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US Prospects for Agricultural Policy Reform

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At the June 29-30, 2000 session of the WTO Committee on Agriculture the US will table a comprehensive proposal. It was decided to table a proposal at the earliest possible time in order to gain a strategic advantage. The US proposal is likely to be the first comprehensive proposal and thus become the focus of the discussion over the summer.

The US proposal is divided into five parts: market access, export competition, domestic subsidy reform, food security, and developing country concerns. It is designed to gather support from the Cairns Group and from a broad array of developing countries. In fact, the US strategy is to gain the developing countries support for the US approach.

Market Access

The US is proposing that all tariffs, on all products, in all countries be substantially reduced. Specifically, the US proposes that higher tariffs be reduced more than low tariffs, by using a formula that will result in a substantial leveling of the tariff structure for food and agricultural products around the world. In addition, the US will call for an end to tariff escalation, which places higher tariffs on processed products than on raw products. This will be especially popular among developing countries. All tariff cuts would be from applied rates rather than from bound rates, which are often much higher than applied rates.

The US also will propose that all complex tariff structures be abolished. This would do away with minimum import prices, price bands, variable levies, and similar schemes. Only flat or ad valorem tariffs would be allowed under the US proposal..

The US is proposing that all tariff rate quotas (TRQ's) be substantial enlarged and that new rules as to how TRQ's are administered be agreed upon and put in place.

Finally, the US is proposing that importing State Trading Enterprises (STE's) be subject to new disciplines. However, it does not spell out the proposed new disciplines on importing STE's.

The US proposal also calls for agreements to insure that the products of new technology be allowed to move in trade without undue interference. This is clearly aimed at the EU and its continued blocking of products produced using biotechnology in the production process. The US wants to block the reopening of the SPS agreement and the application of the precautionary principle in international trade in agricultural products.

Export Competition

The US proposal regarding export subsidies is that they should be completely phased out. Since about 87 percent of all the export subsidy rights bound into the UR Agricultural Agreement belong to the EU, the US argues that the only way to achieve a level playing field in export competition is to abolish all export subsidies for all parties.

The US is very aware that the EU and the Cairns Groups want to count US export credit programs as export subsidies in the negotiations. The US is proposing that the export credit issues be negotiated in the OECD which is where the agreement on export credits for nonagricultural products was negotiated.

The US wants to bring the activities of exporting STE's under effective WTO control. The US calls for complete transparency for the transactions of STE's, an end to any government subsidies or guarantees for exporting STE's, and for allowing competition by removing the monopoly position of the STE's in their domestic market. This provision is clearly aimed at the Canadian Wheat Board, the Australian Wheat Board, and the New Zealand Dairy Board.

Domestic Support Measures

The US is proposing a dramatic overhaul of the limits on domestic supports. First, only two categories of domestic support would be allowed. They would be exempt support and nonexempt support measures. Presumably, the measures now in the "Green Box" would be in

the exempt category. Measures now in the “Blue and Amber Boxes” would be in the nonexempt categories.

In keeping with the level playing field concept, the US proposes that at the end of the implementation period each country bring its nonexempt support measures to an agreed upon percentage of the gross value of its agricultural production. The US is assuming that the percentage figure for the limit on nonexempt support would be negotiated. For example, the US and the EU each have about \$200 billion in gross value of agricultural production. If the agreed final percentage was 10 percent then the final allowed level of nonexempt support would be \$20 billion. Thus at the end of the implementation period each country would have an allowable level of nonexempt support based on the size of its agricultural output and each country’s level of trade-distorting domestic support would be the same percentage of its agricultural output.

The US proposal recognizes that some countries have an interest in multifunctionality, environmental protection, rural employment, and similar concerns. The US proposal says those concerns are legitimate and they can be met by transparent, targeted, and nondistorting policies.

Food Security

The US proposal takes the position that food security can best be assured by guaranteeing that all food importing countries have access to world food supplies. In this regard they propose two elements. One would prohibit export embargoes of food, except to protect national security. This would prohibit the kinds of embargoes that the US used in the past and still have in effect against Cuba, Iran, Iraq, and North Korea. The US proposal would bar the use of export taxes used for the purpose of controlling exports as the EU does when world prices rise higher than EU internal prices.

Developing Country Concerns

The US recognizes that it is crucial to obtain agreement among developing countries in order for the negotiations to succeed. Thus, for the first time the US is attempting to show some leadership in provisions for developing countries.

The US suggests that it will consider special access for the products of special interest for the least developed countries. The US proposal is not specific as to how and what this would entail. Second, the US proposal would place all economic development programs of developing countries in the exempt category insofar as limits on domestic subsidies are concerned. Third, the US proposes that developing countries be given more time for the implementation of tariff reductions. However, the US is likely to oppose the idea that developing countries be allowed to take smaller tariff reductions.

Prospects for Agricultural Policy Reform: European Perspective

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1. Background

For a long time, the EU pursued an inward looking, protectionist agricultural policy. This phase reached an impasse at the beginning of the last decade, mainly because of

- escalating budget expenditures
- and increasing conflicts with trading partners.

The motivation for agricultural policy reform was also influenced by growing public and political concern about other issues:

- pollution of the environment by highly intensive agricultural production systems,
- unfavourable agricultural income development, especially in the sector of small scale full-time farming,
- gloomy general economic perspectives for remote rural areas.

Therefore, at the beginning of the 90s the time was ripe for a more fundamental reform of the CAP.

The **CAP-reform of 1992** (“Mc Sharry-reform”) has to be considered as a first step of a more longstanding CAP-reformprocess. It brought the CAP on a new path and opened up the door for an active participation of the EU in the GATT-Uruguay-round.

The **Agenda 2000 CAP-reform**, which has been ratified in March 1999, can be understood as a second step in the reform-process. It is based on similar objectives and principles, but it is confronted with new challenges, especially the prospects of the eastward enlargement of the EU and the upcoming new round of WTO negotiations.

This paper offers a short overview on the present status of the CAP-reform process according to the Agenda 2000 decisions, and some considerations on the direction of possible future reform steps. Hereby, I will focus on those issues which are supposed to be in the centre of discussion in the next round of trade negotiations: the reduction of external protection and the ways and means of internal support, including some comments on the controversial issue “multifunctionality” of agriculture.

2. Status of CAP reform in the area of market and trade policy

The CAP-reform debate in the context of the Agenda 2000 was initiated by a rather ambitious proposal of the EU-Commission. Technically, the foreseen measures on the market side were in line with those of the Mc Sharry-reform: The guiding principle was to reduce the institutional prices for key commodities and to offset the resulting income cuts for farmers completely or partly by direct payments. But the motivations behind and the long-term visions connected with these reform proposals were rather different: While the 1992 reform was mainly driven by internal and external necessities, Commissioner Fischler and his team tried to “sell” the reform proposal offensively as contribution to general social objectives:

- **the integration of European agriculture into the world economy**, as an inevitable consequence of globalisation and the WTO process,
- **the improvement of the competitiveness of European agriculture**, as a precondition for and a result of liberalisation.
- **the support of general rural development**, as an cohesion objective of its own, but also as an incentive for labour absorption from agriculture and structural improvements in the farming sector,
- **the integration of environmental goals into the CAP**, which has started already in 1992 but which is now being pursued more systematically.

