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PANEL 4: TRADE AGREEMENTS:
IMPLEMENTATION, EXPERIENCES AND IMPLICATIONS

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PANEL DISCUSSANTS

Perspectives from Less Developed, Food-importing Countries with Large Agricultural Industries *Harbinderjit S. Dillon (Ministry of Agriculture, Indonesia)*

A Perspective from Developed Countries: Subsidized Exporters in North America and Europe *Tim Josling (Stanford University, USA), Stefan Tangermann (University of Göttingen, Germany)*

Trade Agreements: A Policy Maker's and Implementer's Perspective *John Slater, Ben Atkinson (Ministry of Agriculture, UK)*

A Perspective from a Food Importer that has Recently Joined the Developed Countries *Jaekok Lee (Korean Rural Economic Institute, Republic of Korea)*

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Trade agreements are a major issue for researchers in agricultural economics, as well as for governments around the globe. Researchers face the challenge of understanding the implementation of the many agreements recently negotiated, as well as the task of providing useful information and perspectives to aid negotiation of additional agreements in the future. Thus the analysis creates both disciplinary and practical challenges for agricultural economists.

Trade agreements from the perspective of developed countries

Key points made by Tangermann were that the implementation of the Uruguay Round Agreement (URA) has proceeded so smoothly in the European Union

(EU) that it has been nearly unnoticed. Although variable levies have been converted to tariffs, at most levels of world prices a large measure of protection remains. Most of the reduction in protection that has occurred has been the result of the Common Agricultural Policy reforms that were implemented in 1992, not a result of the URA as such. Export subsidy commitments have been met, but given the recent low EU output and high world prices (due to adverse weather) the impact on markets has been minimal. The EU has implemented grain export taxes to replace export subsidies. Although hardly used for grains, export subsidies for minor products (including olive oils, some dairy products, some meats and some fruits and vegetables) are near URA limits. As expected, the internal support commitments have been nowhere near binding, even though total support by some measures has been maintained. Tangermann observed that the policy shifts encouraged by the URA, and the prospects of further reductions required by the next round of negotiations, have changed the nature of agricultural policy debates within Europe. Fundamental reforms seem far more likely now than a few years ago and this change is due in part to the international trade agreements and negotiations.

Josling noted that the United States has also implemented the URA with little direct policy or trade consequence. Tariffication caused the elimination of the famous Section 22 exception to limits on unilateral institution of quantitative controls on imports, but the result is mainly symbolic. Export subsidy curbs have not been binding because of high international prices for grains and the US ability to export without subsidy. And, as expected, the internal support provisions negotiated in the URA have proved to be non-binding. The Federal Agriculture Improvement and Reform Act of 1996 made these provisions all the more redundant. Josling dealt briefly with the experience of several other countries. Canada implemented the URA import limits by replacing non-tariff barriers for so-called 'supply managed commodities' (dairy, eggs and poultry) with extremely high tariffs to ensure that significant over-tariff imports would not occur. But to meet export support limits, Canada eliminated grain transport subsidies, thus far exceeding the required reductions in this area. Mexico has made remarkable policy changes in recent years, though not mainly in response to the URA. For Mexico, unilateral reforms and the North American Free Trade Agreement have been dominant, but the URA does lock in some of these reforms. Neither Australia nor New Zealand has had difficulties in meeting URA commitments. New Zealand has been the model of far-reaching reforms, based on its experience in the 1980s. Australia was required to modify a number of policies, but no major issues arose. Both countries maintain major state trading enterprises (STEs) for commodity exports and these are likely to be a focus of debate in the next round.

Trade agreements from the perspective of developing countries

Dillon focused on the difficulties of negotiating and implementing agreements for open agricultural trade and the reduction of barriers in some less developed countries. He pointed out that in countries like Indonesia the rural population is poorer than the urban. Further, Indonesia and similar countries are likely to

continue to be food importers. This signifies that relaxing import controls may put stress on those farmers who are ill-positioned to weather a loss of family income. Dillon emphasized that those pressing for additional market openings have to recognize the difficult position of nations with a large proportion of rural and poor population. He argued forcefully, not only for more understanding, but also for action to aid poor food-importing nations in their efforts to ensure food security and provide farm income relief. He expressed considerable dissatisfaction with the outcome and process of past trade negotiations. His remarks stimulated lively discussion on the role of economics and of economists' general prescription for more open markets.

