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THE NEXT MILLENIUM ROUND OF WORLD TRADE NEGOTIATIONS : AGRICULTURAL ISSUES AT STAKE AND STRATEGIES

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The next Round of multilateral negotiations is due to commence in 1999. Countries have already learned a lot from the shortcomings of the previous agricultural negotiations in the implementation of the agriculture negotiations and in the Analysis and Information Exchange meetings since 1997. The ministerial meeting of developed countries (OECD), has revealed that their future development of agricultural policy has changed little as a result of policy changes in the 1990s. In the next Round the EU is expected to be mainly on the defensive to try and maintain subsidy provisions. The main players that are expected to fuel the upcoming negotiations are the Cairns Group of agricultural export countries as well as the United States. The main task of reformers would be related to substantial further reduction of distortive trade measures, the covering of matters left unresolved in the Uruguay Round and to close the loopholes of the previous agreement. In general, reformers would like to push for a fairer system with more equal benefits to all.

INTRODUCTION

The Uruguay Agreement on Agriculture was implemented in 1995. The Agreement (article 20) has a build in agenda to continue with reforms and reads as follows: recognising that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, Members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period (WTO, 1994). An informal process of Analysis and Information Exchange (AIE) commenced in 1997, prior to the next negotiations. This is a process where countries can obtain a better understanding of the effect of the implementation of the previous round on agriculture in order to be in a better position to participate in the next round of multilateral negotiations. The World Trade Organization (WTO) ministers met in Geneva on 20 May and agreed to begin preparations for the next round of multilateral negotiations to commence next year (1999). To this end, the General Council will meet in Special Session in September 1998.

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...the preparatory process and mandate

South Africa as well as the Cairns position regarding the preparatory process is that;

1) it should be managed at the level of the General Council and not by the Committee of Agriculture (the latter is mainly responsible for monitoring the agreements);

2) that an informal process for heads of delegation should be initiated in September 98 to meet regularly to carry out the details;

3) and that the Analysis and Information process should not be used to delay the negotiations.

South Africa is of the opinion that the role of the Cairns Group is to inject a high level of initiative and dynamics into the preparations to the negotiations to keep the process moving forward. For the negotiations to start in full and to prevent any delays, a broad mandate has to be formulated from September 1998 to December 1998. A detailed as possible negotiating plan for agriculture (road map) has to be ready by the middle of next year to be approved by the III Ministerial Conference at the end of next year. Agriculture industries and agri-businesses are therefor invited to make proposals on aspects the mandate should cover. Inputs are through the Agricultural Trade Forum represented by industries and agri-business.

...agriculture negotiations only...or full round

The question of a big "Millenium Round" within the WTO is still to be resolved. The full negotiating package is still to be determined. However, it will be less likely to make significant progress in agricultural trade liberalization in a stand-alone sectoral negotiation (Brookins). In remarks commemorating the WTO's 50th university, President Clinton expressed frustration over the length of time required to conduct multilateral negotiations in all sectors and suggested a sectoral approach of moving forward on areas where agreement could be reached(Brick-Turin, Blumenthal & Brookins, 1998). However, the latter approach to market access usually pushed by the US, tend to leave liberalisation in tough sectors like agriculture behind. Nevertheless, the principal of comparative advantage cuts across sectors and experience shows that a broader round will produce better results and will benefit more countries.

...major players

Major players in the new round, as in the GATT UR, which was completed in 1994, are likely to be the US, the EU, Japan and the Cairns Group of major agriculture exporting countries. South Africa was recently accepted as a Cairns Group member. Neither the EU nor Japan has much interest in rapid progress. Pressure to commence early with negotiations and drive to make substantial commitments in the negotiations can be expected from mainly the Cairns group as well as from the United States. Cairns are of the opinion that completing the task of liberalizing agricultural trade will bring important benefits in terms of economic growth, improved welfare, food security and sustainable development (NDA, 1998).

...domestic support... levels still excessive...

Agriculture ministers of developed OECD countries demonstrated in their Ministerial meeting in March 1998 that their positions on the future development of agricultural policy has changed little as a result of the policy and other changes of the 1990's. According to the OECD Secretariat, the proportion of farm incomes coming from subsidy or market manipulation remains high. Support to agricultural producers, as measured by the Producers Subsidy Equivalent, has fallen from an OECD-wide average of 45% of the value of production in 1986-88 to an estimated 35% in 1997 (OECD, 1997). Total transfers from consumers and taxpayers due to agricultural policies decreased from a share of 2.2% of GDP to 1.3%, reaching a level of US$ 280 billion in 1997. Much of the reductions in the early 1990's have been due largely to the high level of world prices, which has reduced the need for market intervention (Brussels, 1998).