This principle “philosophy” of Mr. Fischler and the EU-Commission has lead to a rather ambitious set of price reductions combined with high dimensioned amounts of compensation payments, which seemed to be necessary to have a chance to get acceptance in the Council of Ministers.

The elaboration of a consistent proposal for price reductions and direct payments for agricultural commodities, under the restriction of a given budget line, political preferences for balanced compensation payments, and under the conditions of unstable world markets, is a challenging scientific task. Therefore, the EU-Commission commissioned some scientific expertises on this issue (see: European Commission, February 2000).

In spite of its balanced character, the proposals of the EU-Commission provoked strong protests by farmers unions, demonstrations of farmers in Bonn and Brussels etc. Correspondingly, there was a series of controversial discussions within national governments (mainly between Ministers of Agriculture and Finance), there were several rounds of

negotiations within the Council of Agricultural Ministers (which revealed a certain range of different national views), until finally the Agenda 2000 CAP-reform-decision was taken at the Berlin-Summit, where also some Heads of State (who are not known to have superior knowledge on agricultural policy issues) left their mark in the specification of the final decision.

Table 1 shows some key figures on price reductions and degree of income compensation for both: the EU-Commission **proposal** and the final **decision**. These figures illustrate to what extent the proposal of the EU-Commission has been modified in the political negotiation process. For comparison purposes, also the results of the Mc Sharry-reform have been added in this table.

Commenting on the basis of these figures, the following balance can be taken: Starting from the high protection levels of the “old CAP”, the **Mc Sharry-reform** resulted in significant price reductions for grain and beef, combined with a big burden of direct payments for the EU-budget. Yet in spite of the large scale price reductions, the distance to world market prices was still large.

The ambitious **EU-Commission proposal** would have nearly closed the gap to world market prices for “grandes cultures” under “normal” conditions (figure 1). The result of the realisation of this proposal would have been a significant reduction of the financial burden for export subsidies and, economically still more important, an increase of international competitiveness of European agriculture, especially the highly efficient European pork and poultry production. Yet it has to be conceded: Even under the EU-Commission proposal, the sugar sector was completely excluded (as in many other countries, too), and the (limited) price reductions for milk commodities can be understood as a symbolic first step only.

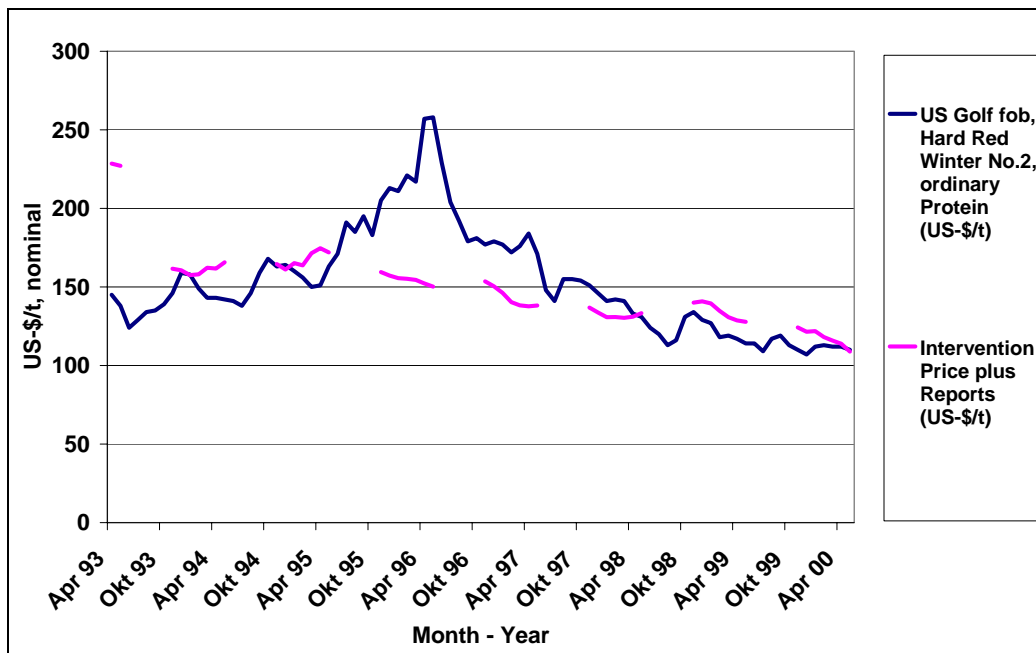
Table 1: Cut of intervention prices and compensation payments in the different reform steps

Mc Sharry –Reform 1992		
	price cut	income compensation
grain	30 – 40 %	100 %
beef	15 %	100 %
Compulsory set-aside rate: 15%		

Agenda 2000 CAP Reform		
Commission Proposal		
	price cut	income compensation
grain	20 %	50 %
beef	20 %	differentiated
milk	15 %	partly
Compulsory set-aside rate: 0%		
Final Decision		
	price cut	income compensation
grain	15 %	50 %
beef	20 %	differentiated
milk	delayed, after 2005	
Compulsory set-aside rate 10%		

Remark: Partly simplified categories and figures. Detailed explanations and figures can be found in: Knaster, 1999

Figure 1: Wheat Prices USA and EU (1993 - 2000)



Source: Agrarwirtschaft, various issues

In the political negotiation process at the Council of Ministers and, finally, on the level of the Heads of State, the EU-Commission proposal was watered down considerably, but it is, nevertheless, a significant step in the right direction. Yet with respect to the envisaged strategic objectives:

- to prepare for an early integration of CEE-candidate countries,
- and to develop an offensive negotiating position for the next WTO-round,

the final decision package has considerable deficiencies.

Therefore, the **Agenda 2000 decisions** have to be considered as a step forward, but also as a starting point for further reform steps. This seems to be true even when most farmers' unions and some governments declare that the Agenda 2000 decisions have to be taken as the utmost concession from the EU-side.

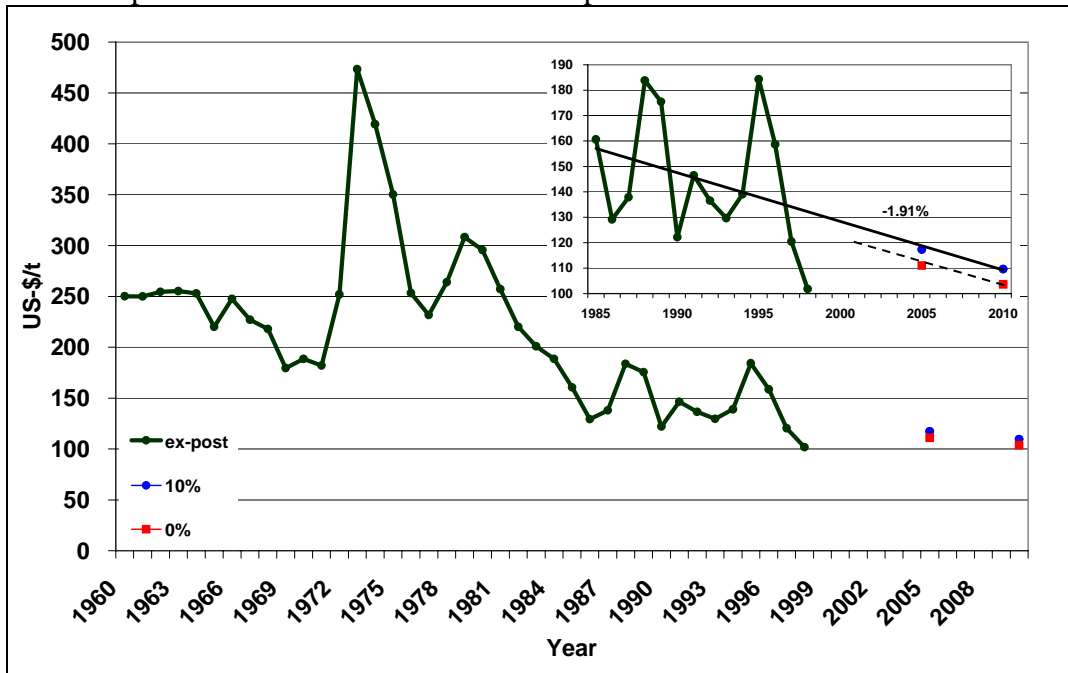
3. Prospects for further steps of CAP-reform