Trade agreements from a policy maker's perspective

Slater, in his background paper with Atkinson, focused on EU policies with respect to preferential trading agreements (PTAs). Slater placed these agreements in the context of implementation of the URA and outlined areas where modifications were likely to be forthcoming. The General Agreement on Tariffs and Trade (GATT) has specific provisions governing preferential agreements that allow countries to move away from the GATT principle under which all members are to be treated in a way equivalent to the most favoured nation. In particular, the major GATT provision is that PTAs should work to lower barriers for members, not raise barriers for non-members, and they must cover substantially all trade. The EU has a number of PTAs, notably with other countries in Western Europe, with Eastern Europe, with former colonies of EU members and with non-EU countries of the Mediterranean. Each of these arrangements raises concerns from within the EU and from third-country competitors. Coverage is not complete and the amount of trade created is often limited. For some nations, the participation in a PTA is not a final position with respect to trade relations with the EU. As the EU is enlarged over the next decade, some nations now subject to PTAs will become new EU members. For these countries, the PTAs are a half-way stop on the road to full membership.

Trade agreements from the perspective of a major agricultural importer

Jaekok Lee outlined issues faced by major agricultural importers, such as South Korea, in implementation of trade agreements that require changes in internal support and whose markets need to be further opened to imports. In the URA, South Korea opened its rice market but was able to postpone tariffication of rice for a decade. Lee discussed major changes occurring in South Korean agriculture and agricultural policy as a response to increased globalization. Agricultural imports have continued to expand at a rapid pace and the structure of domestic production is changing as well. For example, in the period 1990–95, rice fell from 37 to 26 per cent of gross value of farm production, while fruit and vegetables revenue grew from 26 to 36 per cent.

Food security is a major concern for countries such as South Korea that rely on imports for a sizeable portion of their food and livestock feed consumption.

Koreans are concerned that thinness and variability of the international rice market cause vulnerability for nations that rely on imports. In implementing the URA, South Korea was concerned with the non-equivalence of tariffs and import quotas in a dynamic context and thus has paid close attention to safeguarding mechanisms in the agreements. Further, in order to capture rents from low duties on the within-quota imports, South Korea has been operating a state trading system for many items. Management of this state importing system is complex and a number of issues have not been resolved. Unlike the countries discussed earlier, South Korea was required to reduce its aggregate measure of support under the URA, because price support activities for rice expanded in the period after 1986, and over 90 per cent of domestic support is associated with rice. Even though under its import quota the domestic rice programme has zero impact on trade, the URA required that it be modified to reduce the World Trade Organization (WTO) measurement of aggregate support. An additional set of policy changes was stimulated by the URA, although not required. Large new public investments to improve the productivity of Korean agriculture are under way. These investments include funds for agricultural research, infrastructure and rural development to improve non-farm opportunities.

Lee ended with a suggestion (reinforcing a similar statement by Tangermann) that, in exchange for additional market openings by importers, exporting nations should commit themselves to eliminating the use of export taxes and other restraints on exports. In the past, the United States has used export embargoes and, in the current crop year, the EU has shifted from subsidies to export taxes on grain shipments. Thus food importers have a real concern about the reliability of exporters in times of short crops and high prices. An international agreement to limit export restraints would help ensure food availability in times of high world prices and would serve to stabilize international markets. As a way to help create a sense of food security among importers, such a move could be quite important.

Floor discussion

The discussion was opened by questioning the benefits to food importers of more liberalization. Then several speakers voiced scepticism about the source of political or economic pressure for more trade reform in 1999. One comment noted especially that, in the next round, agriculture and other negotiating groups would not be linked, as in the URA. Others raised the importance of the environment and food safety, and of sanitary and phytosanitary barriers to the next round of negotiations. The panel responded with a general sense of optimism that there was sufficient willingness of nations to undertake substantive negotiations on agriculture in 1999. They agreed that environmental and related issues would continue to be important.

Observations and questions raised related to anti-dumping, regional trade agreements, dispute settlement and new large members of the WTO (China and Russia). The panel agreed that dispute settlement was as yet not fully tested, but Josling responded to one question by suggesting that, when

challenged, Latin American variable levies would be found to violate the URA. There was considerable discussion of the point that low-income countries and food importers were not major beneficiaries of trade agreements. Dillon asserted that the URA was a deal between the United States and the EU, and that other negotiating countries were vulnerable. He stressed that, with 46 per cent of employment in agriculture in Indonesia, some way must be found to aid those affected negatively by trade agreements. He also argued that stabilization was more important than protection. Tangermann responded that, for agriculture, there was no reason to doubt the broad economic conclusion that import protection hurts consumers and cuts national income in those countries that use protection. He also argued that less developed countries were active participants in the URA. There was a general agreement that less developed countries and new WTO members will play an increasingly important role in future negotiations.