Multilateral Trade Reform in Agriculture and the Developing Countries

Trinity Economic Paper Series
Paper No. 2000/10

JEL Classification: F13, Q17

Alan Matthews
Jean Monnet Professor of European Agricultural Policy
Department of Economics
Trinity College
Dublin 2, Ireland
Alan.Matthews@tcd.ie

Abstract

A further round of negotiations on agricultural trade liberalisation began in the WTO in March 2000. This paper discusses the interests of developing countries in these negotiations. Compared to the developed countries, developing countries have relatively few 'rights' to agricultural support under the Uruguay Round Agreement on Agriculture and thus have an interest in pressing for a significant tightening of agricultural support disciplines. On the other hand, food importing and least developed countries wish to retain the maximum amount of flexibility to pursue domestic food security and rural development policies and are concerned about the possible negative effects of higher world food prices resulting from a reduction in developed country agricultural support. An important aspect of the negotiations is the extent to which developing countries will be able to, or should, rely on special and differential treatment to reconcile these differences. Developing countries need significant technical and financial assistance to enable them to participate in the negotiations in a meaningful way.

Acknowledgements

An earlier version of this paper was read to the 2000 Annual Conference of the ESRC Development Economics Study Group in conjunction with the DSA Trade and Industry Study Group held at CREDIT, School of Economics, University of Nottingham, 27-29 March 2000.

Introduction

The ratification of the Uruguay Round Agreement on Agriculture (URAA) as part of the WTO Agreement in Marrakesh in April 1994 was a significant step towards the objective of a progressive reduction in support and greater market orientation in agricultural trade. While agricultural trade continues to be treated differently from trade in manufactured goods, the Agreement introduced disciplines in three main areas of market access, export subsidies and domestic support. In addition, the rules on non-tariff barriers to trade contained in the Technical Barriers to Trade (TBT) Agreement were supplemented, in the case of trade in food, plants and animals, by the Agreement on Sanitary and Phytosanitary Standards (SPS). However, the negotiators themselves realised that they had taken just a first step. Article 20 of the URAA mandated a further round of agricultural trade negotiations to begin one year before the conclusion of the implementation period. These negotiations are to take into account the experience to that date from implementing the reduction commitments; the effects of these commitments on world trade in agriculture; non-trade concerns; special and differential treatment of developing country Members; the objective to establish a fair and market-oriented agricultural trading system; and other objectives and concerns mentioned in the preamble to the Agriculture Agreement. These latter include food security and the need to protect the environment, as well as to take account of possible negative effects of the implementation of the reform programme on least-developed and net food-importing developing countries.

Following the abortive attempt to launch a comprehensive round of global trade negotiations in Seattle in November 1999, the agricultural negotiations were formally initiated in Geneva in March 2000. Starting a new round is not the same as completing it. Ambitious deadlines, such as the desire by some countries to complete the talks successfully within three years, may not be met. Indeed, it may not prove possible to reach an agreement within the confines of the agricultural trade negotiations alone. The argument for a comprehensive round is that it ensures the maximum scope for tradeoffs with other areas of negotiation. Even if agreement to widen the agenda is reached, however, agriculture remains one of the most important sectors for developing countries in the next negotiations.

This paper seeks to identify the interests of developing countries in the new agricultural round.[1] Developing countries are affected both directly and indirectly by agricultural policy reform. Direct effects arise due to restrictions placed on their own policy autonomy. Thus, developing countries will be expected to take on further obligations to limit tariff protection and domestic support, modified perhaps by the principle of special and differential treatment (SDT). Indirect effects arise from the consequences of policy changes undertaken by other countries. These include the prospect of higher agricultural export earnings due to increased market access, the terms of trade effect of higher food prices, any effects on world price stability due to tariffication and, for some countries, the loss of the value of preferences as agricultural support is wound down. Developing country exporters[2] and developing country food importers will be affected differently by these impacts and will not necessarily share the same approach to the negotiations. An important issue is to what extent special and differential treatment should be pursued in order to reconcile the conflicting interests of these two groups.

The importance of agricultural policy reform to developing countries

A number of commentators (Anderson, Hoekman and Strutt 1999, Anderson 1999, Binswanger and Lutz 1999) have argued that continued agricultural policy reform should be the primary focus of developing countries in the next Round. This conclusion is reached on the basis of model simulations showing that the greatest welfare gains to

[1] There is already a growing literature on this issue, for example, Anderson (1999), Hoekman and Anderson (1999), Anderson, Erwidodo and Ingco (1999), Tangermann and Josling (1999), Stevens (1999) and Binswanger and Lutz (1999). A useful set of papers was presented at the FAO Symposium on Agriculture, Trade and Food Security: Issues and Options in the Forthcoming WTO Neogtiations from the Perspective of Developing Countries in September 1999 (http://www.fao.org/ur/geneva.htm). The FAO website on Agricultural Trade designed to provide information on the technical assistance that FAO can provide to developing countries in building their capacity to deal with trade related issues is a valuable source of current information (http://www.fao.org/ur). See also the papers presented at the 1999 Global Conference of the Trade and Development Centre in Geneva on "Agriculture and the New Trade Agenda from a Development Perspective: Interests and Options in the WTO 2000 Negotiations" (abstracts but not full papers can be downloaded from http://www.itd.org/wb/ag_conf.htm). This paper has benefited from my involvement in helping to edit a forthcoming FAO Resource Manual on the Multilateral Trade Negotiations in Agriculture intended to assist officials from developing countries to better understand and prepare for the negotiations.

