A 2020 Vision for Food, Agriculture, and the Environment

2020 VISION

GETTING READY FOR THE MILLENNIUM ROUND TRADE NEGOTIATIONS

OVERVIEW

EUGENIO DIAZ-BONILLA AND SHERMAN ROBINSON

FOCUS 1 • BRIEF 1 OF 9 • APRIL 1999

When trade ministers meet in the United States (Seattle) late this year, they may launch a new round of global trade talks under the auspices of the World Trade Organization (WTO). If the ministers indeed initiate this "millennium round," agriculture will be part of it. Otherwise, agricultural negotiations will proceed on their own, since Article 20 of the Uruguay Round (UR) Agreement on Agriculture states that agricultural negotiations should be resumed during 1999.

Agriculture was key to the conclusion of the Uruguay Round. Along with textiles and apparel, intellectual property, and services, it was a critical component of the complex reform package needed to garner support from the many countries involved.

The world environment has changed substantially since the completion of the UR negotiations. The European Union (EU) is expanding its membership. Regional and subregional trade agreements in Africa, the Americas, and Asia are increasing their prominence. In agriculture, the EU, Japan, and U.S. have undertaken some market-oriented reforms, while many developing countries have initiated or continued the process of policy reform aimed at more market competition andmacroeconomic stability.

Yet the horizon is not cloudless. The U.S. trade deficit is headed toward historic highs and the president has yet to secure "fast-track" negotiating authority, which is considered necessary for serious trade negotiations. Although the U.S. has implemented new domestic agricultural policies consistent with UR agreements, there are strong pressures to go back to more distorting programs. The EU appears set to implement further reforms to its Common Agricultural Policy, but the changes proposed will still impose important budgetary and trade burdens on those countries and the rest of the world. Asia, the largest source of net demand for world agricultural products, has been hit by a crippling financial crisis that has spread to other countries. The crisis highlights the complexity of international finances and could pose a threat to greater market openness. The world economy is decelerating and, after years of fighting inflation, deflation has emerged as a key concern. All these developments will shape the nature and pace of the new round of negotiations on agriculture and other trade issues as well.

COMPLETING THE UNFINISHED AGENDA OF THE URUGUAY ROUND

Agricultural export subsidies have disrupted markets for developing countries and agricultural producers in nonsubsidizing countries. Eliminating export subsidies would put agriculture on the same footing as other sectors under WTO discipline. State trading enterprises' practices, which can function as subsidies or dumping on the export side and hidden trade barriers on the import side, need transparency and stricter discipline. Ultimately the trade rules related to agricultural products that cover the relationship between export subsidies and food aid and export credits should be integrated in a unified framework.

Expanded market access will depend on increasing the volume of imports allowed under the current regime of tariff-rate quotas (TRQs) and making their administration more transparent and equitable; further reducing tariffs, particularly those still high for some key products; completing the process of tariffication in the cases where exemptions were granted; and eliminating, or at least reducing, tariff escalation (a practice that hurts developing countries by limiting the generation of local employment in products with higher value added).

Many developing countries have dismantled or significantly reduced their domestic support for agriculture, mainly because of concerns about inefficient policies and fiscal constraints. The possible benefits these countries and the world can enjoy, however, are thwarted by the subsidies of developed countries. Further discipline in this regard should include tightening the criteria for "green box" policies (containing non- or minimally distorting subsidies), defining the measure of domestic support by product, and eliminating the exemptions under the "blue box" (which allows nondecoupled, trade-distorting payments to farmers under some conditions). Least-developed and developing countries, however, will still be allowed "special and differential" treatment.

The Sanitary and Phytosanitary (SPS) Agreement remains controversial. Rather then reopening the agreement, the best approach is probably to ensure that the existing process of dispute settlement clarifies the issues involved.

CONSIDERING THE NEEDS OF THE MOST VULNERABLE

The special situation of least-developed countries and net-food-importing countries was recognized in ministerial declarations at the conclusion of the UR. Concerns include the preservation of adequate levels of food aid, the provision of technical assistance and financial support to develop the agricultural sector in those countries, and the continuation and expansion of financial facilities to help with structural adjustment and short-term difficulties in financing food imports.

The imposition of export taxes or export prohibitions may also hamper the access of these poorer countries to food supply at adequate and stable prices. Volatility in agricultural prices must be monitored carefully.While expansion of world agricultural trade should limit overall fluctuations by spreading supply and demand shocks over larger areas, the decline in world public stocks as a percentage of consumption works in the opposite direction. Strengthening early-warning systems of food shortages, lowering costs for food transportation and storage, and providing better targeted food aid programs and financial facilities for emergencies are issues that need to be addressed.

The impact of changes in trade and agricultural policy on poorer consumers and producers is a matter of debate. The UR has begun to discipline unfair competition from subsidized agricultural exports from developed countries that hurt producers in importing countries. At the same time, the agreement allows developing countries to continue most agricultural and social policies linked to poverty alleviation and agricultural development. To achieve those objectives the adequate design of domestic policies and investment programs in human capital, infrastructure, technology, land ownership by small producers and landless workers, and the adequate functioning of product and factor markets are crucial. Certainly the objectives of development and poverty alleviation will not be served by trade-distorting interventions that operate as taxes on food consumers (with the greater burden falling on the poor) or by subsidies that allocate scarce fiscal revenues to wasteful programs.

OTHER TRADE-RELATED ISSUES

Genetically modified products present a special challenge. They have implications for the WTO framework on intellectual property rights and the proper administration of the agreement on technical barriers to trade. The development of important new technologies that are necessary to feed the world in coming decades may be blocked if the politically sensitive issues surrounding genetically altered food are not handled with scientifically rigorous analysis of the risks to human health and biodiversity.

Debates over the links between trade, labor, and the environment will continue to require analysis of the different claims regarding the effects of low wages and lack of environmental standards on trade. Legitimate concerns need to be separated from the increasing use of these issues for protectionist purposes in developed countries.

NEW WTO MEMBERS

China, the world's largest agricultural producer (representing about 20 percent of world production), Taiwan, and Viet Nam, along with Russia, Ukraine, and other countries emerging from the former Soviet Union, are not yet members of the WTO. Their eventual membership will involve important domestic changes that may improve the productivity of their agro-food sectors and create more transparency in their trade policies. These transformations will produce far-reaching consequences for world agricultural markets. The issue of WTO accession, however, is not part of the upcoming agricultural negotiations.

CAPITAL MARKETS AND ECONOMIC INSTABILITY

Historically, changes in the trade balance and current-account balance were the main focus of economic policy analysis. But in a world where many countries have opened their capital markets and international financial markets are increasingly important, the dynamics of trade flows appear to be dominated by capital flows. Adequate macroeconomic policies, therefore, may be at least as important for the operation of commodity markets, including trade in agricultural products, as WTO negotiations on reducing trade barriers.

THE POLITICAL ECONOMY OF THE NEGOTIATIONS

The two main actors during the UR, the U.S. and the EU, face different incentives now than they did during the previous negotiations. Then the U.S. and EU were under pressure to reduce the fiscal cost of agricultural support and the U.S.-EU subsidy war was disrupting world markets. Now the fiscal position has improved significantly in the U.S. and EU—although the cost of European support for agriculture remains high. Some of the distortions in world agricultural markets have been diminished thanks to the UR, although they may come back in the current environment of low world prices. The UR focused more on cereals and oilseeds while the coming negotiations may require a closer look in developed countries at sensitive products such as sugar, dairy, and peanuts. Furthermore, agriculture in the UR was part of a wider negotiation, which allowed tradeoffs between agricultural and nonagricultural interest groups. Now, unless the millennium round takes off, the negotiations on agriculture will be conducted apart from other issues. This separation reduces the leverage of countries and groups interested in further reforms.

The combination of all these circumstance may weaken the resolve of the U.S. and the EU to complete the still badly needed reform of agricultural policies. In that case, as in the past, the new WTO agricultural negotiations may well be defined by the pace and shape of the reform of the EU's Common Agricultural Policy.

A final point is that developing countries, as small players in the global arena, should be interested and active participants in the design and implementation of international rules that limit the ability of larger countries to resort to unilateral action. Also, domestic legal and institutional frameworks in developing countries may be strengthened by the implementation of internationally negotiated rules that limit the scope for rent-seeking and arbitrary protectionist measures. The developing countries as a group have much to gain from continued progress toward a transparent, rule-based trading system in agriculture. ■

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A 2020 Vision for Food, Agriculture, and the Environment

Getting Ready for the Millennium Round Trade Negotiations

Latin American Perspective

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Historically, the Latin America and Caribbean region (LAC) has enjoyed a positive and increasing net agricultural trade balance, which in 1996 amounted to about US$20.2 billion. But the positive trade balance masks wide regional differences. Argentina and CostaRica, for example, have export levels five to eight times their import levels, whereas the Bahamas, Haiti, Peru, and Venezuela carry trade deficits.

One of the most important developments of LAC agriculture in recent years has been the emergence of fruits and vegetables as the leading agricultural export (in value terms), displacing traditional commodities. Oilseed production has also increased, contributing to the surplus in net agricultural trade. Traditional exports such as coffee and sugar have decreased in importance.

Net imports of cereals and dairy products have grown due to increased demand. The resumption of economic growth, lower world prices, the opening up of the economies, and the surge in capital inflows leading to some appreciation in exchange rates in the region have been pushing imports up in the late 1980s and a good portion of the 1990s.

