situation as well as sensitivities of the importing country. By basing the trigger price on domestic farm prices instead of import prices that are generally lower, the SSM will be able to protect domestic producers more. Moreover, equalizing the import price with the trigger price which will now be based on domestic prices will give our domestic farmers more competitive leverage against imported products.

4. Use of an olympic average compared to a simple average in computing volume triggers

Under the SSM proposal, the volume of imports, including those incurred in times of import surges will be used in the computation of the trigger volume. As such, it can be expected that the volume trigger will be high for the three years following the year of the import surge. This will compromise the effectiveness

of the volume trigger in guarding against coming import surges. In this regard, it is better to implement a so called olympic average. Under this scheme, import data for the past five years will be considered. However, the highest and lowest annual import data will be dropped to ensure that the resulting import trigger is more reflective of the normal import volume.

### **Process of Identifying SPs in the Philippines**

The process of identifying SPs is undoubtedly a difficult and potentially conflict-ridden procedure. As such, it is important that government provides and adopts a clear and transparent operational framework and methodology in deciding which commodities should be accorded SP status.

In choosing what products should be declared as SPs, and as such, should be eligible for maximum market access flexibility, government can also consider various factors, apart from the general criteria of food security, livelihood security and rural development. These factors include, but are not limited to:

- ♦ The vulnerability of particular agricultural sub-sectors to liberalization
- ♦ Contribution to agriculture and the economy
- ♦ Contribution and possible impact on poverty alleviation efforts
- ♦ Role in the realization of a country's strategic economic development programs

Government must draw up an initial indicative list of SPs using the three general criteria and the factors above. This list should be validated through a series consultations with agricultural producers and farmers' groups.

Preliminary consultations with stakeholders in agriculture reveal a very general initial list of products groupings that are potential candidates for SPs. This list include poultry, hogs, corn and vegetables. These are the major products that comprise the agricultural sector and have experienced a high degree of vulnerability to liberalization.

However, these products are very general. Hence, government

must go into the process of defining what particular commodity line from these major product groupings require and will benefit from market protection. Agricultural producers' associations' and farmers' networks are in the best position to help identify these commodity lines.

Complementarily, the development and application of indicators for SPs based on the three general criteria are also useful in defining the SP list. Below is an application of some of the general indicators for special products. The resulting list, based on the application of the indicators, are then assessed vis-à-vis its ability to reflect domestic sensitivities. The paper will also look into the possibility of rice as an SP, without prejudice to current negotiations in the WTO to retain the Philippines' quantitative restrictions on rice.

## **Rice**

Rice is a very significant commodity in the Philippines, as in most Asian countries. It accounts for at least 19% of Gross Value Added in Agriculture in 2003 and employs at least three 3 million farmers nationwide. Moreover rice production is planted in 4 million hectares or almost 1/3 of the Philippines total agricultural lands. From a food security perspective, rice provides 40% and 31% of the country's caloric and protein intake.

It is clear that rice is the primary logical choice for SP from a food security, livelihood security and rural development perspective. At the moment, however, rice still enjoys quantitative restrictions against importation, on account of its exemption from tariffication during the UR. This exemption is indicated in Annex 5 of the present Agreement on Agriculture, which expired in 2005. The Philippines is currently negotiating for the extension of the use of QRs for seven more years.

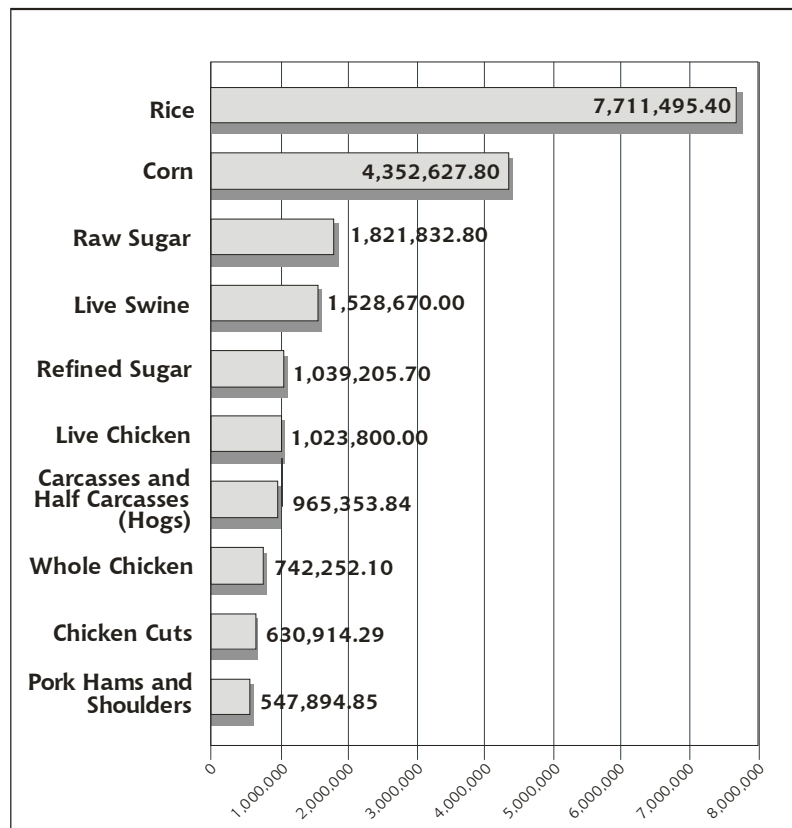
In view of the significance of rice to the Philippines, it is important to look into the merits of reserving a slot for the commodity in the SP list. This is in anticipation of the expiry of the QRs in seven years, assuming that the country is able to successfully move for the extension of the Annex 5 exemption. However, this position does not preclude the possibility that the Philippines might decide to push for the continued use of rice QRs even after seven years.

