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Agriculture

The United States and the 1999 WTO Ministerial Meeting

Eliminating Export Subsidies • Promoting Biotechnology
Reforming State Enterprises • Improving Market Access

May 1999

ECONOMIC PERSPECTIVES

Agriculture: The United States and the 1999 WTO Ministerial Meeting

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Five years ago in Marrakesh, trading nations from around the globe signed the Uruguay Round agreements, thereby initiating a process aimed at reducing or limiting national protections for agriculture and bringing this sector more fully under international trade rules. But trade ministers at that time understood that the agreement — signed to reduce market access barriers, export subsidies, and domestic support programs and to establish sound science as the basis for sanitary and phytosanitary measures — was just the beginning. They therefore reached agreement mandating new agricultural negotiations in 1999. On November 30, trade ministers from 134 countries will convene in Seattle, Washington, for the third ministerial meeting of the World Trade Organization, created by the Uruguay Round as a successor to the General Agreement on Tariffs and Trade. In Seattle we plan to advance aggressively an agenda for a new round of agricultural trade negotiations that will not only seek further reductions in tariffs, nontariff barriers, and subsidies, but also address emerging issues such as biotechnology.

This issue of Economic Perspectives explores the key agricultural issues in the upcoming negotiations, how continued government interference in the marketplace has real economic costs to consumers and producers, and why trade liberalization is as important for emerging economies as it is for advanced economies.

— U.S. Trade Representative Charlene Barshefsky

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CONTENTS

AGRICULTURE: THE UNITED STATES AND THE 1999 WTO MINISTERIAL MEETING

❑ FACTS AND FIGURES

❑ INFORMATION RESOURCES

ECONOMIC PERSPECTIVES

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THE FUTURE OF AGRICULTURAL TRADE

By August Schumacher, Jr., Under Secretary of Agriculture for the Farm and Foreign Agricultural Services, U.S. Department of Agriculture

"In the Uruguay Round, countries recognized that the long-term solution for agriculture did not lie in administered prices, trade restrictions, supply controls, and export subsidies but rather in open, nondistorted markets," says Under Secretary of Agriculture August Schumacher. "Now is the time to take bold steps toward bringing agricultural trade into the 21st century by accelerating agricultural trade reform."

Schumacher sees four key areas for accelerating reforms: eliminating export subsidies; increasing market access through substantial tariff cuts and expansion of tariff-rate quotas; cutting further trade-distorting domestic subsidies; and ensuring technical standards are based on sound science.

The world's farmers and ranchers are facing two difficult challenges at the dawn of the 21st century. First, they are being asked to provide more products at lower cost, higher quality, greater variety, and in a safer manner than ever demanded before. Second, they are being asked to produce this abundance on a shrinking natural resource base that is often subject to government regulations. Meeting these global challenges will require unleashing the production potential of world agriculture while practicing proper environmental stewardship. The ingenuity and hard work we usually associate with farmers will be essential to meet these challenges, but they will not be sufficient unless we further reform agricultural trade to create an environment that rewards risk and investment and encourages efficiencies.

TODAY'S AGRICULTURAL CHALLENGES

As they should, American farmers have high expectations for the upcoming round of World Trade Organization (WTO) negotiations, scheduled to be launched at the ministerial meeting beginning on November 30, 1999, in Seattle, Washington. These negotiations give us the opportunity to substantially increase the market orientation of world agriculture. A dramatic result is precisely what the world needs to meet the challenges of providing food and fiber, in an environmentally sustainable way, for future generations.

Farmers are responsible for feeding a rapidly growing world population (figure 1). And despite progress over the years, too many people still are not getting enough food (figure 2). Many countries, including the United States, are working vigorously to promote technological innovations to meet the need for food and fiber in the coming years. However, as important as this work is, it is only part of the solution. These technologies and the hard work of the world's farmers need a trading environment that encourages investment and efficient production, and generates economic growth to finance production and consumption needs.

Figure 1

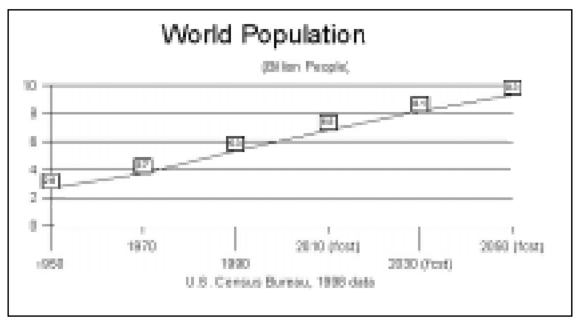
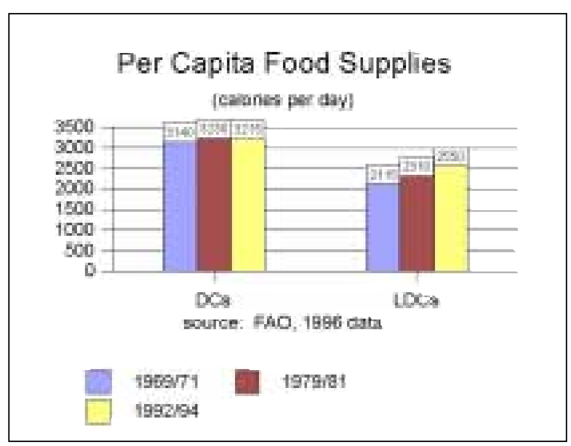


Figure 2



Currently, American farmers are suffering through weather-related disasters and low prices. Even as we work to address these immediate concerns, long-term trends in agriculture pose serious challenges for all farmers. The same technological advances that increase yields may result in lower prices. Increasing social concerns about the effect of agricultural production on the environment and living conditions result in new restrictions on farm activities. As urban dwellers and industry stake competing claims for land, water, and energy, many producers find their ability to farm made ever more difficult.

Two approaches to organizing the agricultural economy present a stark contrast in dealing with these challenges. One model, popular in Europe and Asia, is to retain an inward-looking agricultural system focused on supply control and government regulation geared to keeping farm prices high and, since guaranteed high prices are a drain on the treasury, to controlling production. Under this approach, bureaucrats try to assess the optimal level of national production — not so little that imports are needed and not so much that excess production must be bought at high prices and then dumped on world markets. This "command-and-control" structure stifles farmer efficiency and ingenuity and distorts world markets, especially as subsidized surpluses are regularly exported; and it does not address the challenge to farmers to produce food for the next century. It also ignores the interests of domestic consumers (who have to pay high internal prices) and producers in other countries (who have to compete with subsidized products). Of biggest concern is that the anti-market policies of this approach hamstring the agriculture sector from pursuing the technological advances needed to meet its future challenges.

Another approach is to place agriculture on a more market-oriented basis, particularly by removing trade barriers and reducing trade-distorting policies. Greater market orientation was the principle that nations agreed to in the last set of multilateral trade negotiations. In the Uruguay Round, countries recognized that the long-term solution for agriculture did not lie in administered prices, trade restrictions, supply controls, and export subsidies but rather in open, nondistorted markets. Now is the time to take bold steps toward bringing agricultural trade into the 21st century by accelerating agricultural trade reform.

THE GAINS FROM TRADE

The benefits from free and fair trading of agricultural products have immediate effects on people. Eliminating trade barriers and reducing unfair competition will help ensure that farmers have incentives to produce and consumers have access to the products they desire. Liberalizing agricultural trade will contribute to better resource allocation by farmers, which has conservation benefits, rewards low-cost producers, encourages efficiencies, and removes the drag on economic growth.

Opening trading opportunities also increases the food security of food-importing countries by giving supplier countries the confidence required to put more land into production and to create marketing relationships. Trade provides consumers with year-round access to a greater variety of less expensive products, while rewarding producers who are able to find and meet specific consumer demands for high-value products. In a broader context, by allowing imports that are more efficiently produced elsewhere, trade encourages specialization in efficient agricultural and nonagricultural production.

More dramatically, trade literally saves lives. Without the international flow of food products from areas with abundant production to areas where food is scarce, many people in the world would be eating less or not at all.

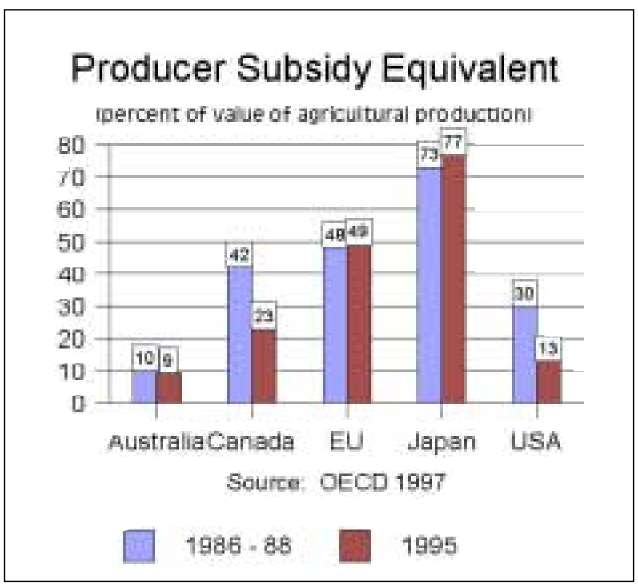
Trade has dynamic effects, as well, that push long-term productivity growth. For example, access to customers in overseas markets creates an incentive for technological innovation, resulting in exciting developments in improved seed varieties and production techniques. International markets also expand market outlets, raising prices and giving producers increased confidence to produce more than required merely for national needs, allowing productive farmers to not only feed their neighbors but literally feed the world.

Equally important, trade in agricultural products is becoming increasingly critical to farm and ranch incomes. Increased productivity and oftentimes flat domestic demand increases the importance of reliable international markets. Foreign markets are not just a dumping ground for surplus products; overseas consumers value choice and quality, particularly when producers in their own country cannot meet their demands or when they are charged inflated prices. Consequently, foreign markets are the biggest growth area for most commodity and value-added agricultural producers, raising farm-gate prices and helping support the range of agriculture-related industries.

Political reality also encourages a focus on international markets: policies based on high government guaranteed prices are ultimately politically untenable because they are hugely expensive, unresponsive to the needs of customers and producers, insensitive to environmental and agronomic realities, and a shameful waste of economic assets. Rather than farming government programs, our producers are looking for customers around the world.

While agricultural trade benefits consumers and producers alike, it is an area in which progressive reform is ardently opposed by entrenched domestic interests. Producers in some countries, cosseted by high guaranteed prices and protective tariffs, oppose any move toward greater market orientation. Intervention in the agricultural economy — measured by the Organization for Economic Cooperation and Development by summing price supports, direct payments, and other support as a percent of total agricultural production (figure 3) — has actually increased in some countries from the levels at the beginning of the Uruguay Round.