An important characteristic of agricultural trade in the region (in fact, of all international trade in the Americas) is the steady increase in the share of intraregional commerce. Abetted by regional pacts, such as the North American Free Trade Agreement (NAFTA) and Mercado Común del Sur (MERCOSUR), trade within the Americas (including the United States and Canada) rose from one-fourth of total agricultural exports in 1981–1983 to more than one-third by the mid 1990s. The trade liberalization that has taken place in LAC and the implementation of trade agreements have fostered agricultural trade and increased the exposure of the region's agricultural sector to world markets.

The evolution of trade flows will depend on trade and agricultural policies in the Americas and elsewhere, and these policies in turn will be influenced by multilateral, regional, and bilateral agreements and negotiations. What follows focuses mainly on the continuation of the process initiated during the UR in the upcoming "millennium round."

EXPORT SUBSIDIES, DUMPING, AND RELATED CONCERNS

For LAC countries a key issue is the elimination of export subsidies in world agricultural trade. These subsidies act as taxes on agricultural producers in nonsubsidizing countries, which are the norm in LAC. Countries in the region also will be interested in increasing the transparency of disciplines on the practices of state trading enterprises. These practices may work as subsidies or dumping on the export side, or hidden trade barriers on the import side.

Several LAC countries also want to avoid loopholes and "gray areas" in the disciplines on export subsidies, export credits, and food aid. Accordingly they have urged the integration of these issues into a unified framework.

MARKET ACCESS

The patterns of trade and market access in the region will be influenced by the complex system of border measures resulting from the UR, NAFTA, and MERCOSUR agreements; the revitalization of the Central American CommonMarket, the Andean Pact, and the Caribbean Common Market; the possibility of creating a Free TradeArea of the Americas; and extra-regional negotiations such as those within the Asia-Pacific Economic Cooperation forum (APEC) and between MERCOSUR and the European Union (EU). The interaction of these different trade negotiations is of considerable importance to LAC.

To expand market access LAC countries will press for increases in the level of imports allowed under the current regime of tariff-rate quotas (TRQs); a more transparent and equitable implementation of those TRQs, for additional reductions in tariffs (particularly those that are still high for key products, such as fruits and vegetables, sugar, meat, and dairy products); for the elimination of tariff escalation (a practice that undermines the ability of LAC countries to generate local employment and increase the value added of their exported products); and for completion of the process of tariffication in the cases where exemptionsweregranted.

DOMESTIC SUPPORT

The final agreement on subsidies reached at the UR did not impose the disciplines initially envisaged because the measure of support was transformed from a product-based one to an aggregate value for the whole agricultural sector. Furthermore, the main subsidies of the U.S. and the EU were kept outside the UR disciplines in what is called the "blue box" (something in between the green box of allowed interventions and the amber box of those clearly prohibited).

LAC countries have dismantled or significantly reduced their own domestic support for agricultural producers for reasons mainly related to fiscal constraints. They have an interest, therefore, to push for further reform along these lines, particularly tightening the criteria for the green box, defining themeasure of support

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by product, and eliminating the exemptions considered under the blue box. Although only the EU now has domestic subsidies in the blue box, the U.S. may face strong domestic pressures to revert to prereform farm subsidies if low world prices persist. LAC countries, especially net exporters, will try to keep on the table the issue of further discipline on trade-distorting domestic subsidies.

SANITARY AND PHYTOSANITARY (SPS) ISSUES

The regulatory frameworks for developing, adopting, and implementing measures to protect human, animal, and vegetal health from diseases, additives, or contaminants constitute an important area for agricultural negotiations. An objective and transparent SPS framework is crucial for LAC countries, given their expanded exports of fresh products, especially fruits and vegetables. The key issue negotiating countries will have to face is how to distinguish legitimate differences in the interpretation of scientific evidence from the protectionist uses of SPS measures. Rather than reopening the SPS agreement, many LAC countries will probably prefer to allow the process of dispute settlement to clarify the issues involved.

OTHER ISSUES

Several other challenges also will have important consequences for Latin American agriculture. Genetically modified agricultural products hold highly promising results for agricultural productivity but also raise questions regarding uncertain consequences for human health and preservation of biodiversity. The issue of the public or private nature of agricultural research and technology is also a central element in this debate. Decisions on these questions will have far-reaching consequences. Given the importance of agriculture and biodiversity in LAC, countries in the region should equip themselves with scientifically based, well-thought-out positions for the forthcoming negotiations. Debates over the links between trade, labor, and the environment will also require analytical efforts to separate legitimate concerns from the use of these issues for protectionist purposes.

The impact of trade and agricultural policy changes on poor consumers on the demand side and small and near-landless producers on the supply side is a matter of debate in LAC. Some have argued that trade liberalization may hurt both groups. Others have answered that greater productivity and growth coming from better trade and sectoral policies should help generate employment and income, given adequate overall economic policies and properly functioning markets and social institutions. The growth of exports of the fruit and vegetable complex, with its labor-intensive structure, is an example of LAC countries following their comparative advantages, which can only work if developed countries grant adequate access to their markets. Small producers will also be helped by the disciplines brought by the UR Agreement on Agriculture to subsidized and dumped exports. At the same time the agreement allows the implementation of a large variety of programs aimed at poor producers or consumers, including stocks for food security purposes and domestic food aid for populations in need. Adequate design and funding of domestic policies to achieve agricultural growth and poverty alleviation are essential and most certainly will not be helped by trade-distorting interventions.

THE POLITICAL ECONOMY OF THE NEGOTIATIONS

What incentives and disincentives do the different LAC countries have to participate in the negotiations? LAC is a vast region, with exporters of agricultural products from temperate climates, exporters of subtropical and tropical goods, and net food importers. Some worry about domestic and export subsidies in cereals, oilseeds, and meat; others are concerned about quotas, tariffs, and the application of SPS measures in fruits and vegetables; yet others may be troubled by high barriers in tropical products such as sugar and tariff escalation in many other products. Countries like Barbados, Dominican Republic, Haiti, Mexico, Peru, Surinam, Trinidad and Tobago, and Venezuela, which are net agricultural importers, will worry about export taxes, export prohibitions, and other measures that may hamper their access to food supply at adequate prices and increase volatility in world markets.

LAC countries will have to consider carefully the political economy of the trade negotiations as well as the quantitative estimation of different trade scenarios in order to develop their negotiating positions.

MACROECONOMIC ISSUES, CAPITAL MARKETS, AND ECONOMIC INSTABILITY

The importance of macroeconomic policies for the agricultural sector is widely recognized. Economists have placed particular emphasis on the impact of exchange rate policy on agriculture, but, in fact, the whole macroeconomic program is relevant, including monetary and fiscal policies. Moreover, in a world with increasingly large financial markets, the dynamics of trade flows appear to be dominated by capital flows, contrary to historical tendencies. Adequately balanced macroeconomic policies at the world level may be more important for commercial flows, including flow of agricultural products, than trade negotiations.

Developments in capital markets may also affect price stability, including that of agricultural products. The challenge may well be to devise market-based schemes for income stabilization, using the far larger pool of financial resources and instruments in capital markets. ■

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GETTING READY FOR THE MILLENNIUM ROUND TRADE NEGOTIATIONS

ASIAN PERSPECTIVE

MARCUS NOLAND

FOCUS 1 • BRIEF 3 OF 9 • APRIL 1999

Since the completion of the Uruguay Round (UR) in December 1993, the world economy and the trade policy environment have changed in significant ways. Asia's three decades of nearly uninterrupted prosperity has been disrupted by a financial crisis. In the policy arena regional organizations such as the Asia-Pacific Economic Cooperation forum (APEC) and the Association of Southeast Asian Nations (ASEAN) have become more prominent.

Spurred by rapid growth, Asia has become increasingly important to world agricultural trade. The region as a whole jumped from 30 percent of world agricultural production and about 15 percent of world agricultural imports in the 1960s, to 45 percent and 30 percent, respectively, by the mid 1990s. With the percentage of exports relatively stable over the last three decades, Asia has become the largest net importing region. Although the region may never again achieve precrisis growth rates, the current turmoil is likely to prove only transitory and the countries of the region will remain important participants in world agricultural trade. Thus country and regional agricultural trading arrangements matter a great deal not only in Asia but to the world as a whole.

THE AGRICULTURAL TRADE POLICY ENVIRONMENT

The extraordinary heterogeneity of Asia defies easy generalizations. With the World Trade Organization (WTO) and the upcoming "millennium round" negotiations in mind, distinctions can be made between four groups of countries in the region. China, the region's second largest economy after Japan and the world's largest agricultural producer, is not a member of the WTO. Yet by the mid 1990s China represented about 20 percent of world production and 3–4 percent of world exports and imports. Viet Nam and Taiwan, two other important Asian participants in world agricultural markets, also do not belong to the WTO. All three, however, are members of APEC and Viet Nam is also a member of ASEAN, so the decisions made by the regional groups may particularly influence outcomes in the WTO.

Several Asian WTO members have divergent, if not opposite, interests. (Asia may form a coherent geographical unit, but not when it comes to agricultural trade policy.) Japan maintains a highly protected agricultural sector with tight import restrictions on many products and high levels of domestic support (see table). South Korea follows similar policies. Japan recently blocked a trade liberalization agreement at the Kuala Lumpur APEC leaders meetings because it is unwilling to undertake agricultural trade liberalization. In contrast, Indonesia, Malaysia, the Philippines, and Thailand are members of the Cairns Group of self-identified nonsubsidizing agricultural exporters who generally support a more market-oriented global agricultural trade regime. Finally, there are the low-income, densely populated food-importing countries in South Asia, such as India and Pakistan, which present a different set of concerns altogether. Indian policy, in particular, discourages both exports and imports and, indeed, has conveyed *negative* aggregate support to agriculture.