developing countries from trade liberalisation arise in the agriculture and food sector. The simulations are run using the GTAP Global Trade Analysis Project model (Hertel 1997) which has a very detailed database containing not only production and trade flows but also policy interventions. Results using two versions of the model, one using the Version 3 database based on 1992 data and the other using the Version 4 database based on 1995 data, are presented in Tables 1 and 2. In each case, the simulation is based on comparing the results of removing all trade distortions in 2005 to a base run of the model projecting the global economy forward to 2005 assuming the continuation of post-Uruguay Round trade interventions. In either case, the model results suggest global welfare would be greater by US$260 billion per year.[3] This is undoubtedly an underestimate of the aggregate gains from trade liberalisation for a number of reasons. Liberalisation in services trade and government procurement policies is excluded; no account is taken of the benefits of increasing the degree of competition and the scope for scale economies; and the dynamic effects of reform are not captured. On the assumption, however, that these omissions may not greatly affect the *relative* gains from reforming the various markets for *goods*, the authors focus on the relative contribution from liberalising different sectors.

Although the two versions of the simulation produce the same aggregate welfare gain, the distribution of this gain across regions and sectors is quite different. Using Version 3 of the database, the lion's share of the gains accrue to the developed economies while Version 4 shows a more balanced distribution, with absolute gains to developing countries more than double those projected in Version 3 and amounting to US$108 billion. As is usual in these simulations, most of the gain arises from a region's *own* liberalisation. Using Version 3, around one-third (32 per cent) of the estimated global gains from goods trade liberalisation would come from agricultural reform in OECD countries – this increases to almost half (48 per cent) using Version 4.

---

[2] Eleven of the fourteen members of the Cairns Group of agricultural exporters are developing countries. They are: Argentina, Brazil, Chile, Colombia, Fiji, Indonesia, Malaysia, Paraguay, Thailand, Uruguay and South Africa. The developed country members are Australia, Canada and New Zealand.

[3] This similarity is a pure coincidence as the policy interventions included in the Version 4 database are different to those in the Version 3 database. Note also that the results using GTAP Version 3 are in 1992 US dollars and using Version 4 are in 1995 US dollars. No attempt was made to adjust the figures to a common base as the differences are not significant in the context of the argument being made in the text.

The developing countries' stake in continued farm policy reform is shown by the contribution of OECD agricultural policy liberalisation to their overall welfare gain. In the Version 3 simulation, this contribution amounts to 44 per cent of their gain from the removal of all global goods trade distortions, or nearly as much as the 58 per cent contribution made by eliminating their own trade-distortionary policies. More detail is available from the Version 4 results. Here farm trade reform in the OECD countries contributes just over one-quarter of the total welfare gains to developing countries from developed countries liberalising their merchandise trade (US$12bn of the total US$43bn).

If developing countries were also to liberalise their agricultural policies, they would reap three quarters of the benefits (US$31bn of the agricultural policy reform gain of US$43bn), and those policies would contribute almost half of the gains from these countries' overall merchandise trade reform (US$31bn of the US$65bn total). Taking both sets of distortions together, farm and food policies globally contribute 40 per cent (US$43) of the US$108bn cost to developing economies of global goods trade distortions. Hence the conclusion that developing countries as a group have a major stake in continuing the process of farm policy reform (Anderson 1999).[4] This conclusion may exaggerate the importance of the WTO negotiations insofar as the developing countries' own reform gains could be obtained through unilateral action. One of the issues for developing countries in these negotiations is how far to push for exemptions and special treatment, knowing that the freedom to intervene in their domestic agricultural markets can potentially lead to incurring high costs.

[4] Note that the removal of OECD barriers to 'other manufactures' in Version 3 of the GTAP model benefits OECD countries but actually damages developing countries. The reason is that those trade restrictions lower international prices for these products, thereby improving the terms of trade of developing countries. However, using Version 4 of the GTAP model suggests that removing these restrictions damages OECD countries while benefiting developing countries. Such differences in the results of an essentially similar simulation from the same model tend to undermine the overall credibility of the results. Another issue is that, in many developing countries, positive nominal protection to agricultural producers may serve to offset the negative impact of real exchange rate overvaluation. The benefits of agricultural policy reform assume that protection to the manufacturing sector is also removed.

Market access

Prior to the Uruguay Round, only 55 per cent of agricultural tariffs in developed countries and 18 per cent in developing countries were bound. Furthermore, tariff barriers were reinforced by the widespread use of non-tariff barriers (variable import levies, quotas, minimum import prices, voluntary export restraints, etc.). The URAA mandated the tariffication of all previous agricultural trade barriers at the existing level of protection, the binding of these tariffs and their reduction by an average 36 per cent over the six-year implementation period. Progress was also made in reducing tariffs on tropical agricultural exports though tariff escalation remains a problem.

Developing countries were allowed the option of binding "ceiling tariffs" which could be set at whatever level they choose and did not have to be based on tariff equivalent calculations. Furthermore, they were only required to reduce these bindings by an average 21 per cent over a ten-year period (or not at all in the case of LLDCs). Many choose quite high levels even though, in practice, applied tariffs are often much lower. Bound tariff levels set by the developed countries were also in practice set higher than their tariff equivalents would justify, a phenomenon known as 'dirty tariffication .[5] Developed countries also made use of the fact that, whereas the (unweighted) average tariff cut had to be 36 per cent, the minimum cut required on individual tariffs was only 15 per cent. As a result, average bound tariff levels on agricultural products remain much higher than on manufactured goods and in some cases reach well into three digits (Tables 3 and 4). Furthermore, because of the possibility to vary applied tariffs within the bound ceiling, much of the gain in terms of greater price stability expected from tariffication has not been achieved.