Figure 3



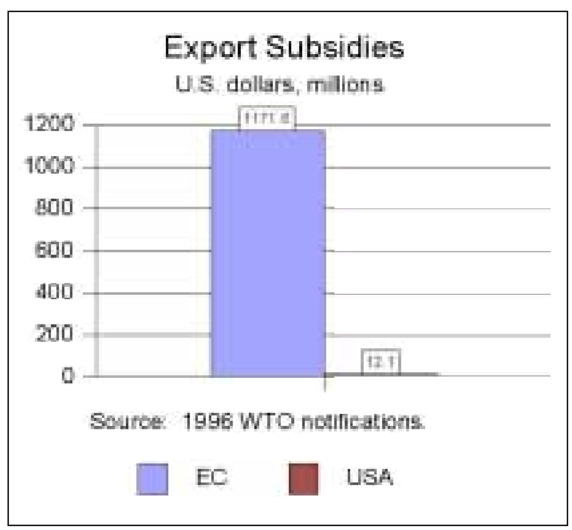
In the last set of multilateral trade negotiations, countries began the process of dismantling protection and delinking farm support from production decisions. Consequently, reforms have been undertaken by some countries. For example, in the United States we have retooled most of our farm programs to rely on market forces to determine farm prices; to help our producers transition to this new system, we have supplemented farmer income through direct payments delinked from a farmer's volume or type of production so as not to distort production incentives. We are also working to shore up our farm safety net through risk management, disaster relief, and rural development policies that complement, rather than interfere with, the workings of the market.

THE WTO OPPORTUNITY

The U.S. objective in the upcoming farm talks is to accelerate the reform process initiated in the Uruguay Round. That means further substantial negotiations on tariffs, subsidies, and other trade-distorting measures so that the level and direction of trade are determined by market forces, not government intervention. Four key areas are outlined below.

Export Competition. Export subsidies are the most distorting trade tool because the level and direction of trade is directly determined by government subsidies. Today, the European Union (EU) is the only substantial export subsidizer — nearly all other countries agreed not to use, or have only limited recourse to use, export subsidies in the last round of negotiations (figure 4). EU farmers, responding to domestic prices frequently twice the world price, produce more products than can be

Figure 4



consumed in Europe, but at such high prices that they can be sold abroad only with generous subsidies. These subsidies push other competitive suppliers out of the market (which is expensive and unfair) and discourage production in countries that have a comparative advantage in agricultural production (which is wasteful and is threatening both to the environment and to future farm production needs).

In the Uruguay Round negotiations, countries acknowledged the corrosive nature of export subsidies and agreed to cap and reduce their use. The upcoming negotiations should eliminate them and take a hard look at the rules defining them to ensure that countries do not resort to other policy tools that allow government spending to determine winners in the marketplace. Specifically, WTO members should look closely at curbing distorting state trading agricultural export monopolies that can disguise subsidies and exert distorting market power, along with other policies used to dispose of surplus commodities on a nonmarket basis.

Market Access. Measures applied at the border to stop trade currently are the principal barrier to a freer and more open trading environment for agriculture. Market access barriers deny efficient producers the chance to compete in other markets and limit the variety and quality of products available to consumers. Opening markets and maximizing trade opportunities are fundamental principles of the WTO, and we still have a long way to go in agriculture to open markets to competition.

The Uruguay Round Agreement set agricultural trade on a more predictable basis by requiring that all nontariff measures, such as quotas and import bans, be converted to simple tariffs. While this was a necessary first step to removing trade barriers, many of the tariffs are still prohibitively high. For example, while the average tariff assessed by the United States on agricultural products is less than 5 percent (and nearly zero for industrial products), the average agriculture tariff assessed by WTO members exceeds 40 percent. Moreover, in some cases, market access is limited to a tariff-rate quota (TRQ), where only specific quantities of imports receive low duties. Many other commodities also are subject to high tariffs.

As we start the next century, high tariffs should not stop the flow of imported agricultural products. Where TRQs remain as a transitional step before we achieve more open trade, we expect more specific disciplines on the way in which they are administered. Similarly, we need to take a hard look at agricultural state trading monopoly importers; use of these state traders may have been justifiable when more restrictions were allowed on farm trade, but in the tariff-only regime it is hard to see why a government needs to insert itself between an exporter and an end-user.

Domestic Subsidies. Domestic subsidy programs are often the root cause of other trade-distorting policies. Subsidy policies that increase domestic prices above world price levels can be maintained only if price-competitive imports are restricted. Additionally, overproduction generated by high domestic prices can be sold on world markets only with export subsidies that bring the price down to the world price. While reining in distortive domestic subsidy programs has value in its own right for rationalizing agricultural production, the WTO negotiations will focus on their trade-distorting elements.

In the Uruguay Round negotiations, countries agreed to distinguish trade-distorting subsidies (generally those linked to the production of a specific crop or related to price supports) from non-trade-distorting subsidies (such as research and development, training, and environmental protection). The trade-distorting subsidies were capped, and the process of reducing allowable levels of subsidies began. This distinction is a good one: the nasty sort of subsidy that distorts markets and straitjackets producers should be cut, while programs that will increase a country's ability to produce agricultural products in the next century without distorting production incentives should not be reduced.

Standards. As WTO members make progress on cutting tariffs and subsidies, the temptation increases to disguise trade barriers as health and safety measures or other innocuous-sounding "technical standards." Moreover, when regulations purportedly designed to protect health are instead vehicles for domestic protectionism, the credibility of the entire safety apparatus of a country is put up for questioning. When good science is replaced by politics, the basis for sound health policy is undermined. Therefore, increasing government accountability by putting the emphasis on sound science for health standards should discipline disguised barriers to trade and strengthen health policy.

In the Uruguay Round, countries agreed to a set of sound principles: each has the right to maintain health and safety measures, but these must be based on sound science, backed by scientific evidence and an assessment of the risk, and be no more trade-restrictive than required to meet health goals. In practice, countries have found that these principles work well — bogus measures adopted without scientific basis have been successfully challenged in the WTO without sacrificing health concerns. Creating a supportive environment for the propagation of yield-enhancing biotech products also is critical for meeting the needs of the coming century.

AGRICULTURE IS DIFFERENT

Agriculture occupies a special place in the national economies of most countries around the world. Farmers are responsible for feeding and clothing people. Farming also holds a powerful claim on our national cultures that calls for the preservation of rural lifestyles and values. Farm production is subject to the cruel vagaries of weather and the relentless decline in prices and increases in costs. Some people point to these factors as justifying a differential treatment for agriculture in the international economy, including justifying trade-distorting agricultural policies. This is wrong-headed: societies can support farms and preserve rural communities in ways that foster choice, protect natural resources, and expand trade.

Farm production in the next century cannot afford to be trapped in a static system in which prices are determined by government mandate, production decisions are controlled by central planners, and farmers are forced to produce only for local consumers. This myopic system cannot be sustained in any important agriculture producing society. Moreover, this type of system will not meet the needs of the coming century, when we will face unprecedented consumer demand and natural resource constraints.

Instead, I look forward to a dynamic world of agricultural trade in which producers, exporters, and retailers apply the creativity of the human mind to the natural bounty of the earth. In this "new" world, we will produce a greater amount and variety of food than ever before, feed the coming billions, sustain our environment, and unlock economic resources otherwise stifled by moribund protectionism, ultimately raising living standards around the world. ❑

❑ OPENING MARKETS FOR AGRICULTURE

By Peter L. Scher, Special Trade Ambassador, Office of the U.S. Trade Representative

A successful outcome at the November 30-December 3, 1999, World Trade Organization negotiations in Seattle will depend on broad support from all participating countries that recognize that there must be no delays to further agricultural trade liberalization, says Ambassador Peter Scher, who is responsible for bilateral and multilateral agriculture negotiations on behalf of the United States.

"Agricultural trade ... is vital to the survival of producers around the world," says Scher. "The Uruguay Round prepared the field and the teams to move agricultural trade toward a market-based system. The new round of negotiations provides the chance for the world's players to score."

The American vision for trade continues to be that open, global markets are the best way to achieve societies' expectations of agriculture. As the world's largest agricultural producer, the United States has an obligation to ensure that the tremendous benefits of trade are compatible with other goals of our societies — that U.S. consumers have a secure food supply at a reasonable cost without degradation of our land and other agricultural resources, while ensuring a fair reward to U.S. farmers and ranchers.

While the Uruguay Round made a good start — more was done to liberalize agricultural trade and to bring agriculture into the system than in all previous rounds combined — we have to recognize that agriculture still has a long way to go to complete its reform and to be fully integrated into the world trading system.

Prior to the Uruguay Round, agricultural trading rules were not in concert with other sectors. The Uruguay Round Agreement on Agriculture (URAA) made good first steps toward bringing agriculture into conformity with international trade rules governing other goods, but much remains to be done. The United States is one of many countries with fairly ambitious aims for the new World Trade Organization (WTO) agriculture negotiations. We are engaged in extensive consultations with agricultural trade interests to develop goals for the negotiations, and we are an active player as the WTO membership works this year to establish the agenda, scope, content, and timetables of the new round of WTO negotiations beginning at the end of November in Seattle, Washington.

The Uruguay Round, of course, required certain reductions in trade-distorting measures, and the implementation of those reforms has proceeded very well. Two other legacies of the Uruguay Round are very important for the new negotiations — a mandate to continue what was begun, and a structure for achieving liberalization. The WTO's "built-in" agenda includes agriculture. It was recognized from the outset that the first period of reform that we are still implementing was only a down payment.

In addition to the commitment to continue negotiations, the URAA — focusing on export subsidies, market access, and domestic support — established a structure on which to build. Establishing a three-pillar structure was the most time-consuming undertaking in the round. Fortunately, we do not need to reinvent that wheel. The structure of the rules provides a logical approach for the negotiations, one which most seem to agree we should keep and build on.

EXPORT COMPETITION

Export subsidies are an illegitimate policy instrument, a symptom of a systemic imbalance in a nation's agricultural policies, the costs of which are borne by others. The costs of domestic policy choices should be borne by the country that chooses them, not foisted onto its trading partners by subsidizing exports. The Uruguay Round made a start at eliminating agricultural export subsidies: 36 percent reduction of budget expenditures on export subsidies and 21 percent reduction of quantities over a six-year implementation period. With experience to show that markets adapt, we should now be able to improve the pace of export subsidy reductions and eliminate the export subsidy scourge from agricultural trade. Export subsidies are not allowed in the WTO rules for any other industry. Their use constitutes a source of trade distortion and degradation to the environment, and there is no valid reason to keep them any longer.

MARKET ACCESS

The Uruguay Round progress on market access leaves much to be done. It left tariffs too high, and it did not create much new market access. The average non-agricultural tariff is now 4 percent, while the average agricultural tariff is over 40 percent, and tariffs on some products exceed 300 percent. With a few exceptions, nontariff barriers were converted to tariffs, and members were required to open up at least a small minimum access — 3 percent of domestic consumption initially, growing to 5 percent by the end of the adjustment period — under tariff-rate quotas.

The stage has been set for real reforms. Let access continue to grow and let all tariffs be reduced to a negotiated maximum level by the end of the transition period. In addition, an examination of the administration of tariff-rate quotas should lead to transparent and open systems.

Many WTO members note that importers were required to change nontariff barriers to tariffs and grant access, while no reciprocal disciplines were imposed on export restraints of exporting countries. Net food importing countries should be able to expect that if they open their border to international markets, those international markets will deliver supplies as reliably to importers as to the domestic markets of exporters. Willingness on the part of leading exporting members to discipline export controls will reassure "food security" countries that expanding market access is not risky.

DOMESTIC SUPPORT

The Aggregate Measure of Support was a success as a component of the Agreement on Agriculture and the insistence on reducing trade-distorting measures. The drive toward decoupled support ("green box") is the key. By the end of 1996, the United States had largely decoupled farm programs so that payments to farmers were not linked to a requirement to produce. Other WTO members will also succeed in orienting their policies toward market signals. In the new round, further review and decreases in the aggregate measure of support will clearly lead to market-based agricultural trade.

