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POSSIBILITIES AND LIMITS TO THE LIBERALISATION OF INTERNATIONAL AGRICULTURAL TRADE IN THE WTO MILLENIUM ROUND (SPECIAL ATTENTION TO THE TRANSITORY ECONOMIES)

Prof. dr. Péter Halmai [Gödöllő University of Agricultural Sciences] and László Velikovszky [Gödöllő University of Agricultural Sciences]

Abstract

Through the comprehensive regulation international agricultural trade, the GATT Uruguay Round was already a significant move towards the elimination of market distorting factors/barriers. But the Agreement of Agriculture was only the first step on this long path and at the same time certain internal contradictions were generated:

- Due to the “dirty tariffication” the heavy protectionist countries could still impose high import duties;
- The mechanism for limiting domestic subsidies has not proven to be efficient;
- Certain hidden subsidies- such as export loans – were not included in the liberalisation system etc.

The new WTO Round starting at the end of 1999 offers again the chance to further reduce the market distorting barriers. However, the planned main areas of discussion on the agenda of the Round bear potential conflicts:

- With regards to “market access” the point of view urging further liberalisation needs the application of the “Swiss formula” and also the increase of preferential market access;
- Those accused with protectionism will obviously raise and turn to other – non-trade related areas (such as “European Agricultural model”, environmental protection, animal welfare etc.) to avoid the multilateral liberalisation of agricultural trade and the elimination of their domestic subsidies;
- Domestic subsidies shall be in the centre of attention and besides the questioning of “Blue box”, the re-definition of the “Green box” might occur.

The paper analyses the main positions and possible impacts with concentrating on the principle actors (USA, EU, Cairn-group). Special attention is paid to the unique problems CEECs (transitory economies).

The main conclusion of the presentation shall be that Millenium Round will probably be multiannual negotiation process, could lead to the further reduction of trade distorting factors despite the debates and compromises. Unfortunately, the comprehensive and complete multilateral liberalisation of the international agricultural markets – due to the conflicting interests of the main actors - multilateral liberalisation of international agricultural markets – is still not seen to be realistic,

1. Can the Agricultural Agreement in 1994 be considered as a liberalisation?

The Uruguay Round Agricultural Agreement (URAA) is a significant step towards elimination of the distorting factors of international trade (NTMS, prohibitive tariffs, domestic subsidies contained in the “yellow box”, export subsidies etc.). But it should not be called liberalisation:

- through tariffication rather different tariff equivalents were determined country by country, and the obligation to decrease tariff levels did not vary in the case of countries applying high or low tariff rates,
- tariff quotas to be applied in the field of current and minimal market access require significant bureaucracy, tariff quotas in their present form cannot be considered liberalisation,

- only the applicable market protecting tools can block the comprehensive liberalisation of agricultural world market,
- the AMS allows the application of rather different national subsidy level, and certain subsidy practices (“blue box”) can have market distorting effects,
- monitoring the application of the obligations to decrease the export subsidy levels and also the subsidised export volume shall need rather complicated and bureaucratic export regimes.

Therefore it can be stated that URAA requires a complicated and bureaucratic regime. This system in its present “form” is not liberalised and not directly more liberal than the previous regimes. But it is **the first step** and as the Agricultural Agreement also states before the end of period available for the full competition of obligations the new negotiations with regards to the further elimination of trade distorting barriers should be started.

2. Main characteristics of the implementation

The impact of the Agricultural Agreement closing the Uruguay Round on agricultural policies and the international market depends on the application of the regulations referring to individual countries.

In the field of market access the participants of the Uruguay Round managed to restrict the necessary changes resulting from their obligations to the minimum. On the one hand in the base period (1986-88) the gap between international market and domestic prices was the highest in history. On the other hand the countries concerned concluded tariffication, i.e. the transformation of non-tariff barriers into tariffs. The main experiences with regard to the application of the Agreement are the following:

- in the course of tariffication extremely high tariffs, often surpassing the import tariffs before the period of application, were created;
- the restriction process according to the Agreement made the employment of flexible policies possible;
- in the case of sensitive products liberalisation is insignificant and tariff heights prevail;
- the maximum tariffs set in the Agreement are applied similarly to the varying levies by some countries;
- the national measures aiming at the restriction of administrative prices could result in the *negligence* of obligations;
- there have also been exceptions to tariffication (e.g. the Japanese rice market).

