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Agenda Options for Agricultural Policy Reform in the Seattle Round

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Preface

The present position paper by the International Policy Council on Agriculture, Food and Trade (IPC) on agenda options for the Seattle Round of WTO negotiations was initially prepared for discussion at the 2nd Annual IPC Agri-Forum and 22nd IPC Plenary Meeting, September 24-25, 1998, in The Hague. A revised draft was then discussed at the 23rd IPC Plenary Meeting, June 13-15 in Florence, Italy. The final version received the approval of the IPC membership soon thereafter. The paper is designed to provide an assessment of options for the Seattle Round that the IPC thinks will be useful for trade negotiators.

The IPC would like to thank Tim Josling for writing and editing the paper and Peter Lacy for editorial support. The paper reflects the views of the IPC on agricultural policy reform in the 1999 WTO trade round and should not be attributed to any other organization or individual.

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Overview

To achieve an abundant and affordable food supply of increasing quality, variety and reliability will require ever greater efficiency in the world's agri-food system. Yet this efficiency must be achieved while protecting the environment and building viable rural societies around the world. The challenge of the Seattle Round of WTO negotiations that is set to begin before the end of 1999 is to complete the agenda of the Uruguay Round while addressing the new requirements of the emerging global food system.

In this position paper, the International Policy Council on Agriculture, Food and Trade (IPC) analyzes the various methods which might be used to continue the reforms that were begun in the Uruguay Round, and concludes with policy recommendations based on that analysis that show the way forward regarding the variety of issues likely to come up in the Seattle Round. All signatories to the Uruguay Round accepted the built-in agenda to continue to reduce barriers to trade in agricultural products. The IPC endorses that goal and argues that the trade liberalization approach adopted by the Uruguay Round must continue and be expanded to include a simultaneous reform of state trading activities.

The IPC recognizes that the Seattle Round negotiations must also take into account other non-trade concerns—such as international development, rural development, consumer demands, food security and preservation of the environment—which will come into play in the negotiations. However, it is the IPC's belief that these concerns can be addressed satisfactorily in ways that do not unduly distort global trade, nor undermine the drive towards a global food system. The paper supports for example the WTO's approach to relying on sound science for decisions regarding food safety and the environment. The IPC suggests that any costs incurred due to environmental or other regulations should be reimbursed through direct payments from governments and not through border protection measures.

The paper also urges nations to work towards greater harmonization of divergent national standards and to implement increased transparency and labeling requirements to provide more information for consumers.

The Seattle Round negotiations must take into account the importance of trade to agriculture in the developing countries, as well as the importance of the agricultural sector to the economic development of these countries. Regarding special preferences for certain low-income countries, the paper argues that tariff preferences may be less relevant to economic development today and may in fact cause more harm than good to the recipient countries. Other means of providing development

assistance may be more effective and beneficial under current economic circumstances. The drive towards trade liberalization must therefore be balanced against the very real needs of developing countries.

Introduction

In its first paper on the forthcoming WTO negotiations (*Building a Global Open Food System—The Case for Further Agricultural Trade Reform, August, 1998*), the IPC envisioned the agenda of the negotiations not only as a continuation of the Uruguay Round, but as a way to serve the emerging global food system, while taking care of the special problems of the developing countries. The “old world” of commodity-based national agricultural policies is being rapidly transformed by an integrated global food economy, the IPC argued. A global food system is emerging to meet the increasingly urgent task of feeding a growing world population, one with an emerging middle class all over the world.

Four principal forces are creating this global food system:

- The need to provide food security for the world’s poor;
- The need to raise agricultural productivity and stimulate diversified rural development;
- The need to meet rising dietary expectations of a growing urbanized middle class; and
- The need to meet the demands of the world’s wealthiest consumers.

An abundant, accessible, affordable food supply of increasing quality, variety and reliability requires ever greater efficiency in the world’s agri-food system. Yet, efficiency must be achieved while protecting the environment and building viable rural societies around the world.

The present IPC position paper analyzes various methods which might be used to continue the reforms laid out in the Uruguay Round, followed by a set of policy recommendations which the IPC believes show the right way forward in the coming round. In making these recommendations, the IPC recognizes that the negotiations must also take into account other factors—such as international development, rural development, consumer demands, and preservation of the environment—which will come into play in the negotiations. However, it is the IPC’s belief that these concerns can be addressed satisfactorily in ways that do not unduly distort global trade, or undermine the drive towards a global food system.

Any trade negotiation requires a balancing of political demands and policy preferences. Nowhere is this more true than in agricultural trade negotiations. Food and agriculture are vital to the culture, politics and economics of every nation, whether a food exporter, a food importer, a developed or a developing

country. Each country, whether developed or developing, has a number of non-trade concerns, such as preserving the natural environment, maintaining the quality of the nation's agricultural patrimony, preserving ecological systems, and preserving rural landscapes and rural ways of life. Desirable policy objectives will need to be shaped to meet the political demands of farmers, agribusiness and consumers.