A new buzzword that some countries are using to justify domestic support is "multifunctionality." It is a buzzword for what everybody in agriculture has known for thousands of years: agriculture serves other purposes besides producing food and fiber. But the real problem with the discussion of multifunctionality is not semantic. It is the confusion between policy goals and policy instruments. If the United States appears skeptical about the implications of multifunctionality for WTO rules, the U.S. objection is not multifunctionality as a factual matter. Each country chooses social objectives for themselves. There is no inherent connection between those objectives and trade-distorting agricultural policies.

NEW ISSUES

While the Uruguay Round established effective disciplines in traditional problem areas, such disciplines have not yet been established in some new areas.

As monopolies, state trading enterprises (STEs) can distort trade, and they frequently operate behind a veil of secrecy. The agricultural trading system has much to gain from WTO disciplines on STEs because they allow some countries to undercut exports based on open market transactions and restrict imports.

Biotechnology holds tremendous promise globally for food consumers, producers, and the environment. With the world's population growing by about 2 percent annually, there are 80 million more mouths to feed each year. Some countries threaten to adopt policies regarding the importation and planting of bioengineered crops and the labeling of products containing bioengineered foods that are not based on scientifically justified principles. If our farmers are to meet the challenge of feeding an ever-increasing population with a sustainable agricultural system, then they must have access to the new bioengineered varieties. We need to think about how the WTO can help facilitate this new technology.

DEVELOPING COUNTRIES

One of the critical components to a successful new round of negotiations will be the full participation of a substantially increased number of developing countries. Open trade in agriculture relieves farmers in developing countries of the burden imposed by protectionism and export subsidies, while reducing hunger and offering reliable supplies of food at reasonable prices.

CONCLUSION

As we enter the 21st century, the opportunities to enhance exports of food and agricultural products are endless. With 96 percent of U.S. customers living outside the United States, the importance of a liberalized agricultural trading system is vital to U.S. farmers and ranchers. Agricultural trade, however, is vital to the survival of producers around the world. The Uruguay Round prepared the field and the teams to move agricultural trade toward a market-based system. The new round of negotiations provides the chance for the world's players to score. ❑

❑ EXPORT SUBSIDIES: A DISTORTION TO FREE TRADE IN AGRICULTURE

By Timothy J. Galvin, Administrator of the Foreign Agricultural Service, U.S. Department of Agriculture

There is "no economic justification" for the continued use of export subsidies, says Timothy Galvin, who oversees the administration of programs to foster exports of U.S. agricultural, fish, and forestry products. "By removing subsidized exports," Galvin maintains, "world prices should increase, and farmers, particularly in the EU, will not be artificially encouraged to overproduce products that they cannot grow competitively."

Galvin also urges further disciplines on the use of export taxes so that, when used, they are for legitimate revenue purposes and not as a competitive export tool or to deny commodities to food importing countries.

Export subsidies are generally considered one of the most distorting trade tools used by governments to interfere with commercial markets. Export subsidies allow a government to determine the level and direction of trade solely on the basis of government subsidies, lowering world prices and denying sales for other, more competitive exporters. Not only are export subsidies unfair commercial tools, but, by encouraging surplus production, they encourage adverse environmental practices, waste government budgets, and may delay restructuring and reform of domestic industries. Substantial progress toward eliminating export subsidies will be a critical element of the World Trade Organization (WTO) negotiations scheduled to begin at the end of this year.

THE SITUATION TODAY

Under the Uruguay Round Agreement, countries agreed to strictly limit the use of export subsidies. First, products that had not benefited from export subsidies in the past were banned from receiving them in the future. Second, where countries had provided export subsidies in the past, their future use was capped and gradually reduced over 6 to 10 years. (Developed countries were required to cut their spending on export subsidies by 36 percent over six years while also reducing subsidized export quantities by at least 21 percent on a commodity-specific basis. Developing countries have until 2005 to cut spending by 24 percent and subsidized quantities by 14 percent.) Third, countries agreed not to create new schemes that serve as disguised subsidies to get around the product-specific limits. Finally, countries recognized that export credit and food aid programs were different and exempted them from the new budget and quantity limits, although there was agreement to negotiate disciplines on export credit programs to ensure that they do not undermine WTO commitments.

Today, the European Union (EU) is the primary export subsidizer — accounting for nearly 85 percent of the world total. Nearly all other countries agreed in the last round of negotiations not to use or to have only limited recourse to use export subsidies. EU farmers, responding to domestic prices that are often twice the world price, produce more products than can be consumed in Europe, but at such high prices that they can be sold abroad only with generous subsidies. These subsidies force other competitors out of the market and discourage production in countries with comparative advantage.

If the EU's extravagant domestic subsidies are the root cause of export subsidies, they are also putting serious pressure on the whole EU system. The need to impose budgetary discipline on EU farm programs (annual cost, about $46 billion) is becoming increasingly evident, even in Europe, and the EU's goal of expanding its membership to new countries is putting pressure on it to bring its farm programs into line with other countries, which will help reduce its need to rely on export subsidies in the future.

AREAS FOR RESOLUTION

The upcoming negotiations should continue the work begun in the Uruguay Round and eliminate existing export subsidies. There is no economic justification for their continued use. By removing subsidized exports, world prices should increase, and farmers, particularly in the EU, will not be artificially encouraged to overproduce products that they cannot grow competitively.

In addition to eliminating export subsidies, countries should examine the rules defining export subsidies to ensure that countries do not resort to other policy tools that might allow governments to distort markets. Specifically, WTO members should look closely at curbing agricultural state trading export monopolies that can exert undue market power or dispose of surplus commodities on a nonmarket basis. A recent WTO victory by the United States and New Zealand over Canada's special-class system of dairy exports shows that the existing rules against circumvention are effective but must be enforced.

Export credit and food aid programs were addressed in the Uruguay Round agreement in recognition of the fact that these tools could be disguised as subsidies. These policies may again be on the agenda when the WTO negotiations commence. It will be important to ensure that the world's needy continue to have access to imported products, even when financial turmoil roils world markets and limits the ability of developing countries to meet their food and fiber needs.

Certain large exporting nations – primarily in the EU – have used export taxes as a supply management tool by intervening in the market to restrict exports when domestic stocks are low. These measures can wreak havoc in international markets, exacerbating price swings and reducing the confidence of net-food-importing countries to abandon trade barriers and rely on the international market to provide food security. Similarly, some exporting countries use differential export taxes to discourage exports of basic products (such as grains or oilseeds); they force exporters to process the product domestically (into flour or oil and meal, for example) and export the value-added product. ❑

❑ THE PROMISE OF BIOTECHNOLOGY

By James M. Murphy, Jr., Assistant U.S. Trade Representative

Biotechnology holds enormous potential for U.S. and global food producers and consumers, says James Murphy, assistant U.S. trade representative for agriculture. It can be the catalyst for achieving global food security as well as helping developing countries establish sustainable agricultural sectors. But the use of biotechnology in agriculture must be based on scientific principles and not on fear and protectionism.

Not since the Green Revolution of the 1960s, when high-yielding wheat and rice varieties were developed that increased harvests in Asia two-, five- and even ten-fold, have technological advances had the potential to so affect world agricultural trade. Agricultural products that are the result of biotechnology hold tremendous promise for U.S. and global food producers and consumers. Biotechnology is a key to achieving global food security, establishing sustainable agricultural sectors in developing countries, meeting environmental concerns, and helping U.S. farmers and ranchers maximize market returns.

But along with these opportunities come major challenges. While biotechnology is accepted by consumers and governments in many overseas markets, there is tremendous resistance, particularly in Europe, from consumers who fear for the safety of their food and from some governments that have turned away from scientific principles in evaluating foods produced with biotechnology.

The United States, of course, respects any country's right to maintain high standards for food safety; we also reserve the right to maintain the safety of the U.S. food supply. We support the right of countries to maintain a credible domestic regulatory structure with food safety standards that are transparent, based on scientific principles, and provide for a clear and timely approval process for the products of biotechnology. Such a structure is critical for the acceptance of these products in the global marketplace. But we must ensure, without any question, that debate about the safety and benefits of biotechnology is based on scientific principles, not fear and protectionism.

OPENING NEW DOORS

Biotechnology is about more than just regulatory processes — it is about the fundamental challenge facing U.S. agriculture. As we enter the next century, the pressure on agriculture to meet global food needs has never been higher. With the world's population growing by about 2 percent annually, there are 80 million more mouths to feed each year. We hear estimates that the global demand for food will triple within the next 50 years. By 2030, Asia's population could reach 4.5 billion, and the average daily consumption of animal protein could nearly quadruple. Growing middle classes in Latin America and Asia are demanding higher-quality diets.

Biotechnology now holds the prospect of another Green Revolution, and U.S. agriculture is well placed to take a leadership role. But our ability to market goods developed with biotechnology is more than just an economic issue. It's a humanitarian issue, it's an environmental issue, and it's an issue of global food security. It is one of our best defenses against the deforestation, land erosion, and water depletion that can destabilize entire populations.

And it is critical to the livelihood of U.S. producers. America's farmers and ranchers now find their income tied more directly to the market than in recent memory. Biotechnology can be one of the most important tools to maximize market returns. For example, a corporate developer of Bt corn reports average yield increases across the United States for Bt corn of 11 percent, with yield gains of up to 25 percent in areas of heavy infestation by the European corn borer. Roundup Ready soybeans reportedly increase yields and allow many farmers to reduce the use of herbicides – which are more toxic and do not break down in the soil as quickly as Roundup – or to avoid them altogether. These developments contribute directly to a producer's bottom line.

Producers are already seeing the benefits from what is just the first generation of biotech products, so it is not surprising that plantings of genetically modified crops have increased. Last year, according to industry estimates, around one-quarter of U.S. corn (maize) acreage was planted to genetically modified corn varieties, and genetically modified soybeans accounted for almost one-third of U.S. soybean area. A significant percentage of U.S. cotton area was planted to genetically modified varieties last year. It is likely that the area for genetically modified crops will expand again this year.

TRADE POLICY AND BIOTECHNOLOGY

Many U.S. trading partners recognize the benefits of biotechnology, and we are developing increasingly close ties at the technical level. For example, regulatory officials at the U.S. Department of Agriculture's Animal and Plant Health Inspection Service and the Canadian Food Inspection Service met last summer to compare, and harmonize where possible, data requirements and acceptable analytical approaches for the environmental approval of new varieties of genetically modified plants. A regular exchange between U.S. and Canadian scientists on this topic is ongoing.

We have likewise had an excellent working relationship with Japan in the area of approvals for genetically modified organisms (GMOs). While some concern was raised last year with the publication by Japan's agriculture ministry of draft guidelines on the labeling of foods containing GMOs, Japan has by and large relied on science when evaluating the human and environmental safety of GMOs. We, of course, are keeping a sharp eye on the progress of the labeling guidelines to ensure against a de facto requirement for segregation between foods that contain GMOs and those that do not.

Despite these positive developments for biotechnology, we face a tremendous challenge in Europe. The European Union (EU) is still struggling to decide what regulatory system to have in place. Unfortunately, it has experienced complicating factors that have made the whole regulatory and approval process unusually difficult. The public lack of confidence in scientific judgments started with the outbreak of bovine spongiform encephalopathy (BSE), commonly known as mad-cow disease, which undermined public trust in food safety. This lack of trust grew as groups opposed to biotech products succeeded in arousing consumer fears, bringing pressure to bear on European politicians. All this was compounded by the lack of an established institutional review process at the EU level that could provide a sound foundation for public assurance and confidence in the safety of food products.