The CAP as it stands after the Agenda 2000 reform, seems to be consolidated in that sense that little **internal** pressure exists as driving force for additional reform steps. Only a further period of very depressed world market prices might necessitate emergency actions, because of budget limitations or because of difficulties to fulfil WTO obligations. But in this case, many other countries would have similar difficulties, too. Therefore, it seems to be useful to have a closer look at the development of world market prices.

3.1 Perspectives of world market developments

Figure 2 shows the long-term development of the world market price for wheat, which can be considered as typical for the whole sector of “grandes cultures”. Characteristic are the long-term trend of significant price reduction in real terms and the large price fluctuations. The figure shows the extremely depressed present price situation. Therefore, agriculture experiences great income pressure in many countries of the world, and some governments feel obliged to increase direct income support up to unusual dimensions, especially in the USA (see figure 3).

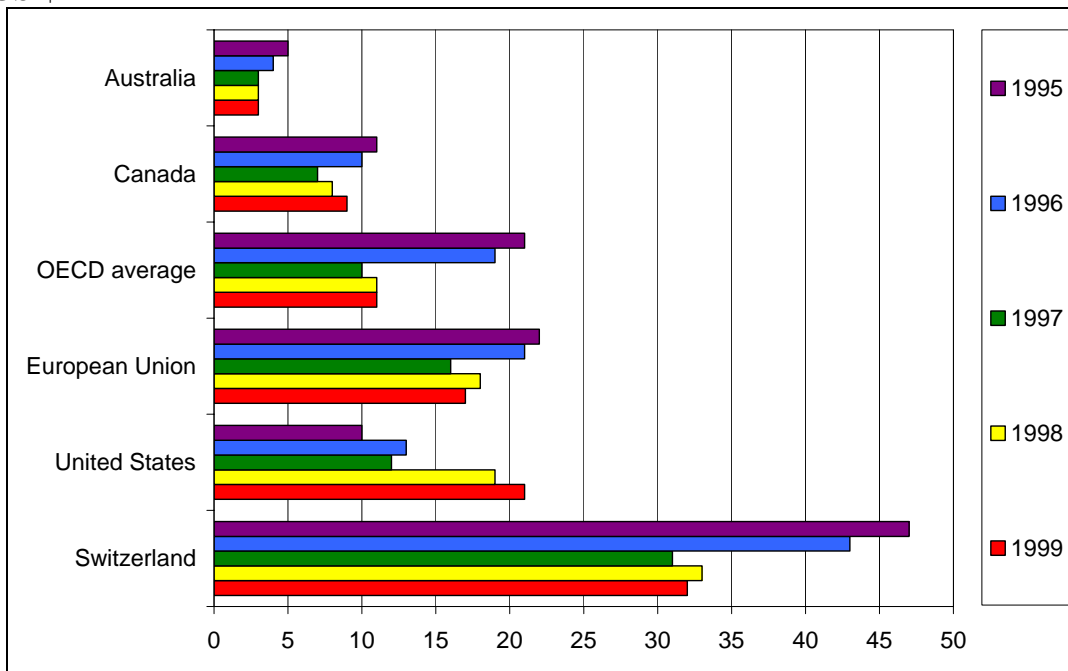
Figure 2: Wheat - International reference price, constant 1990, U.S. Gulf fob and Simulation run - Impact of European Union set aside rate on world prices



Source:

- a) Summary of U.S. and international reference prices 1960-1998 (USDA 1999)
- b) Simulation scenario of WATSIM modelling system 2005 and 2010 (own simulation, baseyear 1994)

Figure 3: Producer Support Estimate per full-time farmer equivalent selected OECD countries, 1000 US-\$



Source: Agricultural Policies in OECD Countries, Monitoring and Evaluation, OECD, various issues

Ex-post Analyses and simulations of world market developments under various scenario-assumptions have been performed with the “World Agricultural Trade Simulation System” (WATSIM) at Bonn University. The results show that present world market prices for agricultural commodities are very much depressed in relation to medium-term price trends which can be expected under “normal” conditions on the supply and demand side. The upper section of figure 2 shows that the actual wheat price is about 30 % lower than can be expected under “normal” conditions.

Moreover, it might be an interesting information in this context that, according to WATSIM simulations, the set-aside program of the EU has contributed significantly to avoid world market prices to fall even further: The 10 % set aside rate in the EU tends to increase world market prices of grain by about 5 %.

To take up this line of argumentation, WATSIM-simulations indicate that a concerted action on set-aside restrictions in the main grain producing countries might help to avoid extremely depressed world market prices over a longer period, and by that, annoying increases of “emergency payments”. To illustrate some magnitudes: If, for example, the European Union and the United States would agree for some period on a common set aside rate of 10 % the world market prices for grain would be lifted in an order of magnitude of 15 %. This would mean that the depression of present world market prices for grain as well as the political pressure for direct payments would be significantly reduced. On the other hand, there would be no danger for a long-lasting “monopolistic strategy” of quantity restriction: When the world market price for grain approaches a “normal level”, farmers would be interested to make full use of their production capacities.

3.2 Short comment: CAP-reform pressure from the Seattle WTO-round?

Given the present status of CAP-reform, I do not see any **fundamental** difficulties for the EU

- to play a constructive role in the WTO negotiation process
- and to fulfil the to be expected resulting obligations.

This seems to be especially true for the “grandes cultures”. The protection of sugar is a problem for many developed countries, therefore improvements in this area will have to be found

in mutual agreement. The still high protection for milk commodities will be a most serious issue until a further significant reform step has been done in this area.

With respect to internal protection, the not completely decoupled transferpayments for grandes cultures and beef are not compatible with WTO rules. Within the EU, the question of decoupling is an issue of controversial discussion. Agricultural interest groups (and most Agricultural Ministers) advocate production related payments, in order to justify them as longer term measures. On the other hand, a complete decoupling of transfer payments is advised by Scientific Advisory boards, not only as a step to reduce international trade distortions but also to stimulate structural adjustments within EU-agriculture, and to increase hereby its international competitiveness.