Nevertheless, many other WTO members have made substantial and fundamental policy changes as a result of the UR. The reformers still want more reform and the conservatives want to conserve as much as they can of their protectionist policies. OECD figures also shows that those countries with the highest support levels in the base period (e.g. Switzerland, Norway, Japan and the EU) made little reductions on domestic support, while countries which had relatively much less support (e.g. Canada, US, Mexico and New Zealand) made large percentage reductions to their domestic support.

… the Uruguay Round made a start … but the next round has to be better

As discussed, the Uruguay Round achieved little in reducing the domestic support of markets by some countries, which is at the root of the distortion of international agricultural markets. The main reasons for the ineffectiveness of the measures agreed in the UR was that the data on which they were based allowed little scope for significant reductions in protection and subsidization. With most commodities the base period selected from which reductions were to be made (1986 – 1990) were far too preferential to high protectors and subsidizers, because of low world prices and levels of support and subsidization were at their peak at the time (Brussels, 1997). Reductions in domestic support were aggregated and allowed scope for increases in support to selective commodities. Inequalities in reduction commitments also exist due to the calculation methodology on market price support, such that it favours developed countries with relatively low inflation rates.

Measurements of support by OECD have shown that since the base period there was little reform on the products with the highest support (rice, milk, sugar and beef and veal) in OECD countries. Large reductions were made on the reduction of domestic support on products that had relatively little support in the past (grains, wheat and maize). Some countries (the US, Canada and Cairns members) suggested that it might be necessary to have reduction commitments on a commodity basis. The most likely application of a sectoral approach of agricultural industries is to have faster liberalisation of less sensitive products. However, placing roofs on highly protective sectors to ensure progressive reductions in support might be necessary to make any progress over the long term.

The EU will be careful not to show its hand in the forthcoming negotiations – principally because it is likely to be mainly on the defensive (Brussels, 1998). One of the main objectives of the EU will be the preservation of the right to maintain producer subsidies (compensation payments) either in the current "blue box" category or as environmental / social adjustment measures. In the EU these payments are still coupled to production or factors of production. The Cairns Group on the other hand would like to see reduction commitments on this distortive measure. Even the United States have decoupled their deficiency payments in order to move in the direction of less trade distorting measures.

A start was made in the Uruguay Round to reform agriculture by putting a framework of disciplines together. Future negotiations will build on the basic

foundations set by the UR. But it is clear that work still has to be done on the Agreement on Agriculture on problem areas that still exists (WTO Secretariat). There is also a widening of the gap in support levels and benefits of provisions between countries that tend to create an "unfair situation".

...non trade concerns will become more important...

The European Union in particular is pushing the idea of the multifunctionality of agriculture to justify that direct subsidies to agriculture production are necessary to maintain the social role or other functions of agriculture (WTO Secretariat). In the light of these developments, Cairns countries will develop a proactive strategy regarding non-trade concerns. The main stream of thought might be to accentuate issues related to the detrimental effects of subsidies on the environment and food security (income security) and to ensure that any measures are decoupled from distortive trade effects.

More attention will in future be focused on agriculture environmental payments. The green box will have to be truly green (Brussels, 1998). A great shift in support has taken place, especially in the EU, from former market price support to direct payments to farmers. Although less distortive than market price support, various direct payments still have distortive effects on production and trade. A payment to compensate for a certain externality might have an effect on other externalities of other countries, if the measures are not focused and if criteria are not properly decoupled from production. If initiated and accepted, some green box criteria will have to be reviewed. However, monitoring of the green box measures is just as important in assuring that policies notified as such are indeed green.

Cairns believes food security will be enhanced through more diversified reliable sources of supply, as more farmers, including poorer farmers in developing countries, are able to respond to market forces and new income generating opportunities, without the burden of competition from heavily subsidized products. Export restrictions must not be allowed to disrupt the supply of food to world markets, in particular the net food importing countries (NDA, 1998).

