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TRADE POLICY OPTIONS FOR CARIBBEAN AGRICULTURE IN AN ERA OF GLOBAL TRADE LIBERALIZATION

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INTRODUCTION

During the past decade, initiatives taken at the global and international level have presented significant uncertainties for the countries of the Caribbean Basin. Chief among these is the trend towards global trade liberalization as manifested in the efforts by world countries to substantially reduce or eliminate tariffs and non-tariff barriers to trade. Given the direct link between trade and development in open economies, the threats and opportunities posed by trade liberalization have significant implications for the future welfare of the region's inhabitants.

In a general sense, the adjustments created by increased trade represent potential gains and losses for Caribbean products in the export and domestic markets. More specifically, these initiatives will impact on the preferential trading arrangements enjoyed by the region's exports and the protection traditionally given to domestic production.

In this context, trade liberalization presents a special challenge to the region's agricultural sector. In terms of foreign exchange earnings, contribution to GDP and employment, the agricultural sector plays a dominant role in the domestic economy of most Caribbean countries. As is the case with banana in the Windward Islands and sugar, cocoa and spices in others, the region's agriculture is dominated by a few traded commodities. These commodities constitute the largest tradeable component among the productive sectors in most of the OECS countries and Belize.

The region as a whole also relies heavily on international trade in securing a significant percentage of its food consumption requirements. While import substitution policies pursued by regional governments have contributed significantly to the development of pork and poultry as well as the vegetable and root crop sectors, these policies have failed to attract the levels of investment required to develop efficient enterprises for the domestic market. Opportunities exist for numerous products in the fast growing regional tourism market and the markets for tropical and specialty products in metropolitan countries. Exploitation of these markets and maintaining a basic level of regional food security will have to be pursued within the context of the new policy and trade agenda. The latter provides the long-term market stability necessary to generate needed investment in the agricultural sector.

The pressures on the domestic agricultural sector have been further complicated by the macroeconomic policies pursued in some Caribbean states. In this sense, structural adjustment policies and agricultural sector adjustment programmes are particularly important as these measures have tended to advance the pace and scope of liberalization in national markets.

The provisions and administration of the various global, regional and national trade liberalization initiatives are the basis on which policy-makers will negotiate trade policy for the region's agricultural sector. The boundaries determined by these negotiations will set out the options available to the private sector in making corporate plans and implementing decisions.

Since they are members of GATT and belong to a regional common market (CARICOM), regional countries are committed to the liberalization of their agricultural sector. Additionally, Trinidad and Tobago, Jamaica and Guyana have negotiated Sector Adjustment Loans with a specific programme of adjustment and Barbados and Belize are in the process of doing the same. As the region proceeds on this path, it must determine appropriate and coordinated responses for sustained development in the new trade policy framework. This process must be facilitated by realistic and unbiased analyses free from the unbounded optimism or deep pessimism that has traditionally clouded trade issues in developing countries.

This paper will contribute to the process by focusing on trade liberalization in the agricultural sector of a number of regional countries. It begins with an overview of the global trade liberalization initiatives and reviews the trade policy and liberalization attempts in the various countries in terms of the overall boundaries set by GATT/WTO, CARICOM (CET) and the regional blocs, NAFTA and the EU. Overall trade policy strategies for various commodities and subsectors are suggested on the basis of the liberalization options that in terms of scope and schedule are most beneficial to the overall welfare of the region.

GLOBAL TRADE POLICY AGENDA

After decades of protectionist trade policies, fuelled by a system of subsidies, quantitative restrictions, tariff and non-tariff barriers, the global trading system is embracing trade liberalization as the policy for future development. Trade policy development in recent years has reflected this trend. The major aspects of these policy developments include:

- The multilateral trade negotiations under the Uruguay Round have been completed and its provisions for the establishment of the World Trade Organization and the new regime of trade rules, tariffs and practices ratified by member governments.