As a related issue, the question of remuneration of externalities from agricultural production has to be considered, which has become an issue of controversial political debate under the keyword “multifunctionality of agriculture”. This is a complicated issue, which will be taken up in the final section of this paper.

3.3 Short Comment: CAP-reform pressure from EU-enlargement?

It can be expected that the pressure for CAP-reform resulting from the eastward extension of the EU is much larger than that from the WTO process.

The difficulties will not come that much from the market side. It is a constitutive element of an extended European Union to have a common market, and in the meantime the initial discrepancies between the market prices in the EU-15 and the CEE-candidate countries have converged somewhat, so that the creation of an extended Common Market under the umbrella of WTO obligations should not be a too difficult task.

Much more pressure for CAP-reform will result from the high dimensioned direct payments. A plain extension of the present system of direct payments would have two problematic consequences:

- It would increase the overall amount of transfer payments far beyond the ceilings, foreseen in the Agenda 2000 decisions up to 2006.

- Further, this would not fit to the specific necessities of the CEECs. The dimension of transfers to the agricultural population according to EU-15 conditions would not be in balance with the income situation of other groups of the population. But still more important: The large dimensioned financial transfers from EU-15 to the new member states should be concentrated more on the investment side (infrastructure, support of private investments) than on general income support, i.e. on the consumption side.

Therefore, the following suggestions for the EU-enlargement process may be drawn from the viewpoint of agricultural policy:

- According to some political high level pressure for an early integration of candidate countries, the creation of a common market for agricultural commodities could be envisaged from the beginning. The already realised degree of market convergence should enable this step without restrictions. Some special problems would be created by the markets with quota regimes, milk and sugar. Further, the fulfilment of quality and safety standards according to the *acquis communautaire* will be a difficult task, but of crucial importance.
- The alignment of structural policies and income transfer policies could be realised stepwise during a somewhat longer transition period, according to the example of previous enlargement steps. For the CEECs, this would have the advantage, that during the interim period, the foreseen support measures could be better tailored according to their specific needs.

4. Short comment on the controversy about “Multifunctionality”

In most European countries various policies which contribute to the preservation of natural resources and the amenities of the countryside have been applied already for a long time. On the EU-level, some **environmental measures** and programs have been included into the Mc Sharry reform package as “accompanying measures”, e.g.: financial support for “organic farming”, for afforestation, for the preservation of biotopes etc. The same is true for the support of **rural development**, which has a long tradition in many European countries, and which has found for some time its place in the “structural funds” section of the European Commission.

With the Agenda 2000, both policy areas, the agro-environmental policy and the rural development policy, have been promoted, at least verbally, to key areas of a more comprising

policy concept for agriculture **and** rural areas. In the wording of the EU-Commission, an integrated strategy for rural development has become “the second pillar” of the CAP. There is little time to deal with this issue in my short presentation. Yet the wording looks ambitious, and the catchword “multifunctionality” of European Agriculture, which has been attached to it, might look suspicious to many foreign observers. But if you have a closer look at the present list of specific measures in the area of environmental and rural development policy, you will see that most of them do not have any significant trade distorting effect.

Also, if you look at the proportions of financial endowment, the fears of foreign observers might be mitigated: The present total EU-15 budget for the whole complex of environmental and rural development measures is ca. 4,3 billion ECU in comparison to ca. 38 billion ECU foreseen for income transfer policy. Only when a move toward much broader and less specific support measures as well as a significant shift of endowment would take place, the question of “multifunctionality” could become a serious problem with respect to trade distortion. But this has not to be expected, at least for the near future.

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Cairns Group Prospects for Agricultural Policy Reform

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Introduction

Our subject today is “Prospects for Agricultural Policy Reform.” Note, not trade reform or liberalization. However the descriptive text on this topic does refer to “free trade”. I will therefore comment on prospects for trade liberalization, as well as what the Cairns Group wants.

Of course, trade liberalization and Agricultural policy reform go together, but which comes first? There are those who argue that policy must reform agriculture before trade can be liberalized. But the evidence is clear on this subject. Freeing up trade will reform agriculture and drive efficiency much more quickly than policy reform ever will. Furthermore, it will do so more effectively. In fact, trade liberalization ranks with the budget as the two primary drivers of agricultural policy reform. They both provide compelling reasons for governments to take the politically hard decisions, to reduce support and reform agriculture, in the face of well-organized farming lobbies.

The Cairns Group of countries is comprised of largely non-subsidizeings, free-traders, who have more open markets, less support than other countries, and thus more competitive agriculture. To date, their reforms have placed them much closer to the desired goal of deregulated, unsupported, market driven agriculture than other WTO member countries. Of course there are exceptions on both a country and product basis. But reform has continued and is well advanced in most Cairns Group countries.

Trade reform

The prospects for progress in the immediate future are not encouraging. There are five broad reasons for this:

- Budgetary conditions - such powerful drivers of reform in the late 80's and early 90's are presently not an issue for many countries, especially the European Union and the United States.

- Those who will lose from free trade, generally less efficient industries in well-developed countries, have rallied their forces. They have cleverly facilitated coalitions of single-issue groups concerned with issues such as the environment, labor, food safety, GMO's, animal rights, and nationalism. These groups are passionate about their crusade. They appeal to emotion and prejudice. They have been persuaded that free trade represents a serious threat to their individual concerns and collectively, they constitute a strident yet powerful lobby. At present their clamour is drowning out the logical and more reasoned arguments for free trade. Sadly, the passion they exhibit for their cause is not matched by proponents of free trade.

- The lack of leadership by the United States in trade negotiations is a problem. The United States has always been an enigma. Successive administrations have resolutely pursued trade liberalisation. Yet Congress has often appeared determined to retard it by defeating or delaying trade bills, and when passing them, only by a narrow margin. The United States frequently takes other actions which are inconsistent with free trade and thwart agricultural policy reform (e.g. the lamb import quota and punitive tariff). After the far-sighted reforms of the "Freedom to Farm Act" recent large increases in budget appropriations are a major, disappointing step backwards. Without strong and committed leadership by the United States it is difficult to see any quick progress on trade reform.

- Developing countries are suspicious of WTO trade reforms. Some developing countries feel that they got a poor deal in the Uruguay Round which promised benefits that have not been delivered. Conversely, if there were a cost for them, they are conscious of having paid it. Consequently, they are suspicious of free trade, those who promote it, and of the trade aspirations of western countries. They are therefore less enthusiastic now about free trade than they were prior to the Uruguay Round.

- The inertia throughout the European Union is also a hindrance to free trade. The European Union consistently presents bold and visionary concepts, but it has become increasingly inward looking. This is understandable. The EU is focusing on enlargement. Its creative energy is being absorbed in the process of government and nation building. Its vision does not extend beyond Europe at this time. The European Union's unwieldy structure means it is incapable of anything more than minor change in agricultural policy and trade. Agenda 2000 was minimalist. It does little to make European agriculture more efficient and competitive.

Despite these negative conditions for reducing barriers to free trade, trade liberalization is inevitable. The powerful forces driving globalization of freedom and technology ; the freedom to choose, to speak, to listen, to learn, to travel, to experience, and to act,- as well as technology, will eventually overwhelm all else. Even the most carefully constructed and staunchly defended trade restricting systems will eventually give way. I am certain of this, but less certain about how long this process will take.