Cairns is further of the opinion that in many cases agricultural subsidies and access restrictions have stimulated farm practices that are harmful to the environment. Reform of these policies can contribute to the development of environmentally sustainable agriculture (NDA, 1998). The recovering of world prices is therefor a necessary basis or departure point for development to be

sustainable, both from an economic point of view as well as in terms of sustaining natural resources.

…export subsidies…no justification exists…

During the Uruguay Round developed countries were able to negotiate the retention of high levels of export subsidies for agricultural products. The main formal obligation was that such subsidies should not be used to acquire more than an "equitable share" of world export trade in particular primary agricultural products. The rules as interpreted and applied become more of a license to use export subsidies than an effective discipline. This could be seen in a recent tit-for-tat retaliation of the US by reactivating its Export Enhancement Programme (EEP), to cheap subsidized imports of EU barley and in targeting third country markets where the EU is active. Hopefully in future negotiations there will be more serious constraints. While the EU would like the retention of the right to utilize export subsidies when necessary, developing countries for various reasons, including fiscal constraints, have already lost the ability to use export subsidies.

The WTO Secretariat's assessment of export subsidies in 1995 shows that only six developed countries (European Union, Switzerland, United States, New Zealand, Australia and Bulgaria) were legitimately in a position to subsidise 77% (12 861 million US $) of the legitimate world-total exports subsidy levels. The EU alone could legitimately use 64% of this world-total. Given that export subsidies distort market prices and market flows, also for developing countries, this apparent and institutionalised imbalance is exacerbated when annual outlays, when fully utilised, are supplemented by the use of balances of subsidy not applied in previous years (Swart & Van Dijk, 1998).

Cairns is of the opinion that no justification exists for maintaining export subsidies. It is essential that the 1999 negotiations ensure the early, total elimination and prohibition of all forms of these distortive and inequitable policies. There must be clear rules to prevent all forms of circumvention of export subsidy commitments. Also, agricultural export credits must be brought under effective international discipline with a view to ending government subsidization of such credits (NDA, 1998). Individual developing farmers cannot compete against the taxes of developed economies that can afford these measures.

...developing countries

The principle of special and differential treatment for developing countries, including least developed countries and states, must also remain an integral part of the next WTO agriculture negotiations(WTO Secretariat) . If the multilateral system fails to benefit all members or at least the majority it will loose faith in the WTO as the major multilateral negotiating forum and countries will focus on other regional and bilateral agreements. The framework for liberalization must continue to support the economic development needs, including technical assistance requirement, of these WTO members.

...market access

The next round must provide a major expansion of market access opportunities for agricultural products, including value-added products and particular products of special interest to developing countries. This includes negotiations on tariffs as well as expanding the minimum market access commitments. Negotiations are expected to be on a broader base and can include other products than agriculture products.

Some developed countries with special reference to the EU and Japan make substantial use of the "special safeguard" provision. It allows a country to protect a commodity in case of an alarming increase of imports without having to prove any injury. Some countries have in the Committee of Agriculture meeting been criticized for misusing this measure. Members might have to look more closely to the application of this measure and the possible misuse thereof.

...state trading enterprises

The US in particular would like to see greater transparency in the reporting of State Trading Enterprises (STE's) and the necessary controls on the activities of state trading organizations. In fact they have in the past used it as an excuse to block the progress on putting disciplines on export credits. Several leading Cairns Group countries have critical interests in maintaining their STE's. This includes Australia, Canada and New Zealand, which makes use of agricultural STE's and argues that a too detailed reporting on STE activities would potentially reveal market-sensitive information and is only prepared to offer aggregate information (Brookins, 1997). It could also be argued that agricultural STE's operate similarly to cartelization of industrial businesses in the US and that one should also be looking at the discussions of competition policy.

CONCLUSION

The reformers still want more reform and the conservatives want to conserve as much as they can of their protectionist policies. The EU is expected to be mainly on the defensive in the upcoming negotiations regarding agriculture. The main task of reformers would be related to substantial further reduction of distortive trade measures, the covering of matters left unresolved in the UR and to close the loopholes of the previous agreement. From a political point of view, reformers would like to push for a fairer system with more equal benefits to all. If the system fails to benefit the majority of countries or if it moves too slowly, countries will loose faith in the Multilateral System and turn more focus on regional agreements. If successful in negotiating a freer market, it can have substantial gains for developing countries like South Africa in terms of increased profitability on especially previously highly protected markets and the opening of markets over the longer term.

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