- The trend towards regional integration intensified, but in a trade environment of open regionalism thus reducing fears of regional economic fortresses.

- Trade liberalization gained momentum even on a unilateral basis, as economic structural adjustment in developing and transitional economies resulted in moves to export-oriented market strategies.

- Increased integration in the world economy and building export capacities became critical pillars in these efforts.

- The post-Uruguay Round agenda included the following key goals:
  i) completing negotiations in key service sectors
  ii) additional liberalization in areas like agriculture, steel and aviation services
  iii) formation of rules for international competition policies
  iv) the efficiency of the use of trade policy to enhance enforcement of environmental and labour standards

The GATT (1994)

The recently concluded GATT signed in April 1994, represents the first time that trade in agricultural commodities has been included in the Agreement. The GATT has as its primary objective the reduction in perceived distortions in international trade of agricultural products – distortions arising from government intervention and support for agriculture. Additionally, the agreement covers sanitary and phytosanitary controls on trade in agricultural products since these have been an important source of non-tariff barriers.

The agenda for change which is embodied in GATT reflects a gradual approach. Generally, the required reductions in distorting instruments/measures are extended over the 6 years of the agreement : 1 July 1995 to 30 June 2001. The agreement offers some flexibility in the adjustment time-table as well as safeguards limiting the rate of import expansion. Developing countries have been given preferred treatment and special provisions have been made for food-deficit importing countries.

The basic provisions for agriculture under the GATT are related to three main disciplines:
- Market access
- Domestic support
- Export subsidies

Under market access, the GATT seeks to ensure trade access to foreign markets through the process of 'tariffication' and provisions allowing minimum market access. Tarrification requires the replacement of quantitative restrictions such as quotas and licenses with tariffs. These initial tariffs should provide levels of protection at or below the levels provided by the quantitative restrictions using a 1986–88 base period.

Following this initial activity GATT members are required to reduce the levels of tariff – 36% over 6 years in the case of developed countries and 24% over 10 years in the case of developing countries. This clause allows for smaller tariff cuts for sensitive commodities provided that the individual tariff is reduced by a minimum of 15% by developed countries and 10% by developing countries.

Market access provisions are intended to expand members' imports to a minimum of 3% of domestic consumption by the end of the first year and 5% by the end of the 6-year period. The market access is facilitated by low, non-restrictive tariff rates on the minimum import quantities. These quantities are termed 'tariff-rate quotas' (TRQs) and countries have the recourse to increase tariffs up to one-third of the normal levels once the trigger levels of import expansion have been exceeded.

With respect to domestic support measures the GATT requires a 20% reduction in the aggregate measure of support (AMS) relative to the 1986-88 base period. Where the AMS is already below 5 and 10% in the case of developed and developing countries, respectively, no further reduction is required. Exemptions of items used in the calculation of the AMS include income support not related to the volume of production such as compensation payments under the CAP and the USA's deficiency payments. Additionally, the 'green box' items such as expenditure on research and development, training, marketing promotion and disease control are exempted.

In the case of export subsidies the GATT provides for reduction in both the volume of exports which receive export subsidies as well as on the aggregate budgetary outlay on export subsidies. Several provisions of the GATT provide greater flexibility for developing countries. The reduction in tariff levels, domestic support and export subsidies are set at two-thirds of the required levels and are spread over a 10-year period. Additionally, the agreement provides special concessions for net food-importing countries such as those in CARICOM. It allows developing countries to seek resources from international financial institutions to meet adjustments emanating from the Uruguay Round. CARICOM states were major promoters of this initiative.

North American Free Trade Agreement (NAFTA)

NAFTA is a key part of the US President's economic growth plan designed to create new markets for American products and provide new investment, trading and employment opportunities for American companies and workers. It was a countervailing response to Europe 1992 by integrating a market of approximately 365 million people thus providing a basis for the USA to improve its production efficiency and competitiveness. It was also seen as a means by which the USA could negotiate on a hemisphere basis, certain trade-related issues such as intellectual property rights and trade services which it was having difficulties concluding in the multilateral trade negotiations.

