WHICH AVENUE FOR SUGAR TRADE REFORM: WTO, REGIONAL OR BILATERAL? A EUROPEAN UNION PERSPECTIVE

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"Which Avenue for Sugar Trade Reform: WTO, Regional or Bilateral?" The question implies both that sugar trade reform is inevitable and that there is a choice as to the geographic area impacted.

Though there would be much to discuss about the need to reform sugar trade and how this can be done fairly, today we may consider that the world has moved beyond such a debate. Indeed, from a European Union perspective, it can be argued that sugar trade reform has already been vigorously launched:

- World-wide, with the 1994 GATT Uruguay Round Agreement on Agriculture introducing four compulsory disciplines affecting trade: reductions in import tariffs, opening of tariff rate quotas, cuts in export subsidies and limits on domestic support.
- Regionally, firstly with the 2001 "Everything But Arms" initiative which completely opens the EU sugar market to the world's 49 Less Developed Countries from the 1^{st} of July, 2009, and, secondly, with the "Economic Partnership Agreements" which should do the same at a later stage for the African, Caribbean & Pacific countries associated with the EU.

So, with sugar trade reform rolling, is it best managed at the WTO, regional of even bilateral level?

On past experience, a European should favor setting sugar trade rules within a region.

The European Union and, before it, the European Communities have had a long and positive experience of regional trade agreements. On past performance, one must consider that the Common Market (today, the Single Market) constitutes the regional trade agreement "par excellence", with a single external tariff, free internal movement of goods, capital and people, and by and large a single currency. (Before the Euro, internal exchange-rate movements were managed through "monetary compensatory amounts" for agricultural trade and various constraints on exchange rate variability.)

EU trade in agricultural products and, specifically, in sugar benefited from these trade regulations. Indeed, it must be remembered that, over nearly 40 years, the EU's Common Organization of the Market for Sugar (the "Sugar Regime" for short) actually delivered the benefits it was designed for:

- A safe supply
- Stable prices to consumers, falling in real terms
- Stable income to EU and associated developing country farmers and processors
- Regularly increasing farm and factory productivity
- Stable exports over time
- EU budget neutrality

It is worth noting the key features which allowed this regional trade agreement to work so well:

- Production & import quotas to prevent supply/demand imbalances
- Price controls to ensure that grower revenue targets are met
- Exchange-rate controls to prevent the distortions due to sudden, brutal, large, monetary adjustments

This type of agricultural policy, however, is not acceptable anymore. Its features are roundly condemned by the majority of economists and policy-makers, smitten as they are by the “invisible hand” virtues of free markets: unfettered trade is the driving ideology behind the Uruguay Round’s Agreement on Agriculture and the Doha Development Agenda.

The WTO itself provides the legal framework for regional trade agreements (GATT Article XXIV). It provides the yardstick against which regional trade agreements are measured. This yardstick ideally calls for the elimination of tariffs on all trade within a region which itself should be as big as possible. (Note that nothing is said of exchange-rates.) This is the recipe the EU is attempting to apply to its trade relations with the Less Developed Countries and with its ACP / Cotonou Agreement partners, while at the same time engaging in the Doha Development Agenda negotiations. In practice therefore, the EU is using both the “regional” and the “WTO” avenues. Both impact the sugar trade. This being the case, is one of these avenues superior to the other to ensure efficient sugar trade reform?

I would argue that the essential difference between these approaches is their geographic spread. Therefore, either both are acceptable avenues for sugar trade reform and, “all other things being equal”, economics would favor the global WTO approach, or neither is.

I would argue that both avenues are fundamentally flawed. In my view, their main economic and business flaw is their blatant ignorance of the effects of exchange-rates.

When expounding his – valid – theory of the advantages of international trade, David Ricardo did not factor in exchange rates. Now, economists assert that exchange rate movements will reflect productivity and inflation differentials over time, so that they do not influence optimal resource allocation in the long run. But, in the long run, we will all be dead and businesses are built, run and ruined is less than “the long run”. More to the point, exchange-rates can move for exogenous reasons, such as excessive public indebtedness. Should poor public management be rewarded with increased export competitiveness?

To take the key example for the sugar trade: Brazil’s currency slippage. It is said largely to be linked to the poor state of its public finances, particularly at the state level. Poor public finances are not mandated by Adam Smith’s “invisible hand”, they are the result of deliberate independent political decisions. Brazil is an important democracy and how local authorities decide to manage – or mismanage – their finances is a matter for the Brazilians to decide. But repetitive and brutal devaluations of the Real make a mockery of concessions on import tariffs made in good faith by Brazil’s trading partners.

Is it not strange for the WTO to ignore an issue which may impact its own relevance and effectiveness? Indeed, one has to be amazed that many years and millions of dollars are spent to negotiate international agreements upon gradual reductions in tariffs, only to have a major player, or players, devalue or revalue drastically within a few months so overwhelming the effect of the negotiated tariff change, with nobody wondering about the logic of it all.

Other drawbacks of the WTO approach to sugar trade reform must be mentioned. They include a basically “one size fits all” recipe of tariff reduction schemes and copying for agriculture solutions that have been used for industrial products: Common sense then interferes, and concepts like “sensitive products”, “developing country status”, “differential treatment”, “special safeguard clause” must be called – painfully – to the rescue to mitigate unrealistic expectations. Finally, for a European, the weak democratic control of these agreements is a serious issue. Among themselves, the – unelected – EU Commission, the EU member governments, member states’ parliaments and the EU Parliament play a relentless game of “pass the buck”, so that international trade treaty responsibilities are shielded from voter scrutiny.

In the conditions currently set forth by the WTO, whether global, regional or bilateral, trade agreements will not result in efficient sugar trade reform.