Not only the mechanisms determining market access have changed to a small extent, but market access as well. Tariff quotas were set for several products. In the majority of cases, however, these reflect merely the current market access. Minimum market access quotas are not always exploited. MFN tariffs are often prohibitive thus restricting market access - especially of sensitive products - to the extent of tariff quotas. It is thus a key question to the countries concerned to what extent do they have to increase tariff quotas after the next round.

One of the major problems for exporters is the allocation of tariff quotas. If the difference between the domestic and the international market price is greater than the duty to be paid after the tariff quota, the quota contribution goes to the bearer of the quota. In the absence of an adequate quota allocation system the profit is realised by

the importer instead of the exporter. It can often be observed that quotas are allocated to the domestic importers or producers of the product, who are evidently against the import.

At the same time several other problems come up:

- the mere market access alone does not force the opening of the market, the exploitation of tariff quotas after this depends on whether the preferential tariff is prohibitive or not;
- for several products the market was accessible to an extent of at least 3% in the base period, thus in the first few years preferential market access was not necessary;
- the enforcement measure was further softened by aggregation, i.e. the assumption of obligations according to product groups and not individual products;
- occasionally the regulations were treated "flexible";
- creativity in the preservation of non-tariff barriers also appeared in the field of minimum market access.

Thus the WTO obligations regarding market access did not require truly drastic changes from the highly developed economies. Consequently the decrease of the level of market protection significantly stayed behind the extent originally aimed at.

In the frame of the Agreement the subsidised export obligations constitute the strongest enforcement. On the other hand highly developed industrial economies have so far observed their obligations without any greater difficulty. Two important factors have a share in this: at the beginning of the implementation period the international market price of cereals requiring a major part of the subsidies was high, on the other hand the so called front and loading construction proved to be useful. The member states were allowed to observe their obligations for the restriction of the subsidised export in view of the current export quantity of 1991-92 instead of the base period quantity.

The export subsidies, however, stay in the crossfire of criticism:

- The Uruguay Round only brought a decision about the extent of export subsidies and the restriction of the subsidised quantity but disregarded the causes behind the export subsidies. Parallel to the escalation of the assistance competition the export subsidies not only serve as counterbalance for the support of others but also as a market access device;
- the country-specific employment of export subsidies can also be worrying because it can distort proportions between the target country and other economies;
- the Agreement did not restrict the activity of state trading companies, either.

The obligations regarding domestic support had only a limited impact on the agricultural policies of the main participants. The highly developed economies here examined all observe their obligations regarding domestic support even if a significant part of the income of farmers (nearly two thirds in the EU and Japan, ca. one third in the USA) comes from some form of assistance. AMS obligations, however, hinder the use of formerly successful measures and the return to the extremely high level of assistance in the base period. Australia and New-Zealand are in a peculiar situation: in the future they cannot really use price-based assistance since their base period support level was low. In case they wanted to give up their former liberal policies, they could hardly utilise such measures because of their obligations. It is further important to

remark that AMS obligations are expressed in nominal form, thus in case of inflation their enforcement effect grows. (In countries with a high inflation rate the Agreement contains - without elaborating it - the possibility of inflational correction in Article 18 point 4.)

3. "Transitional economies" unique problems

The Central and Eastern European countries (transition economies) in the base period for setting obligations (1986-88 and 1986-1990 for export subsidies) were not in direct connection to the international market as centrally controlled economies. In relationship with this situation:

- the tariffication process - in relation with the possibility of "national offers" according to Modalities - led to very different obligation levels and scope of action in the course of the elaboration of an operating market protection system;
- the technical preparation and discussion of the national obligation offers with the other co-signatories coincided with the dramatic changes of transition when transformation and crisis management meant a great task for the national governments and the risk of undertaking of disadvantageous obligations grew;
- national obligation offers were generally determined nominally. Thus they are subject to inflational erosion: the nominally determined assistance opportunities and other obligations lose value because of the high inflation of the transformation process. Although several WTO member states are involved in such a process, the problem in the transition economies is the most pressing in consequence of the high inflation rate.