In particular, the negotiations must take into account the situation facing developing countries. It is these countries whose farmers are most exposed to the harm caused by export subsidies on the one hand, which lower world prices for raw commodities, and import barriers on the other, which deny them market access for raw materials and more highly processed food products. It is also these countries which most heavily rely on the global food system for their food security, and which are most heavily affected by hunger and malnutrition. Moreover, the WTO must recognize that agriculture in developing countries is vital to overall economic development, as it provides rural employment, income and basic nutrition. Consequently, the drive towards trade liberalization must be balanced against these very real needs of developing countries.

The negotiations must also recognize the varied role agriculture plays worldwide. Whatever the traditions in each country, agriculture plays a major role, whether in providing rural employment and stemming rural-urban migration, maintaining the environment and natural landscape, or in providing a desirable quality of life. These traditions do not fit neatly into Green, Amber or Blue Boxes.

Similarly, citizens' attitudes about food and the environment vary from one country to the next. It is difficult to standardize these approaches. Certainly, basing decisions on science, as called for by the WTO, and working towards harmonization, are moves in the right direction. However, there is still a need for greater transparency of information for consumers, without creating trade barriers.

Finally, the cross-border movement of goods is necessary but no longer sufficient for international business or the global marketplace. Thus, it is no longer adequate to focus primarily on trade barriers as the principle impediment to doing business across borders. Market access needs to be redefined, widening its scope by relating it to other elements such as foreign direct investment and intellectual property rights, as well as the interaction between trade and competition policy. The coming agricultural negotiations must therefore include a comprehensive perspective that covers all these issues.

Options for the Negotiations

The Uruguay Round Agreement on Agriculture put in place a set of rules that have substantially improved the conditions under which agricultural goods are traded. These new rules are very important

because they represent the genuine incorporation of agriculture into the multilateral rules system for the first time.

In view of the scope of the rule changes, it is not surprising that the Uruguay Round Agreement actually did little to liberalize trade in agricultural products and improve market access. The process of converting non-tariff barriers into tariffs produced a number of tariffs bound at very high levels, because they were based on a reference period in which world prices were quite low. Even with the agreed reductions many of them are high enough to prevent imports. In those cases, the agreed growth of tariff rate quotas helped somewhat but has often led to greater intervention in the market rather than less. The larger part of export subsidies still exist, and are effectively sheltered from challenge under a nine-year "peace clause." Support under domestic farm policies of the major industrial countries has been shifted rather than reduced.

The Uruguay Round Agreement on Agriculture itself has already laid out the next steps for the multilateral process of trade liberalization in agriculture. The Agreement declares "the long-term objective of substantial, progressive reductions in support and protection resulting in fundamental reform," and calls for talks to be initiated no later than 1999. The Uruguay Round Agreement also called on the next round to take account of "non-trade concerns."

The challenge of the next round is to complete the agenda of the Uruguay Round while adding those new elements that the emerging global food system and the experience with trading rules require. This approach conforms to the Agreement on Agriculture that mandates the continuation of the reform process launched by the Uruguay Round. It is also in compliance with the requirements of the global food system. Thus, the agenda should encompass the elements of the Uruguay Round Agricultural Agreement, namely market access, export competition and domestic support. It should also cover international rules on food safety, animal and plant health, the protection of the environment, regulatory costs and labeling.

The initial task is to devise an approach to each of these items that will give a balanced package on which to negotiate. Other issues fall conveniently within this framework. The administration of TRQs is clearly one of market access. State trading in agriculture can be separated into the components of market access (state trading importers) and export competition (state trading exporters). Export restraints can be subsumed under the heading of export competition.

Market access remains the keystone of any trade negotiation. This will be the first set of agricultural negotiations where the level of agricultural protection at the border is visible and quantified. Tariffication, as intended, has made the conditions of market access in agricultural trade significantly

more transparent. What is now visible is the high level of protection that was for long hidden by non-tariff barriers. The question for the next round is what process can be initiated to reduce tariffs so they are no longer prohibitive. It has also become obvious that state trading is a means of circumventing the impact of tariffication. This issue needs to be addressed directly in the next round.

The Uruguay Round Agreement instituted TRQs in those situations where tariffs replaced non-tariff barriers to provide at least a modicum of market opening. But, however laudable the aim, the existence of a TRQ still does not guarantee that level of imports. High in-quota tariffs, the manner in which TRQs are administered, and the existence of STEs can still restrict trade below that level. As a consequence, additional disciplines may be necessary to ensure access as agreed by the schedules.

If the high level of protection sets agriculture apart, **export competition** in agriculture is another disruptive element in the operation of world markets, and therefore of the global food system. In the next round of negotiations, it will be more difficult than ever to persuade countries exporting agricultural goods with little or no subsidy to allow countries such as the EU and the US to continue their market-distorting practices. Similarly, the use of export credits has continued despite efforts to negotiate within the OECD restraints on the benefits that some exporters get from such schemes.