Cairns Group of Countries

The Cairns Group is not a Union. There is a common, but not identical or even uniform position in the Cairns Group. Member countries remain resolutely committed to trade reform and free trade. They recognize that the Uruguay Round has been beneficial to them, even though it was a minimal agreement. Benefits through increased access, lower tariff and export subsidies have all been helpful. In addition, the dispute resolution process has provided small countries with redress against unreasonable actions by large countries. A number of small countries have brought disputes over unfair actions by large countries. For example: New Zealand/European Union concerning spreadable butter, New Zealand/Canada concerning special milk classes, and New Zealand/United States concerning lamb.

The Cairns Group Objectives

The Cairns Group wants the present WTO negotiations to be much broader in scope. Member countries have different definitions of "broad". However, all of their ideas include a comprehensive package which should be achievable within three years.

In order to reach this goal, there needs to be a substantial increase in market access, substantial reductions in tariffs, both of which must be comprehensive in nature. In addition, expanded tariff rate quotas, reductions in quota tariffs, and tariff equalization are needed. Export subsidies must be eliminated. Agricultural waivers must be removed and agriculture brought within the scope of the WTO rules.

WTO member countries must restrain from trade distorting, trade restricting actions during the negotiation. It is also important to note that Cairns Group countries do not want a round that takes seven years to complete and a further seven years to fully implement. In addition, it is unlikely that they will agree to extend the “Peace Clause” beyond 2003.

Conclusion

When during the Uruguay Round, Ambassador Clayton Yeutter insisted that the views of countries other than the European Union and the United States be taken into account in conducting negotiations and the framing of an agreement, the dynamics of WTO negotiations changed. That led to the formation of the Cairns Group. Since the Uruguay Round, the dynamics of multilateral negotiations have further changed. Developing countries are suspicious; some see bilateral or regional trade agreements as an alternative to multilateral trade negotiations and are actively pursuing them. They will insist on being involved in future negotiations. They will no longer simply accept whatever the European Union and United States agree to.

For the present round to succeed, the negotiation process will need to be very inclusive. The European Union and the United States must understand this and accommodate the aspirations of a much wider range of interests.

The challenge in front of us all is very large. But there is a huge prize for us all. Trade brings prosperity to the rich and poor alike. Free trade brings it faster and in larger measure.

A Commentary on the Success of the Seattle Round WTO Negotiations: A Developing Country Perspective

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Former President & Council Member of the Sociedade Rural Brasileira

Was the Seattle Round of the WTO Negotiations a failure? Many people do perceive it as a failure. It certainly represents a delay in the start of the agricultural negotiations. However, we should also look Seattle from the other side and try to see if there is a positive outcome. It is possible that, in the end, the negotiations will have a better chance of success, due to the perceived failure in Seattle.

It was made clear in Seattle that the developing countries are unsatisfied with today's terms of world trade. We live in an unequal world and trade could certainly improve equality. Trade could and should be the motor of development. Agricultural trade, for the majority of developing countries, could become an extremely important motor of transformation. Has the WTO, or GATT in the past, performed its task of promoting this? I do not wish to be negative, since we can certainly find important exceptions. However, in general, I would say the answer is no.

Can the Uruguay Round be seen as a success? Unfortunately we in the developing world do not see it as a success. Yes, it formally included agriculture in the WTO. Yes, we have a reasonably good SPS Agreement. But has it promoted development? Has it really opened the tightly held and extremely important markets of the developed world? Certainly not. The best you can say is that without the Uruguay Round trade terms could be worse.

Accepting that we would be worst off without the WTO is not sufficient. The developing world expected more from the negotiations. A better outcome would also have benefits for the developed world. Promoting development is critical for us. It represents higher incomes, more jobs, and better living conditions. But it is also good for

the developed world, providing greater exports to the developing world, stronger assets for the developed world, and investment opportunities in our countries.

More can be attained. If we missed our opportunity in the Uruguay Round we should not miss it again this time.

I do not want to give the impression I am complaining. We in the developing world have made enormous errors on our own. We still have a huge amount of work to complete in our own countries. But WTO agricultural trade terms make matters a lot more difficult. One should not expect the developing world to sit still and not tell the developed world that this situation is not helping us.

We need development with or without the understanding and support of the developed world. The importance and growth of trade between the developing countries is impressive. Regional agreements with our neighbors will also help. Our own internal markets are our most important assets. But this does not mean we should stop looking at the markets in the developed world.

We need shiploads of soya to pay for the information technology necessary for our development, and truckloads of beef for a handful of microchips. These are the agricultural trade terms of today, and it looks as if it will not change any time soon.

The Uruguay Round took more than a decade to finish and implement. The new round has not started. I have told my sons, and will tell my grandsons, that we will probably have to grow and develop without the assistance and understanding of the developed world. We will have to work more and more to pay for less and less.

We have seen that “Freedom to Farm” in reality represents only free access to the US Treasury for American farmers. Because of the pending enlargement of the European Union, the common agricultural policy may be reformed to their interest, and we are told that eventually this maybe good for us. We understand that rice is so important for the Japanese culture that we should not discuss progress for any other agricultural product.

We begin to believe that progress in agricultural trade probably will not happen, at least in our lifetime. Do not expect the developing world to applaud this scenario.

We are not against farming and farmers in the developed world. Please do not turn the multifunctional aspect of agriculture - which we all agree is an excuse for unreasonable protectionism - against us. As farmers ourselves, we believe in the multifunctionality concept, but we consider the development function of agriculture to be the more important.

We will remain optimistic and look towards progress. Why is it so difficult to eliminate export subsidies, in all of its forms, be it the explicit European restrictions or the disguised American format? Why will we need half a century for this? If we continue progress at the present speed, when it happens, it will not be needed. Or the gap between developed countries and developing countries will be too large to cross. Why can't we obtain a fast agreement, in this worst kind of trade distortion? Export subsidies have nothing to do with any of the interpretations of the multifunction of agriculture, or with misinterpreted food aid or massive income supports. Why must we take so long? Is it justified? Has the developed world understood how much this costs us, and how much this hurts our capacity to import and our financial condition?

Is it so difficult to negotiate this first step? If it takes more than a decade to negotiate and implement this explicit trade distortion - certainly the most simple and basic first step - we can forget the rest. Let us not delude to ourselves, we will not be speaking seriously of trade negotiations anymore if we cannot make progress on this most fundamental issue.

Trade negotiations could be the motor of development for many nations. Negotiators have to understand that the agreement being discussed must mean more than a short-term good deal. What we should be striving towards long term objectives, where all countries stand to gain, both developed and developing nations.

Perceived Gains from Agricultural Trade Liberalization, Regional Trading Agreements and Preferential Arrangements

Dr. Liberty Mhlanga
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The International Policy Council on Agriculture, Food and Trade's (IPC) very first plenary & seminar organized in Africa was held at the Victoria Falls October 13 and 15 1999. The major reform programs going on at the time include the constitutional reform, land and economic reform.

A commission was set up to sample the country's opinion on this. A referendum followed. The electorate rejected the constitution. Land transfers to blacks was one of the major wishes by the government. Land - the government argued was the basis for meaningful economic development moving towards poverty alleviation among the rural poor.