Although an attempt is made in what follows to present the main issues from the perspective of the Asian region, it must be kept in mind that the new agricultural negotiations in the WTO will have different implications for each of these widely contrasting groups.

AGGREGATE MEASURE OF SUPPORT TO AGRICULTURE IN ASIA, 1995

COUNTRY	U.S. DOLLARS (in millions)
HONG KONG	0
INDIA	23,847
JAPAN	69,607
SOUTH KOREA	8,257
MALAYSIA	291
PHILIPPINES	390
SINGAPORE	0
THAILAND	633

Source: World Trade Organization, Notifications to the WTO from Member Countries, WTO website.
Note: Data for China, Indonesia, Pakistan, and Taiwan were not available.

THE NEW AGENDA

The WTO membership will collectively determine a negotiating agenda that is likely to reflect both unfinished business from the last round and issues that have grown in prominence since its conclusion. One set of issues could be labeled *marketization*. The United States (U.S.) and European Union (EU) want to move the global trade rules in the direction of their own market-oriented reforms. Asian countries could support this initiative in order to make their reforms permanent by tying them to the international system. Asian exporters have an interest in phasing out agricultural export subsidies and eliminating or disciplining export credits. Asian importers have an interest in ensuring continuity of supply. The interest of importing countries could involve negotiations on the elimination of export taxes or quantitative restrictions on exports.

This would reassure importing countries that if they do liberalize their markets and experience a reduction in domestic output, domestic food availability will not be subject to interference by exporters.

Lastly on this set of issues, the WTO will have to confront state trading, which affects trade in both agricultural products and manufactures. State trading could increase in importance with the likely future accession of a number of economies in transition. The issue is particularly salient for agriculture because of the impending entry of China, Russia, and the Ukraine into the WTO. Among current Asian WTO members, India, Japan, the Philippines, and South Korea maintain state trading for some imported agricultural commodities.

A second set of issues that the negotiators will confront involves *market access*. Here the political interests of importers and exporters largely diverge. Because tariffs on agricultural imports are typically higher and vary more across commodities than those levied on manufactures, they will be at the top of the market access agenda in agriculture. Beyond the traditional tariff cutting exercises, negotiators will have to address the tariff-rate quota (TRQ) regimes that were created when a number of countries, most notably Japan and South Korea, converted nontariff barriers to TRQs. The problem is twofold, involving the overall levels of access on the one hand and the administration of the TRQ on the other. Exporters seek increases in market access for the most part. The administration of the TRQs, however, typically generates rents and often creates a rentier constituency—including exporters with privileged access to the restricted market—that oppose further liberalization. In some instances the situation is further complicated by the presence of state trading authorities who can impose further distortions in the market. A related market access issue is the removal of exceptions to tariffication, notably for rice in Japan and South Korea.

Market access also involves the issue of special safeguards. Governments that negotiate trade agreements typically insist on safeguard provisions as an insurance mechanism against import surges and disruption of domestic production. Countries can also apply special protections to avert balance-of-payments crises. Unfortunately safeguard mechanisms can be abused when they are used to convey nontemporary protection. India, in particular, has used the balance-of-payments provision to maintain an extensive array of quantitative import controls. One proposal in circulation would require governments to adopt the price used to calculate tariff-equivalents in the Uruguay Round (typically a rather low price) as the safeguard trigger price, thus discouraging frequent invocation of safeguards and the application of high levels of protection.

A final set of prospective topics for negotiations could be termed *new issues*, which include agreements related to agriculture but outside the bounds of traditional agricultural negotiations. Most obviously related to agriculture are sanitary and phytosanitary regulations, quarantines, and, most recently, biotechnology and the introduction of genetically altered organisms. The high profile dispute between the United States and European Union over beef hormones and EU restrictions on the importation of beef because of concerns about bovine spongiform encephalopathy (mad cow disease) indicate the intense public interest the new issues can generate. Although there is no particular "Asian" position on these concerns, one can easily imagine individual countries positioning themselves on the basis of their interests as producers, consumers, and innovators. Agreements on intellectual property rights, in particular, could be increasingly important to agriculture.

Competition policy—another possible item on the millennium round agenda—could have relevance for Asia and agriculture if the talks take on the use of domestic distribution systems as a means of impeding market access. In South Korea, for example, the government has designated certain domestic producer-related institutions as sole importers of some agricultural products subject to TRQs.

Finally, agreements on environmental issues could be highly relevant to agriculture, especially those that deal with restrictions on permissible subsidies that might arise in response to concerns about transborder pollution. Again, there really is no "Asian" position. Although Northeast Asian agriculture is characterized by relatively high levels of domestic support, the chance that agriculturally related transborder pollution might occur appears slight.

CONCLUSIONS

Asia plays an increasingly important role in global agricultural markets and the upcoming millennium round could prove both highly transformative and problematic from the standpoint of Asia:

- Neither China, Taiwan, nor Viet Nam, all important participants in world agricultural markets, are currently WTO members. Agriculture will continue to be central to the negotiation of China's accession agreement, which will proceed parallel to the millennium round. China's accession, although not directly related to the millennium round negotiations, has enormous implications for agricultural trade flows in the future.
- On a number of issues the interests of different countries in Asia diverge, and Japan, the region's largest and richest economy, has provided little leadership. Indeed, it has been among the main opponents to agricultural liberalization.

Given that China, Taiwan, and Viet Nam are members of groups other than WTO and that Asia has no regional hegemon, a potentially symbiotic relationship exists between the WTO on the one hand and collectives such as APEC, ASEAN, and the supraregional Cairns Group on the other. The regional groups could be a mechanism for the non-WTO members to shape the global regime. ■

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Getting Ready for the Millennium Round Trade Negotiations

African Perspective

Natasha Mukherjee and Rebecca Lee Harris

Focus 1 • Brief 4 of 9 • April 1999

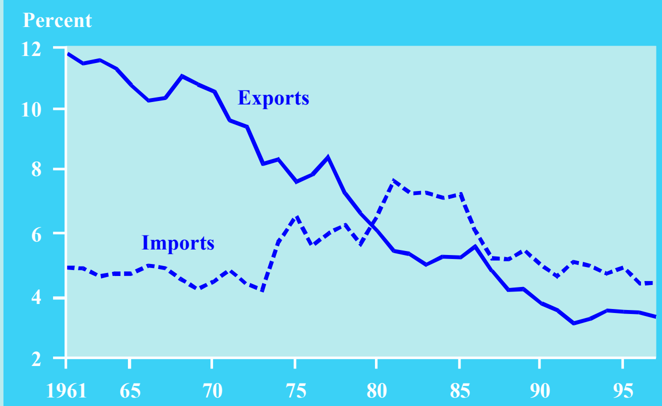
Africa's agricultural trade has seen a dramatic shift over the past four decades. The region maintained a positive and relatively stable agricultural trade balance through the 1960s and 1970s, but it suddenly moved toward a persistent deficit in the early 1980s. A sharp decline in agricultural exports caused the deficit, which stood at US$4.7 billion in 1997. Agricultural imports have been relatively stable over the long term (see figure). Given the region's high dependency on agriculture for jobs, national income, and export earnings, Africa has a large stake in any global trade negotiations.

Before the Uruguay Round (UR), trade in agricultural goods had become virtually anarchic, with a host of protective measures preventing developing countries from securing access to markets in developed countries. At the same time, the escalation of domestic and export subsidies in developed countries led to depressed world prices. Many African nations compounded these external problems by instituting policies that led to a mix of internal distortions. In particular, policies such as overvalued exchange rates, taxes on agricultural exports, and establishment of state or parastatal buying agencies that paid producers less than world prices effectively discriminated against agriculture. Governments in some countries also provided subsidies for some agricultural inputs, such as credit, fertilizer, and water, but the net effect was to favor urban consumers over agricultural producers. In the past 5-10 years a number of African countries have had to institute structural adjustment programs, which have effectively removed much of this policy bias against agriculture.

The UR began to correct some of the most obvious external problems, but left both developed and developing countries with ample latitude to maintain domestic distortions in the agricultural sector and still remain in compliance with UR agreements. Much of the agenda for the UR was set by the developed countries; as a result, developing countries outside the Cairns Group—and that means all African countries—had only a limited impact on the agenda and remained tangential to the outcome of the negotiations.

Changes in the global economy are raising the stakes for domestic policy reform in Africa. Globalization simultaneously expands opportunities and amplifies the costs of policy failures and inherent structural weaknesses. Prospects for higher growth in Africa will come largely from new crops rather than traditional primary commodities (the prices of and demand for which are unlikely to rise much). But trade barriers, such as those not eliminated in the last round of agricultural negotiations, are likely to discourage the agricultural supply responses needed for diversification into new products. The elimination of these barriers could result in an improved position for African agricultural producers, with wide-ranging effects on poverty alleviation.

African Share of World Agricultural Trade



Source: World Bank, *World Development Indicators*, CD-ROM, 1998.

The Uruguay Round and Africa

It is still too early to estimate the actual impact of the UR on Africa. Any evaluation looking at recent experience will include the influence of weather events (such as the recent El Niño) and the financial turmoil that began in Asia in 1997. Research indicates that trade liberalization under the UR, by itself, will have adverse terms-of-trade effects for Sub-Saharan African countries, which are mostly net importers of food and manufactures. The welfare losses are significant and are made worse if these countries fail to undertake needed domestic reforms. Without such reforms, they are less able to respond effectively to changed world prices and new opportunities arising from more liberalized world trade.