An important issue in the new round will be how to reduce bound tariffs closer to applied tariff levels, and in turn to reduce applied tariff levels on agricultural products closer to those prevailing on industrial goods. Developing country agricultural exporters would like to make speedy progress in this direction. The two key issues are the average size of any tariff reduction and the formula which is used to achieve this average.

[5] It is claimed that the EU set its tariff equivalents on average about 60 per cent above the actual tariff equivalents in 1989-93, and the US about 45 per cent above its applied rates. Thus actual tariffs provide as much protection at the end of the Uruguay Round as did non-tariff barriers in the late 1980s/early 1990s (Ingco 1996).

Countries may decide to follow the UR precedent of setting an average reduction target and allowing countries to meet this target by implementing lower reductions for some commodities compensated by higher tariff cuts for others. This option would likely exacerbate the existing dispersion of tariff rates across commodities. If it were followed, the case should be made at least to replace an unweighted average target by a weighted one. An across-the-board linear reduction would leave many of the existing tariff peaks in agriculture. An attractive option would be to attempt to harmonise tariff rates, for example, based on the Swiss formula which was used in the Tokyo Round to harmonise tariff peaks on industrial products left as a result of the linear formula used in the Kennedy Round.[6] The point of the Swiss formula is that it leads to greater percentage reductions in higher tariffs than in lower ones.

Some exporters with preferential access to protected markets would experience losses from further tariff reductions in OECD markets, although these would have to be weighed against the potential gains from improved market access in other products and in other markets. Some compensation for the erosion of these rents could be provided if the tariff reductions were accompanied by increased market access (see the discussion on TRQs below) so that efficient exporters could recoup some of their losses through increased sales. Further compensation could be provided if preferential access terms under the Generalised System of Preferences were included in countries' Schedules in the next round, as was rarely the case in the Uruguay Round. At present, GSP tariff concessions to developing countries are offered unilaterally by the developed countries and can be altered or withdrawn at their discretion.

Developing country importers will be less enthusiastic about pursuing large cuts in agricultural bound tariffs, despite the conclusions of the model simulations which suggest that this is the most important route to significant gains. The continuation of special and differential treatment allowing developing countries to commit to a smaller percentage tariff reduction over a longer time period may again be necessary to obtain their support. For some countries, the loss of tariff revenue will be a consideration.

---

[6] The Swiss formula is $T_n = (a_{max} * T_0)/(a_{max} + T_0)$ where T_0 is the original tariff, T_n is the new tariff and a_{max} is the upper bound on all resulting tariffs. With $a_{max} = 50$, an initial tariff of 40 per cent would be reduced to 22 per cent.

Although few of them make use of the full extent of the protection permitted in their Schedules, high ceilings have the further advantage that countries are not constrained in altering tariff rates in order to stabilise domestic farm prices in the face of low world prices. While the abolition of variable protection should, in theory, lead to more stable world prices, developing countries will be reluctant to forego this instrument until they have more confidence in the stability of the world market. Thus, there may be a case in the next round that the use of variable tariff (price band) schemes might be placed under SDT and only allowed to developing countries (Tangermann and Josling 1999).

Countries which have undertake tariffication have a right to make use of the Special Safeguard (SSG) Clause for commodities which have been designated in a country's Schedule as a product for which SSG can be invoked. It establishes conditions which allow temporary duty increases above the bound levels based on either a price-based or a quantity-based trigger. In practice, it has been little used to date. As it is something which can only be used by countries which have undergone tariffication (i.e. developed countries), developing countries have no interest in seeing it extended in its present form. However, because of the difficulties and delays involved in using the general GATT safeguard clause, generalising its use to trade in basic foodstuffs would be attractive to some developing countries which are concerned about the consequences of very low prices on world markets.

Tariff rate quotas

Because it was foreseen that tariffication on its own, even with the 36 percent average reduction in bound tariffs, might not create much additional market access, the URAA introduced tariff rate quotas (TRQs) in those situations where tariffs replaced non-tariff barriers. The TRQ quantities are set at 5 per cent of domestic consumption at the end of the implementation period (4 per cent for developing countries), while current access quotas were bound at their 1986-88 levels. TRQs are mainly a feature of developed country schedules because few developing countries engaged in tariffication. The value of this provision in creating *new* market access was reduced by strategies under which importing countries allocated TRQs to traditional suppliers. The effect has been to favour some sources of supply over others in access to regulated markets applying TRQs.

Furthermore, not all available TRQs are utilised. WTO figures show rates just over 60 per cent for both 1995 and 1996 for all agricultural products for which TRQs were opened.

Some commentators have expressed alarm at the emergence of TRQs, fearing the emergence of a 'multilateral food arrangement' in which agricultural trade flows largely occur in the context of bilateral quotas, just as under the Multilateral Fibre Arrangement (Anderson 1999). This seems an unduly pessimistic perspective, insofar as out-of-quota trade continues to be permitted, albeit facing high and sometimes punitive tariffs. Also, the total volume of TRQ trade in 1995 typically ranged between 3 and 7 per cent of world trade although, for some commodities, e.g. dairy, meat products and sugar, this level exceeded 10 per cent.