NAFTA is the most significant of the regional trade blocs *vis-à-vis* its potential impact on the region's domestic agricultural sector. The NAFTA provisions are aimed at abolishing almost all tariffs and other impediments to trade between the three countries (USA, Canada and Mexico) over a 15-year period while maintaining each country's restriction on trade with other countries.

With respect to agriculture, the agreement is structured in accordance with the GATT rules in the areas of market access, domestic support and export subsidies. In the area of market access, members have agreed to improve access to their respective markets through the reduction or elimination of import barriers to trade between them. In the area of domestic support they have agreed that where a party supports its agricultural producers that the party should endeavour to work towards domestic support measures that have minimal or no trade-distorting measures or fall within the domestic support measures that are exempted from reductions under the GATT.

Finally, with respect to export subsidies, there is agreement to eliminate export subsidies for agricultural goods as well as an agreement to cooperate in efforts to achieve an agreement under the GATT to eliminate such subsidies.

Conditions for NAFTA membership include an opening up of domestic markets to provide what is considered as fair and equitable market access for US exports of goods and services beyond what is required by existing multilateral trade agreements or obligations. More specifically, it requires that the country should have already undertaken a substantial reduction of tariffs to around a 20% average and sign investment and intellectual property rights agreements with the USA. Entry into NAFTA will be on the basis of reciprocity and there is no provision for any special or differential treatment of developing countries. Thus NAFTA offers an accelerated liberalization programme within the framework of the GATT provisions.

Common Agricultural Policy (CAP)

The European Union's (EU's) Common Agricultural Policy (CAP) is a system of price support designed to limit the impact on internal markets of fluctuations in the international market. The CAP is based on minimum price guarantees made through market interventions, but also uses cross-border measures such as import levies and export subsidies. A mix of three basic programmes is used to administer the policy: (i) levies and duties on imports into the European union to ensure that they are not sold below the community's price index; (ii) export subsidies that maintain competitiveness should EU prices rise above international market prices; (iii) a price system for EU farmers.

Under this system, the European Union prevents an influx of low-cost imports by setting a marginal price and collecting the difference between the marginal price and international market price when imports enter the European Union. When world market prices are below the EU prices, the European Union provides export subsidies to its producers to enable them to export at competitive prices.

The net impact of the CAP on Caribbean agriculture will depend on the extent to which reform of the CAP affects both the demand for and entry of regional exports into EU countries and how demand in the Caribbean for EU imports is affected.

TRADE LIBERALIZATION IN INDIVIDUAL MEMBER STATES

Historically, CARICOM member countries have pursued a cheap food policy with few import barriers. Since the 1960s, the region has adopted import substitution policies using a commodity approach. Thus quantitative restrictions have been employed to protect the domestic production of strategic commodities including pork, poultry, liquid milk and other livestock products, and vegetables. The employment of this policy has been more common in the larger territories such as Guyana, Trinidad and Jamaica compared to the OECS states where elements of the cheap food policy have persisted and some countries have fairly open markets. Consequently, trade liberalization efforts in the region are more focused in the larger CARICOM territories where more elaborate protection regimes have been utilized.

Within the region itself, development of a regional free market for agriculture has been hindered somewhat by the unwillingness of local farmers to share domestic markets with other regional producers, lack of marketing infrastructure and high marketing costs.