The structure of international agricultural trade accounts for this outcome. About three-fourths of all countries classified as least developed by the United Nations are in Africa, and almost all of them showed net deficits in basic foodstuffs in the first half of the 1990s. Also, 7 of the 18 developing countries recognized by the World Trade Organization (WTO) as net food importers (though with incomes above the least-developed levels) are located in Africa.

Although world relative prices are beyond the control of the African nations, there are many internal factors hindering growth that can be controlled. Indeed, appropriate domestic policies may offset the adverse terms-of-trade effects, particularly by dismantling the systems that prevent domestic producers from taking advantage of better world prices. Policies that are implicitly biased against agriculture—for example, public investments in urban infrastructure rather than rural—will not help increase domestic agricultural supply and make agricultural exports more competitive. But, countries can devise policies to ensure that the benefits of trade are widely shared, including domestic tax reform and land reform that can help prevent worsening income distribution. Increased government investment in education and infrastructure will also help alleviate possible negative effects of trade reforms on the poor.

It will behoove African countries in the coming “millennium round” negotiations to evaluate trade scenarios in concert with domestic macroeconomic and sectoral policy changes that are aimed at increasing the elasticity of agricultural supply and distributing the welfare-enhancing effects of trade throughout the whole society.

AFRICA S POSITION IN THE MILLENNIUM ROUND

In the aftermath of the UR, many African countries complained about their effective nonparticipation in the negotiations and inability to negotiate more favorable conditions for themselves. By all accounts, African countries were tangential to the talks.

Unfortunately, developing economies in Africa may not fare much better during the upcoming millennium round. Pessimists argue that most African countries are not bound by WTO agreements in the first place, so their participation in the meetings would be irrelevant and, worse still, a waste of resources. However, this is not the full story, and there are potential gains for Sub-Saharan Africa if they can participate more fully in the growing world economy and gain access to developed-country markets for their exports.

Despite fears that the global economy is on the brink of a recession and that the weaker economies in the region could be badly damaged, recent developments in Africa should provide some optimism and spur the countries of the region to prepare seriously for the WTO meetings. The political environment in the region has begun to change, with a new generation of decisionmakers emerging at all levels of public service. Together with a renewal of African leadership have come improving economic signs. In 1996, 31 of the 48 countries in Sub-Saharan Africa showed positive per capita GDP growth. Economic growth in 1997 for the continent as a whole was 3.4 percent, down somewhat from 5 percent in 1996, but on par with the growth rate in 1995 and above the 0.9 percent rate in 1994.

Recent trends in African agriculture have also been encouraging. Agricultural terms of trade have been rising since 1992 (although the effects of the Asian crisis are still unclear), along with the prices of export products such as coffee, cocoa, and tea. Furthermore, the import-to-production ratio of cereals has been on a downward trend since 1992 and fruit and vegetable exports have grown dramatically.

These positive signs have not occurred evenly throughout the continent and the region is certainly heterogeneous. Nonetheless, these developments, together with increased global liberalization and expanded global trade, present the most favorable configuration of factors to have presented itself in a very long time. Thus the new negotiations represent not a threatening erosion of preferences, such as those granted in the Lomé Convention, but rather a promising access to new markets. Important issues to be considered in the millennium round talks include:

- improvements in market access, particularly free entry for goods from the least-developed countries and the elimination of tariff escalation;
- elimination of export subsidies that displace domestic production and of export taxes and controls that exacerbate price fluctuations in world markets;
- provision of technical assistance and financial support to develop African agricultural sectors as indicated in the ministerial declaration approved in Marrakesh in April 1994;
- continuation of a strong sanitary and phytosanitary framework and the provision of technical support to develop the capabilities to produce at the standards expected in the markets of developed countries; and
- provision of adequate levels of food aid targeted to poor groups, in ways that do not displace domestic production.

In order to attain these goals, the formation of an effective African lobby could be beneficial. Such a group could draw on the experience of the Cairns Group. Indeed, there are some common interests with the Cairns Group, which could be an important ally. An African lobby should come well prepared to the negotiating table and represent the diversity of the continent, from countries like South Africa, which exports agricultural products and has joined the Cairns Group, to a large number of least-developed and net-food-importing countries.

If the new opportunities offered by the WTO are not exploited, the prospects for African development will remain unsatisfactory, making the continent increasingly vulnerable to global forces over which it has little control.

African countries will benefit most from the new opportunities if they continue to reform their domestic policies and institutions. Reform efforts would include maintaining prudent fiscal and monetary policies, avoiding exchange-rate overvaluation, facilitating the free operation of markets, investing in human capital and productive infrastructure, particularly in agricultural production and rural areas, and ensuring equitable access to land and water. Such reforms will not only improve the operation of their economies, but also encourage and facilitate productivity increases in agriculture through new research and dissemination of improved technologies. Countries that focus on internal reforms, especially those benefiting agriculture and the poor, will be positioned to gain more from the next round of trade negotiations. ■

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Getting Ready for the Millennium Round Trade Negotiations

Transition Economies' Perspective

Ulrike Grote and Peter Wehrheim

Focus 1 • Brief 5 of 9 • April 1999

The breakup of the former Soviet Union and the independence of Central and Eastern European countries (CEECs) has opened up the economies of these countries, but the pace of their transition to free market rules varies greatly. While most of the CEECs have already joined the World Trade Organization (WTO), accession negotiations are still ongoing for most of the countries of the Commonwealth of Independent States (CIS). Will accession to WTO stimulate exports from CIS countries, or will it just facilitate imports from the West? Will the economic crisis and the devaluation of the ruble result in increased competitiveness? Will WTO accession help overcome agricultural growth problems? How relevant is WTO, given the domestic institutional constraints that conspire against better-functioning food markets, especially in the CIS? Is Russia ready to join WTO? These are the key questions confronting the CEECs and CIS.

Implications of WTO Accession

WTO membership gives CEEC and CIS countries most-favored-nation status, which guarantees equal treatment for all trading partners. New members would benefit from market access and the past agricultural liberalization efforts under GATT. Furthermore, WTO membership could help erase the designation of some of the countries as "nonmarket economies," which has led to less transparent and potentially discriminatory practices—for example, on the part of developed countries that have applied antidumping rules against a "dumping" country whose cost data are deemed to be unreliable. To become part of a more liberalized world, countries applying for WTO membership must make three concessions regarding the agro-food sector. They must offer a specific level of market access, define upper bounds of agricultural import tariffs and domestic agricultural support, and make the national agricultural trade system consistent with WTO rules and standards. Government procurement, preferential trade, and implementation of the Trade Related Investment Measures (TRIMs) agreement must also be considered.

Political uncertainty about the negative reaction to open agricultural markets can be counteracted by quickly integrating the CEEC and CIS countries into WTO and putting their trade regimes under WTO discipline. Furthermore, as WTO members, these countries will have access to WTO dispute settlement bodies, which can be of great importance when exports dumped by industrialized countries are glutting domestic markets. WTO membership also strengthens domestic policies and institutions, bringing them into line with the provisions of the main international trade-related agreements. The changes required in national policies and institutions may be dramatic. But ongoing trade liberalization in the context of WTO will lead to specialization, efficiency gains, and increased agricultural trade. Bringing their transition economies under WTO therefore should be at the top of the CEEC and CIS agendas.

European Union Membership

For the CEECs, the most important issue concerning agro-food trade during the upcoming "millennium round" trade negotiations will be the compatibility of country-specific accession agreements with the European Union (EU). WTO membership helps countries achieve this compatibility because it streamlines national trading regimes to fit international standards. The position of CEECs in the next round of negotiations will depend on the status of their EU membership. So far, however, among the CEECs that are members of the WTO, only Poland has secured upper tariff bounds for agricultural products close to those of the EU for the year 2000. Other CEEC countries have secured their tariff bounds for selected agricultural products at WTO levels far below those of the EU. These countries therefore would not be able to assume the tariffs of the EU without violating WTO commitments.

Furthermore, the amount of subsidized exports by Hungary, Poland, and the Czech and Slovak republics has been set low. Model simulations have shown that exports would far exceed the subsidized level if the full supply response to the price incentives offered by the EU's Common Agricultural Policy (CAP) were realized. Therefore, the CEECs' obligations to WTO have been put forward as an argument for further liberalizing the CAP. The details of WTO conformity and EU enlargement will depend on the timing and sequencing of EU accession. If the EU continues to reform the CAP by further decoupling domestic support from production, price supports could be exempted from further reductions. However, this is open for debate and depends, first, on whether the "compensatory payments" for EU farmers can be extended to farmers from the CEEC, and, second, on whether such forms of domestic farm support will continue to be acceptable measures after the next round.

Agricultural trade liberalization has progressed at different paces in the CEECs. Estonia, for example, significantly liberalized its trade regime from the outset. Hungary and Poland liberalized somewhat during the first period of reforms, but in Poland signs of protectionism are again mounting. For some products and countries an increase in protection of agricultural producers may result from EU accession. For CEECs that are WTO members, accession agreements have strengthened trade-related reforms.