In addition to reducing bound tariff rates, expanding TRQs provides an alternative route to increasing market access in the next round. As suggested above, this is also a way in which developing country exporters who benefit from preferential current access terms might be compensated for a reduction in quota rents. In-quota tariff rates were determined arbitrarily by importing countries at whatever rate the importing country thought would be sufficient to achieve the minimum access guaranteed. There are significant discrepancies across countries and greater consistency in the rules could be applied. Developing country exporters also have an interest in much greater transparency in the administration of these quotas. A wide variety of methods are currently used, including first come first served, auctioning, historical shares, and imports undertaken by state enterprises. While agreement on a single method might be difficult, the effects of alternative allocation rules on developing countries need further investigation. The role of state trading enterprises in determining how much to import has also come under the spotlight, with some suggestions that state trading importers should be required to *guarantee* market access (in contrast, the TRQs only provide a right to import at a lower tariff).

Export subsidies

Developed countries agreed to reduce by 36 per cent the *value* of export subsidies from their 1986-90 base level and to cut the *quantity* of subsidised exports by 21 per cent over

six years. For developing countries, the reduction commitments are two-thirds of those applying to developed countries, and the implementation period is extended to ten years. No reductions were required to be made by LLDCs. Equally important, the URAA prohibits the use of new export subsidies where they are not reported in a country's Schedule as having existed in the base period. As only ten developing countries reported using export subsidies in the base period, their use in future is generally not an option open to them. *Bona fide* food aid is excluded from these disciplines.

Options for further disciplines on export subsidies include (a) their complete abolition or (b) a continuation of the UR strategy of progressive reduction. Because export subsidies are a feature of developed country agriculture (the EU alone accounts for around 85 per cent of the total by value), all developing countries should be in favour of their abolition. However, some importing developing countries may feel that they currently benefit from the EU's export subsidies through access to cheaper imports. These benefits, though, are very unreliable. Export subsidies are high when world food prices are low anyway, and disappear when world food prices are high when food-importing countries have most need of support (Josling and Tangermann 1999). If export subsidies persist in the next round, Stevens (1999) points to the danger that some developing countries would continue to face competition at prices below market-clearing levels. He argues that, in these circumstances, developing countries would continue to need some mechanism to protect themselves against 'dumping' prices, either in the form of access to the Special Safeguard Clause or the retention of relatively high bound tariffs on temperate agricultural products.

In the URAA the provision of export credits was defined as a form of export subsidy, but it did not prove possible to agree on constraints. Within the OECD, countries have negotiated a code for non-agricultural export credits which puts limits on credit terms and the length of credit extension but agriculture is not included in this agreement. The obvious way to deal with this is to define allowable credit terms and to charge more generous terms against a country's export subsidies schedule. Again, some importing developing countries may feel they benefit from the availability of these credits and may be reluctant to agree to a tightening of the rules, unless a more effective mechanism to protect them from food price increases in the future can be agreed. Further

export subsidy issues include the role of state trading exporters (single desk sellers) given the potential for cross-subsidisation and the role of two-price schemes (such as the EU's sugar regime) where high consumer support on the domestic market may indirectly cross-subsidise exports to the world market.

The converse of export subsidies – export taxes and controls – received relatively little attention in the Uruguay Round. But there is an inconsistency in expecting importers to open their markets to trade and then withholding exports from the market in times of shortage. Article XI of GATT 1947 prohibits quantitative export restrictions but makes an explicit exception for "export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party". Article 12 of the URAA tightens this a little by calling on Members, with respect to *new* restrictions on foodstuffs, to give "due consideration" to the food security concerns of importing countries and requires adequate notice and consultation prior to implementation. Developing countries are exempt from these provisions unless they are regular food exporters. Export taxes are deemed innocuous. In 1995/96, the EU imposed export taxes on wheat to limit the rise in domestic prices. Food importing developing countries may seek a tightening up of these rules, although those developing countries where export taxes are an important source of revenue may have a different view.

Domestic supports

One of the significant achievements of the Uruguay Round was the recognition that production subsidies to agriculture constituted a potential trade distortion and thus should be regulated in the Agreement on Agriculture. The URAA created a qualitative classification of different types of domestic subsidies and, for the most trade-distorting types of support, established schedules of commitments reducing these subsidies.

Domestic subsidies are divided into three types. Those which are exempt from reduction because they are deemed to be non-, or minimally, trade-distorting are placed in the Green Box. Such supports include publicly-financed R&D, early retirement schemes for farmers and payments for long-term land retirement. Under SDT provisions, developing countries are also allowed to exempt from reduction commitments investment

subsidies generally available to agriculture; agricultural input subsidies generally available to low-income or resource-poor developing country producers; and anti-narcotic diversification incentives. A further category of schemes exempt from reduction mainly of interest to developed countries comprising direct payments under 'production limiting' programmes was placed in the Blue Box.

Remaining subsidies must be counted towards a country's Aggregate Measure of Support unless exempted under *de minimis* provisions. These allow support for a particular product to be exempted if that support is not greater than 5 per cent of its value of production (10 per cent for developing countries) or non-product specific support if it is less than 5 per cent of the total value of agricultural production (10 per cent for developing countries). The remaining support included in a country's Base Aggregate Measure of Support (AMS) was to be reduced by 20 percent over a six year period. This reduction commitment was 13.3 per cent over a ten year period for developing countries and zero for the LLDCs.