Single-desk selling agencies and the use of export taxes and export restraints can all conveniently be included under the heading of export competition. The WTO 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.” Within the WTO export taxes are deemed innocuous. There is a clear conflict, however, between the ability of exporters to withhold supplies to address domestic shortages and the reliability of the world market as a source of supplies for importers. It is also inconsistent to ask producers in exporting countries to absorb the risks of low prices without subsidy but then deny those producers the rewards of satisfying a market in times of high prices.

Export taxes should be included under the same qualifications as quantitative restrictions. The emerging global food system cannot function properly unless it constrains the ability of exporters to restrict supplies. After all, restraints on exports are no less inconsistent with an open trade system than restraints on imports.

It is ironic that the biggest conceptual breakthrough in the Uruguay Round was the recognition that **domestic policies** were a legitimate concern of trade talks, yet the actual disciplines imposed on those policies were rather weak. However, the fact that the Uruguay Round constraints have not in the end affected the large majority of countries does not mean that the constraints on domestic support have

been ineffective. By exempting non-trade distorting policies from the calculation of the Aggregate Measurement of Support (AMS), the Uruguay Round Agreement has encouraged countries to shift their domestic support programs away from those policies that most impede trade toward less trade-distorting policies. The requirement to reduce the AMS for trade-distorting domestic policies has put useful pressure on countries to continue this process.

The attraction to countries of adopting non-trade distorting, or so-called “Green Box,” policies is both to guard against challenge from trading partners and to avoid having those policies count toward the AMS. This suggests that the AMS constraint should in fact be tightened, while allowing governments to support the environment and rural communities, or to compensate farmers for higher regulatory burdens under the “Green Box.” This would make the Green Box more effective.

The **Sanitary and Phytosanitary Agreement** will be another focus for negotiations. Many countries will be reluctant to tamper with a hard-won agreement that has science at its core. However, it is not clear whether the SPS Agreement, which was designed to prevent countries from using technical regulations to protect domestic producers under the guise of plant, animal and human health considerations, can handle regulations designed to assuage consumer concerns about production processes (e.g., biotechnology) that may also impede trade.

The trade system should be based on rules that are understandable, transparent and reasonably constant. Scientific justification provides that basis, since the relevant scientific evidence is available to all and can be widely understood. Scientists are often respected by the public as impartial and non-political, and groups of scientists from different countries will tend to agree on issues related to their field. However, consumers in different countries have different levels of confidence in their regulatory systems, different attitudes about risk, and different attitudes about food production processes. Without consumer confidence in regulatory systems, the trade system itself may lose the confidence of the public it is designed to serve.

There is also a case for the review of items which are not covered by the SPS Agreement but which require attention under a global food system. This should include the issues of the environment and animal welfare.

Modalities for Negotiations: An Analysis of Various Options

The approach taken to meet the objectives under each item is likely to set the tone for the negotiations. The following is an assessment of the various methods which might be used to provide an operational approach for the agenda.

1. Market Access

Several techniques can be used for improving market access.

Continuing tariff reductions from the same base

One way to improve market access is to stress the continuity of the process. Indeed, one could repeat the percentage reductions agreed in the Round, using the same base which was established in the Uruguay Round for the next set of tariff cuts. A further 36 percent cut in the average level of tariffs from the same base would imply a 72 percent cut over the two reform periods, a rather significant reduction over a dozen years.

In addition, the effect on trade would accelerate over time: the same percentage cut would have greater impact the higher the base tariff used. Using the same base simplifies negotiations, since reopening the issue of the base would itself cause controversy. But perhaps the strongest reason for supporting such an approach is that it simplifies and clarifies the question of “credit” for unilateral moves taken during negotiations. Countries would no longer need to delay unilateral reductions in border protection for fear of “paying twice.” That is, any unilateral policy change would count towards this reduction, as it would occur after the base period.

However, the continuation of the same schedule of cuts poses some problems. First, the Uruguay Round Agreement allowed countries to lower sensitive tariffs by only 15 percent while cutting less sensitive (and often less significant) commodity tariffs by more than 36 percent to maintain the (unweighted) average. The net effect on trade was therefore somewhat less than might be implied by a 36 percent tariff cut. Consideration should be given to changing the unweighted average into a weighted average, which would limit the ability of countries to protect sensitive commodities.

Across-the-board cuts

Alternatively, countries could agree on an “across-the-board” tariff reduction. This would be simple and transparent. For example, a one-third tariff reduction over five years could be combined with the technique of using the same base period, or it could apply to the bound tariffs as of an agreed date (i.e., the year 2000). In the past, such across-the-board cuts have often been riddled with exceptions,

and this would need to be kept under control. An across-the-board cut would, however, still leave some tariffs at a very high level.