In the case of the CIS countries, under what conditions will their national agricultural trade systems be integrated into the WTO? Because of pressure from international donors, most quantitative export and import restrictions have been eliminated and export taxes have been reduced considerably in recent years. However, the issue of market access remains controversial. Substantial shares of the food trade, both within and outside the CIS, are still based on barter arrangements and state trading, resulting in discrimination against international, non-CIS competitors. The Ukraine, facing shrinking food exports, raised import barriers in 1997, particularly for livestock products. Market access became less transparent as expensive certification procedures and sanitary standards were increased. A domestic parastatal agency has to certify food products even if they comply with the strict standards of the U.S. Food and Drug Administration or the International Standard Organisation of the EU.

In negotiations with Russia, the process of defining upper tariff bounds for traded products was enhanced when Russia adopted the Harmonized System and thereby international custom codes early in its transition period. This step still has to be taken by other CIS countries. However, Russia has increased nominal import tariffs, and the transparency of the trade regime is limited by numerous nontariff barriers such as cumbersome customs and certification procedures, currency controls, structural and technological impediments, corruption, and intellectual property piracy. Food imports have been hampered by a new food labeling law introduced in May 1997.

To negotiate an acceptable level of domestic support for the agricultural sector is complicated by difficulties in measuring the level of support for CIS countries. It is hard to obtain estimates of indicators like the Aggregate Measure of Support because of problems in tracing the effects of newly implemented support instruments such as credit in kind or soft-budget constraints for former collective farms. Poorly functioning marketing systems also affect the wedge between domestic and international prices. For 1997, OECD estimates of the Producer Subsidy Equivalent (PSE)—one measure of government support—indicate that farmers are again being subsidized after an initial decline. However, PSEs may be reflecting their sensitivity to 1998 exchange rate realignments, which resulted in relative price increases for imported food products. The question remains, therefore, of which base year will be chosen for defining the binding level of domestic support in the accession negotiations with individual CIS countries.

All CIS member states find it difficult to accept definite commitments on any of these issues. Countries like Russia or the Ukraine, for instance, would prefer levels of protectionism similar to those of the EU. However, such high levels of protectionism are opposed not only by free traders like the Cairns Group but also by the EU itself. In this context, the unilateral commitment of a country like Ukraine to disregard the option of introducing export subsidies in the future has to be highly valued.

REGIONAL VERSUS GLOBAL INTEGRATION?

After the collapse of the communist system, Russia concluded several new trading arrangements, in particular the Partnership and Cooperation Agreement with the EU, free trade agreements with all other CIS countries, and a number of agreements on regional economic cooperation. The latter agreements were often insufficiently implemented or not at all. In 1998, an agreement on the creation of the common CIS agricultural market was signed, with varying tariff rates and nontariff measures applied toward third countries. The CEECs are also engaged in regional cooperation agreements with each other or with third partners (for example, the Europe Agreements with the EU).

WTO has formalized the treatment of these regional cooperation agreements. The Committee on Regional Trade Agreements is in charge of examining the conformity of these agreements with WTO rules. For instance, any free trade agreement must include "substantially all trade" without exempting any sectors. However, the free trade agreement that the CIS concluded in the spring of 1998 covers agricultural trade only. Another WTO rule explicitly states that the establishment of free trade agreements or customs unions should be completed within "a reasonable length of time." This rule could be used as an argument against the lengthy transition periods after integration into the EU during which the agricultural sectors of CEECs will be exempted from adapting to the CAP.

CONCLUSIONS AND OUTLOOK

Accession of the CIS and CEECs to WTO would stimulate domestic reforms either through mandatory WTO rules or as the result of negotiations with other WTO members. Domestic trade barriers within regions, such as those that exist in the CIS, and contract insecurity need to be overcome. Capacity building and institutional strengthening are needed to streamline agricultural policies and strategies. Domestic and regional market reforms in the CIS are a precondition for reaping WTO trade benefits. The negotiations for WTO accession should be intensified to speed up this process. A quick WTO accession could prevent any trend toward increasing protectionism. However, WTO accession will only result in more liberal agricultural trade regimes in the CIS and CEECs if the millennium round trade negotiations promise further reduction of agricultural protection in the EU and the U.S. Only under these conditions will the transition countries have better market access, which would increase export opportunities and have a positive effect on the economic stabilization process. ■

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A 2020 Vision for Food, Agriculture, and the Environment

2020 VISION

GETTING READY FOR THE MILLENNIUM ROUND TRADE NEGOTIATIONS

EUROPEAN UNION PERSPECTIVE

STEFAN TANGERMANN

FOCUS 1 • BRIEF 6 OF 9 • APRIL 1999

In the Uruguay Round (UR) of trade negotiations, agriculture largely determined the pace and progress of the talks, and the unwillingness of the European Union (EU) to make significant concessions on agriculture blocked agreement for a long time. The EU tried to defend its Common Agricultural Policy (CAP), as it had in previous discussions on the General Agreements on Tariffs and Trade, and to minimize any changes that might result from the UR agreements. For a long time the EU was not prepared to accept trade-related discipline on export subsidies in particular, and the 1990 Brussels ministerial meeting, which was expected to conclude the UR after four years of negotiations, broke down over the EU's resistance to cuts in agricultural export subsidies. It took another three years of talks to find agreement on agriculture. During that period, the EU, under Commissioner for Agriculture Ray MacSharry, implemented its first real reform to the CAP and thereby put itself in the position of being able to accept limits and reductions on export subsidies. Without the MacSharry reform it would have been very difficult, if not impossible, for the EU to accept agricultural disciplines that were meaningful to the other negotiating partners, in particular the United States and the Cairns Group.

Will the EU be equally difficult in the "millennium round" of trade negotiations? Will it be prepared to accept further reductions of export subsidies and tariffs? The answers to these questions depend largely on the follow-up to the MacSharry reform, namely the Agenda 2000 proposals tabled by the EU Commission. Under the original proposal, price supports for cereals were going to be cut by another 20 percent, for beef by another 30 percent, and for milk by 15 percent. The final, scaled-down version includes 20 percent cuts for cereals and beef and 15 percent reductions for dairy products. These domestic reforms have important implications for the EU position in the millennium round talks because they relate to both export competition and market access.

EU POSITION ON THE MILLENNIUM ROUND AND DOMESTIC POLICY REFORM

Growing surpluses on EU markets mean that an unreformed CAP would have been in serious conflict with the EU's World Trade Organization (WTO) commitments on export subsidies, for cereals and beef in particular. The availability of cereals for export had been projected to exceed the EU's commitments on subsidized exports by a significant margin, especially in the case of wheat (see Figures 1 and 2). As long as EU prices exceed world market levels, as they were projected to do under unchanged levels of CAP support, the EU would be able to export only with subsidies and hence would be obligated to constrain its exports to the amount of its WTO subsidy commitments. Under these circumstances, in the next round of negotiations the EU would certainly try to avoid any further reductions of export subsidies and again would be a difficult negotiating partner. The original proposal of the Agenda 2000 allowed the EU the opportunity to export cereals and beef without export subsidies. Under this proposal European negotiators could agree more easily to further cuts of these subsidies in the upcoming millennium round. The final version of Agenda 2000, however, somewhat reduces the margin for flexibility that the EU would have had under the original proposal.

As far as negotiations on market access are concerned, cuts in CAP price supports would enable the EU to accept further tariff reductions because it would have less reason to fear that lower-priced imports would undermine its domestic price support measures. In other words, the EU position on the two central areas of agricultural negotiations in the millennium round—market access and export competition—depends crucially on the final form of the Agenda 2000 decisions and their implementation.

EU INTEREST IN THE "BLUE BOX"

In the area of domestic support the EU is likely to insist on the need to maintain the "blue box" provisions that allow direct payments to farmers. Doing this will mean that subsidies that limit production do not have to be factored into commitments to reduce subsidies. The compensation payments to EU farmers that were introduced under the MacSharry reform, and that would be raised and extended under Agenda 2000, fall in the blue box category of domestic support. The blue box therefore is likely to be a difficult issue in the next round of negotiations even though the EU is pretty much alone on this front. The U.S., the other major user of the blue box after the Uruguay Round, has decoupled its compensatory payments to cereal growers so that they now fall in the "green box" of nondistorting or only minimally distorting domestic subsidies. The EU is still quite far from having fully decoupled its compensation payments and would not reach that point even under Agenda 2000. The scaled-down version of Agenda 2000 maintains blue box subsidies at slightly higher levels than the original proposal.

If the blue box were to be eliminated in the millennium round of trade negotiations and the EU had to factor all its compensation payments into its domestic support commitments, the CAP would be in serious trouble. With blue box subsidies included in total domestic support, the EU would surpass its level of commitment at the end of the current WTO implementation period. Domestic support would be even higher than commitments if further reduction in commitments were to result from the millennium round.

EU DIFFICULTIES WITH BIOTECHNOLOGY AND REGIONAL ARRANGEMENTS

In the area of sanitary and phytosanitary measures, the EU is likely to raise the issue of how to take account of consumer concerns about food safety in cases where it is difficult, if not impossible, to provide scientific evidence of any health threat. After having lost the WTO dispute about beef hormones, the EU is concerned that it might have to open up its borders to imports of foods with characteristics that undermine consumer confidence and potentially cause a slump in demand for the entire product sector in question. Some vocal and politically influential EU consumer groups strongly resist the application of biotechnology to food.