The main concern of developing countries under this heading is that their commitments should not make it more difficult to pursue desired food security and rural development policies. Only 20 developing countries reported positive Total Base AMS and, of these, only 12 reported Total Base AMS above the 10 per cent *de minimis* allowed (FAO Commodity Policy and Projections Section, 1999). Thus, for the great majority of developing countries, their ability to provide direct subsidies to agriculture in future will depend either on these being exempt under the SDT or *de minimis* provisions. A further issue of interest to some developing countries is whether negative AMS (where domestic prices are below external reference prices) could be explicitly set off against positive AMS. The Agreement does not discipline taxation of production and negative AMS is ignored in calculating the AMS level. Stevens (1999) quotes the example of India which, because of consumer price controls, had a negative product-specific AMS for the base period but offset by a smaller expenditure on non-product specific support in the form of input subsidies. Although this expenditure amounts to 7.5 per cent of the total value of production, it only offsets part of the negative AMS. Nonetheless, because India has no AMS commitments, these input subsidies are only exempted by the *de minimis* provisions and are subject to a ceiling of 10 per cent. Stevens points out that the URAA

could restrict India's preferred instrument of agricultural support. Of course, those who would question the wisdom of widespread price controls offset by subsidised inputs argue that weakening the URAA disciplines would simply make it easier for countries in the future to pursue mistaken policies of this kind.

Some developed countries are also interested in ensuring that the URAA disciplines on domestic support do not inhibit pursuit of their non-trade concerns, in this instance, environmental benefits from agricultural production and the maintenance of the countryside. The EU, among others, would like to see the 'multifunctionality' of agriculture recognised and production-linked support allowed where it is targeted on these objectives. Developing countries are unlikely to have the budgetary resources to embark on such programmes and should be wary of allowing the developed countries to proceed down this route. Some existing payments of this kind (e.g. the EU's agri-environment scheme) appear to compensate farmers for adopting less environmentally damaging production practices in a reversal of the polluter-pays principle. More generally, opening the opportunity for production-linked subsidies may simply result in the replacement of one category of trade-distorting measures by another.

Negative effects of reform on least developed and net food importing countries

To deal with the potential adverse indirect effects of higher world market food prices on low income and net food importing countries, the URAA was accompanied by a *Decision on Measures Concerning The Possible Negative Effects of the Reform Programme on Least-Developed Countries (LLDCs) and Net Food-Importing Developing Countries (NFIDCs)*. The main problem addressed by the *Decision* is the fear that the LLDCs and NFIDCs may face difficulty in accessing adequate supplies of basic foodstuffs from external sources on reasonable terms, including financing. It mentions four specific responses to this difficulty: food aid; favourable treatment with export credits; concessional financing for food imports; and technical and financial assistance to increase agricultural productivity and production.

Few practical consequences have followed from the *Decision* to date, reflecting its non-legally-binding nature. In the case of food aid, a new Food Aid Convention

(FAC) was concluded in 1999 which actually lowered the minimum guaranteed quantities donors intend to provide. On export credits, no agreement has been reached on how assistance might be provided. As regards financing facilities, the *Decision* recognises that the two groups of countries facing difficulties "may be eligible to draw on the resources" of existing facilities of the international financial institutions, or such new facilities as may be established. But most of the *Decision* countries already have access to these resources, and there has been no enthusiasm to set up a further facility. In any case, encouraging already heavily-indebted countries to borrow further to finance food imports hardly makes sense. Finally, on aid programmes, the *Decision* does not bind any country nor give any specific guideline on how "full consideration" is to be given to requests for technical and financial assistance to improve their agricultural productivity and infrastructure.

Some improvement in what is on offer to these countries will be a necessary ingredient to gain their support in the next round. Some countries would like eligibility for assistance to become automatic when world market prices rise above a certain level. On food aid, one of the criticisms of present policies is the tendency for food aid volumes to decrease when world prices increase and anticipated needs are greatest. Specific possibilities for improvement include writing food aid commitments, and indeed technical and financial assistance commitments, into country Schedules rather than leaving them simply as exhortations as at present.

SPS Agreement

While the thrust of the URAA is to reduce regulation of agri-food markets, concern over food safety and health issues is behind the growth of a new kind of regulation. Sanitary and phytosanitary standards can potentially erect formidable barriers to market access. Attempts were made to limit the trade distorting effects of sanitary and phytosanitary (SPS) measures and technical requirements through the WTO's SPS and Technical Barriers to Trade (TBT) Agreements. The SPS Agreement applies to standards and regulations for aspects related to health of plants, animals and humans. The TBT Agreement applies to all other technical regulations and standards, including packaging,

marks and labelling, as well as to matters such as methods of production. A separate agreement deals with intellectual property rights.

The SPS Agreement lays down general principles (national treatment, scientific proof, harmonisation, equivalence and mutual recognition, proportionality and risk assessment, transparency) which should be met when SPS measures which impact on international trade are taken. The use of international standards is encouraged. Countries can maintain a level of protection higher than international norms if there is a scientific justification (Art 3) and provided that a risk assessment justifying the measure is carried out (Art 5).

An important issue relates to where scientific evidence is not yet conclusive. Art 5.7 of the SPS Agreement allows temporary measures when scientific evidence is insufficient and requires that additional information be sought. There is pressure to extend this recognition of the precautionary principle to allow an import restriction indefinitely where scientific advice is conflicting. Another issue concerns the role, if any, to be given to consumer concerns where these are not supported by scientific proof.