Formula cuts

Agricultural tariffs could also be reduced on a formula basis, with higher tariffs being reduced at a greater rate. The ‘Swiss Formula’, which was used for tariff reductions in industrial goods in the Tokyo Round, could be an appropriate technique to use. This could be a faster and fairer way to achieve liberalization than the across-the-board cuts. In particular, the problem of prohibitively high tariffs, which resulted from tariffication on the basis of very low world market prices, could be addressed. But formula reductions appear to put more burden on those countries with dispersed tariff rates. As an alternative approach to the problem of tariff dispersion, a maximum tariff level could be agreed to which all higher tariffs would have to be reduced over an agreed period. This could also be combined with an across-the-board cut to give both a general reduction as well as a consolidation of rates.

Binding the actual rates

In a fourth approach, to remove unused protection, countries could eliminate the present gap between bound and actual rates. Bindings could be reduced to no more than the maximum applied tariff in an agreed historical period (e.g., 1993 to 1998). This approach would still lock in agricultural trade reform more effectively than at present. It would not remove the element of very high protection due to the process of tariffication based on low world market prices. It would only remove the discretionary element of protection that countries were able to build into the Uruguay Round tariff bindings.

Zero-for-zero reductions

The zero-for-zero approach has had some success in other areas of trade, such as information technology. This approach would eliminate all tariffs, as well as unfair export practices, on particular categories of goods. Clearly there are advantages as well as disadvantages to such an approach. Political sensitivities restraining liberalization in certain products such as dairy and sugar could not hold up a move to competitive markets in other products such as oilseeds and pigmeat. Trade could therefore be expanded in the latter markets as protection is reduced. However, the benefit of this approach from the point of view of both the importing country and the world at large would be offset by the costs of trade diverted as zero-tariff items replace the lower-cost but higher-priced goods still subject to tariffs. The EU knows well the problem of “unbalanced” protection as a result of the easy access to oilseeds that was negotiated in the Dillon Round.

Expanding the tariff-rate-quotas

Yet another technique for improving market access would be to expand the guaranteed access that forms part of the schedules. Expanding the TRQs is one simple way of reducing their importance, while at the same time lessening the impact of the high 'above-quota' tariffs. Doubling the minimum access volumes, for instance, would make many of the high bound over-quota tariffs irrelevant.

One approach could be to continue the process of expanding minimum access as a proportion of consumption. Increasing TRQs by one percent of the level of domestic consumption in each year over a five-year period would remove much of their restrictive effect. A way could be devised to allow countries to choose between TRQ increases or tariff decreases, since as both achieve the same desired result. The main political objection to this idea is that the within-quota tariffs were generally left to the discretion of the importing country to fix at levels which they judged would attract the guaranteed access quantity. This implies that some form of re-negotiation might have to take place on the level of these tariffs. This also offers a possibility to set such tariffs for within-quota trade at a reasonable level in relation to other goods. For example, all within-quota tariffs could be bound at perhaps 20 percent, and not be reduced until they became the operative tariff for the bulk of agricultural trade.

The problems arising from the allocation of TRQs have received attention recently. Not only has the allocation varied across countries, in some cases the method chosen seems to have been calculated to counter the market opening. It may not be possible to agree on a single method of allocation, but a set of acceptable methods could be agreed. These could range from such economically efficient methods as auctioning quotas to the administratively efficient methods as allocating trade based on historical patterns.

State trading importers

State trading enterprises that have special or exclusive rights in import markets are essentially an extension of the problem of market access. Under WTO articles, state trading importers are not supposed to grant more protection than that given by the bound tariff. This was already difficult to enforce when non-tariff barriers were allowed in agricultural markets, since in many cases state trading enterprises were effectively administering such a non-tariff barrier. State-trading importers still have many possibilities to obscure their operations. Even if TRQs administered by state traders are converted into an obligation rather than an opportunity, the state traders will still be in a position to discriminate amongst suppliers. In any case, state trading importers are becoming increasingly inconsistent with the international trading system as shaped by the Uruguay Round and necessitated by the global trading

system. They should eventually be phased out or, at the least, Article XVII of the WTO should be re-interpreted so that it does not allow international agricultural trade to be distorted.

2. Export Subsidies

Continuing export subsidy reductions from the same base

As with market access, the simplest way to continue the process of reducing export subsidies would be to extend the schedule of reductions agreed in the Uruguay Round. This could be done using the same base. It would involve constraining expenditures by another 36 percent, thus removing 72 percent of the subsidy expenditure that was used in the base period. Continuing the quantity restriction would imply that 40 percent of the volume of subsidized exports would have been removed from the market over the two periods of reform. But since the remaining 60 percent of that volume could be subsidized with only 28 percent of the expenditure, the potential disruption would be significantly reduced.