The abundant scientific evidence in support of biotechnology makes the problems we are having with the EU on this issue all the more frustrating. We have repeatedly told EU officials at the highest levels of the need for a workable — and this includes timely — system for the products of biotechnology.

MOVING THE AGENDA FORWARD

As we look to the upcoming round of negotiations under the World Trade Organization, the increasingly important issue of trade in products developed through new and emerging technologies, including but not limited to biotechnology, will need to be examined. These new market access issues, which affect trade in agriculture, emerged following completion of the Uruguay Round. We welcome the opportunity to have a dialogue with our trading partners on the most appropriate mechanism with which to move this agenda forward.

In brief, our message to the EU and our other trading partners remains unchanged: we must focus on scientific principles as the guideposts in guaranteeing food safety. Those of us in government and industry also need to work harder at getting this message out. We need to continually educate people in the United States and other countries about the benefits of using biotechnology and about how the new technologies can benefit all citizens and economies of the world. ❑

❑ MARKET ACCESS: ELIMINATING BARRIERS THAT IMPEDE TRADE

By Jason Hafemeister, Senior Advisor for Multilateral Trade Negotiations, Foreign Agricultural Service, U.S. Departmentof Agriculture

Market access for particular commodities continues to be restricted by high tariffs and tariff-rate quotas (TRQs), says Jason Hafemeister. He argues that the administration of TRQ systems in different countries can impede and distort commercial decision-making.

One of the most important accomplishments of the Uruguay Round agreement was bringing agriculture more fully under General Agreement on Tariffs and Trade disciplines. A principal implication of this is that trade in agricultural products can now be restricted only by tariffs — quotas, discriminatory licensing, and other nontariff measures are forbidden. Also, all agricultural tariffs were "bound" in the World Trade Organization (WTO); tariff rates above a binding violate WTO obligations.

While creating a "tariff-only" system for agricultural products is an important advance, too many market access barriers continue to impede international trade of food and fiber products. Market access barriers deny efficient producers the opportunity to compete in other markets and limit the variety and quality of products available to consumers. Reducing and removing these barriers will be an important element of the upcoming WTO negotiations, set to start at the end of this year at the WTO's Third Ministerial Conference in Seattle, Washington.

WHAT ARE THE ISSUES?

Eliminating nontariff measures was a necessary first step to removing trade barriers, but many of the tariffs in place are still prohibitively high. For example, while the average tariff assessed by the United States on agricultural products is less than 5 percent (and for industrial products is nearly zero), the average agricultural tariff assessed by WTO members exceeds 50 percent.

Moreover, in some cases, market access for a particular product is restricted to a tariff-rate quota (TRQ). Under a TRQ system, import opportunities are established for a specific quantity of imports at a low tariff. All other imports of a product are subject to high tariffs. All tariffs, including in-quota and out-of-quota tariffs, are now bound against increase and subject to further reductions, a situation that will be a top priority in the next round of negotiations.

Where TRQs remain as a transitional step before more open trade is achieved, further reform needs to be undertaken in the upcoming negotiations. In the Uruguay Round, countries generally agreed to open TRQs to allow imports equal to current levels of trade or, where imports had been low, new access opportunities were established. Recent experience also indicates that the administration of the TRQ systems in different countries can impede trade and distort commercial decision-making. It is expected that these elements will be subject to further disciplines in the upcoming negotiations.

Similarly, we need to closely examine the rules for state trading import monopolies in agriculture. Use of these state traders may have been justifiable when more restrictions were allowed on farm trade, but in the tariff-only regime, it is difficult to see why a government needs to insert itself between an exporter and an end-user. In line with the general thrust of WTO principles, countries should use the upcoming negotiations to increase responses to market forces competition and transparency where single-desk buyers or other restrictions on the right to import exist.

Although the WTO has moved agriculture to a tariff-only system, in too many cases countries operate variable tariff systems that result in confusing and unpredictable tariff collection. Measures such as reference-price schemes, price-band systems, and variable tariffs operating under a high WTO binding make it hard for businesses to know exactly what tariff they will have to pay when their product arrives at customs. The uncertainty and lack of transparency chills trade and leaves the system open to potential fraud and abuse. In some cases, reference-price systems can disadvantage suppliers of products with particular grades or quality. Countries are likely to investigate the operation of such tariff systems in the upcoming negotiations.

One of the elements of the Uruguay Round agreement was to establish a special agricultural safeguard mechanism to protect particularly sensitive products against a flood of imports or to guard against a sudden drop in the price of imports. The agreement establishes specific criteria for triggering the safeguard mechanism. Countries are expected to review the operation of the safeguard and review whether to continue its use in the upcoming negotiations. ❑

❏ STATE TRADING ENTERPRISES: EXISTENCE OF MONOPOLIES IS NO LONGER JUSTIFIED

By Hugh Maginnis, International Economist, Foreign Agricultural Service, U.S. Department of Agriculture

Agricultural state trading enterprises (STEs), used by some countries to control imports and encourage exports for noncommercial reasons, no longer have a place in global agriculture, says Hugh Maginnis, who helps develop U.S. agricultural negotiation positions for the Agriculture Department. STEs not only diminish benefits that other exporters expect in third-country markets, Maginnis says, but they may create additional costs for producers, prompt predatory pricing practices that drive other exporters out of particular markets, and keep more producers in business and more land in production than would otherwise be the case.

The new disciplines on agricultural trade established in the Uruguay Round and the globalization of international agricultural trade raise important questions about the role of state trading enterprises. Traditional reasons for maintaining STEs have included controlling imports, encouraging exports for noncommercial reasons (such as obtaining foreign exchange or removing surplus production), or establishing emergency food stockpiles.

However, rules prohibiting the maintenance of nontariff barriers through STEs and disciplines on export subsidies have eliminated most of their traditional purposes. As a consequence, agricultural STEs are a concern among many World Trade Organization (WTO) members because of their potential to distort trade. Much of the concern arises from the substantial market power wielded by monopoly STE exporters and importers, commonly referred to as single-desk sellers and buyers. Some of the common characteristics of single-desk sellers and buyers are described here, along with some of the potential trade distortions that may result from the operation of the single-desk system.

SINGLE-DESK SELLERS

Single-desk sellers have common characteristics that may give them advantages in international trade and may lead to trade distortions. These include a lack of price transparency; government financial backing that may insulate them from the financial risks normally faced by other exporters; an ability to control procurement costs by maintaining monopsony control over purchases for domestic and export sales; an ability to "price discriminate" using cross-subsidization, either between the domestic and export markets or between different buyers; and the ability to insulate producers from market prices through price-pooling schemes. These characteristics and the distortions that they cause may diminish benefits that other exporters expect in third-country markets. Besides their potential to distort trade, single-desk sellers may create additional costs for producers or allocative inefficiencies caused by production driven by nonmarket price signals.

Monopoly authority and the lack of transparency in export pricing may provide single-desk sellers with greater pricing flexibility relative to private traders. In the private export trade, commodity prices, which are in effect "replacement values" for exported products, are quoted daily on various market exchanges. Private exporters have no choice but to buy their export supplies at a given market price, which is widely known in the trade and to governments. Single-desk sellers, in contrast, are not required to reveal their transaction prices. This may put them in a position to disguise procurement costs and subsequent export prices, particularly when export sales are subsidized through direct or indirect government subsidies.

Many single-desk sellers benefit from the financial backing of the central government, either through direct subsidies or from government guarantees. Because single-desk sellers are quasi-governmental entities or direct government agencies, their operational losses, which generally have been caused by pooling account deficits, are in most cases reimbursed by the federal government. The actual intervention by the government, or the functional equivalent afforded through the assurance of government intervention, shields producers from risk and encourages production because producers can rely on support when faced with reduced revenue from declining prices. This encourages higher levels of production than otherwise would occur.

Single-desk sellers are monopsony buyers for export and frequently monopolists for resales in the domestic market. As such, they can force producers to accept lower prices than might otherwise be possible under more competitive conditions. This is particularly important when a country exports a substantial share of total production. Producers, who frequently have no alternative crops to cultivate for geographic reasons, have no alternative but to sell to the single-desk exporter and take whatever price is offered, giving the single-desk seller wide flexibility in export pricing. Additionally, this control leaves open the opportunity for the single-desk seller to reduce, delay, or otherwise manipulate the price it pays producers to acquire supplies. This pricing power may be behind a host of many other practices that can lead to trade distortions, including price discrimination.

In world markets, where prices are normally outside the control of sellers in a particular country, the ability to price discriminate may represent a significant advantage for a single-desk seller. It may also lead to higher levels of imports into particular WTO member countries than would occur under perfectly competitive conditions. Price discrimination occurs when a single-desk seller can differentiate its sales prices for comparable quality commodities between different destinations according to a buyer's ability to pay. The ability to discriminate allows a single-desk seller to maximize returns among a range of purchasers with different price elasticities by lowering prices to certain buyers without affecting its higher sales price in premium markets. Since single-desk sellers control their procurement costs, they have more power to raise and lower prices across different markets. If single-desk sellers are obliged to purchase all domestic production, the ability to price discriminate allows them to lower costs to whatever level is necessary to unload the product in foreign markets. Similarly, when single-desk sellers are driven by government policy objectives, such as maximizing production or exports rather than profits, sales in high-price markets can underwrite the sale of surplus products at uneconomical prices. Additionally, price discrimination encourages the use of predatory pricing practices, whereby a monopoly seller lowers its prices to drive other exporters out of a particular market. If successful, the single-desk seller can raise prices once the competition has been eliminated.

Price-pooling arrangements that are operated by single-desk sellers are intended to equalize payments to producers while minimizing the risk inherent in marketing their products. Under a pooling system, farmers deliver their product to a pool controlled by the single-desk seller in return for an initial payment. At the end of a marketing year, the single-desk seller tallies its total sales revenues and deducts marketing and other operational costs. The net revenue is then distributed to the producers. Under this system, each farmer, in effect, receives a blended price based on all sales for the year. Diversifying sales reduces the risk borne by producers, but it also leaves all export-pricing decisions to the single-desk seller, which may set prices based on a range of government policy objectives. Although pooling helps reduce market risk for producers by acting to stabilize prices received during the marketing year, costs are inherent in the pooling system. For example, producers of higher-quality products, those that have achieved marketing efficiencies, or those that deliver products to the pool during a period of higher world prices are effectively penalized because they may receive a blended price derived from a lower-quality grade or from revenue generated by lower-priced sales. As a consequence, wealth is transferred from high-quality producers to lower-quality producers, which may keep more producers in business and more land in production than otherwise would be the case.

SINGLE-DESK BUYERS

Single-desk buyers may be able to restrict or otherwise distort trade in several ways — lack of transparency, interference with end-users, enforcement of burdensome requirements on imported products, and procurement of emergency stockpiles. These and other purchasing and marketing practices may raise domestic prices and impair market access opportunities for exporters. Monopoly control over imports and the resulting market power of single-desk buyers may allow them to restrict access for imported products based on government-determined criteria, not on commercial considerations. This decision can be made without regard to prevailing world market conditions or domestic demand considerations. Ultimately, this control gives the single-desk buyer the flexibility to support internal prices and to otherwise regulate demand for imports.

Single-desk buyers generally provide insufficient transparency regarding their purchases and sales. Information on import pricing, resale pricing, requested grades and quality, and purchase quantities are not available to traders or the public. Lack of this information makes it difficult for exporters and domestic end-users to do business and may allow the single-desk buyer to disguise trade restrictions.