Dispute settlement panel rulings are making an important contribution to the interpretation of the principles of this Agreement. An important point of principle was established when the original panel in the beef hormones dispute held that the burden of scientific proof is on the Member imposing a measure which is not based on international standards. The Appellate Body reversed this conclusion and required the complainant to prove that a technique is safe, which is a much harder requirement. It also required that weight should be given to qualified scientific opinion even where this is currently a minority opinion (Mahé and Ortalo-Magne, 1999).

The recent agreement on a Biosafety Protocol under the Convention on Biological Diversity in Montreal, Canada in January 2000 tries to further define the rules to apply in this vexed area. The Protocol is designed to regulate the international transport and release of genetically modified organisms to protect natural biological diversity. The treaty allows the labelling of products that have been developed from biotech organisms. While mandatory labelling has not been required, products will say that they "may contain" genetically modified ingredients. It also permits countries to block the entry of genetically modified organisms if there is "reasonable doubt" that there could be risks to

public health or the environment. The biosafety protocol must be ratified by 50 countries that have already signed the Convention on Biological Diversity before it comes into force.[7]

The relationship between WTO rules and the new protocol were deliberately left vague. No one can predict at this point what might happen if a biotech trade dispute goes to the WTO for resolution. Some countries argue that the WTO cannot ignore the protocol if a country follows its rules and blocks an import. Other countries argue that countries participating in the negotiation had no intention of using the Protocol to alter their existing international rights and obligations. They point to a savings clause which states: "This Protocol shall not be interpreted as implying a change in the rights and obligations of a Party under any existing international agreement."

SPS measures can be an important trade barrier for developing countries. Attempts by developing countries to seek exemptions from justified public health measures would be unwise. However, they have an interest in rules which prevent arbitrary, unjustified or unnecessary measures being put in place. A difficulty for developing countries is that they may not have the capacity or resources to participate in setting the international standards which are used as the basis for the SPS agreement. They may not have the scientific capacity to undertake the necessary risk assessments when faced with a decision on whether to allow the import of particular product into their own territories. They may face difficulties in persuading importing countries to accept conformity assessment procedures undertaken by their domestic institutions. Alternatively, their institutions may not be able to perform such assessments without imposing significant burdens on trade (Hoekman and Anderson 1999). There is a huge task here for institution-building and technical assistance in order to make the SPS Agreement work for developing countries.

Agricultural trade and the environment

The SPS Agreement deals with product standards, or characteristics that products must have for consumption. Environmental standards are classified more frequently as

[7] Because the U.S. Senate has not ratified the Convention, the United States had no official standing in Montreal and technically is not bound to honour the new protocol.

process and production method (PPM) standards, which stipulate how goods should be produced. Process standards impose norms regarding emission and pollution levels, e.g. norms relating to the maximum permissible levels for the discharge of effluents into water. Examples of production method standards include regulations governing management practices for forest resources, norms that should be used in catching fish, methods used for fattening animals intended for slaughter, technologies for enhancing the milking capacities of dairy animals, and methods used for killing animals for food. GATT rules treat product and PPM standards in a fundamentally different way. Article III, which requires national treatment for like products, has been interpreted to mean that non-product related PPMs – where the process used in production is not detectable in the end product – cannot be used to distinguish between products and thus provide a basis for discriminatory treatment.

For example, countries are entitled to implement pesticide residue and food additive limits, but under Article III and the SPS Agreement cannot apply different rules to imported products than they do to their own. However, if an exporting country uses a pesticide banned in the importing country and provided no residues are found, the importing country cannot restrict imports on the grounds of its use alone.

On the other hand, Article XX of GATT recognises that there may be tensions between a liberal trading system and other important societal policy objectives and provides for exceptions to the core GATT obligations for specified reasons.

The relevant provisions of Article XX state:

"*General Exceptions*

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:

…

(b) necessary to protect human, animal or plant life or health;

…

(g) relating to the conservation of exhaustible natural resources, if such measures are made effective in conjunction with restrictions on domestic production or consumption; … ”

Article XX is now interpreted as requiring a two tier test. First, whether the restrictive trade measure is justified in terms of one of the exceptions set in the numbered paragraphs in the Article. Second, if the measure is covered by one of the sub-paragraphs, then it must meet the conditions in the introductory paragraph of Article XX which are designed to prevent the abuse of the exceptions.

Until recently, the main jurisprudence in this area was the Mexican *tuna-dolphin* case. US legislation set dolphin protection standards for the US tuna fishing fleet and required countries exporting tuna to the US to follow the dolphin protection standards set down in US law or face an import ban. A GATT panel ruled that the US could not ban import of tuna products from Mexico simply because Mexican regulations on the way the tuna was produced did not satisfy US regulations.

However, since the ratification of the WTO Agreement which explicitly incorporated reference to sustainable development into its Preamble, the interpretation of the GATT provisions has changed, particularly in the hands of the Appellate Body. The *turtle-shrimp* case considered US regulations which required all domestic shrimp trawl vessels to use approved Turtle Exclusion Devices where there is a likelihood that shrimp harvesting might threaten sea turtles, and which imposed an import ban on shrimp from exporting nations that failed to achieve US certification regarding their shrimp harvesting methods. The WTO Appellate Body found that the US ban was within the scope of measures permitted under Article XX to protect exhaustible natural resources, but struck it down because it failed to meet the requirements of the introductory paragraph to that Article that the measures must not constitute an arbitrary discrimination between countries or be a disguised restriction on international trade. A factor in this decision was that the US had not sought a multilateral agreement to the problem.