Development of trade policy strategies for various regional countries and products will include considerations of the following:

- The Common External Tariff (CET) whereby CARICOM states have maintained a joint approach to protection against extra-regional imports

- Agricultural Sector Loans negotiated with multilateral institutions

- Individual Country tariff offers to the GATT

The Common External Tariff

The Common External Tariff (CET) of CARICOM was designed to provide protection for agricultural and industrial production of finished goods, raw and intermediate materials and capital goods. The CET is structured to support the development of internationally competitive production in CARICOM while maintaining unrestricted intra-regional competition. In addition, the tariff distinguishes between goods in regional production, i.e. competing and non-competing goods and sets a lower rate for certain foodstuffs and special goods that are critical in low-income diets. Special allowance was made for particular territories *vis-à-vis* protection of specific industries and high import items. Since most agricultural inputs used in the region are imported, these attract a low rate of 0 to 5% under the CET. During the period 1994-2000 the maximum tariff levels for manufactured goods are scheduled to decline to 20%. The maximum rate for agriculture of 40% is scheduled for review in 1998.

Agricultural Sector Loans (ASLs)

Agricultural Sector Loan (ASL) programmes are individual country agreements with the World Bank and Inter-American Development Bank(IDB) for access to funds to be used for the reform of the national agricultural sector. Already Trinidad and Tobago and Jamaica have negotiated such agreements. In return for the funding, the governments of these countries have agreed to effect a trade and price policy reform that will create more open and less distorted markets.

Among the policy measures proposed under the ASLs are:

- Sector policy should reduce distortions and costs associated with transfer payments and subsidies to agriculture.
- Trade restrictions, affecting both agricultural products and inputs should be liberalized.

To adequately protect farmers and agro-industry from subsidized exports from major agricultural trading nations, as well as predatory pricing and dumping practices, the reform programme should include mechanisms to counteract and/or compensate producers when these trading practices are identified. These policies should increase the competitiveness of agriculture, while reducing distortions and inefficiency resulting from excessive government intervention in trade and price policy.

The actions proposed with respect to the above policies include:

- An agricultural pricing regime consistent with international comparative advantage, including a reduction in support payments to farmers.
- A programme leading to a tariff regime with a low average tariff and dispersion, and the progressive reduction of non-tariff barriers.
- Measures to protect agriculture from predatory pricing and dumping by trading partners.
- A programme to minimize government intervention in trade of agricultural products and inputs.

The tariff regime developed under the ASL is initially set at levels to provide the same level of protection provided under the previous quantitative restriction (negative list). Tariff levels are based on the existing rates of the Common External Tariff (CET) supported by an appropriate import surcharge. The import surcharges are gradually phased out over a 3-year period. At the end of this period, the CET will be the only protection available for the local agricultural sector.

The general measures of agricultural trade reform under the ASL appears to be consistent in direction with those of the GATT. More specifically, under the ASL, countries in the region have agreed to reductions in tariff from the 30% in the CET to 20%. The rate of conversion of import surcharges is a faster rate (3 years) of adjustment than exists under the GATT (6 years in the present agreement). The question then arises as to the rationale for regional countries adopting a 3-year period of adjustment as opposed to 10 years under the GATT and 15 years under the NAFTA.

Tariff bindings

CARICOM countries, in particular Trinidad and Tobago and Jamaica, had a number of tariff rates bound under the GATT from previous rounds. In binding tariff rates, the governments have undertaken a commitment to GATT to maintain the rates for particular commodities at a specific agreed level. Consequently, the tariff bindings will remain under the WTO and therefore provide some inflexibility in terms of developing trade policies and accessing any opportunities accruing from liberalization.

CARICOM has decided that in situations where the tariff bindings exceed or are equal to the CET, the country will continue to apply the CET. Where the binding is below the CET, the bound rate will apply.

Fortunately, few products are so affected in the case of agriculture. Leguminous vegetables, pimento and pepper are all items for which the bindings are free in Trinidad and for which the CET will be suspended through 1998.

PROPOSALS FOR A REGIONAL TRADE POLICY FRAMEWORK FOR THE AGRICULTURAL SECTOR.

Each of the major trade liberalization initiatives poses particular implications for the agricultural sector in terms of the competitiveness of the region's producers in export agriculture as well as production for the national and regional markets. Regional trade policy must then be developed with the aim of maintaining or enhancing free and fair trade for regional products in these markets. This principle is enshrined in the GATT in terms of special and differential treatment for developing countries under the agreement.