State control of marketing and distribution may interfere with end-user purchasing decisions — in contrast to direct contact between exporters and end-users, which allows the specification of grade and quality and leads to increased value of imported products to the end-user. This benefits end-users and consumers, but it can also benefit exporters who develop marketing relationships and receive higher prices by dealing with end-users who value the grade and quality of their products. However, when these decisions must go through single-desk importers, the importer can enforce other government policy objectives, such as discouraging imports of competitive grades and qualities or "luxury" imports, that restrict imports.

Single-desk buyers may be empowered to enforce burdensome requirements on imported products. Marketing control, including control of internal marketing and distribution of imports, also gives the single-desk seller the ability to direct imports of inferior quality products that may be less competitive than domestically produced products. Retail pricing, promotion, and distribution of imported products are often controlled by the single-desk buyer. This may interfere with consumer preferences and efficient resource allocation, especially when marketing strategy is formulated by a state-controlled entity rather than a private firm that is subject to market competition. ❑

❑ WTO AGRICULTURAL NEGOTIATIONS — COMPLETING THE TASK

By Paul Morris, Minister-Counsellor for Agriculture and Resources, Embassy of Australia, Washington, D.C.

The Cairns Group of 15 agricultural-exporting countries was formed in 1986 to influence agricultural negotiations within the World Trade Organization (WTO). It was largely as a result of the group's efforts that a framework for reform in farm products trade was established in the Uruguay Round and agriculture was for the first time subject to global trade liberalizing rules. The group is positioning itself to play an important role in the new round of WTO agricultural negotiations that commence in Seattle, Washington, in November 1999.

The Cairns Group, which accounts for about 20 percent of world agricultural exports, includes both developed and developing countries across a diverse set of regions around the world. The group consists of Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay. By acting collectively, this disparate group has had more influence and impact on the agriculture negotiations than individual members would have had independently. Under Australian leadership, the group takes a consensual approach to decision-making.

BEYOND THE URUGUAY ROUND

Members of the Cairns Group were generally pleased with the Uruguay Round outcome, but believe much remains to be done to ensure that a genuine market-oriented approach to agricultural policies is achieved. For example, in 1997 levels of agricultural support in Organization for Economic Cooperation and Development (OECD) countries alone were still extremely high at $280 billion. The approach taken by the group to the challenge of reducing this assistance and creating a freer agricultural marketplace has been in two parts. First, the group has worked to ensure that countries meet the commitments that were agreed to in the agricultural-related agreements during the Uruguay Round. It has done this by remaining visible and active since the end of the round. One of its members (Ambassador Danai from Thailand) was appointed the first chair of the Committee on Agriculture. Ambassador Danai's successor as chair, appointed in early 1997, is another Cairns Group member (Ambassador Osorio from Colombia).

Second, the Cairns Group has been effective in engaging other WTO member countries in early preparation for the next round of agricultural negotiations in an attempt to ensure that they start on time and are not unnecessarily protracted as they were during the Uruguay Round. The Cairns Group in April 1998 agreed on a strongly worded "vision statement" conveying the Group's ambition and broad objectives for the 1999 agriculture negotiations and initiated a strategic approach to the preparations for the negotiations. This approach is necessarily ambitious: "The Cairns Group of Agricultural Fair Traders reaffirms its commitment to achieving a fair and market-oriented agricultural trading system as sought by the Agreement on Agriculture. To this end, the Cairns Group is united in its resolve to ensure that the next WTO agriculture negotiations achieve fundamental reform which will put trade in agricultural goods on the same basis as trade in other goods. All trade-distorting subsidies must be eliminated and market access must be substantially improved so that agricultural trade can proceed on the basis of market forces."

OBJECTIVES FOR THE SEATTLE NEGOTIATIONS

The vision statement outlines the Cairns Group's reform goals in three key areas within the Uruguay Round framework, as follows:

- Deep cuts to all tariffs are required, as well as the removal of tariff peaks and the redressing of tariff escalation so that market access for agricultural commodities and value-added agricultural products is on a similar footing as trade in other commercially traded products. This should include the objective of transforming market access barriers to tariffs and removal of nontariff barriers to trade. In the interim, the Cairns

Group supports substantial increases in trade volumes under tariff-rate quotas, while the administration of tariff-rate quotas must not diminish the size and value of market access opportunities, particularly in products of special interest to developing countries.

• All trade-distorting domestic supports must be eliminated or replaced with non-trade-distorting methods of assistance. Income aids or other domestic support measures should be targeted, transparent, and fully decoupled so that they do not distort production and trade.

• Export subsidies must be made illegal for agricultural products, as they are for other traded goods, and clear rules must be established to prevent circumvention of export subsidy commitments. In this regard, it is worth noting that only 25 of the 134 current WTO members are entitled to use export subsidies, and most of these are developed countries (with more than 80 percent of export subsidies accounted for by the European Union). Also, agricultural export credits must be brought under effective international discipline with a view to ending government subsidization of such credits.

SPECIAL NEEDS OF DEVELOPING COUNTRIES

The vision statement also reaffirms the group's support for the principle of special and differential treatment for developing countries, including least-developed countries and small states, remaining an integral part of the next WTO agriculture negotiations. The Cairns Group ministers agreed that the framework for liberalization must continue to support the economic development needs, including technical assistance requirements, of these WTO members. As has been stated by the Cairns Group: "Major challenges facing many developing countries are the persistence of rural poverty and the linkages between such poverty and serious environmental problems. Consequently, more sustainable agricultural development remains a central policy issue in many developing countries. An improved international trading environment that is more conducive to supporting agricultural development is needed as an essential ingredient in addressing these problems."

Adherence to these principles will not only improve the trading environment for agricultural exporting nations, but will also have important implications for global food security. Food security will be enhanced through more diversified and 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. To provide further assurance to net-food-importing countries, export restrictions must not be allowed to disrupt the supply of food to world markets.

Reductions in assistance to the agricultural sector may also have positive implications for the environment. 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.

PREPARATIONS FOR THE NEXT ROUND

Cairns Group ministers welcomed the launch by the second WTO Ministerial Conference in Geneva in May 1998 of preparations for the next round of agriculture negotiations. The WTO Ministerial Declaration that emanated from this conference binds WTO members to a preparatory process that began in September 1998 and will culminate in ministerial agreement on a decision on the scope, structure, and time-frame for the agriculture negotiations. WTO ministers will take this decision at the third WTO Ministerial Conference in Seattle, Washington.

Cairns Group ministers will next meet in Mar del Plata, Argentina, 28-29 August 1999. This meeting will provide ministers with the opportunity to agree on the group's input into the content of the Seattle ministerial decision to ensure that the group's ambitions for the forthcoming negotiations are fully addressed.

The Cairns Group reaffirms its commitment to achieving a fair and market-oriented agricultural trading system as sought by the Agreement on Agriculture. To this end, the Cairns Group is united in its resolve to ensure that the next WTO agriculture negotiations achieve fundamental reform that will place trade in agricultural goods on the same basis as trade in other goods. ❑

❑ THE IMPORTANCE OF A NEW TRADE ROUND FOR AMERICA'S FARMERS

By Dean Kleckner, President, American Farm Bureau Federation

The Seattle World Trade Organization ministerial conference represents a vital opportunity to revise the global trading system to reward the world's efficient and productive agricultural producers, says Dean Kleckner, president of the American Farm Bureau Federation (AFBF). The AFBF is the largest general farm organization in the United States. Kleckner regards the WTO ministerial meeting late this year as a critical moment for U.S. trading partners to liberalize their markets and eliminate trade-distorting practices. He urges expedited negotiations that would last no more than three years.

American farmers today truly live and function in a global economy. The price that wheat fetches at the local grain elevator is directly impacted by the global supply of and demand for wheat. The ability of a cattle rancher to sell his livestock for a profit depends, in part, on economic conditions in foreign countries. When customers of U.S. agricultural exports face economic and fiscal crisis and lose purchasing power, as has happened in Asia, Russia, and Brazil, agriculture is the first to feel the effect.

The ability of U.S. agriculture to gain and maintain a share of global markets depends on many factors, including strong trade agreements that are properly enforced and the ability of our negotiators to strike deals with America's trading partners to open up new markets for our exports.

THE NEED FOR NEW MARKETS

U.S. agriculture is reeling from low commodity prices. Given an abundant domestic supply and a stable U.S. population rate, expanding existing market access and opening new export markets for agriculture is more important than ever. If we do not do this, American agriculture's long-standing history of yearly trade surpluses will not continue.

Changes in domestic farm policy in recent years have placed increased emphasis on our need to export. When the U.S. Congress passed the 1996 Freedom to Farm Act, it phased out farm price supports, making U.S. agriculture more dependent on world markets. American farmers and ranchers produce an abundant supply of commodities, far in excess of domestic needs — and their productivity continues to increase. Exports are agriculture's source of future growth in sales and income.

Global food demand is expanding rapidly, and more than 95 percent of the world's consumers live outside U.S. borders. Despite significant progress in opening markets, agriculture remains one of the most protected and subsidized sectors of the world economy. In addition, U.S. agricultural producers are placed at a competitive disadvantage by the growing number of regional trade agreements among our competitors.

The United States will host its first ever World Trade Organization (WTO) Ministerial Conference later this year in Seattle, Washington. This ministerial will serve as the kickoff for the new negotiations on agriculture and other sectors in the WTO. As the host country for this ministerial, the United States and its trade policies will be in the spotlight. We will press our trading partners to liberalize their markets and decouple their support programs as the United States did when it passed "Freedom to Farm."

Given the economic turmoil being experienced in many important U.S. export markets, the launching of new negotiations to further open markets has never been more important.

The U.S. market is the most open economy in the world, as evidenced by the low tariffs on agricultural imports. Yet our farmers continue to face significant barriers to access for their products in most corners of the world. Our trading partners have erected unfair barriers to protect their producers. We need to level the playing field in the next round of agricultural trade talks to enable America's farmers and ranchers to reap the rewards of their productivity and high efficiency.

WHAT NEW NEGOTIATIONS SHOULD ACCOMPLISH

Negotiators in the upcoming round of WTO talks need to comprehensively address high tariffs, trade-distorting subsidies, and other restrictive trade practices. In addition, emerging issues such as biotechnology must be discussed, with an aim to facilitating trade in genetically modified products. Bioengineered products hold the key to feeding a growing global population on a declining amount of arable land.

The American Farm Bureau Federation supports a comprehensive round that will allow negotiations for all sectors to conclude simultaneously. We cannot allow the easy issues to be picked off while the difficult ones like agriculture linger. We support setting a three-year goal for the conclusion of the negotiations. The Uruguay Round took seven years to complete. U.S. farmers and ranchers cannot sit idly by while our competitors trade openly in our market but deny us access to their markets on equal terms.

A growing problem for U.S. agricultural exporters are nontariff barriers to trade, specifically sanitary and phytosanitary (SPS) standards. We are seeing an increasing number of SPS issues that lack scientific merit. The first task of our negotiators should be to press countries to make binding agreements to resolve SPS matters based on scientific principles.

Next, we must address the magnitude of export subsidies that distort trade in global markets. These subsidies should be eliminated. Doing so would send the strongest possible signal to world markets that trade in agriculture is truly liberalized.

