



GETTING READY FOR THE MILLENNIUM ROUND TRADE NEGOTIATIONS CAIRNS GROUP PERSPECTIVE

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One of the great achievements of the Uruguay Round (UR) trade negotiations was to begin the process of placing national agricultural policies under GATT (General Agreement on Tariffs and Trade) discipline at last. The Cairns Group of nonsubsidizing, agriculture-exporting countries came together in 1986 with the single goal of ensuring that outcome. (The Group currently consists of Australia, Argentina, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand, and Uruguay.) Together with the United States and other GATT signatories, the Group sought successfully to have all nontariff, nonquarantine barriers to agricultural imports converted to tariffs; all tariffs subject to ceiling bindings that are scheduled for phased reductions; and all farm production and export subsidies reduced. Much remains to be done, however, before agricultural trade is as fully disciplined or as liberal as world trade in manufactures.

LOOKING BEYOND 1999

World Trade Organization (WTO) members will reconvene in late 1999 to launch a "millennium round" of trade negotiations, on agriculture and services at the very least. Their negotiations are unlikely to bear much fruit, however, unless deals can be struck across other sectors and issues as part of a more comprehensive package. Among other things, this would enable participants to pursue further reform in textile trade, an opportunity that will be especially worthwhile if China is soon to become a WTO member.

Assuming that a comprehensive round is launched at the next WTO ministerial meeting in Seattle in December, the Cairns Group's agenda for the agricultural negotiations would include the following:

Make agriculture more market-oriented. Hopefully this will not be as difficult now as it was during the UR, given the considerable progress in unilateral farm policy reforms by the United States, the European Union (EU), and Japan during the mid-1990s (reforms that themselves were responses to the changed atmosphere created by the UR agreements).

Phase out farm-export subsidies. This sounds ambitious given that those subsidies were to be reduced by only one-fifth under the UR, but nothing less than a complete ban is needed to bring agricultural trade into line with nonfarm-product trade on this issue.

Remove the blue box. Items in the "blue box," which contains direct payments to U.S. and EU farmers who restrict their

output, were not counted in the Aggregate Measure of Support (AMS) that governments are required to reduce. But with the U.S. and EU gradually reforming their domestic support policies for internal reasons, the political necessity of the anomaly of the blue box has diminished.

Tighten the green box criteria. The only policy measures listed in the "green box" should be those that do not encourage output. Tightening the criteria will reduce loopholes that allow output-increasing subsidies to continue. Closing loopholes is becoming more important because commitments to reduce the AMS encourage countries to convert more of their policy instruments to those listed in the "green box."

Secure large reductions in bound tariffs. "Dirty tariffication" (binding tariffs at well above applied rates) allows countries to continue to vary their actual tariff protection in response to changes in domestic or international foodmarkets. Getting those bound tariffs down from 50–250 percent to the 5–15 percent range of rates on manufactures requires governments to take reform seriously. Negotiators in the Tokyo Round used the "Swiss formula" for manufactures, reducing tariffs by a larger percentage for those products with higher tariffs. This formula is more appealing than the "zero-for-zero" approach where tariffs are eliminated altogether for selected products, because that increases the dispersion of tariff rates across products, and leaves the politically difficult items such as dairy and sugar under high protection.

Expand tariff-rate quotas (TRQs). The minimum-access requirements of the UR ensures that at least 5 percent of domestic sales of protected farm products will be imported by developed economies at low or zero tariffs. Agriculture-exporting countries enjoying that preferential market access are understandably reluctant to suggest TRQs be removed. Perhaps the best alternative to removing the TRQ is to expand it, so as to simultaneously reduce its importance, increase competition, and lessen the impact of high, above-quota tariffs. If TRQs were to be increased steadily every year, it would not be very long before quotas became nonbinding for most countries. Expanding TRQs may thus be more liberalizing in the medium term than reducing high above-quota bound tariffs.

Tighten sanitary and phytosanitary/quarantine rules. The UR's agreement on sanitary (human and animal health) and phytosanitary (plant health) measures has worked well so far, so some Cairns Group members are reluctant to renegotiate it for fear of weakening it. However, many countries use blunt quarantine instruments, such as import bans, to restrict imports well beyond what is necessary for protecting the health of plants, ani-



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mals, and citizens. At the very least some form of notification requirement that requires WTO members to disclose the degree to which they restrict trade with quarantine measures would be helpful.