Another growing concern the EU has relates to the treatment of agriculture in regional free-trade arrangements. The EU is engaged in a number of negotiations on the establishment of free trade (for example, with South Africa and the Mercado Común del Sur [MERCOSUR]). But major difficulties have arisen over agriculture, not only because the countries concerned have a strong interest in extending regional trade liberalization to farm products, but also because GATT requires that "substantially all trade" be included in such arrangements. If the EU's relatively high tariffs on agricultural products had to be completely dismantled in these regional free-trade arrangements, not only would a major diversion in trade occur, but the sustainability of the CAP would be severely undermined. The EU may therefore try to use the millennium round of trade negotiations to arrive at a more precise definition of how much trade can legally be excluded from free-trade arrangements and possibly at some specific exceptions for agriculture in this context.

Overall, the place of the EU in the millennium round has been foreshadowed by the domestic debate about further CAP reform. The recent agreement on further reform, along the lines of Agenda 2000, may turn the EU into a more flexible negotiating partner than in the Uruguay Round, although less so than would have been the case under the original proposal. But the EU will still raise some controversial issues, such as consumer concerns about trade in food produced with biotechnology and the treatment of agriculture in regional trade arrangements. ■

FIGURE 1

AVAILABILITY OF WHEAT FOR EXPORT BY THE EU AND WTO CONSTRAINT ON SUBSIDIZED EXPORTS

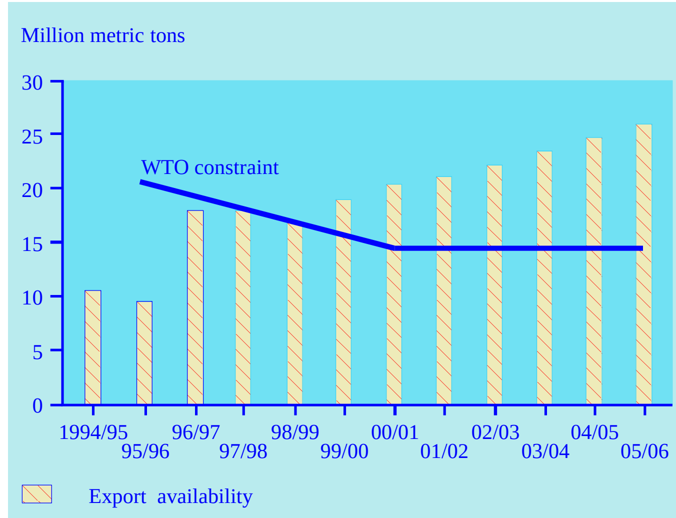
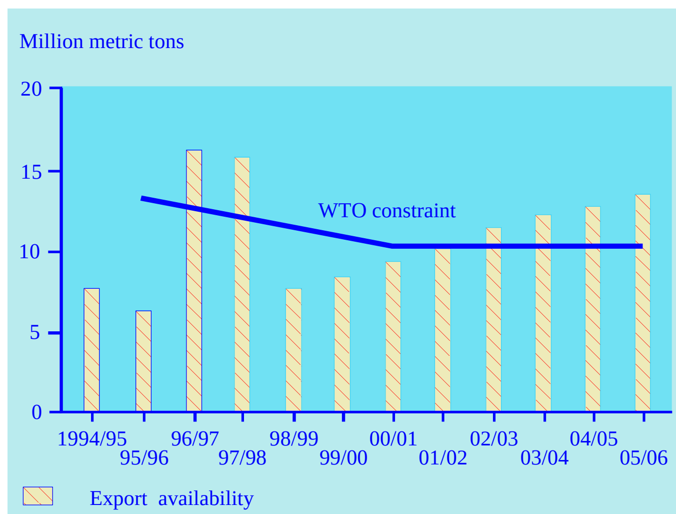


FIGURE 2

AVAILABILITY OF COARSE GRAINS FOR EXPORT BY THE EU AND WTO CONSTRAINT ON SUBSIDIZED EXPORTS



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Getting Ready for the Millennium Round Trade Negotiations

United States of America Perspective

Dale Hathaway

Focus 1 • Brief 7 of 9 • April 1999

The priorities that U.S. agriculture has for the upcoming "millennium round" trade negotiations are shaped by domestic political and economic concerns, including the widely held belief in U.S. farm and commodity organizations that the Uruguay Round (UR) results were oversold, that foreign commitments made in the UR were not kept, and that the U.S. administration has been unresponsive to the international obstacles faced by domestic agriculture.

In the U.S. political system any trade agreement negotiated by the executive branch must be approved by the U.S. Congress. In order to avoid having the Congress amend and modify the agreement, a legislative procedure called "fast-track" authority has been devised. Under it, Congress cannot amend a trade agreement, but only vote for or against it. When fast-track authorization came up for debate in 1997, agricultural groups were at best lukewarm in their support for it because of their dissatisfaction with several aspects of the UR and NAFTA (North American Free Trade Agreement). Ultimately, the vote on fast-track was not taken in 1997 because it became apparent that the bill would not pass. This failure shocked some agricultural groups concerned with international trade liberalization.

The Asian financial crisis and the attendant drop in agricultural exports brought home the crucial importance of foreign markets more sharply to most U.S. farm groups. In September 1998, when fast-track came to a vote again, many farm and agribusiness groups gave all-out support to the legislation, but the administration was unwilling to push for passage for fear of alienating labor, environmental, and other liberal groups. With fast-track's second defeat, several strong supporters of further trade negotiations wondered about the administration's depth of commitment to trade reform and what compromises would be needed to get the negotiations going.

THE SHAPE OF THE MILLENNIUM ROUND NEGOTIATIONS

In early 1998 the U.S. had proposed that a series of sectoral negotiations take place, without a general "round" encompassing several or all sectors. The rationale given was that rounds took too long and allowed some sectors to hold up liberalization of other sectors. U.S. agricultural interests promptly rejected the idea of separate agricultural negotiations, arguing that negotiations limited to agriculture were certain to fail. But many nonagricultural groups may object to the single undertaking approach because agricultural negotiations held up the completion of the UR. Agricultural groups, however, will encourage comprehensive negotiations as their best hope for leverage to gain major concessions on agriculture from other countries.

During the UR the United States initiated the three-pronged approach, namely improved access to markets, equitable export competition, and reductions in trade-distorting domestic supports. It is likely that the U.S. will again push for this approach.

One of the complicating factors for the U.S., as it is for all the countries in the western hemisphere, is the simultaneous negotiations for the Free Trade Agreement of the Americas (FTAA). The final strategy in the millennium round negotiations may well depend on the strategy adopted in the FTAA.

ACCESS TO MARKETS

U.S. agricultural groups have been sorely disappointed and sometimes highly critical of the outcome of the access negotiations in the UR. They have complained bitterly that some countries have manipulated the tariff quota system to avoid access commitments made in the UR. Moreover, U.S. farm groups had been led to believe that all countries were to "tariffy" their nontariff barriers and establish tariff quotas to provide minimum access, but they found that most developing countries merely declared bound tariffs (tariffs that cannot be raised) with no access commitments. Many of the bound tariffs declared by developing countries are so high that they effectively prohibit trade. Given this experience, U.S. farm groups will look with scepticism upon special rules in the next negotiation that allow developing countries to avoid opening their internal markets. The U.S. is likely to push to develop a common framework for tariff quotas, a framework that will make the minimum access promised in the UR a reality.

U.S. businesses are split on the question of enlarging tariff quotas or sharply reducing over-quota tariff rates. Export-oriented sectors will push for enlargement, but U.S. negotiators are acutely aware that current U.S. sugar, peanut, and dairy policies cannot survive in their present form with significantly larger imports. Sugar, peanut, and dairy producers depend on tariff quotas to maintain their domestic support programs and have enough political power to block the approval of a trade agreement they strongly oppose.

Despite strong U.S. concerns about state trading, widespread demand for circumscribing its use in controlling imports does not exist. U.S. exporters may view tariff quotas rather than state trading as the major barrier to market access and some state trading enterprises (STEs) may favor U.S. suppliers. On the other hand, since the U.S. has no STEs that affect imports, it will have little or no opposition to limiting the abilities of STEs to control imports.

A new concern about market access is becoming widespread among U.S. farm and agribusiness groups, namely the barriers erected by some countries to prevent or slow down the import of genetically modified plant and animal products. The recent refusal of the European Union (EU) to allow the importation of some genetically modified maize and soybeans has brought the U.S. and the EU to the brink of trade war. The United States has not yet developed a strategy to deal with the issues involved in these disputes, though it will fight vigorously to prevent consumer sentiment from determining access to products deemed safe using accepted scientific standards.

EXPORT COMPETITION

U.S. agriculture is completely united on two issues that will receive the highest priority in the next round. The first is the complete elimination of export subsidies on all agricultural products. This is an easy call since the U.S. has virtually no export subsidy rights under the UR except for wheat, and U.S. industry has finally realized that there is no net gain in using export subsidies for wheat when you have a free trade agreement with a major wheat exporter.

The second crucial issue is the uncontrolled use of STEs as a single seller in the export market. U.S. producers believe that STEs can and do cross-subsidize sales, dump goods, and otherwise engage in unfair competition. But they have not yet agreed upon the best approach for curbing the power of STEs. Unless there is significant progress on this issue, U.S. producer groups will remain greatly dissatisfied.

U.S. agriculture does not support broadening World Trade Organization (WTO) jurisdiction to limit the use of direct government credit or credit guarantees for agricultural exports. The U.S. has had an export credit guarantee program for agricultural products for many years and U.S. producers will strongly resist any efforts to restrict the use of that program. U.S. support for export credit guarantees has been reinforced because Asian nations struggling to maintain food imports in the face of domestic economic collapse last year enthusiastically embraced the program.