U.S. agricultural exports face prohibitively high tariffs that block their access to foreign markets. We need our trading partners to reduce their tariffs to be as low as ours. In addition, all WTO member countries should strive to eliminate tariff barriers within specified time frames.

Several countries engage in monopolistic state trading practices that distort global trade and restrict market access. Disciplines for state trading operations should be instituted to facilitate the flow of agricultural commodities worldwide.

Several agricultural disputes have now been litigated before the WTO, and we have all witnessed the significant time commitment involved in these legal proceedings. WTO legal cases take at least three years to complete, which is far too long for our producers to wait for a resolution. We must make changes to the trading rules to shorten these procedures.

There is increasing talk of instituting labor and environmental provisions in the World Trade Organization. We cannot allow non-trade-related issues to hold U.S. exports hostage in an attempt to make countries reform their social practices. Doing so would harm export trade without achieving the social goals being sought.

The trade ministers who assemble in Seattle for the ministerial conference have a historic opportunity to revise the global trading system to reward the world's efficient and productive agricultural producers. They must seize this opportunity. The first step in liberalizing agricultural trade was taken during the Uruguay Round. Trade ministers and negotiators need to complete the process in the Seattle Round. ❑

❑ DEVELOPING COUNTRIES AND THE WTO AGRICULTURAL NEGOTIATIONS

By Eugenio Diaz-Bonilla, Visiting Research Fellow, and Sherman Robinson, Director, Trade and Macroeconomics Division, International Food Policy Research Institute

Developing countries as a group have much to gain from continued progress toward a transparent, rule-based trading system in agriculture, say Eugenio Diaz-Bonilla and Sherman Robinson, who urge these nations to begin now to organize themselves to influence the agenda and the outcome of the next round of global negotiations.

The researchers say the negotiations should eliminate export subsidies, impose stricter disciplines on export taxes, cut tariffs, and ensure that food aid continues to be available to poor countries in grant form and delivered so as not to displace domestic production in the countries receiving it. "Badly managed food aid, or cheap food imports due to export subsidies, may just reinforce the bias of economic policies against the rural sector, with its negative impact on poor agricultural producers," they say. International research organizations (such as IFPRI, among other institutions) may provide support to developing countries through programs of collaborative research, technical assistance, and capacity strengthening.

Starting with the first round of trade negotiations under the General Agreement on Tariffs and Trade (GATT) after World War II, there has been a relatively steady trend of increasing multilateral trade liberalization. The successive rounds of negotiations recognized the greater needs of developing countries, especially since the Tokyo Round. Yet the participation of developing countries was limited. Since many developing countries were not members of GATT, the major forum for airing their views was provided by the United Nations Conference on Trade and Development. The views of developing countries had some impact on the Lomé agreements and on aid flows, but had limited influence on negotiations concerning trading rules, which were discussed within the framework of the GATT, where OECD (Organization for Economic Cooperation and Development) countries set the agenda.

In the Uruguay Round, which began in 1986 and concluded in 1993, developing countries played a larger role in the negotiations compared to previous rounds. In particular, agricultural net exporters organized the Cairns Group (which, in addition to Australia, New Zealand, and Canada, included several large developing countries such as Argentina, Brazil, Indonesia, and the Philippines) to pursue their interests. Furthermore, during and after the conclusion of the Uruguay Round, the formal accession of developing countries to the GATT and now the World Trade Organization (WTO) has continued apace. Of the 134 members of the WTO in February 1999, some 70 percent were developing countries. The United Nations classifies 48 countries as least-developed (LLDCs). Within that group, 29 are members of the WTO, six are in the process of accession, and three are observers. Also, 18 countries have been identified as net-food-importing developing countries (NFIDCs).

Later this year, trade ministers from WTO member countries will meet in Seattle, Washington, to determine, reflecting their governments' views and societal pressures, whether to launch a new round of trade negotiations, the "Millennium Round." Also, Article 20 of the Uruguay Round Agreement on Agriculture (URAA) required that agricultural negotiations be resumed during 1999. If the ministers indeed initiate this Millennium Round, agriculture will be part of it. Otherwise, agricultural negotiations will proceed on their own.

It is in the interest of the developing countries to prepare themselves and to be active and informed participants in the process. They should organize themselves to influence the agenda and the outcomes, pursuing their interests both at the level of a general round and at the level of sectoral negotiations, such as agriculture. We briefly discuss here some of the issues from the perspective of developing countries, particularly the most vulnerable.

SOME DEFINITIONS

The LLDCs are identified by the UN General Assembly based on several criteria — income per capita, augmented physical quality of life index, and an index of economic diversification. As a group, they have a population of about 590 million people, with an income per capita about 4 percent that of the world average (1996). Agricultural production per capita in LLDCs has been declining since the 1970s, although the same indicator for all developing countries (mainly under the influence of China) has gone up by nearly 40 percent in the same period. LLDCs represent a small fraction of world trade (less than 1 percent for total trade and about 2 percent for agricultural trade). They had a positive, although declining, net agricultural trade balance until the mid-1980s, when it turned negative. Almost 20 percent of their total imports are food items.

The 18 net-food-importing developing countries have been selected through a process within the WTO. They have a population of some 380 million people and an income per capita nearly five times that of the LLDC average, but still much lower than the world average. NFIDCs are a diverse group: four are upper-middle income countries; eight are lower-middle income; and six are lower income. Four of them had net food exports on average during 1995-97, but because they imported cereals they are included in the group. NFIDCs' per capita food production as a share of both world and developing country averages has risen, although from very low levels.

Although the categories of "developed" and "developing" countries have important legal consequences under WTO rules, there are no formal definitions of either category. The process works through self-identification and negotiation with other member countries of the WTO.

COMPLETING THE UNFINISHED AGENDA

In general, developing countries operate under what has been called "special and differential treatment." They face lower disciplines and enjoy longer time frames for implementing reforms. In the case of LLDCs, they are totally exempted from WTO commitments, and it has been agreed that developing and least-developed countries should receive special consideration for market access and technical and financial support. Also, during the Uruguay Round, concerns that liberalization of agricultural policies and trade could adversely affect the food imports of LLDCs and NFIDCs led participants to include several measures dealing with food security issues in the "green box" of permitted domestic support — for instance, the formation of public stockholding and the provision of foodstuffs at subsidized prices. There was a ministerial decision in Marrakesh in April 1994 to deal with possible negative effects of agricultural trade reforms on the food security of LLDCs and NFIDCs. The decision was reemphasized at the 1996 ministerial meeting of the WTO in Singapore.

The discussion of a negotiating agenda for the developing countries in the Millennium Round must consider the important differences among them, including a better conceptualization of the definitions of "developing" countries and NFIDCs. The following suggestions should be read with that caveat in mind.

Export and Domestic Subsidies. While many developing countries have significantly reduced distorting domestic agricultural policies, the possible benefits that these countries and the world can enjoy are thwarted by the subsidies of developed countries. The Uruguay Round was a first step in imposing discipline on the unfair competition arising from subsidized agricultural exports, which hurts poor agricultural producers in developing countries irrespective of their net agricultural trade position. In the next negotiations, that first step should be completed with the elimination of export subsidies. Net-food-importing developing countries should also be interested in stricter disciplines on export taxes and controls that exacerbate price fluctuations in world markets.

Under the Uruguay Round agreement, there is still a lot of scope for the developed countries to use domestic subsidies, in addition to the use of export subsidies, to help their farmers. The developing countries should seek further disciplines in this regard, including, among other things, the elimination of exemptions under the "blue box" (which allows farmers to receive some forms of direct payments that are considered to be trade distorting). Least-developed and developing countries, however, will still be allowed "special and differential treatment" on these issues.

Market Access. If the developing countries are to succeed in diversifying their agricultural sectors, they need expanded access to markets in developed countries. This includes increasing the volume of imports allowed under the current regime of tariff-rate quotas (TRQs, which replaced the previous system of rigid quotas with a combination of a quantitative quota and a high tariff for the eventual out-of-quota imports); making the administration of the TRQs more transparent and equitable; seeking further reductions in tariffs, particularly those still high in some key products; and completing the process of tariffication in the cases where exemptions were granted. Also, eliminating, or at least reducing, tariff escalation in nonagricultural products is important for developing countries: this practice undermines the possibilities of expanding production and exports of processed goods that use agricultural inputs, exploiting "forward linkages" in the value-added chain.

WHAT THE MOST VULNERABLE NEED

The special situation and concerns of least-developed countries and net-food-importing countries were recognized in a ministerial decision agreed upon at the completion of the Uruguay Round in 1993. These concerns include the preservation of adequate levels of food aid, the provision of technical assistance and financial support to develop the agricultural sector in those countries, and the continuation and expansion of financial facilities to help with structural adjustment and short-term difficulties in financing food imports. It is important to make food aid available in grant form, to target it to poor countries and social groups, and to deliver it in ways that do not displace domestic production in the countries receiving it. Badly managed food aid, or cheap food imports due to export subsidies, may just reinforce the bias of economic policies against the rural sector, with its negative impact on poor agricultural producers.

Volatility in agricultural prices must be monitored carefully. While expansion of world agricultural trade should limit overall fluctuations by spreading supply and demand shocks over larger areas, the decline in world public stocks as a percentage of consumption works in the opposite direction. Improving early warning of potential food shortages, lowering costs for food transportation and storage, and providing better targeted food aid programs and financial facilities for emergencies are also issues that need to be addressed by countries participating in the coming round of negotiations.

The impact of changes in trade and agricultural policy on poorer consumers and producers in developing countries is a matter of debate. Some have argued that trade liberalization may hurt both groups. Others have answered that greater productivity and growth coming from better trade and sectoral policies should help generate employment and income, given a setting of adequate overall economic policies and properly functioning markets and social institutions.

Small producers will also be helped by the disciplines that the URAA is bringing to subsidized and dumped exports, while it allows the implementation of a variety of programs aimed at poor producers or consumers, including stocks for food security purposes and domestic food aid for populations in need. The issue here is the adequate design and funding of domestic policies to achieve the intended objectives of agricultural growth and poverty alleviation, which most certainly will not be helped by trade-distorting interventions either in developed or developing countries.

In general, low-income developing countries and LLDCs should emphasize to the international community the importance of creating and expanding a supportive international trade and financial environment and of implementing an integrated framework for economic and social development, with agricultural and trade policies being an integral part of the strategy. Appropriate measures would include — in addition to the agricultural trade issues suggested here — the continuation and enhancement of the reduction of the external debt of Heavily Indebted Poor Countries (the HIPC initiative) and the further liberalization of trade in textiles.

But improved international conditions should go hand-in-hand with a better domestic framework in developing and least-developed countries, including stable macroeconomic policies, open and effective markets, good governance, the rule of law, a vibrant civil society, and programs and investments that expand opportunities for all, with special consideration for poor and disadvantaged groups.

BRINGING DEVELOPING COUNTRIES INTO THE PROCESS

Developing countries, as small players in the global arena, should be interested and active participants in the design and implementation of international rules that limit the ability of larger countries to resort to unilateral action. Also, domestic legal and institutional frameworks in developing countries may be strengthened by the implementation of internationally negotiated rules that limit the scope for rent seeking and arbitrary protectionist measures. The developing countries as a group have much to gain from continued progress toward a transparent, rule-based, trading system in agriculture.