Export markets

For the region's traditional agricultural exports, the implications of trade liberalization revolve around the future of preferential trading arrangements with the EU and North America. The provisions of the GATT on tropical products ensures market access for the regions non-traditional exports and future strategies for this sector must be aimed at improving competitiveness in production and marketing.

The magnitude of the effects of liberalization on traditional exports depends on the extent and scope of liberalization and the commodities so affected. The region's sugar exports currently benefit from the US and the EU sugar quota. Since the bulk of the region's sugar goes to the European market and the EU sugar quota is written into the GATT, the regional sugar industry can only be disadvantaged to the extent of price reductions due to reform of the CAP or a cut in the US sugar quota to benefit Mexican sugar under NAFTA.

Reduction of export subsidies for sugar will have the effect of raising prices in the medium to long term. To take advantage of this fact, the policy objective must be to remain in the market in the face of possibly lower prices in the short term. The prognosis is different for banana where the EU banana protocol has been challenged to be in contravention of the GATT rules. Nevertheless, the price effects are likely to be similar and require the same strategy.

Where preferential arrangements are reduced or eliminated, the specific objectives of regional policy must be geared towards developing mechanisms for initial adjustment during the transition period and development and adoption of cost-reducing technology to enhance competitiveness in the medium to long term. In the case of the US and Canadian markets, an added option is that of accessing NAFTA.

In seeking access to NAFTA, the CARICOM countries must recognize the fact that its acceptance is dependant on the USA. In addition, if the decision is made to enter NAFTA, then CARICOM countries must decide if to enter as a whole bloc or that individual countries be allowed to seek entry. It is very unlikely that the members of NAFTA will want to deal with a number of different countries on an individual basis. However, certain countries in CARICOM are nearer to achieving the pre-conditions for entry than others.

The major drawback to this view is that NAFTA creates the environment where goods and services produced by Mexico are similar to those produced by the CARICOM region. This situation creates a great deal of competition for the CARICOM produce.

In considering policy options for agricultural exports, it must be noted that under GATT there is some leeway for developing nations such as those in CARICOM in applying export subsidies. While financial considerations may preclude any significant emphasis in this regard, the GATT also exempts research and development expenditure and market promotion activities from support measures. This provides additional options for enhancing competitiveness in the production of traditional and non-traditional commodities for export.

Domestic and regional market

Under trade liberalization, significant import penetration can be expected from the removal of quantitative restrictions and accession to NAFTA. With developed nations employing a 10- to 15-year adjustment timetable, it is highly probable that producers of competing imports into the region will continue to benefit from subsidies over this period. As a consequence, the immediate goal of regional agriculture in domestic and regional production should be to ensure that regional producers are protected from these cheap subsidized imports.

An important aspect of trade liberalization is the provision of safeguards to countries which pursue liberalization. In this regard both GATT and the ASL make provision for the adoption of countervailing measures to protect domestic agriculture from predatory pricing and dumping. Since tariffication forms the major thrust of market protection under the GATT, regional countries must adopt suitable tariff levels as the necessary mechanisms to enforce such provisions.

In addition to protecting regional producers, another immediate objective of tariffication should be to allow consumers to benefit from cheaper prices where possible. In this context a commodity-by-commodity approach should be utilized in setting tariff rates.

The proposed reduction in tariff under GATT is gradual and is unlikely to result in significant increases in competitiveness of imports in the immediate short term. Indeed if the industrialized countries reduce support to their agricultural sectors as agreed under GATT, the price of a number of internationally traded commodities, particularly those which are currently highly subsidized, would likely increase.

Over the medium to long term such increases in price of imports could stimulate domestic production. The 1998 level of the CET takes on added significance in this regard. In reviewing the CET levels, consideration must be given to overall protection levels. CET duties for competing agricultural products should not be significantly lower than the duties imposed by other countries under the GATT and the NAFTA.