The issue of “unused” export subsidy allowances will certainly be on the table. Under present rules, any subsidy not used in a particular year can be held over. This possibility expires at the end of the transition period in 2000 and the accumulation of export subsidy rights should not be encouraged. The rules can therefore be easily tightened by removing this possibility.

Elimination of export subsidies

Eliminating export subsidies altogether has significant advantages. The prerequisites for dispensing with export subsidies are a renewed confidence in world markets, and a reduced dependence on market price support in domestic policies. Given that the US and the EU have reformed their domestic policies, it might be politically easier to get effective curbs on the use of export subsidies in the next round. The next negotiations could for example phase out export subsidies—at least for crops—over a five to ten year period.

Export credits

In the Uruguay Round, export credits were found to be a form of export subsidy, but it did not prove possible to agree on constraints. The OECD countries have negotiated a code for non-

agricultural export credits that puts limits on credit terms and the length of credit extension, and have discussed a similar agreement in agriculture. It should be possible to agree on the allowable terms for such credit, and hence be able to calculate the magnitude of the subsidy that is involved if softer credit terms are offered. The subsidy equivalent of such concessionary credit could be charged against the export subsidy constraints in the schedules.

State trading exporters

The quantification and reduction of export subsidies has made more visible the distinction between countries where exports are privately sold and those using a parastatal. There is widespread concern in those countries where private firms conduct trade that state trading enterprises can obtain cheap credit from their governments, offer better terms to buyers, and generally compete unfairly with private traders. To the extent that these practices are export subsidies it is difficult to quantify them. State trading exporters—as with state trading importers—do not belong in an emerging trading system that is meant to serve a global food economy, and they too should eventually be phased out or otherwise kept from distorting trade in any way.

Curbing export taxes and export embargoes

Restricting exports in times of high prices distorts the trade system as much as subsidies that operate when prices are weak. Such restrictions can be enforced using taxes or quantitative restrictions. Quantitative restrictions are currently allowed in cases of supply shortage in the producing country. If export restrictions and taxes cannot be abolished altogether in the coming round, average export volumes or tax levels over a reference period could perhaps be guaranteed. Moreover, export embargoes and sanctions on food heighten concerns in importing countries about the reliability of the world trading system.

3. Domestic Support

Continuing the AMS reduction from the same base

The constraints on domestic support through the Aggregate Measure of Support (AMS) are the least effective of the Uruguay Round bindings. But this does not mean they will not be useful in the future or that a continued reduction would not be appropriate. A continuation from the same base would be a relatively modest move, yet even that would remove 40 percent of the “coupled” domestic support. But

it would be even more effective to “catch up” with the reductions in import barriers and export subsidies. Negotiations could also focus on achieving reductions of a certain percentage for each product or group.

Digressive reduction of income compensation for lower price supports

The Blue Box contains US and EU direct payments that were exempted from the AMS cuts under the Blair House Agreement. It was a creature of its time, necessary to get agreement to go ahead with the broader Uruguay Round package. However, the policies of the US and the EU themselves are evolving for internal reasons. The recent US Farm Bill goes further than ever before to make the payments to farmers decoupled from output and therefore compatible with the Green Box. It is questionable however to allow permanent income support as compensation for reductions in price support. This kind of compensation support could be digressive, and be eliminated after a certain period to be agreed in the new round. The task for the new round will be made much easier if the EU and US have both modified their payments so that they meet the conditions laid down in the Green Box. If this occurs, the Blue Box could essentially be emptied and locked.

Redefining the Green Box

The Uruguay Round identified a number of support measures known as the Green Box, which have “no, or at most, minimal” trade-distorting effects. All domestic support measures not listed in the Green Box—market price support and direct payments linked to actual production factors—are subject to the reduction commitment. One can argue that the Green Box presently contains a number of policy instruments which at least give the possibility to continue inefficient production, in particular through direct income support. But as long as this kind of support is not given as a compensation for price reductions, but as a tool for revitalizing rural areas, encouraging sound farming practices, and preserving the environment, it should be acceptable. Using direct income support for these goals, and not for price compensation, may even comprise other payments that could fall under the Green Box.

Changing the AMS coverage

More effective still could be a decision to make the AMS specific to individual commodities, as was the original intention in the Uruguay Round. The AMS could be made more binding at a stroke by defining commodity specific amounts of “coupled” price support expenditure which could then be reduced over time.

4. Refining the Rules to Meet New Challenges

The Sanitary and Phytosanitary Agreement

The SPS Agreement is grounded in the use of scientific evidence as the basis for determining the appropriate level of sanitary and phytosanitary protection by Contracting Parties. It includes an obligation for risk assessment. It promotes international harmonization of standards where possible, while allowing countries to adopt higher levels of protection if scientifically justified. It also suggests the regionalization of disease control measures and the establishment of equivalence of different measures. The fundamental nature of the Agreement should not be changed, though countries may wish to discuss the interpretation of certain provisions.