The issue is whether one country can use trade measures to enforce its environmental preferences or requirements on others. The tuna case established a presumption that the WTO would not accept a unilateral attempt to extend jurisdiction over other country’s environmental policies. In the *turtle-shrimp* case, however, the

Appellate Body appeared to accept that a country could condition access to its market on whether exporting countries comply with policies unilaterally prescribed by the importing country. However, these policies must meet the requirements of the introductory paragraph of Article XX. This decision leaves a number of unresolved problems, as noted by Marceau (1999). She asks what kinds of PPM-based measures are to be permitted under Article XX? Will the exemption on environmental conservation grounds be extended to other kinds of environmental preference, such as animal welfare? Does it make a difference if the environmental problem is transboundary (thus affecting the importing country) or if the consequences are purely local? To what extent must WTO Members engage in multilateral discussions, provide technical and financial assistance or exhaust other options before implementing trade sanctions? Developing countries will want to argue against import restrictions being allowed on products produced by methods not liked by developed countries as they are most likely to lose out from such restrictions. These issues are not directly the concern of the agricultural trade negotiations. On the other hand, developing countries may want to take into account the strength of feeling among environmental and consumer groups in developed countries on these issues if sufficient trade-offs in terms of market access are on offer in return.

Conclusions

This paper examines the likely negotiating agenda on agricultural trade issues in order to identify the interests of developing countries in these negotiations. The issues can be ranked on a continuum from those where there will be greatest consensus among developing countries to those where their interests are more conflicting. SDT may allow some of these latter conflicts to be overcome.

All developing countries have a clear interest in strengthening a rules-based approach to SPS and agricultural trade-environment linkages. It would be unwise for developing countries to seek exemption from food safety and animal and plant health standards which are widely enforced in industrialised country markets. Given that it is unlikely that developing countries will want to impose even higher standards than those which apply in industrialised country markets, their interest is in rules which limit arbitrary and unreasonable standards and which avoid the threat of unilateral action.

Whether more widespread recognition of the precautionary principle is in the interests of developing countries is a moot point. They themselves might wish to retain the right to limit imports of novel foods, but the possible price may be more restricted access to industrialised country markets if the principle is invoked more frequently by the latter.

There should also be widespread agreement on the elimination of export subsidies which almost no developing countries can afford to use or will be allowed to use in future. The putative benefits to net food-importing developing countries are also very limited. Similarly, few developing countries now have the right to use domestic subsidies above *de minimis* levels or those included in the SDT box. Developing countries should therefore seek to limit the use of domestic subsidies by the developed countries to the greatest extent possible. However, some developing countries may want to widen further the policy autonomy which already exists under the Green and SDT boxes, and may see an alliance with those developed countries who are keen to stress the importance of non-trade concerns in their agricultural policy as a desirable strategy. An expansion of the SDT provisions which, by definition, affect developing countries alone may also prove to be feasible as the negotiations continue.

Market access provisions are the area where the greatest potential for conflicting interests persists. Developing country exporters in the Cairnes Group will seek the maximum degree of tariff reduction and opening up of TRQs. Developing country importers, on the other hand, may wish to retain high ceiling tariffs even if, in practice, applied rates are much lower. For some least-developed countries, revenue considerations will be important. For other food-importing developing countries, concerns about the destabilising effect of either low or high world market prices will be uppermost. The possibility to vary tariffs within existing ceilings to protect domestic producers against periods of very low world market prices is highly valued. If food importers are to be persuaded to reduce their ceiling tariffs, they may need an incentive such as the right to apply a Special Safeguard Clause or to use a price band scheme as an alternative. Food importers will also be seeking to make the promises of assistance to offset the negative effects of the reform process in the Marrakesh *Decision* more concrete.

To make their demands effective, developing countries need to participate actively in the forthcoming negotiations. Yet it is clear that the widening of the scope of WTO trade policy has strained the resources of developing countries in the areas of negotiation and implementation. Many developing countries simply lack the resources to identify their interests and to participate effectively. Many of the least developed countries cannot afford even to maintain a representation in Geneva in keep in touch with the ongoing round of meetings. Implementation difficulties, for example, with respect to testing and certification for food standards, or the cost of defending their rights under the WTO Dispute Settlement Procedure, also limit the gains of developing countries from the existing Agreements. The World Bank, UNCTAD and FAO have programmes designed to enhance the participation of developing countries in the new round. Nonetheless, more active support and initiatives will be required from the developed countries if these programmes are to be successful in achieving their aims.

References

Anderson, K. 1999. *Agriculture, Developing Countries and the WTO Millennium Round*. CIES Discussion Paper 99/28, Centre for International Economic Studies, University of Adelaide (revision of a paper presented at the World Bank's Conference on Agriculture and the New Trade Agenda from a Development Perspective, WTO Secretariat, 1-2 October 1999). (downloadable from http://www.adelaide.edu.au/CIES/9928.pdf)

Anderson, K., Erwidodo and Ingco, M., 1999. Integrating agriculture into the WTO: the next phase. The WTO/World Bank Conference on Developing Countries in a Millenium Round, WTO Secretariat, Geneva, 20-21 September 1999. (downloadable from the Trade and Development Centre website http://www.itd.org/wb/dc_milpap.htm)

Binswanger, H. and Lutz, E., 1999. Agricultural trade barriers, trade negotiations and the interests of developing countries. Paper prepared for a High-Level Round Table on Trade and Development: Directions for the Twenty-First Century, Bangkok, 12 February 2000, TD(X)/RT.1/8 UNCTAD Trade and Development Board, Geneva. (downloadable from http://www.unctad.org/en/special/c1dos4.htm)

FAO Commodity Policy and Projections Service, 1999. Issues at stake relating to agricultural development, trade and food security, Paper No. 4, FAO Symposium on Agriculture, Trade and Food Security, Rome, FAO (downloadable from http://www.fao.org/docrep/meeting/X2998e.htm).