Government has since promulgated a land acquisition law through parliament. This process has been coupled with fiercely contested parliamentary elections in which the governing party has been facing its major challenge since independence in 1981 from opposition parties.

For any discussions on Zimbabwe today to be meaningful the above issues - constitutional reform, land and economic reform – can not be ignored.

So, the WTO should be looked at in this context. This brief paper will deal with:

- 1) Perceived gains with agricultural trade liberalization.
- 2) Regional trading agreement challenges and the future of preferential agreements, as they relate to Zimbabwe.

A paper entitled “WTO Agreement on Agriculture, Zimbabwe’s Problems, Interests and Concerns in the Next W.T.O Round,” prepared by the Commercial Farmers’ Union of Zimbabwe, (presented at the Seattle WTO conference preparations held in Harare on the 25th & 26th of October 1999) stated that experience over the last five years shows that the WTO trade agreements are currently insufficient to contribute to the eradication of poverty and promote an economically, socially and environmentally sustainable path for agriculture development on its own. Zimbabwe’s interests in Seattle were to seek instruments, while at the same time seeking greater access to developed country markets. “Green box” measures are not perceived as meaningful to Zimbabwe in the foreseeable future as their exclusion is considered very expensive. What Zimbabwe is looking for is more equitable trade agreements and tariff regimes which prevent government intervention in agriculture from distorting trade, while at the same time removing non-tariff barriers and increasing market access to developed country economies. Developed countries are expected to float the concept of multi-functionality. In Zimbabwe’s case this means support for conservation of the environment, water resources and wildlife preservation. Zimbabwe and a number of other developing countries feel that these topics are taken care of by already existing organizations like UNDP and CITES.

1. Perceived gains with agricultural trade liberalization:

Zimbabwe sees itself as a major player already in its tobacco production; sugar, beef, horticulture and the agricultural based textile industries, none of which enjoy government subsidies. Removal of tariff barriers by other countries in most of these commodities would enable Zimbabwe products to compete favorably as most models on free trade show gains. Sadly, as perceived by Zimbabwe, developed countries which have had many years of trade in some of these commodities have started introducing new issues in addition to already existing topics in previous rounds – eco – commerce, environment, phytosanitary requirements, structural adjustments and others. Zimbabwe and other developing countries still need more agricultural know how, budget support, technical support, capacity building a level playing field, more time to build themselves up so as to be able to compete with developed countries. The WTO is one forum that

they can participate in with developed countries and could feel as equals, not so much from the point of view of carrying equal votes, but by consideration of the fact that some developed countries are willing to provide personnel and other support so as to be able to compete at the world level at an early future date. Zimbabwe is forced by circumstances, to form alliances with countries in the region which have developed economies like SOUTH AFRICA which, if Zimbabwe joins in the Cairns group would start building up a critical mass which would help these countries to acquire negotiating power in the W.T.O.

2. Regional trading agreement challenges and preferential arrangements future as they relate to Zimbabwe

Zimbabwe is a member of SADC, COMESA, ECA, CAP, The World Bank, and The United Nations family of organizations.

We summarize in a synopsis the impact of the WTO and other trade agreements on Zimbabwe, especially as they relate to agriculture, textiles, industrial tariffs trade and services, trade and investment, trade facilities technical assistance, technical barriers to trade and sanitary and phytosanitary regulations, extracted from a report by IMANI, 1999. Zimbabwe activities in each of these areas is briefly outlined. Formation of these bilateral and multilateral organizations does not always mean cooperation. The very nature of these clusterings like NAFTA, EU and others imply that to get into these creates restrictions to some and could be lucrative markets to help the above, Zimbabwe facilitates private sector participation in the following manner (as states in the paper from the Ministry of Agriculture – Zimbabwe at Victoria Falls, 1999).

- Participation in international regional and bilateral trade negotiations.
- Providing a conducive trade environment
- Strengthening institutional capacity to monitor quality health and environmental standards of both imported and exported commodities.

- Participation in the work of international standard setting bodies improving database or agricultural production and trade and information flows between public and private sectors.
- Promoting tariff policy that stimulates domestic and export competitiveness.
- Infrastructure development, particularly information technology and transport links.
- Role of Zimbabwe's private sector in the Globalization environment.
- Product development based on sustained technology transfer.
- Cost production.
- Private sector development and investment.
- Programs of quality improvement.
- Effective marketing strategies.
- Value addition.
- Market diversification.

Taking advantage of new opportunities on regional markets.

China's WTO Entry and Agricultural Policy

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After twenty years of reform, China's agricultural and food sector is faced with a number of completely new challenges. With Lester Brown's gloomy prediction on China's food crisis still ringing in our ears, the persistent surplus of agricultural commodities and the rising governmental subsidy put the Chinese policy makers under heavy pressure. With the pending WTO entry, the pressure will be even more intense. Some major reform measures have been taken in the last two years, measures which have yielded mixed results. Further adjustment of policy is urgently needed to meet the challenges arising from the WTO accession. It seems clear that the preparedness of the country for the approaching WTO entry is not sufficient, at least as reflected in the fragmented structure of the agricultural policy-making system. China's positions on many strategic issues most likely included in the agenda of the next round are still not very clear. Decision-making in some areas may be much harder than in others due to China's dual role both as a big importer and a big exporter of agricultural products. The following comments are very preliminary personal views, observations and speculations.

New market development and policy concerns

Chinese farmers have been faced with a sluggish market since 1996. The heavy flooding in 1998 and widespread drought in 1999 did little to change the prevailing oversupply situation. This surplus has meant falling prices for all major farm products, stagnating farm income, the stockpiling of grain, cotton, tobacco and other commodities, and soaring state budget outlays for subsidy.

Prices for grain and cotton, the major crops in China, have fallen continuously since 1995. Their current price level is only about 60% to 65% of the levels sustained in 1995. Similarly, prices of other crops and livestock products have declined substantially. The consumer price index in 1999 is 109% of that in 1995, while the price index for food is 100%, and only 80% for agricultural products at farm-gate.

The price decline of agricultural products results from bumper harvests in consecutive years and stagnant demand. Except for cotton, production of major commodities has risen considerably over the past few years. On the other hand, demand has been low due to a series of reforms introduced in several key areas of the economy including housing, schooling, medical care and state-owned enterprises. While reform in state-owned enterprises has resulted in dramatically increased unemployment, laid-off workers are provided with a living allowance of only 20% to 30% that of the normal wage. At the same time, the reforms in housing, schooling and medical care have all meant a dramatic rise in household expenditure. The housing reform, for example, requires households to buy the apartments they have been living in. The majority of the households have had to draw on most or all of their savings to accomplish that. Given the fact that the majority of households had paid only 2% to 3% of their income for rent, the housing reform alone has had enormous impact on consumption of other commodities, including food. Fearing even further price pressures, people have become very thrifty indeed. As for the farmers, they are faced with similar price pressures. While their income has risen slightly, this income growth is more than offset by the increase in rural taxes and various other kinds of levies and fees.

Demand for cotton has been low due to two major factors: the increased use of chemical fibers and the declining export demand for textiles as a result of the Asian financial crisis. According to official internal estimates, both grain and cotton stockpiles are already sufficient to meet one year's need.