Protection of the environment

Since the conclusion of the Uruguay Round, two key questions have arisen that require a response at the next round. The first is whether the additional costs of protecting the environment or animal welfare in some countries or regions justify higher import protection (and, if necessary, export subsidies). The second is whether the Technical Barriers to Trade Agreement can deal with technical barriers resulting from environmental legislation.

The answer to the first question can only be no, if protection of the environment is not to become an excuse for import protection in general. It would be a major setback for all attempts to reduce import barriers if the protection of the environment could justify import barriers. Protecting the environment is crucial for the global food system. But additional costs incurred due to environmental or other regulations should be reimbursed through direct payments from governments, not through border protection measures.

Technical regulations to protect the environment, which aren't covered by the SPS agreement, are subject to the rules set by the TBT Agreement. This means that the regulations aimed at human, animal and plant health effects of genetically modified products are matters that fall under the SPS Agreement, but the regulations that constrain the effects of GM products on the environment do not. To submit the technical regulations that protect the environment to quite different rules from those protecting human, animal or plant health seems inappropriate.

Labeling

Modern agricultural technology and consumer reaction to it in some countries has raised the issue of process labeling to much greater prominence. It is hard to see how the global food system will find acceptance by consumers, if it does not provide them with sufficient information to make an informed choice. This is very clear in the discussion in Europe regarding labeling of products that contain or are made from GM materials. The relevant international rules are found in the TBT Agreement, in particular the provision that technical regulations “shall not be more trade restrictive than necessary to fulfill a legitimate objective” (i.e., the provision of adequate information to consumers). However, given the importance labeling will have in preserving trade of products using biotechnology it could be useful to work out a code of conduct or an agreement on labeling at the WTO. (See the IPC position paper *Plant Biotechnology and Global Food Production—Trade Implications*, released in October, 1998, for a more in-depth discussion of these issues.)

Labeling could also be a solution for situations in which groups of consumers persuade governments to reject the outcome of dispute settlements in SPS cases. The emotions generated in such cases could create the necessity for mandatory labeling.

5. Timing and Procedure

The need for an early start

It would be useful to get the talks in the next round off to a fast start. To this end, discussions have been proceeding in the Analysis and Information Exchange (AIE) process centered around the meetings of the Committee on Agriculture. The negotiations should move quickly to identify common ground and define the areas of conflict.

The expiration of the peace clause

In 2003 the Peace Clause expires. Thereafter, the WTO rules about impairment of concessions, subsidies and dumping will apply to domestic support in agriculture. This will presumably give a useful boost to negotiations if they are not completed by that date. The possibility of renewing the Peace Clause may also be a useful incentive for countries otherwise reluctant to continue reforms.

Widespread participation of countries

The next stage of the agricultural negotiations will both require and benefit from the participation of a wider group of countries. Not only are there more members of the WTO now than there were GATT contracting parties in 1986, but many more developing countries have open economies now and consider themselves to have a major interest in the talks. These countries should take a pro-active approach, combining requests with offers of concessions. Moreover, China and Russia could also be members either near the start of negotiations or before they conclude. If so, this will bring in two important agricultural traders with considerable influence on world market conditions. The entry of China and Russia could pose real problems for the WTO if they are not brought in under the same rules as other traders, particularly with regards to state trading. State trading is also of major interest to developing countries, whose food security concerns will have more visibility in these talks. Though special and differential treatment traditionally has excluded many countries from having to make liberalization offers, tariffication has in itself meant that all countries start with a schedule of tariffs that will be subject to reduction.

6. The Matter of Preferences

The Generalized System of Preferences (GSP), the tariff preferences provided under the EU Lomé Convention and the US Caribbean Basin Initiative (CBI), and certain other arrangements, provide preferential tariff treatment to participating developing countries that is designed to assist their economic development. In general, these arrangements give selected countries non-reciprocal free access to the markets of participating developed countries.

Since these arrangements do not cover substantially all trade, nor provide for reciprocal treatment, they do not meet the WTO requirements for free-trade areas. As preferential tariffs discriminate in favor of a specific group of developing countries, these arrangements also do not represent special and differential treatment under the WTO Agreements. Most preferential tariff arrangements operate under a waiver from the obligation to conform to WTO rules. However, waivers will now be subject to annual review in the WTO. (The European Union is now moving towards free trade agreements with the countries covered by the Lomé Convention.)

Arrangements to provide preferential duty free access for the exports of least-developed countries are among the initiatives being taken to follow up the Marrakech and Singapore Ministerial decisions. The WTO Plan of Action for Least-Developed Countries elaborates a comprehensive approach that includes macroeconomic policies and measures affecting the supply-side of these economies.

The Agreement on Agriculture recognizes that special and differential treatment is an integral part of the negotiations, and is specifically provided for in respect of certain commitments. The Uruguay Round Decision on Measures in Favor of Least-Developed Countries also recognizes that continued preferential access remains an essential means of improving the trading opportunities of these countries. However, the provision of tariff preferences, whether covered by derogation from MFN treatment or not, has the potential to influence the balance of benefits and concessions under the Agreement on Agriculture.