Domestic agricultural interests will strongly support WTO rules that prohibit export embargoes, export taxes, and other policies that might limit the access of importers to food supplies controlled by exporting countries. U.S. interests have two reasons for advancing these prohibitions: (1) the tendency of some countries to apply export taxes when supplies are tight, thus increasing pressure on open exporting countries and exacerbating the concerns of importers about food security; and (2) the tendency of the U.S. Congress and administrations to use export embargoes as a tool of foreign policy. U.S. producers feel that an international agreement will help restrain some of the unfortunate tendencies of U.S. policymakers to use unilateral trade sanctions as a foreign policy tool.

DOMESTIC SUPPORTS

U.S. agricultural groups were never enamored with the commitment to bind domestic support levels under the UR agreement. However, they accepted the idea as it became clear that themajor U.S. programs for grains, oilseeds, and cotton would be exempt under the "blue box" rules, which allow direct payments to farmers who restrict output, and that support for commodities such as sugar, dairy, and peanuts would remain untouched. Now the domestic policy landscape in the U.S. has changed. Support programs for wheat, feedgrains, cotton, and rice have been dismantled, but there is pressure to make substantial marketing loans available for these crops. Because there are no production controls authorized for these crops it appears that the loan program might come under the constraints imposed by the UR. The UR exempts payments from constraints when production controls are in effect for the crops concerned.

The U.S. position on what to do about reducing domestic supports and how to define trade-distorting domestic subsidies is unlikely to be clarified until after the U.S. administration and Congress decide on the future of the major support systems. The 1998 crisis in world agricultural commodity markets is prompting a reevaluation of the 1996 legislation removing market support and production controls. Until that reevaluation is well along, the U.S. position on the question of domestic supports is unlikely to be firm.

NEW ISSUES

Different commentators have suggested that the upcoming negotiations include a reasonably extensive list of issues that may have been recognized but were not included in the last negotiation. This list includes environmental issues, labor standards, animal rights, food safety, and consumer rights. Some groups in the United States would like to see a number or all of these issues included in the millennium round trade negotiations, but the major agricultural and agribusiness groups would not. Most U.S. agricultural groups view these issues as not very well disguised attempts to replace the overt protectionism finally reduced in the UR with protectionism in the service of other, albeit good, objectives. U.S. agricultural groups are going to resist the inclusion of these issues on the negotiating agenda and vigorously oppose rule changes that allow trade sanctions to be used to enforce social objectives. ■

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A 2020 Vision for Food, Agriculture, and the Environment

2020 VISION

Getting Ready for the Millennium Round Trade Negotiations

Least-Developed Countries' Perspective

Eugenio Diaz-Bonilla, Marcelle Thomas, and Valeria Piñeiro

Focus 1 • Brief 8 of 9 • April 1999

The greater needs of developing countries have been recognized in trade negotiations especially since the Tokyo Round. The subsequent Uruguay Round (UR) included special considerations for developing countries, particularly the least-developed countries (LLDCs). UR participants also discussed whether the liberalization of agricultural and trade policies may have a negative impact on the net-food-importing developing countries (NFIDCs). These concerns raised a number of complex issues, some of which have yet to be completely clarified. For instance, "developing" countries are defined on the basis of self-identification. Economies that are or were centrally planned also present difficulties for classification. NFIDCs identify themselves as such, although they must follow a procedure and present data to back the claim. LLDCs are classified according to United Nations criteria.

At present, about two-thirds of the 134members in the World Trade Organization (WTO) are developing countries. Of the 48 LLDCs worldwide, 29 are WTO members. Six more are in the process of accession and 3 are WTO observers. The LLDCs as a group have a population of about 590 million people, with an income per capita about 4 percent that of the world average. Agricultural production per capita in LLDCs has been on a downward trend for the last four decades, though the same indicator for all developing countries has gone up by about 40 percent in the same period. LLDCs represent a small fraction of world trade (less than half of 1 percent for total trade and about 2 percent for agricultural trade). They had a positive (although declining) net agricultural trade balance until the mid 1980s, at which point the balance turned negative. Almost 20 percent of their total imports are food items.

The 18 NFIDCs have a population of some 380 million people, and an income per capita nearly five times that of the LLDC average but still much lower than theworldaverage. NFIDCs are a diverse group: 4 are upper-middle income countries (Barbados, Mauritius, Saint Lucia, and Trinidad and Tobago); 8 are lower-middle income (Botswana, Dominican Republic, Egypt, Jamaica, Morocco, Peru, Tunisia, and Venezuela), and 6 are lower income (Côte d'Ivoire, Honduras, Kenya, Pakistan, Senegal, and Sri Lanka). Although Sri Lanka, Honduras, Kenya, and Mauritius had net food exports on average during 1995–1997, they imported cereals and on this basis were included in the group. NFIDC per capita food production as a share of both world and developing-country averages has risen (although from very low levels). As even such cursory data indicate, the upcoming "millennium round" trade negotiations will affect individual LLDCs andNFIDCs in very different ways.

LLDCS AND NFIDCS UNDER CURRENT WTO RULES

Special and Differential Treatment

Developing countries generally face lower disciplines and enjoy longer time frames for implementing reforms. LLDCs are totally exempted from WTO commitments. Trade negotiations have also produced agreement that developing and least-developed countries should receive special consideration for market access and technical and financial support.

For agriculture, developing countries are allowed to reduce domestic support by two-thirds of the level required for other WTOmembers and to implement the commitments in a period of 10 years instead of 6. The "de minimis" clause, referring to the portion that does not have to be declared and reduced as part of domestic support reform because it is considered too small, is 10 percent for developing countries instead of the 5 percent for developed countries. Some categories of domestic support (in addition to the permitted measures of the "green box") do not have to be reduced, including general rural development programs, some investment subsidies, input subsidies to low-income or resource-poor producers, and support to eradicate illicit narcotic crops. LLDCs are completely exempt from any reduction in domestic support.

Developing countries are allowed smaller cuts in their budgetary outlays for export subsidies and more time to make these adjustments. Subsidies to reduce marketing and transport cost for exports are exempted under some conditions.Regardingmarket access, developing countries are supposed to receive larger concessions for their exports, are allowed lower levels of minimal access for products that are a staple in their diet, and can spread adjustment over a longer time frame. In the case of sanitary and phytosanitary (SPS) measures, developing countries can request technical assistance from developed-country members and, again, are allowed longer time frames to fulfil requirements.

Preventing Adverse Effects on Food Imports

Concerns during the UR that liberalization of agricultural policies and trade may adversely affect food imports of LLDCs and NFIDCs led participants to include several measures dealing with food security issues in the "green box" of permitted domestic support (for instance, public stockholding and provision of foodstuffs at subsidized prices). Participants also approved a ministerial declaration in Marrakesh in April 1994 to deal with possible negative effects of agricultural trade reforms on the food security of LLDCs and NFIDCs. The declaration was reemphasized at the 1996 ministerial meeting of WTO in Singapore.

The 1994 decision agreed to (1) periodically review food aid needs; (2) increase the proportion of basic foodstuffs provided "in fully grant form and/or on appropriate concessional terms"; (3) provide technical and financial assistance to LLDCs and NFIDCs to improve their agricultural productivity and infrastructure; (4) consider treating LLDCs and NFIDCs favorably with regard to agricultural export credits; and (5) assist developing countries with short-term difficulties in financing normal levels of commercial imports. The WTO's Committee on Agriculture received the mandate to review periodically the implementation of this decision, usually with the participation of international organizations such as the Food and Agriculture Organization of the United Nations, the International Monetary Fund, the World Bank, the World Food Programme, and the United Nations Conference on Trade and Development. The last review session took place in November 1998.

LLDCS AND THE MILLENNIUM ROUND TRADE NEGOTIATIONS

Notwithstanding the elaborate set of provisions mentioned, representatives from developing countries, LLDCs, and NFIDCs have argued that the special and differential treatment meant for them has fallen short, particularly when it has come to market access, food aid, and financial and technical assistance for developing agriculture. The formulation of an LLDC negotiating agenda for the millennium round in these matters must consider the important differences among the countries involved. This may require a better conceptualization of some definitions such as "developing" countries and NFIDCs. The agenda that follows is largely from the perspective of the LLDCs.

- LLDCs should be granted free entry of their exports to high-income WTO members as a way of improving their market access. If this cannot be agreed upon, LLDCs should push for additional reduction of tariffs, the elimination of tariff escalation, and expansion of tariff rate quotas for their exports. They should also aim at increasing market access opportunities under the relevant provisions of the Agreement on Textiles and Clothing.
- The UR was a first step in imposing discipline on the unfair competition of subsidized agricultural exports, which hurt poor agricultural producers in developing countries irrespective of the net agricultural trade positions of these countries. In the next negotiations LLDCs should push for the elimination of export subsidies, which would complete the first step taken at the UR. LLDCs should also pursue stricter disciplines on export taxes and controls that exacerbate price fluctuations in worldmarkets.
- The UR allowed developing countries to maintain domestic support through policies tied to poverty alleviation and agricultural development. The main concern LLDCs have on this issue is that they receive technical assistance and financial support that is adequate for developing their agricultural sectors, a need affirmed in the ministerial declaration on the subject.
- Such technical and financial assistance is also vital if LLDCs are to comply with the Sanitary and Phytosanitary Agreement and produce at the standards expected in the markets of the developed countries. Improvements in SPS measures will also benefit domestic consumers in the exporting LLDCs.
- To assure food availability, net-food-importing countries (a group that includes not only those formally identified as NFIDCs in the WTO but also a great majority of LLDCs) should seek adequate food aid, which has declined in recent years. But it is also important to make food aid available in grant form, to target it to poor groups, and to deliver it in ways that do not displace domestic production in the countries receiving it. Badly managed food aid, or cheap food imports due to export subsidies, may just reinforce the bias of economic policies against the rural sector, with a negative impact on poor agricultural producers. To offset the possibility of more volatile agricultural prices NFIDCs should insist on the need for adequate financial facilities during emergencies.