## Applying the Indicators

### Contribution to agricultural production

The most logical indicator for determining the SP list will be the product's contribution to the country's agricultural production. In the Philippines, apart from rice, which ranks number 1, the top 15 products that account for the biggest chunk of agricultural production are: corn, raw sugar, live swine, refined sugar, live chicken, carcasses and half carcasses, whole chicken, chicken cuts, chicken and duck eggs, pork bellies, tomatoes, other meat of swine and other edible offal. Please see Figure 1.

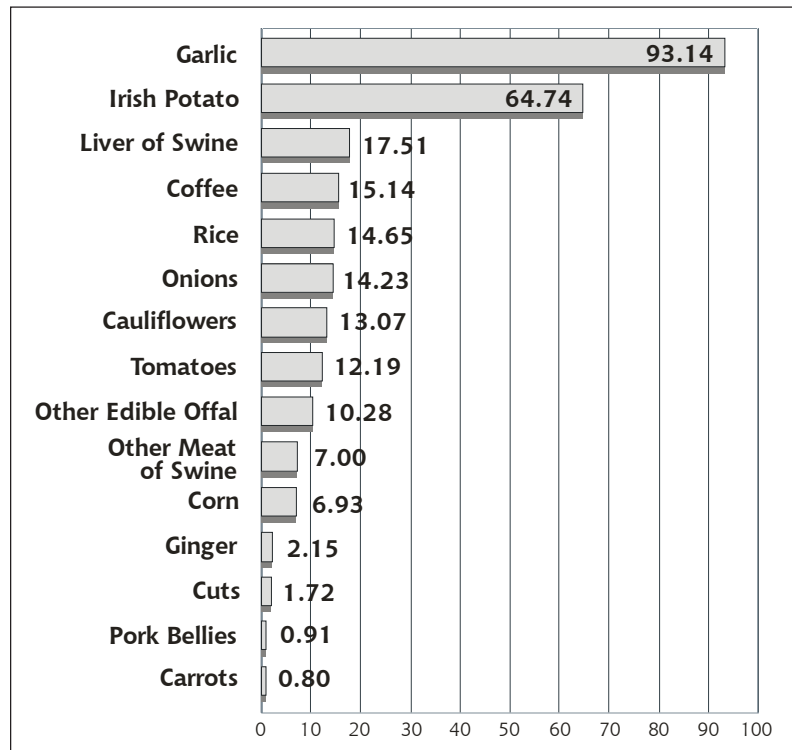
**Figure 1. Ranking of Products According to Volume of Production (in mt), 1998-2002**



Evidently missing in this list are potatoes, carrots, onions and garlic - products that were adversely affected by and highly vulnerable to liberalization. Producers of these commodities are actively opposed to further market access liberalization and are in fact pushing for increased tariff protection for their sector, having been principally marginalized by the massive inflow of imports, both legal and from smuggling. They will surely oppose an SP list that does not include their products, especially since not being in the SP list means, being subject to aggressive tariff cuts as presently being deliberated in the WTO negotiations.

It is clear that deriving the SP list from the mere ranking of products based on their contribution to total agricultural products is an insufficient way of defining the SP list in a manner that considers the factors mentioned earlier.

**Figure 2. Percentage of Imports to Production, 1998-2002**



### **Percentage of Imports to Production**

For purposes of looking at import vulnerability, one option is to look at the percentage of imports to production. This will compare the extent of imports of a particular commodity vis-à-vis domestic production. Applying this indicator resulted to a change in the mix of potential SPs. In particular, the top fifteen products, ranked from highest to lowest will be garlic, irish potato, liver of swine, coffee, rice, onions, cauliflowers, tomatoes, other edible offal, other meat of swine, corn, ginger, chicken cuts, pork bellies and carrots.

This list does not include swine, including carcasses and half carcasses, chicken, and sugar, among others, whose producers are also actively clamoring for increased tariff protection. These agricultural sub-sectors are also highly vulnerable to liberalization, though their imports to production ratio are not as high as those of the products above. Nevertheless, the large constituency of these sectors, multiplies the over-all impact of their import vulnerability to the whole agricultural sector.

### **Percentage of Production to Consumption**

Another possibility, from a food security perspective is to look at the percentage of production to consumption. The resulting ranking using this indicator are as follows: Corn, irish potato, whole chicken, tomatoes, coffee, ginger, beans, cucumbers, cualiflowers, cabbages, chicken and duck eggs, carrots, pimento, refined sugar and onions.