Preferential tariff arrangements may distort trade patterns, and discourage the development of a fair and market-oriented agricultural trading system. These arrangements may assist economic development in developing countries in some circumstances, but such benefits may be gradually eroded if they result in higher costs, and less productive industries. Developing countries that do not receive preferential tariff treatment may be discriminated against through trade diversion and harmed by market distortions. In cases where tariff preferences have been incorporated into tariff rate quotas, some with designated suppliers, the arrangements may discourage further trade liberalization for agriculture.

Tariff reductions through successive GATT negotiations, including the Uruguay Round Agreement, and the emergence of regional free trade areas, are reducing the benefits and the impacts of tariff preference arrangements. In some circumstances these developments have broadened the impact of preferential tariff arrangements, or given rise to reverse preferences which may increase trade diversion and distortion. The general benefits of multilateral trade liberalization should more than offset the potential impacts of eroding preferential tariffs. In the current environment of global market integration and freer trade, tariff preferences may have less relevance to economic development, and may cause unintended harm to the economies of recipient developing countries. Other means of providing development assistance may be more effective and beneficial in current economic circumstances.

There are many forms of development assistance that do not interfere with trade. Both Lomé and the US Caribbean Basin Initiative provide for direct development funding assistance. Where tariff reductions may erode the benefits of a preferential arrangement, development assistance could be provided through direct assistance programs. There may be options to decouple preferential tariffs or tariff quota arrangements to allow grants or payments between WTO members in lieu of preferential tariff arrangements. Such a WTO role in development aid is recognized in the Marrakech and Singapore Ministerial Decisions. Aid could also come through the resources of international financial institutions, with the aim of improving agricultural productivity, infrastructure and food availability, and of facilitating adjustment programs.

International Policy Council Recommendations

The Uruguay Round Agreement on Agriculture concluded in 1993 made significant progress in bringing agricultural trade under the rules of the multilateral trading system and reducing barriers to trade in agriculture. Moreover, that agreement established an architecture for pursuing further reductions in the barriers facing agricultural trade, and for supporting agriculture and rural economies in ways that are less damaging to global trade. Non-trade concerns in the rural economy for the environment and for rural society, shared by developed and developing countries, food exporters and importers, must be addressed in these negotiations, but in ways which do not distort trade.

The next round of trade negotiations in agriculture is scheduled to begin in November, 1999. The International Policy Council on Agriculture, Food and Trade applauds the continuation of negotiations in agriculture, and believes they should begin in 1999, as pledged in the Uruguay Round Agreement. The IPC, with members from developing and developed countries, and food exporting and importing countries alike, and representing many sectors of agriculture, believes that the negotiations should be shaped to meet the requirements of the emerging global food system. An abundant, accessible, affordable food supply of increasing quality, variety and reliability requires ever greater efficiency in the world's agri-food system. This cannot be achieved without continued trade liberalization simultaneously across all areas, including market access, export support, and domestic support and STEs. Continued trade liberalization will bring benefits to the entire agricultural sector. The IPC therefore offers the following recommendations for the upcoming negotiations:

1. **Market Access** — For many years, countries have used border measures to address non-trade concerns. The Uruguay Round began the process of transition from border measures to domestic policies. As the conversion of non-tariff barriers into tariffs required under the Uruguay Round Agreement has shown, tariffs on many agricultural products remain high despite the reductions undertaken in the Uruguay Round. Simply continuing the reductions called for by the Agreement will still leave some tariffs at prohibitive levels. There are two ways to address this issue. The IPC is of the opinion that reducing these higher tariffs at a faster rate, while bringing the lower tariffs down at a slower rate, is a more rapid means of opening trade. Tariff cuts should be based on a trade-weighted average across commodities. This approach would result in a more even level of protection across all products. A second approach could be to fix a certain percentage and to allow no exceptions, as was done in the Uruguay Round negotiations. In conjunction with such an approach, the IPC recommends expanding the guaranteed market access agreed to under the Uruguay Round by increasing the minimum access quotas by some percentage of domestic consumption per year. Tariff quotas were established in the Uruguay Round as a method of providing access for products undergoing tariffication. Despite the Agreement on Licenses, a wide variety of systems have been put in place, some of which are trade distorting. Therefore, the

Agreement on Licenses should be revised in order to improve the rules on the operation of tariff rate quota systems.