Hathaway, D. and Ingco, M., 1996, Agricultural liberalisation and the Uruguay Round, in Martin, W. and Winters, A. eds., *The Uruguay Round and the Developing Countries*, Cambridge, Cambridge University Press.

Hertel, T. ed., 1997. *Global Trade Analysis: Modelling and Applications*, Cambridge and New York, Cambridge University Press.

Hoekman, B. and Anderson, K. 1999. *Developing country agriculture and the new trade agenda*, Discussion Paper No. 2096. Centre for Economic Policy Research, London.

(also available as Hoekman, B. and K. Anderson, "Developing Country Agriculture and the New Trade Agenda", Discussion paper 99/02, Centre for International Economic Studies, University of Adelaide, January 1999. (Forthcoming in *Economic Development and Cultural Change* Vol. 47, 1999.) (downloadable from http://www.adelaide.edu.au/CIES/wto.htm)

Ingco, M., 1996. Tariffication in the Uruguay Round: how much liberalisation?, *The World Economy* 19, 4, 425-47, July.

Josling, T., 1998. The Uruguay Round Agreement on Agriculture: a forward-looking assessment, COM/AGR/CA/TD/WS(98)100, in Proceedings of the OECD Workshop on Emerging Trade Issues in Agriculture, Paris, 25-26 October, (downloadable from http//:www.oecd.org/agr/trade).

Mahé, L. and Ortalo-Magne, F., 1999. International Co-operation in the Regulation of food quality and safety attributes, COM/AGR/CA/TD/WS(98)102, in *Proceedings of the OECD Workshop on Emerging Trade Issues in Agriculture*, Paris, 25-26 October, (downloadable from http//:www.oecd.org/agr/trade).

Marceau, G. 1999. A Call for Coherence in International Law – Praises for the Prohition against “Clinical Isolation” in WTO Dispute Settlement, *Journal of World Trade* 33, 5, pp. 87-152.

Stevens, C., 1999. *The WTO Agreement on Agriculture and Food Security*, London, Commonwealth Secretariat.

Table 1. Impact on economic welfare of removing post-Uruguay Round trade distortions in goods in 2005 using Version 3 of the GTAP database, 1992 US$ billion.

	Contribution from OECD liberalisation				Contribution from developing country liberalisation	Net benefit from combined liberalisation
Region	**Agriculture and food processing**	**Textiles and clothing**	**Other manuf-actures**	**All goods markets**		
	%	%	%	%	%	$ billion
OECD economies	29	-3	42	68	32	217
Developing countries	44	21	-23	42	58	45
All economies	32	3	27	62	38	260

Source: Anderson, Erwidodo and Ingco, 1999, drawing on the results reported in Anderson, Hoekman and Strutt, 1999.

Table 2. Impact on economic welfare of removing post-Uruguay Round trade distortions in goods in 2005 using Version 4 of the GTAP database, 1995 US$ billion.

Liberalising region	**Benefiting region**	**Agriculture and food processing**	**Other primary**	**Textiles and clothing**	**Other manufactures**	**Total**
High income						
	High income	110.5	-0.0	-5.7	-8.1	96.6
	Low income	11.6	0.1	9.0	22.3	43.1
	Total	**122.1**	**0.0**	**3.3**	**14.2**	**139.7**
Low income						
	High income	11.2	0.2	10.5	27.7	49.6
	Low income	31.4	2.5	3.6	27.6	65.1
	Total	**42.6**	**2.7**	**14.1**	**55.3**	**114.7**
All countries						
	High income	121.7	0.1	4.8	19.6	146.2
	Low income	43.0	2.7	12.6	49.9	108.1
	Total	**164.7**	**2.8**	**17.4**	**69.5**	**254.3**

Source: Anderson 1999

Table 3. Average unweighted ad valorem bound tariff rates post UR for agricultural goods, 20 countries

Product	Percent	Product	Percent
Grains	46.7	Dairy products	47.1
Oilseeds	41.7	Sugar	48.7
Fats and oils	41.6	Fresh fruit and vegetables	35.5
Meats	39.3	Processed fruit and vegetables	35.3
Milk	40.7	Other agriculture	24.4

Source: WTO, quoted in Josling (1998).

Table 4. Bound tariff rates of the EU, Japan and US for selected agricultural products (percent)

	EU		Japan		US	
	Pre-UR	Post-UR	Pre-UR	Post-UR	Pre-UR	Post-UR
Sugar	297	152	126	58	197	91
Rice	361	n.a.	n.ap	n.ap	5	n.a.
Wheat	170	82	240	152	6	4
Coarse grains	134	n.a.	233	n.a.	8	n.a.
Dairy products	289	178	489	326	144	93
Meat products	96	76	93	50	31	26

Notes: Pre-UR rates based on 1995 data.
n.a. refers to not available and n.ap refers to not applicable (postponed tariffication)
Source: Hathaway and Ingco (1996)