Regarding the observance of the obligations for export subsidies a decisive factor is the difference between domestic and international market prices. The inflational erosion of assistance possibilities can significantly endanger the observance of obligations. Consequently, in the case of some products the transition economies can exert a powerful pressure to modify the domestic agricultural policies in order to be able to observe their export subsidy obligations. Fundamentally there are two possibilities for the countries concerned: either the decrease of domestic agricultural prices (whereas farmers demand their increase) or the elaboration of a domestic regulation (quota system) restricting the quantity of subsidised export. (Poland followed the latter track when determining the B-quota for sugar.) The latter is not expressly forbidden, although because of negative allocation and distribution impacts it stands against the approach and objectives formulated in the Agricultural Agreement.

Hungary has determined ad valorem tariffs on all products. These are transparent import duties that are fairly easy to administer, but if the import prices decrease, the specific or mixed tariffs give greater protection.

The determination of tariffs was carried out with regard to the *exchange values/equivalents* based on the differences between domestic and international prices. Compared to the price conditions and price system in the base period the current situation is fundamentally different. Further to the significant administrative changes (deregulation, liberalisation, etc.) and the establishment of the market economy, the consumer price of food products will be multiplied in 2000 compared to the base period. Consequently, the *exchange values* from the base period do not reflect these realities. With reference to the preferential tariff quotas (see Schedule LXXI - Hungary, Section I-B.) the decrease of domestic food consumption compared to the base period can also cause problems. On the whole it can be concluded that in case of certain products the Hungarian market opening is stronger than in other WTO

member states and its consequences must be considered in the next round of negotiations. In consequence of the high inflation in the transition period the observance of the Hungarian obligations regarding the decrease of domestic support is especially influenced by the possibility of inflational correction. Although the Agreement does contain such a possibility, it does not regulate it in detail. It would be absurd, however, to assume that such a correction would aim at preserving the real value of AMS.

The Hungarian agriculture can be considered in Europe as receiving a low level of support (Table 3). On the other hand the composition of assistance is disadvantageous: approximately 75% belongs to the forbidden yellow box, and only 25% belongs to the green box. This structure - further to the questions of inner rationale - could make the Hungarian practice of agricultural support questionable in the international trade policy context as well. The increased exploitation of the possibilities of the "green box", the fundamental transformation of the Hungarian agricultural support system with regard to WTO obligations is inevitable.

Table 1: PSE factor in Hungary and in the EU

	Hungary	European Union
1986-88	40	46
1991-93	17	47
1996-98	10	39
1997	8	38
1998	12	45

The Hungarian obligation regarding export subsidies contained mistakes: on the one hand the budgetary expenses on export subsidies to be decreased was given in HUF, thus the decrease calculated in USD would be 86% during the Agreement period. On the other hand the list of subsidised products was also faulty including only 16 products instead of 700. The waiver accepted by the WTO allows a deviation from the original obligations until the end of 2001. From 2002 everyone has to return to the original obligations, that is the Hungarian agricultural export - beside its unchanged sectoral and macro-economic significance - de facto can reach the foreign market only without export subsidies.

4. The basic agri-trade areas of WTO Millennium Round

The position and agricultural trade political approach of the participants of the next WTO round was examined through comparative analysis. The highly developed economies approach the negotiations differently, and the different groups of the growing economies can contribute to the agenda of the session with further questions.

In the topic of market access no country objected to the further decrease of tariffs. There is, however a great gap between Australia proposing the significant decrease of tariffs, and the EU and Japan preferring a small decrease. The attack against tariff heights comes above all from Oceania. The product specific character of the tariff decrease is an unsolved issue. Japan and Canada demand a product specific decrease of tariffs. The other countries here examined consider the general decrease of tariffs more to the purpose. The "zero to zero" proposal favoured by the USA and Canada can only be applied for a limited circle of products. As to the administration of tariff quotas, the standing-points are more or less unified: the system must be made more transparent and more regulated although things can become more complex with details. Opinions are less unified regarding the increase of tariff quotas and the

decrease of their tariffs. With reference to the agricultural protection clause the EU and Japan represent the two extremes on the one hand, and Australia on the other. The EU and Japan would like to preserve it, whereas Australia wishes to have it abolished. Regarding the state trading companies Japan is isolated among the highly developed economies.