2. ***Export Competition*** — On the question of export competition there have been only modest changes. In view of the importance of balancing interests between exporters and importers, as well as the very real concerns of net food importers about food security, the IPC believes this anomaly should be addressed. With the reform of agricultural policies in the United States, and the recent reforms in the EU, the need for export subsidies will diminish. The IPC calls on the forthcoming negotiations to take decisive steps to eliminate export subsidies as soon as possible, in principle by the end of the implementation period. If this does not prove possible, a timetable for their elimination should be fixed. The Uruguay Round Agreement found export credits to be a form of export subsidy, but did not come to any conclusion on appropriate disciplines. The work done by the OECD should prove to be a useful basis for determining the subsidy element in export credit programs. The IPC believes that the subsidy element in export credit and promotion programs should be included in the export subsidy reductions in the next round.
3. ***State Trading Enterprises*** — State trading entities with special or exclusive rights to import are extensions of the market access problem. Similarly, state trading entities with special or exclusive rights to export are extensions of the export subsidy problem. The IPC believes that state trading entities with special or exclusive rights should be dismantled over time or, at the very least, Article XVII of the WTO should be re-interpreted so that they are not allowed to distort trade in any way.
4. ***Export Taxes, Licenses, Embargoes and Sanctions*** — Export taxes, licenses, embargoes and sanctions on food are as disruptive to the global food system and to international trade as export subsidies. To the extent that they raise concerns in the minds of food importing countries about the reliability of the international trade system, they perhaps do more damage than export subsidies by giving substance to calls for protectionism and food self-sufficiency. The IPC recommends that export restrictions on food be outlawed and phased out on the same timetable as import tariffs and export refunds.
5. ***Domestic Support*** — While the constraints on the level of domestic support through the Aggregate Measure of Support have done little by themselves to reduce the level of subsidies for agriculture, they have played an important role in the evolution of agricultural policy in the United States, Canada, the EU and elsewhere. It is important that the progress in converting trade distorting support for commodities into non-trade distorting support for farmers, trade distorting policies. Both the United States and the European Union have made use of the Blue Box, for example. While policy reforms in many countries have partially emptied it, the IPC feels that the Blue Box, which allows countries to use support policies which are not completely decoupled from

production, should be phased out over time or made subject to stricter criteria with the aim of being integrated into the Green Box. Finally, the IPC recommends that reductions in the Aggregate Measure of Support continue at the same rate as under the Uruguay Round, but that the allowable level of the AMS be made specific for certain commodities instead of averaged across rural areas and the environment continue in the negotiations. The IPC recommends that environmental preservation and rural development goals be explicitly recognized to be valid as Green Box policies. It must be clear that domestic policies which aim to promote healthy rural economies will continue to be possible through Green Box measures. The WTO or affiliated bodies should develop WTO-consistent criteria for the use of domestic policy measures to protect the environment which would fit into the Green Box. The Blue Box has also helped countries as they transition to less all commodities. This will continue to encourage countries to make use of the Green Box.

6. ***Sanitary and Phytosanitary Regulations*** — The Agreement on Sanitary and Phytosanitary Regulations is grounded, as it should be, in science. It is imperative that government regulations covering the safety of food be based on verifiable, repeatable science. This scientific evidence should be based on the work of internationally recognized organizations such as the World Health Organization, the Codex Alimentarius, et al. The IPC recognizes that regardless of whether a particular food or production method is safe, consumers often want to know how their food was grown and processed. This is not an issue of science, but an issue of labeling. The IPC believes that voluntary labeling practices that are based on verifiable attributes are the best means of keeping consumers informed. It would be useful for the WTO or affiliated bodies to develop general guidelines on how information (e.g., on GMOs or organic production processes) could be communicated to consumers without unduly affecting food processors or retailers, and without disparaging safe food produced by these methods.

7. ***Scope of the Round*** — Finally, the IPC recommends that the next round be a comprehensive round covering all sectors of the global economy. The cross-border movement of goods is necessary but no longer sufficient for the global marketplace. Other issues, such as foreign direct investment, intellectual property rights and competition policy also determine international trade. Thus, progress in areas such as investment and intellectual property rights will facilitate agricultural policy changes and assist in the development of a global food system that meets the needs of all countries. On the other hand, the timetable for negotiations needs to be limited, to prevent undue delays in reaching agreement and the implementation of desirable changes. The IPC would like to stress the importance of deadlines and regular reviews to ensure the negotiations are concluded expeditiously.

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The Mission of the International Policy Council on Agriculture, Food and Trade

The International Policy Council on Agriculture, Food and Trade (IPC) is dedicated to developing and advocating policies that support an efficient and open global food and agricultural system—one that promotes the production and distribution of food supplies adequate to meet the needs of the world’s growing population, while supporting sound environmental standards.



Founded in 1987, the IPC is an independent group of 35 leaders in food and agriculture from over 20 developed and developing countries, including formerly centrally planned countries. Members are chosen to ensure the Council’s credible and impartial approach, and include influential leaders with extensive experience in farming, agribusiness, government and academia. The IPC meets twice annually to develop policy recommendations to address the critical issues facing the world’s agricultural system. It then conveys its recommendations directly to policymakers through its personal contacts and through a variety of papers and studies. The IPC also convenes task forces and holds conferences and seminars.