Regional integration

The regional integration movement, CARICOM, has experienced many setbacks in the drive towards the development of a free market among its member states. There are still impediments to trade in agricultural products within the region in the form of non-tarrif barriers. An example of this is the continued ban on beef imports from Guyana despite the existence of a vast gap between regional demand for beef and the supply and the existence of internationally recognized systems to manage beef imports from countries with similar disease problems.

Given the global trends toward regional economic integration, CARICOM states possess little option besides full regional market. The necessity of this approach in dealing with NAFTA and the possible FTA was already analysed. Additionally, a regional approach is best suited for future relationships with the WTO particularly in the area of tariffication and settling of disputes. From the standpoint of negotiating with international organizations, a joint approach is also likely to be more fruitful. It is felt in some regional circles that the results of individual country negotiations in terms of structural adjustment programmes and more recently ASLs could have been more beneficial with a regional approach.

Regional free trade in agriculture will allow producers to become more competitive and facilitate the development of efficient enterprises and some degree of specialization with a resulting lowering of food prices. This strategy would assist in the development of non-traditional exports as regional farmers would be better suited to compete in a global marketplace.

SUMMARY AND RECOMMENDATIONS

Trade policy

Since regional agriculture operates within the overall framework of national macroeconomic policy, there is a danger that trade liberalization initiatives in the regional agricultural sector would not place adequate emphasis on agriculture and its unique position in world trade. The ASLs already negotiated by some CARICOM countries have emphasized a rapid and comprehensive liberalization that is unsuited to the sector and incompatible with the provisions of the GATT.

On the other hand, the approach adopted by developed nations has fully utilized the GATT provisions and provided scope for the maintaining market share as barriers are gradually dismantled. The latter countries have been in the forefront of the trade liberalization agenda, and as seen in the provisions of the NAFTA and the EU, have made ample provisions to maintain the role and performance of agriculture. This should also be the future approach for trade policy in the region.

Using the provisions of the GATT (1994) agreement, regional countries can replace quantitative restrictions with a tariff rate quota that provides equivalent protection for the sector. This allows for adjustment within the defined schedule to strike an appropriate balance *vis-à-vis* domestic producers and consumers. The importance of detailed analysis in determining tariff rates cannot be overstated as evidenced by the higher prices paid for beef by Trinidad consumers due to rising import prices and the surcharge imposed to protect local beef producers who supply less than 20% of domestic consumption.

The tariffrate quotas (TQRs) allow limited access for imports at low duties and higher over quota tariffs on import levels above the TQR amount (3% in the first year and 5% by 2001). This approach is ideal for commodities in which the region has demonstrated tangible production capability or is pursuing development to meet existing market opportunities. For those commodities where such advantages do not exist, a lower initial tariff can be set to lessen the hardships to consumers. It is useful for all commodities as it allows the structure of production and consumption to adjust to shifts in prices as the structure of world trade changes.

The most important aspect of the GATT is the gradual pace and limited scale of reform. As members of the WTO, regional countries are not obligated to accept or implement any measures that are not in accordance with the GATT rules. Like all other WTO members, the region has 10 years to reduce its initial tariff levels by 24%.

Other issues

The issues to be addressed in setting trade policy, must be done within the transition period in which these agreements are fully implemented. Utilizing the GATT approach to trade policy does not absolve the region from resolving a number of other issues that are key to the survival of agriculture in the new world order. Chief among these is the harmonization of trade measures in the region and the development of regional free trade. Other issues involve the restructuring of product and marketing for the sector. Specific actions include:

- Technology to improve productivity and competitiveness.
- Infrastructure endowment

- Improvement of standards to meet those of competing imports.
- Increases in productivity through improved management and increased efficiency of labour.
- Attainment of economies of scale in production and processing
- Partnership/foreign investment/joint venture arrangements
- Market research and development