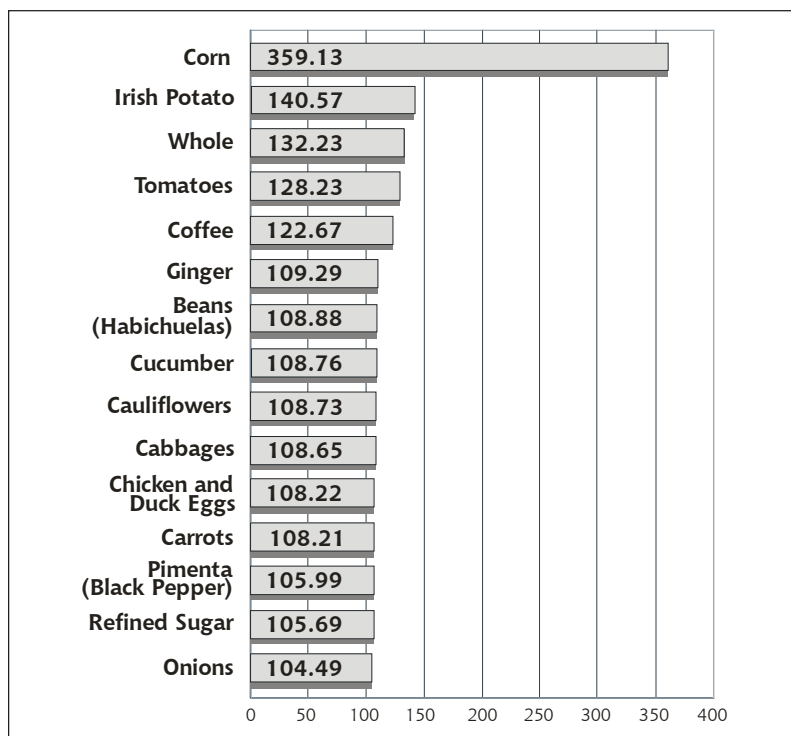
Again the resulting list does not accurately result to a mix of products that closely captures the criteria and considerations cited earlier in this section.

In this context, it is worthwhile to use a mix of indicators that will give the country the flexibility to declare the widest range possible of products as SPs. Based on these considerations, the most promising indicators appear to be:

#### ***Food Security***

- ♦ Staples and strategic food commodities comprising the foodsecurity basket including those defined in national law and statutes.

**Figure 3. Percentages of Production to Consumption,  
1998-2002**



- ♦ Agricultural commodities consumed as food

#### ***Livelihood security***

- ♦ Average income of producers of a particular commodity set against a particular acceptable threshold for income ( for example US \$ 2,000 net income US \$ 8,000 gross income)

#### ***Rural development***

- ♦ The production of an SP is located in (1) rural areas with income levels below an identified threshold or (2) areas declared as rural development priority areas of a country.

The above-mentioned indicators provide the country with utmost flexibility in choosing SPs as these will qualify a broad range of commodities. The identification of these indicators does not preclude

the use of others as the G33 was careful to underscore developing countries' right to choose which indicators to use in pursuit of their development goals.

### **Consulting stakeholders**

It is important that the Philippine government integrate stakeholders in the entire process of selecting which commodities will be accorded SP status. This is essential in promoting transparency and rationality in identifying which commodity sectors are entitled to market access flexibilities. Moreover, consulting stakeholders will also facilitate data gathering for indicators that require information specific to a particular sector, such as those mentioned above.

### **Summary of Recommendations**

On Special Products:

1. The Philippines must push for the maximum number of SPs at the 4 to 6 HS digit level. This will offer the maximum number of products that can be accorded market access flexibility.
2. The Philippine government must intensify efforts to consult and involve stakeholders in the process of selecting which products will be accorded SP status. The stakeholders participation is essential, not only in easing data gaps in applying some of the indicators, but more importantly in promoting rationality and transparency in an expectedly conflict-ridden process.
3. The Philippine government must push not only for the exemption from tariff reduction for all SP products but also for increased levels of protection for SPs to heed the demand of small farmers and small agricultural stakeholders. This higher level of trade protection include: (1) increasing tariff rates beyond current bound levels (2) reimposition of quantitative restrictions and (3) application of specific duties.



4. The Philippines must use a mix of indicators to capture the range of potential SPs that reflect the general criteria of food security, livelihood security and rural development as well as considerations such as vulnerability to liberalization, potential impact on over-all agricultural and economic development, among others.

**On Special Safeguard Mechanism:**

1. The Philippines must push for the establishment of subsidy triggers for SSM as a way of addressing the current imbalance in the agreement. This imbalance is brought about by the proliferation of trade distorting subsidies extended by developed countries to their producers.
2. The Philippines must push for the use of domestic farmgate prices in determining price triggers. This is a way of integrating the domestic realities of the importing country in estimating benchmarks for price depression, and in providing better remedies for the same.
3. The Philippines should push for the use of an olympic average in determining volume triggers in order ensure that import surges do not unduly increase the volume triggers.