The surplus and soaring stockpiles have brought two major consequences: stagnation in farm income and a dramatic increase in governmental subsidies. According to official statistics, the per capita income of farm households has been increasing, but many local officials and analysts are skeptical about these reported figures. Moreover, the increase is calculated on the national average, but regional gaps are widening, with the eastern coastal provinces as net gainers and the vast inland provinces as losers. In addition to that, the income gap between rural and urban populations has further widened in recent

years. The ratio of a farmer's income as a percentage of that for urban residents was 41% in 1997, 40% in 1998 and 38% in 1999.

The government has made significant efforts to change this trend and has spent an increasing share of the budget pie for agricultural market support. The government subsidy for grain and cotton has soared in recent years, more than doubling during the period from 1995 to 1999. This figure would be higher still if the bad debts of the state grain marketing system had been fairly and properly reported. All of this has put the policy makers in a rather difficult situation. The grain reform was originally aimed at reducing the losses made by the state marketing agencies and their consequent need for government subsidy. The actual result is exactly the opposite.

New policy measures

Among all the agricultural policy changes in recent years in China, the 1998 changes in grain policy are probably the most controversial. On paper, the policy should serve as a support for farmers, but the true goal of the policy is to reduce the governmental budgetary burden for subsidizing state grain marketing. Both the policy design and implementation have proven to be a problem.

During the period 1992 to 1998, debt in the form of bad loans in the state grain marketing sectors had accumulated to 214 billion yuan, or about half of one year's state budget income. The basic idea of the 1998 policy change was to let the state grain marketing companies gain a monopoly by purchasing the entire marketable grain crop from the farmers for resale at higher and profit-earning price levels. The Agricultural Development Bank would provide loans to local state grain marketing companies for each proved purchase and get the money back from each controlled grain sale. The central government would set a fixed price, called the protection price, for each grain category. Local state grain marketing companies would then be obliged to buy at this price level. Other than the state marketing companies, no other kind of trader would be permitted to purchase from farmers. Non-state traders, including feed mill and food mill, would be forced to get their raw material only from the state marketing companies. The rationale of the policy is that if the state grain companies have all the grain from farmers,

then it is possible for them to manipulate the price to get high profit. With that profit, the accumulated debts in the previous years could be repaid.

However, in practice, this policy has not been followed well by the local state grain marketing agencies. It is estimated that in most places, only 10% of the total production and 30% of the total market sales have strictly followed this policy. Several reasons explain this result. First, local state marketing agencies have been reluctant to follow the mandate of the central government to purchase grain from farmers at the set high support price without restriction on the amount. The local governments also have little enthusiasm or motivation to follow the policy. This is because that for every ton of grain purchased, the central government only provides a meager subsidy of six cents a kilogram, or about eight US dollar per ton, for storage and interest costs. In addition, the storage capacity is limited. The grain warehouses have completely filled and, since the state grain marketing companies have been reluctant to purchase unlimited amounts at the support price, private traders have seized the opportunity to purchase at lower prices. The private intermediate activities are illegal, of course, but in practice, it is very difficult to have effective controls on private trading activities. One reason is that the grain market is pervasive, given the huge number of very small grain producers in China. Furthermore, the policy only prohibits private purchasing from farmers, but not the direct sale of grain from farmers to consumers, nor are private trading activities at the wholesale level and retailing level forbidden. The existence of the de facto free market makes it difficult for the state grain marketing companies to sell their products at a profit. As a result, many local state grain companies find themselves in a situation where they can neither purchase nor sell effectively. Local governments are not keen to follow the policy either. The more grain in the local stocks, the more subsidy they have to provide. So the central government is faced with an awkward situation. While the grain subsidy has soared, nobody seems happy with the policy.

The central government, faced with recurring problems in the implementation of the policy as well as enormous pressures on the state budget, made partial adjustments to the policy late last year and early this year. Several categories of grain of lower quality have been excluded from market support or market control. These categories include spring

wheat in the north and wheat, corn and early paddy in the south. These commodities account for about 20% of the total grain production.

A further step was taken this May to relax the market control while still maintaining the principle of price support. It is now stipulated that all grain producers are allowed to sell unlimited amounts of grain in the marketplace. Similarly, all grain processors, feed mills and non-state and private grain traders are permitted to purchase grain in the marketplace, if they are licensed to do so by county or provincial governments. In practice, this may very well lead to a revival of private trade which prevailed prior to the 1998 reform.

Another significant move in marketing reform took place in the cotton sector last year. In theory, both the marketing channels and price for cotton have been liberalized. Individual large and medium-sized state-owned textile firms will be allowed to purchase cotton directly from growers, or growers associations, or local state cotton purchasing enterprises. The fixed pricing policy has been abolished and replaced by a free pricing system under which the market forces determine the price level. A central cotton exchange equipped with modern communication technology has been set up to serve the needs of free trading. Motivated by this policy change, private traders are emerging and the mills are adapting themselves to the new opportunities in buying cotton. In practice, the change in pricing policy last year resulted in a cotton price decline of about 40%. This in turn led to a 15% production reduction in 1999. As a result, the new harvest can not meet the domestic demand, which has greatly recovered from the Asian financial crisis. Early this year, domestic cotton prices have gradually improved, now reaching a level comparable to the world market price.

There is one more new agricultural policy change to be mentioned. For the first time in China, a “grain for green” program has been introduced. It is still in the experimental phase and with a rather limited scope of less than half a million ha. This is a small percentage of the total fragile cropland (located on slopes steeper than 25 degrees), estimated at 6 million ha. Farmers in those unfavorable mountainous areas are asked to stop growing crops and to replace crop production with reforestation. For that, subsidy is

provided in both in-kind forms of food grain and cash to the farmers affected. The total subsidy value is sufficient to cover the losses from not cropping, equal to about 3 tons per ha. A brief field investigation by the author reveals the ineffectiveness of the experiment. Lacking good guidelines for implementation, almost all farmers have replaced crop production with fruit plantation, a change which seems to have an even more adverse impact on soil and water conservation than do crops.

Furthermore, rural taxation has also undergone a substantial revision in policy, a policy which is in the experimental stage. According to the plan, the current complex rural taxation and levy system will be replaced by a simplified and more transparent agricultural taxation system. Under this new agricultural taxation system, farmers are asked to pay an agricultural tax rate of up to 8.4% of their normal crop production. The yield base for taxation is the average yield over the five-year period of 1995-1999. The purpose of the reform is to reduce and brake the rising tax and levy burden on farmers placed by the local government. This reform makes this high hidden taxation burden more transparent.

WTO Entry and the New Negotiations Impacts

The discussions on the potential impacts and gains from WTO entry have been intensified since the signing of the accord between China and the US in November 1999. The dominant opinion is that Chinese farmers will gain from China's WTO accession in labor-intensive sectors such as horticulture, livestock and fishery, but will suffer in the land-intensive sectors such as grain, soybean and cotton. The overall impacts in the short term should be negative but be positive in the long run. It has been estimated that China's WTO accession will cause additional unemployment of 4 to 10 million, adding to the current excess of rural laborers, which is estimated at between 100 and 200 million.