In general LLDCs should emphasize to the international community the importance of implementing an integrated framework for economic and social development, with agricultural and trade policies playing a key part in it. The need for this framework was recognized in the WTO Plan of Action for LLDCs in 1996, which mainly focused on trade. More generally, LLDCs should emphasize the importance of creating and expanding a supportive international trade and financial environment. Appropriate measures would include the continuation and enhancement of the reduction of the external debt of Heavily Indebted Poor Countries (HIPC Initiative). Improved international conditions should go hand in hand with a better domestic framework in developing and least-developed countries, including stable macroeconomic policies, open and effective markets, good governance and the rule of law, a vibrant civil society, and programs and investments that expand opportunities for all, with special consideration for poor and disadvantaged groups. ■

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A 2020 Vision for Food, Agriculture, and the Environment
2020 VISION

Getting Ready for the Millennium Round Trade Negotiations

Cairns Group Perspective

Kym Anderson

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One of the great achievements of the Uruguay Round (UR) trade negotiations was to begin the process of placing national agricultural policies under GATT (General Agreement on Tariffs and Trade) discipline at last. The Cairns Group of nonsubsidizing, agriculture-exporting countries came together in 1986 with the single goal of ensuring that outcome. (The Group currently consists of Australia, Argentina, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand, and Uruguay.) Together with the United States and other GATT signatories, the Group sought successfully to have all nontariff, nonquarantine barriers to agricultural imports converted to tariffs; all tariffs subject to ceiling bindings that are scheduled for phased reductions; and all farm production and export subsidies reduced. Much remains to be done, however, before agricultural trade is as fully disciplined or as liberal as world trade in manufactures.

LOOKING BEYOND 1999

World Trade Organization (WTO) members will reconvene in late 1999 to launch a "millennium round" of trade negotiations, on agriculture and services at the very least. Their negotiations are unlikely to bear much fruit, however, unless deals can be struck across other sectors and issues as part of a more comprehensive package. Among other things, this would enable participants to pursue further reform in textile trade, an opportunity that will be especially worthwhile if China is soon to become a WTOmember.

Assuming that a comprehensive round is launched at the next WTO ministerial meeting in Seattle in December, the Cairns Group's agenda for the agricultural negotiations would include the following:

Make agriculture more market-oriented. Hopefully this will not be as difficult now as it was during the UR, given the considerable progress in unilateral farm policy reforms by the United States, the European Union (EU), and Japan during the mid-1990s (reforms that themselves were responses to the changed atmosphere created by the UR agreements).

Phase out farm-export subsidies. This sounds ambitious given that those subsidies were to be reduced by only one-fifth under the UR, but nothing less than a complete ban is needed to bring agricultural trade into line with nonfarm-product trade on this issue.

Remove the blue box. Items in the "blue box," which contains direct payments to U.S. and EU farmers who restrict their output, were not counted in the Aggregate Measure of Support (AMS) that governments are required to reduce. But with the U.S. and EU gradually reforming their domestic support policies for internal reasons, the political necessity of the anomaly of the blue box has diminished.

Tighten the green box criteria. The only policy measures listed in the "green box" should be those that do not encourage output. Tightening the criteria will reduce loopholes that allow output-increasing subsidies to continue. Closing loopholes is becoming more important because commitments to reduce the AMS encourage countries to convert more of their policy instruments to those listed in the "green box."

Secure large reductions in bound tariffs. "Dirty tariffication" (binding tariffs at well above applied rates) allows countries to continue to vary their actual tariff protection in response to changes in domestic or international foodmarkets. Getting those bound tariffs down from 50–250 percent to the 5–15 percent range of rates on manufactures requires governments to take reform seriously. Negotiators in the Tokyo Round used the "Swiss formula" for manufactures, reducing tariffs by a larger percentage for those productswithhigher tariffs. This formula is more appealing than the "zero-for-zero" approach where tariffs are eliminated altogether for selected products, because that increases the dispersion of tariff rates across products, and leaves the politically difficult items such as dairy and sugar under high protection.

Expand tariff-rate quotas (TRQs). The minimum-access requirements of the UR ensures that at least 5 percent of domestic sales of protected farm products will be imported by developed economies at low or zero tariffs. Agriculture-exporting countries enjoying that preferential market access are understandably reluctant to suggest TRQs be removed. Perhaps the best alternative to removing the TRQ is to expand it, so as to simultaneously reduce its importance, increase competition, and lessen the impact of high, above-quota tariffs. If TRQs were to be increased steadily every year, it would not be very long before quotas became nonbinding for most countries. Expanding TRQs may thus be more liberalizing in the medium term than reducing high above-quota bound tariffs.

Tighten sanitary and phytosanitary/quarantine rules. The UR's agreement on sanitary (human and animal health) and phytosanitary (plant health) measures has worked well so far, so some Cairns Group members are reluctant to renegotiate it for fear of weakening it. However,manycountries use blunt quarantine instruments, such as import bans, to restrict imports well beyond what is necessary for protecting the health of plants, animals, and citizens. At the very least some form of notification requirement that requires WTO members to disclose the degree to which they restrict trade with quarantine measures would be helpful.

Reform rules on state trading enterprises(STEs). This issue is worthy of close attention in general (not just for farm trade) because of the large number of former centrally planned economies seeking WTOmembership. While an outright ban on STEs seems implausible (too many current WTO members have them), it might be possible to require members that create new STEs to compensate other WTO members that are adversely affected. On the import side it might also be possible to make stricter use of GATT Article II:4, which states that the nontariff mark-ups by an STE should not be larger than the import tariffs. On the export side, requiring the removal of themonopoly status of single-desk exporting agencies and their practice of defining "export" grades differently from the grades sold on the domestic market would lessen suspicion that these STEs were subsidizing exports covertly or raising domestic consumer prices or both.

Phase out the special safeguards mechanism. This mechanism,whichallows developed economies to maintain domestic prices by triggering import restrictions should quantities surge or import prices plummet, could be phased out by adjusting the triggers each year so that they are less and less likely to cut in. In the meantime, members could seek agreement on the level of trigger prices. They could agree to set prices to the (typically very low) external prices used in calculating initial tariff equivalents.

Normalize farm export credits. These are just farm export subsidies by another name, and they clearly need to come under stronger trade discipline. Since the UR mandated members to reach an accord by 2000 on export credits in general, the next WTO round will provide an opportunity to ensure that agricultural export credits are treated in the same manner as those for other products.

NEXT STEPS

By the standards of the rest of the 20th century, historians will judge its final few years as good ones for reducing disarray in world food markets. The GATT/WTO membership, and in particular the Cairns Group, can take a significant share of the credit for that reduction. Yet a great deal more remains to be done before agricultural markets enjoy anywhere near the freedom from government intervention that manufactures enjoy.

The next stage of reform will be conducted in an environment in which the forces of globalization (including ever-faster international transfers of information, ideas, capital, skills, and new technologies) will have ever-stronger effects on markets, possibly triggering sporadic policy backlashes. In the seed/pesticide industry, for example, surges in economies of scale and financial market liberalization over the past 15 years are encouraging rapid expansion of foreign direct investment by large multinational corporations. The UR's Trade Related Intellectual Property Agreement contributed to that expansion by requiring more secure property rights for seeds. Optimal international locations of production may well change in nontrivial ways as a result of globalization, bringing forth new forces requiring further adjustment. With this in mind, there are many challenges as well as opportunities ahead for the Cairns Group and others interested in seeing agricultural market reforms continue into the next century. Key priorities for the next few years include

- securing a consensus to launch a new round of multilateral trade negotiations at the turn of the century that is comprehensive enough to allow tradeoffs across sectors and issues;
- ensuring that all the main means of distorting agricultural markets are high on the negotiating agenda, in order to minimize the possibility that reforms in one area are offset by trade-distorting supportmeasures in another;
- facilitating the accession of new members to the WTO, particularly those aspirants that are significant in world agriculturalmarkets, such as China,Russia, Ukraine, and Vietnam;
- encouragingmoretransparency in and analysis of the nature, extent, and economic effects of market-distorting farm and food policies, including those that have remained relatively unexposed, such as environmental and quarantinemeasures;
- continuing to explain why trade reforms are desirable and why they need not be a threat to food security, food safety, or the environment;
- clarifying each major country's interests and objectives, exploring the prospects for more coalition-building among WTO members, and reducing animosity between members where that is based on incomplete or incorrect information; and
- building a stronger consensus for reform in the Cairns Group countries themselves, including in trade areas traditionally neglected (single-desk exporting agencies, quarantine restrictions), where a good example set by food-exporting countries will enhance the prospects that food-importing countrieswilldolikewise.

Finally, agriculture-exporting countries also have an interest in ensuring a quick return to rapid industrialization and economic growth in densely populated Asia, for that will expand these developing countries' net imports of farm products—especially if WTO commitments prevent them from raising food import barriers. This import expansion also depends on advanced economies honoring and then extending their commitments to liberalize market access for Asian manufactures, especially textiles and clothing. ■

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