Reform rules on state trading enterprises (STEs). This issue is worthy of close attention in general (not just for farm trade) because of the large number of former centrally planned economies seeking WTO membership. While an outright ban on STEs seems implausible (too many current WTO members have them), it might be possible to require members that create new STEs to compensate other WTO members that are adversely affected. On the import side it might also be possible to make stricter use of GATT Article II:4, which states that the nontariff mark-ups by an STE should not be larger than the import tariffs. On the export side, requiring the removal of the monopoly status of single-desk exporting agencies and their practice of defining “export” grades differently from the grades sold on the domestic market would lessen suspicion that these STEs were subsidizing exports covertly or raising domestic consumer prices or both.

Phase out the special safeguards mechanism. This mechanism, which allows developed economies to maintain domestic prices by triggering import restrictions should quantities surge or import prices plummet, could be phased out by adjusting the triggers each year so that they are less and less likely to cut in. In the meantime, members could seek agreement on the level of trigger prices. They could agree to set prices to the (typically very low) external prices used in calculating initial tariff equivalents.

Normalize farm export credits. These are just farm export subsidies by another name, and they clearly need to come under stronger trade discipline. Since the UR mandated members to reach an accord by 2000 on export credits in general, the next WTO round will provide an opportunity to ensure that agricultural export credits are treated in the same manner as those for other products.

NEXT STEPS

By the standards of the rest of the 20th century, historians will judge its final few years as good ones for reducing disarray in world food markets. The GATT/WTO membership, and in particular the Cairns Group, can take a significant share of the credit for that reduction. Yet a great deal more remains to be done before agricultural markets enjoy anywhere near the freedom from government intervention that manufactures enjoy.

The next stage of reform will be conducted in an environment in which the forces of globalization (including ever-faster international transfers of information, ideas, capital, skills, and new technologies) will have ever-stronger effects on markets, possibly triggering sporadic policy backlashes. In the

seed/pesticide industry, for example, surges in economies of scale and financial market liberalization over the past 15 years are encouraging rapid expansion of foreign direct investment by large multinational corporations. The UR’s Trade Related Intellectual Property Agreement contributed to that expansion by requiring more secure property rights for seeds. Optimal international locations of production may well change in nontrivial ways as a result of globalization, bringing forth new forces requiring further adjustment. With this in mind, there are many challenges as well as opportunities ahead for the Cairns Group and others interested in seeing agricultural market reforms continue into the next century. Key priorities for the next few years include

- securing a consensus to launch a new round of multilateral trade negotiations at the turn of the century that is comprehensive enough to allow tradeoffs across sectors and issues;
- ensuring that all the main means of distorting agricultural markets are high on the negotiating agenda, in order to minimize the possibility that reforms in one area are offset by trade-distorting support measures in another;
- facilitating the accession of new members to the WTO, particularly those aspirants that are significant in world agricultural markets, such as China, Russia, Ukraine, and Vietnam;
- encouraging more transparency in and analysis of the nature, extent, and economic effects of market-distorting farm and food policies, including those that have remained relatively unexposed, such as environmental and quarantine measures;
- continuing to explain why trade reforms are desirable and why they need not be a threat to food security, food safety, or the environment;
- clarifying each major country’s interests and objectives, exploring the prospects for more coalition-building among WTO members, and reducing animosity between members where that is based on incomplete or incorrect information; and
- building a stronger consensus for reform in the Cairns Group countries themselves, including in trade areas traditionally neglected (single-desk exporting agencies, quarantine restrictions), where a good example set by food-exporting countries will enhance the prospects that food-importing countries will do likewise.

Finally, agriculture-exporting countries also have an interest in ensuring a quick return to rapid industrialization and economic growth in densely populated Asia, for that will expand these developing countries’ net imports of farm products—especially if WTO commitments prevent them from raising food import barriers. This import expansion also depends on advanced economies honoring and then extending their commitments to liberalize market access for Asian manufactures, especially textiles and clothing. ■

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