What are the requirements and skills for the developing countries to become effective members in the next WTO round? Any negotiation requires careful consideration of the legal, economic, and political dimensions that define the substance and possible evolution of the negotiations, as well as the diplomatic and negotiating techniques that may help in the attainment of the expected outcomes. Questions that need to be addressed include:

— What are the economic and social consequences of different WTO scenarios (quantitative estimation of impacts)? Knowing the impacts of alternative scenarios is crucial if developing countries are to represent their interests in the negotiation process.

— What are the legal issues being discussed (definition of obligations, exemptions, time frame, and so on)? Detailed knowledge of international trade law is crucial if developing countries are not to be "shortchanged." The devil is in the details.

— Looking at the political process, who are the main actors and their interests and what type of alliances may drive the negotiations? Negotiators must understand the political economy of their own country and of other countries in the WTO if they are to negotiate effectively.

— With these elements, an adequate diplomatic and negotiating strategy must be defined and implemented.

Developing countries that have carefully considered all four components will be better prepared to participate effectively in the coming negotiations. Of course, limited financial and human resources act as an important constraint. However, developing countries may overcome some of the problems through collective action, for instance considering the creation of alliances with respect to their main export and import commodities and the markets they approach for their exports. An example is the Cairns Group. This approach could reduce the fixed costs of negotiations, spreading them over groups of countries, allow a better use of scarce technical expertise, and improve the bargaining position of developing countries. It could also be in the interest of the OECD countries to deal with negotiating blocs, which represent a smaller number of negotiating positions, rather than with numerous separate countries. The negotiations would be much more efficient and balanced. ❏

❑ THE URUGUAY ROUND AND AGRICULTURAL REFORM

The Uruguay Round of Multilateral Trade Negotiations (completed in 1994) continued the process of reducing trade barriers achieved in seven previous rounds of negotiations. Among the Uruguay Round's most significant accomplishments were the adoption of new rules governing agricultural trade policy, the establishment of disciplines on the use of sanitary and phytosanitary (SPS) measures, and agreement on a new process for settling trade disputes. The Uruguay Round also created the World Trade Organization (WTO) to replace the General Agreement on Tariffs and Trade (GATT) as an institutional framework for overseeing trade negotiations and adjudicating trade disputes. Agricultural trade concerns that have come to the fore since the Uruguay Round, including the use of genetically engineered products in agricultural trade, state trading, and a large number of potential new members, illustrate the wide range of issues any new round may face.

During the three years since initial implementation of the Uruguay Round agreements, the record with respect to agriculture is mixed. The Uruguay Round's overall impact on agricultural trade can be considered positive in moving toward several key goals, including reducing agricultural export subsidies, establishing new rules for agricultural import policy, and agreeing on disciplines for sanitary and phytosanitary trade measures. The Uruguay Round Agreement on Agriculture (URAA) may also have contributed to a shift in domestic support of agriculture away from those practices with the largest potential to affect production and, therefore, to affect trade flows. However, significant reductions in most agricultural tariffs will have to await a future round of negotiations.

TARIFFS, INCENTIVES, AND SUBSIDIES

Prior to the Uruguay Round, trade in many agricultural products was unaffected by the tariff cuts that were made for industrial products in previous rounds. In the Uruguay Round, participating countries agreed to convert all nontariff agricultural trade barriers to tariffs (a process called "tariffication") and to reduce them. However, agricultural tariffs remain very high for some products in some countries, limiting the trade benefits to be derived from the new rules. To ensure that historical trade levels were maintained and to create some new trade opportunities where trade had been largely precluded by policies, countries instituted tariff-rate quotas. A tariff-rate quota applies a lower tariff to imports below a certain quantitative limit (quota) and permits a higher tariff on imported goods after the quota has been reached.

The Agreement on Agriculture required countries to reduce outlays on domestic policies that provide direct economic incentives to producers to increase resource use or production. All WTO member countries are meeting their commitments to reduce these outlays, and most countries reduced this type of support by more than the required amount. However, support from those domestic policies considered to have the least effect on production, such as domestic food aid, has increased from 1986-88 levels.

In the Agreement on Agriculture, 25 countries that employed export subsidies agreed to reduce the volume and value of their subsidized exports over a specified implementation period. To date, most of these countries have met their commitments, although some have found ways to circumvent them. The European Union (EU) is by far the largest user of export subsidies, accounting for 84 percent of subsidy outlays of the 25 countries in 1995 and 1996. Despite substantial progress in reducing export subsidies, rising world grain supplies and falling world grain prices will make it difficult for some countries to meet future commitments unless they adopt policy changes.

The Uruguay Round's SPS agreement imposed disciplines on the use of measures to protect human, animal, and plant life and health from foreign pests, diseases, and contaminants. The agreement can be credited with increasing the transparency of countries' SPS regulations and providing improved means for settling SPS-related trade disputes, including some important cases involving agricultural products. The agreement has also spurred regulatory reforms in some countries. The SPS agreement and the Agreement on Technical Barriers to Trade could provide a framework for disputes over genetically modified organisms (GMOs) brought to the WTO for arbitration.

CURRENT ISSUES

Changes made to the multilateral dispute resolution process in the Uruguay Round may be as important to agricultural trade as the improvement in the substantive rules governing trade in agricultural goods. Initial evidence indicates that the WTO dispute settlement system is a significant improvement over its GATT predecessor. For example, a single country can no longer block the formation of a dispute resolution panel or veto an adverse ruling by blocking the adoption of a panel report. These improvements have led to a number of important agricultural trade cases being adjudicated before the WTO. The outstanding question for the WTO is whether members whose practices have been successfully challenged under the new dispute settlement procedures will live up to their obligations.

Other agriculture-related issues, including a bid for membership by a large and diverse group of potential new WTO members, the challenge of dealing with state trading enterprises (STEs) within WTO disciplines, and issues particular to developing countries, will shape the agenda for future agricultural trade liberalization discussions. Thirty countries are currently seeking membership in the 134-member WTO. Countries seeking WTO membership accede under conditions negotiated with WTO members. Acceding countries benefit from WTO membership through privileged trade status with WTO members but may incur adjustment costs in reforming their trade policies and reducing tariffs to meet WTO requirements. Current WTO members gain greater access to the markets of acceding countries.

State trading enterprises, governmental and nongovernmental entities that have been granted special rights or privileges through which they can influence trade, continue to be important to the trade of agricultural commodities because many countries consider them to be an appropriate means to meet domestic agricultural policy objectives. Continuing concerns about the trade practices of state trading enterprises in some WTO member countries and the potential accession of China and other countries where STEs are prominent will keep STEs on the WTO agenda.

Developing countries received special treatment in the Uruguay Round, including less stringent disciplines in reforming their trade policies than those that apply to developed countries. In the next round of multilateral agricultural trade negotiations, developing countries will continue to have their own interests in the areas of special and differential treatment, export restraints, price stability, food security, food aid, and stock policies. As developing countries identify their positions, coalitions of countries with common trade interests may emerge. ❑

This article was excepted from a U.S. Department of Agriculture International Agriculture and Trade Report, *Agriculture and the WTO*, released in December 1998.

❑ THE URUGUAY ROUND AGREEMENT ON AGRICULTURE

The Uruguay Round Agreement on Agriculture (URAA) calls for the initiation of negotiations for continuing the process of agricultural trade reform in 1999. Article 20 of the agreement states that member countries of the World Trade Organization (WTO) recognize that the long-term objective of substantial progressive reductions in trade-distorting support and protection of agriculture resulting in fundamental reforms is an ongoing process. The 1999 agricultural negotiations set to begin November 30 in Seattle, Washington, are part of the built-in agenda of the WTO. The starting point for this year's formal agenda, yet to be developed, begins with the URAA. Here, then, is a summary of the URAA and the Agreement on the Application of Sanitary and Phytosanitary Measures.

The Uruguay Round Agreement on Agriculture, which entered into force in 1995 along with other Uruguay Round accords, including the agreement to establish the World Trade Organization, was an important step toward applying multilateral rules and disciplines to global agricultural trade. Most assessments of the agreement hail it as a historic shift in the way agriculture is dealt with in multilateral trade agreements. The agreement establishes new multilateral rules governing market access, export subsidies, and domestic support for agriculture. In terms of future trade liberalization, its most important provisions may be those requiring the elimination of quantitative trade restrictions and their conversion to bound tariffs. These bound tariffs, even if some of them are extremely high, can provide a starting point for future negotiations of tariff reductions.

MARKET ACCESS

The agreement requires all WTO members to convert nontariff trade barriers to tariffs and to reduce them by a simple average of 36 percent over six years (with a minimum tariff reduction per tariff line of 15 percent). The agreement prohibits the introduction of new nontariff barriers to trade. Where nontariff barriers restrict imports, the agreement requires that importing countries offer minimum access of usually 3 percent of consumption rising to 5 percent over the six-year implementation period for the agreement. Under the terms of the agreement, the United States converted quantitative restrictions such as its Section 22 import quotas to tariff-rate equivalents (TRQs). Similarly, the agreement requires the EU to convert its variable levies for agricultural imports to TRQs.

Most assessments of the agreement conclude that it provides little in the way of expanded access for agricultural products. Its importance lies in extending the principle (already applied to trade in industrial products) of protection by bound tariffs to agricultural trade and establishing at least a base for further tariff reductions in future negotiations.

EXPORT SUBSIDIES

The agreement requires that export subsidies be reduced by 21 percent in terms of quantities and by 36 percent in terms of budgetary outlays by the end of the six-year implementation period. WTO members may continue to use their existing export subsidies within the limits established, but may not introduce any new export subsidies. Both the United States and the EU must now operate their respective export subsidy programs in conformity with the export subsidy reduction commitments of the agreement.

DOMESTIC SUPPORT

The agreement also includes rules and commitments for domestic support. Domestic subsidies are to be cut by 20 percent from average levels of support aggregated across all commodities for the base period 1986-88. Support reduction commitments are also to be made over the six-year implementation period on the basis of this aggregate measure of support (AMS). Since U.S. and EU support spending was well under the agreement's limits, no reductions in support were required.

Trade policy experts contend that the rules established for domestic support policies are more important than the reduction commitments required. The agreement defines which domestic policies are permitted ("green box" policies), such as income support provided to farmers independently of participation in production-limiting programs, advisory services, or domestic food assistance.

Policies that are not eligible for the green box are automatically prohibited ("amber box" policies). U.S. deficiency payments as provided in the 1990 farm bill and EU compensatory payments as provided by the 1992 Common Agricultural Policy (CAP) reforms were excluded from the calculation of the AMS and put into a "blue box" of excluded programs. The 1996 farm bill, which more completely decouples U.S. farm support, effectively removes U.S. support from the blue box, leaving there only the EU's compensatory payments.

SANITARY AND PHYTOSANITARY MEASURES

An Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures reaffirms the right of WTO members to adopt and enforce measures that they deem appropriate to protect human, animal, or plant life or health as long as such measures are not applied in an "arbitrary and unjustified" manner. The agreement states that such measures may not be used as disguised barriers to trade. SPS measures may be based on international standards where they exist. WTO members could impose higher standards than those derived from these sources if based on scientific justification and risk assessment. All WTO members agree to recognize the equivalence of different standards that result in a comparable level of SPS protection. Dispute settlement panels should seek advice from relevant international organizations when scientific or technical matters are at issue.

The SPS Agreement, though binding on WTO members, is stated in broad language. Specifics will come from interpretation of the agreement and adjudication of sanitary and phytosanitary issues in WTO dispute settlement.