In the area of export subsidies no country has expressed objection to further decrease. It is yet to be seen, however, whether the decrease reaches the extent of that of the Uruguay Round. The abolishment of export subsidies supported by the USA and the Cairns-group is strongly opposed by the EU and to a certain extent by Japan. Regarding export credits the USA can face the more or less unified claim for efficient regulation. The EU on the other hand will have to accept some principles regarding export taxes. For Canada the regulation of exporting state trading companies can be a sensitive issue. As to the further decrease of domestic support the EU will probably not even come close to the claim of the Cairns-group, i.e. the significant decrease or abolishment of trade distorting support. No country shares Canada's opinion, according to which a comprehensive limit should be set for the subsidies obliged to be decreased that belong to the blue and green boxes. Concerning the conditions of the green box the differences of opinion between the individual countries will probably only come to light during the more detailed discussions. The preservation of the blue box is less threatened according to indications than it was formerly foreseen. This situation can change, however, during negotiations. According to the standpoints of the countries here examined it seems that the peace clause will survive the next round, although probably not unaltered.

According to the Agreement closing the Uruguay Round the agri-political reforms must be continued after the implementation period. Several countries were afraid, however, that the further decrease of support and protectionism could cause a conflict in their agricultural policy. On the other hand Article 20 of the Agreement - including the continuation of the reform process - orders the not trade specific problems to be included in the agenda of the agricultural negotiations in the next WTO round.

The non-trade specific problems or the issue of multifunctional agriculture that is in close connection with it became quite fashionable during the discussions about the future of the agricultural trade system. These play an increasing role approaching the next round of WTO negotiations. Highly developed and growing economies both refer to this concept. These approaches, however, treat the not trade specific problems in general. The question is what actual regulations and obligations would be required in order to cope with the problems. Fundamentally, it is possible to deal with not trade specific problems of domestic support in the field of the green box. It is doubtful, however, whether with reference to the new aspects the widening of the circle of green box measures or the relaxation of the criteria with regard to more extensive objectives can be acceptable.

Further important issues of the next round can be the following: consumer concerns about the safety of food, GMOs and animal welfare. With respect to this the governments should prohibit the products clearly endangering the health of the consumer, the environment or animal welfare. In the judgement of non-evident risks the consumer can play a greater role if the asymmetry problem of information is solved by significantly better communication (labelling). Furthermore standards could receive a bigger role in international regulations (bilaterally fixed standards and multilateral rules for the unilateral definition of standards). In relation to this circle of problems the demand for renegotiating the SPS-Agreement could come up.

5. Comprehensive agri-trade liberalisation versus further gradual elimination of trade distorting barriers

Already on the agenda of the present WTO Round the need for a total and comprehensive liberalisation can be found. According to this vision: a global free trade area can be developed in terms of agricultural products as well.

This option would lead to international trade competitions with such intensity, which presently cannot be imagined. Such competitions would mean very strict profit margins, ever-increasing urge for raising productivity and significantly lower agricultural production prices for the customers and for the processing industry.

At the same time, in free market situation intensive fluctuations of international agricultural markets – the possibility of such fluctuations is high - could reach and affect certain national economies without barriers. Furthermore, due to the unlimited international competition the agriculture of some “looser” regions (e.g. certain areas of Europe) would gradually fall back and would diminish in the long run. Due to their special nature, different problems would occur with regards to the “transitional economies”.

Therefore, it would be more realistic to further eliminate the market distorting barriers (high tariffs, domestic and export subsidies etc.). This would obviously not result in a free international agricultural trade, but would lead to a more intensive – but still protected – international trade competition. Such option could be acceptable for all parties of international agricultural trade, though this would also involve conflicts. However, it is certain that the 21st century shall be the century dedicated to the elimination of protectionism.

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