DISPUTE SETTLEMENT

New and strengthened dispute settlement procedures agreed to as part of the Uruguay Round also apply to disputes that may arise under either the Agreement on Agriculture or the SPS Agreement. An important change in WTO dispute settlement procedures is the elimination of a member's right to veto a dispute panel's decision and effectively block implementation of the panel's recommendations for resolving the dispute. Potentially this strengthens the ability of the WTO to enforce panel judgments. The right of WTO members to negotiate compensation rather than change its challenged policies remains in place, however. ❑

This article was adapted from a Congressional Research Service report for Congress, *Agriculture in the Next Round of Multilateral Trade Negotiations*, by Charles E. Hanrahan, senior specialist in agricultural policy in the Environment and Natural Resources Policy Division, March 13, 1998.

❑ THE LEVEL OF SUPPORT FOR AGRICULTURE IN OECD COUNTRIES

OECD annually publishes producer subsidy equivalent (PSE) statistics, which measure aggregate government assistance to farmers. The PSE is calculated by totaling the value of price supports, direct payments, and other transfers to producers of agricultural commodities. Percentage PSE is a measure of the rate of assistance to producers by calculating the PSE as a percentage of total production valued at internal prices.

OECD PRODUCER SUBSIDY EQUIVALENTS (PSEs) BY COUNTRY
("total PSE" in US$ millions, "percentage PSE" by percent)

	1986-88	1992-94	1995	1996(p)	1997(e)
Australia					
Total PSE	1,033	1,110	1,281	1,145	1,075
Percentage PSE	10	10	10	8	9
Canada					
Total PSE	5,839	4,814	3,934	3,797	3,135
Percentage PSE	42	31	22	22	20
European Union (1)					
Total PSE	67,822	79,851	91,742	82,181	72,682
Percentage PSE	48	48	49	43	42
Japan					
Total PSE	34,341	39,559	48,597	39,761	33,184
Percentage PSE	73	74	76	71	69
Switzerland					
Total PSE	4,405	5,203	5,833	5,428	4,572
Percentage PSE	79	80	79	77	76
United States					
Total PSE	32,532	26,348	17,344	22,614	22,791
Percentage PSE	30	21	13	15	16
OECD (2) (3)					
Total PSE	158,589	171,536	174,959	160,866	145,224
Percentage PSE	45	42	40	35	35

e = estimate; p = provisional.

Notes: 1. EU-12 for 1986-94, EU-15 from 1995. EU includes ex-GDR from 1990.
2. Austria, Finland, and Sweden are included in the OECD total for the 1986-94 period and in the EU for 1995-97.
3. Excludes Korea, the Czech Republic, Hungary, Mexico, and Poland.

Source: *Agricultural Policies in OECD Countries*, OECD Secretariat, 1998.

❑ TERMS: AGRICULTURE AND TRADE

Biotechnology — The use of microorganisms, live plant or animal cells, or their parts to create new products or to carry out biological processes aimed at genetic improvement.

Blue Box — Direct payments that are not subject to the commitment in the Uruguay Round Agreement on Agriculture (URAA) to reduce domestic support.

Border Protection — Any measure that acts to restrain imports at point of entry.

Codex Alimentarius Commission — A joint commission of the United Nations Food and Agriculture Organization (FAO) and the World Health Organization (WHO), comprised of some 146 member countries, created in 1962 to ensure consumer food safety, establish fair practices in food trade, and promote the development of international food standards. The nonbinding standards are published in the *Codex Alimentarius.*

Commodity Credit Corporation (CCC) — A U.S. government-owned and operated corporation responsible for financing major U.S. agricultural support programs.

Common Agricultural Policy (CAP) — The European Commission's comprehensive system of production targets and marketing mechanisms designed to manage agricultural trade within the EC and with the rest of the world. It is designed to increase farm productivity, stabilize markets, ensure a fair standard of living for farmers, guarantee regular supplies, and ensure reasonable prices for consumers.

Deficiency Payment — Direct payments by governments to producers of certain commodities based on the difference between a target price and the domestic market price or loan rate, whichever is less.

Dispute Settlement Body (DSB) — A body of the WTO General Council that creates panels of experts to examine and issue recommendations on trade disputes between nations. The DSB has the authority to accept or reject reports of panels and appellate bodies.

Dumping — Exporting goods at a price less than their normal value, generally meaning they are exported for less than they are sold for in the domestic market or third-country markets, or at less than production cost.

Export Enhancement Program (EEP) — A program of U.S. export subsidies given generally to compete with subsidized agricultural exports from the EC in certain export markets.

General Agreement on Tariffs and Trade (GATT) — Once both an institution located in Geneva and an agreement governing world trade, the GATT has been superseded as an international organization by the World Trade Organization (WTO). Originally signed in 1947, the GATT was updated in 1994 and is now incorporated into the WTO's rules on trade in goods.

Generalized System of Preferences (GSP) — Programs by developed and industrialized countries granting preferential tariffs to certain imports from designated developing countries that are largely duty free.

Green Box — Domestic or trade policies that are deemed to be minimally trade distorting and that are excluded from reduction commitments in the Uruguay Round Agreement on Agriculture.

Import Quota — A trade barrier that sets the maximum quantity or value of a commodity allowed to enter a country during a specified time period. The URAA requires the conversion of import quotas to tariff-rate quotas or bound tariff rates.

Internal Support — Measures that act to maintain producer prices at levels above those prevailing in international trade, such as direct payments to producers, including deficiency payments, and input and marketing cost reduction measures available only for agricultural production.

International Office of Epizootics — A body that develops international standards concerning animal health.

Most-Favored-Nation (MFN) Treatment — A fundamental principle incorporated into all WTO accords that a country will extend to another country the same custom and tariff treatment it applies to any third country.

National Treatment — The principle of giving others the same treatment as one's own nationals; that imports be treated no less favorably than domestically produced goods once they have passed customs.

Nontariff Barriers (NTBs) — Any restriction, charge, or policy, other than a tariff, that limits access of imported goods, such as quotas, import licensing systems, sanitary regulations, prohibitions.

Quantitative Restrictions (QRs) — Specific limits on the quantity or value of goods that can be imported (or exported) during a specific time period; the most familiar of the nontariff barriers.

Reference Price — The minimum import price for certain farm products under the CAP.

Rules of Origin — Laws, regulations, and administrative procedures that determine a product's country of origin.

Safeguard Measures — Action taken to protect a specific industry from an unexpected surge of imports.

Sanitary and Phytosanitary (SPS) Measures and Agreements — Government standards to protect human, animal, and plant life and health to help ensure that food is safe for consumption. They apply to all sanitary (relating to animals) and phytosanitary (relating to plants) SPS measures that may have a direct or indirect impact on international trade.

Schedule of Concessions — List of bound tariff rates.

Section 22 — A provision of permanent U.S. agricultural law that allows the president to impose import fees or import quotas to prevent imports from non-WTO member countries from undermining the price support and supply control objectives of domestic farm programs.

State Trading Enterprises (STEs) — Enterprises authorized to engage in trade (exporting or importing) that are owned, sanctioned, or otherwise supported by the government.

Subsidy — A direct or indirect benefit granted by a government for the production or distribution of a good or to supplement other services. Generally, subsidies are thought to be production and trade distorting, resulting in an inefficient use of resources. There are two general types of subsidies: export and domestic. An export subsidy is a benefit conferred on a firm by the government that is contingent on exports. A domestic subsidy is a benefit not directly linked to exports.

Tariff Binding — Commitment not to increase a rate of duty beyond an agreed level. Once a rate of duty is bound, it may not be raised without compensating the affected parties.

Tariff-Rate Quota (TRQ) — A trade policy tool used to protect a domestically produced product from competitive imports. A TRQ applies a lower tariff to imports below a certain quantitative limit (quota) and permits a higher tariff on imported goods after the quota has been reached.

Tariffication — The process of converting all nontariff agricultural trade barriers to tariffs and reducing the tariffs over time.

Transparency — Degree to which trade policies and practices, and the process by which they are established, are open and predictable.

Variable Tariff — An import tax that varies in order to assure that an import price, after payment of the levy, will equal a predetermined minimum import price.

Voluntary Restraint Arrangements (VRAs), Voluntary Export Restraints (VERs), Orderly Marketing Arrangements (OMAs) — Bilateral arrangements whereby an exporting country (government or industry) agrees to reduce or restrict exports without the importing country having to make use of quotas, tariffs, or other import controls.

Sources: The World Trade Organization, U.S. Department of Agriculture, U.S. Department of Commerce, and the Congressional Research Service.

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U.S. Department of Agriculture (USDA)
Foreign Agricultural Service
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Key telephone numbers:
Foreign Agricultural Service (202) 720-7115
Animal and Plant Health Inspection Service (202) 720-2511
Economic Research Service (202) 219-0515
http://www.fas.usda.gov/

Office of the U.S. Trade Representative
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http://www.ustr.gov/

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http://www.cgiar.org/

U.S. Department of Health and Human Services
Food and Drug Administration
Center for Food Safety and Applied Nutrition
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Telephone: (202) 205-4943
http://vm.cfsan.fda.gov/list.html

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Key telephone numbers:
Bureau of Economic and Business Affairs (202) 647-7575
Office of Agricultural and Textile Trade Affairs (202) 647-3090
http://www.state.gov/www/issues/economic/index.html

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E-mail: ifpri@cgiar.org
http://www.cgiar.org/ifpri/2index.HTM

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The Common Agricultural Policy:
http://europa.eu.int/en/eupol/newcapen.htm

International Fund for Agricultural Development
http://www.ifad.org/

Organization for Economic Cooperation and Development
http://www.oecd.org/agr/

United Nations Food and Agriculture Organization
http://www.fao.org/

World Trade Organization (Agricultural Issues)
http://www.wto.org/wto/goods/sps.htm
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CALENDAR OF ECONOMIC EVENTS

May 12	U.S.-EU Ministerial Meeting, Berlin
May 17	World Telecommunications Day
May 21-23	G-8 Sherpa Plenary Meeting, Bonn, Germany
May 24-28	International Whaling Commission Annual Meeting, Grenada
May 24-25	International Energy Agency Ministerial, Paris, France
May 26-27	Organization for Economic Cooperation and Development Ministerial, Paris, France
Jun 1-17	International Labor Organization Conference, Geneva, Switzerland
Jun 9-10	G-8 Foreign Ministers Meeting, Cologne Germany
Jun 12	G-8 Ministerial Meeting, Cologue Germany
Jun 18-20	G-8 Summit, Cologne, Germany
Jun 21	U.S.-EU Summit, Bonn, Germany
Jun 28-30	APEC Trade Ministerial, Auckland, New Zealand
Sep 9-10	APEC Ministerial, Auckland, New Zealand
Sep 12-13	APEC Economic Leaders Meeting, Auckland, New Zealand
Sep 14-16	Western Hemispheric Transportation Ministerial, New Orleans
Sep 14-16	WIPO Conference on Intellectual Property and Electronic Commerce, Geneva, Switzerland
Sep 27	International Atomic Energy Agency General Conference, Vienna, Austria
Sep 28-30	World Bank and International Monetary Fund 54th Annual Meeting, Washington, D.C.
Oct 10-15	9th International Anti-Corruption Conference, Durban, South Africa
Oct 16	World Food Day
Oct 25-29	CGIAR International Centers Week, Washington, D.C.
Nov 30	Ministerial Conference of the World Trade Organization, Seattle, Washington

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Agriculture

The United States and the 1999 WTO Ministerial Meeting

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Reforming State Enterprises • Improving Market Access

May 1999