Though aware of the short term negative effects, most economists and policy advisers in China welcome the approaching WTO entry for at least two reasons. That is, WTO entry will accelerate the process of agricultural transformation and force domestic policy reform, both of which are seen as inevitable and necessary for the further development of agricultural sector in China.

Preparedness and overall position

Though there has been substantial media coverage of the WTO issues, and though many seminars, symposiums, workshops and various kind of meetings on WTO have been organized by various governmental agencies, China's preparedness for WTO entry is significantly lacking. This is especially true for the central government which, given the fragmented governmental structure, now has several ministries involved in preparation, but no single ministry or agency seems to be in a position to effectively coordinate the process. Research work and research capacity to study the issues is lacking. This is partially due to the lack of information and transparency. In order to avoid domestic critics, both the negotiation process and concrete results have been withheld, not only from the public, but from researchers and even the general governmental officials. The only detailed information disseminated is that of the US-China accord, information which was released by the US side through the Internet. Almost all impact analyses by now are based on the relatively comprehensive data from that document.

Government departments have been asked to make a thorough review of the existing domestic agricultural laws and regulations in terms of their conformity with the WTO rules, and in conformity with the market rules. Indeed, suggestions to improve, to adjust and to draft new regulations are being made. Until now, though, most moves are in the nature of passive adaptation to the WTO entry. Active, systematic and forward-looking actions are still missing. China's positions on many strategic issues most likely included in the agenda of the next round are still unclear. Decision-making in some areas may be much harder than in others due to China's dual role both as a big importer and a big exporter. The following comments are very preliminary personal views, observations and speculations.

Domestic subsidy

The governmental expenditure on farm commodities has risen considerably in recent years. According to official statistics, "price subsidy" for grain, cotton and edible oil has

increased from 22.9 billion Yuan in 1995 to 56.5 billion Yuan in 1999, more than doubling in three years.

Some argue that this kind of subsidy is in nature quite different from that popularly practiced in EU and other developed countries. First, its true objective is not to support farmers' income, but rather to cut the debt loss incurred by the state grain marketing enterprises during the period 1992-1998. Policy makers hoped to monopolize grain purchasing in order to increase the consumer price, increase the marketing gains of the state grain marketing enterprises and to use this gain to repay the debt accumulated in the previous years.

Secondly, the subsidy is granted only to the state marketing sectors but not to all traders for the same commodity. It is not a subsidy to farmers, but rather to the state-owned enterprises in order to compensate for the low efficiency and low productivity in the state sector. The low efficiency and productivity is partially caused by the social functions of state-enterprises, such as compulsory employment regardless of need, health and retirement benefits, and market-stabilization. Losses arising from mismanagement and even corruption are also covered by the subsidy. Given all these factors, what remains for farmers is at most just a small fraction of the total subsidy. One stark indication of this is the fact that the farm-gate price for agricultural products in real terms has fallen by over 20% in the period of 1995-1999.

Recognizing this, many policy makers and local government officials strongly suggest abolishing the subsidy and replacing it with direct payments to the producers. It has also been suggested that it would be more practical and efficient to cancel the agricultural tax, and to relocate the subsidy to fill the budget gap caused by the cancellation of the agricultural tax. It is mostly likely that the price subsidy will be cut substantially in the next few years. The increased domestic pressure to do so is probably even stronger than the external pressure from the WTO negotiation.

Export subsidy

China began the abolition of export subsidies as early as in 1994, when the two-tier

exchange rate system was reformed into a single one. Given the dramatic decline in agriculture's share of total trade, the role of agriculture in hard currency earnings had lessened. Only in recent years, has China subsidized some corn exports to reduce the huge corn surplus. It is expected that China will not seek export subsidy in the next round. This is also strongly recommended by majority of policy advisors.

Market access: tariff and TRQ

According to WTO accession commitments reached in bilateral negotiations, China will substantially cut import tariffs for fruits, alcoholic drinks, meat, dairy products and other agricultural commodities from the current range of 40%-50% to 10%-12%. Because those products are relatively labor-intensive and China enjoys in most cases relative advantages, it seems that China will be willing to support further tariff reduction. The prices of those imported products in China are usually much higher than domestic products, and mainly serve the desire of the population segment with high income for high quality products. For example, the US produced Sunkist orange is three to four times higher priced than the domestic products.

For bulky products, such as grain and cotton, China will continue to seek the TRQ protection. The short-term purpose is to protect the already sluggish domestic market. However, long-term thinking is that food security is of vital concern. China has suffered too much from food shortages in its long history. With the nation-wide famine of early 1960s still in fresh memory, Chinese policy makers do not want to see the national food production capacity damaged by large imports. However, an expansion of the TRQ is possible, especially for non-grain commodities.

The administration of TRQs may pose a challenge. It is not yet clear which approach will be adopted. Major constraints in this area include the inefficient information system, low transparency of the management, and the traditional bureaucracy cultivated from the old planned economy system.

GMO issues and food safety

Generally speaking, China has been adopting a positive attitude toward GM crops.

There has been a continued increase in the public investment in GMO research. Research in biotechnology is seen as one of the key technical areas to promote agricultural production in China. Chinese policy makers repeatedly emphasize the importance of technology for long-term agricultural development, given the inevitable expansion in population with rising income, and falling supply of land and water resources. Bt cotton, which was first introduced into China a few years ago by Monsanto company, is practically the only product widely adopted by Chinese farmers. There is still no food GM crops widely planted in China, although a number of GM food crops such as delayed ripening tomato, virus resistant tomato, virus resistant green pepper, disease resistant wheat, Bt hybrid rice and Bt corn are in differing phases of development.

Though there are occasionally individual warnings from some scientists, organized group actions opposing GM crops are not found in China. Imported GM food does exist in the Chinese market; for example, soybean imported in large volume from US must certainly contain some of a GM nature. For most people, the awareness is low. Even for those relatively well informed, the widespread consumption of GM food in the developed countries such as the US gives them much confidence in the safety of such food.

Very recently, the policy makers have begun to think somehow differently on GM crops, shifting toward a more cautious direction. On the one hand, they fear that the flooding in of cheap import of GM crops might damage the domestic market. On the other hand, they also fear that if China produce GM crops, its food exports, especially to markets such as the EU and Japan, will be negatively affected. Faced with this dilemma, one possible though not certain solution may be the labeling of GM products. It is likely that China will follow the practice in those neighboring countries such as Japan and South Korea.

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The New Trade Agenda Food Safety & New Technologies

Dr. Rolf Moehler

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Slide I:

Food Safety and New Technologies are the most salient consumer concerns which appear to threaten the international trading system.

- The international trading system based on GATT and the WTO has led to an unprecedented liberalisation of trade.
- Agricultural trade is lagging behind but the Uruguay Round has made a great leap forward.
- This result has been achieved by fighting protectionist producer interests for the benefit of consumers.
- The failure of Seattle has highlighted a new phenomenon: consumers turning against free trade which is supposed to serve them.
- This has been most apparent in the areas of food safety and new technologies.

The WTO will not be able to recover from Seattle if the above concerns are not addressed.

Slide II:

Concerns About Food Safety

- Concerns about food safety are as old as mankind, but they have reached a new dimension with technological developments, the growing awareness of consumers and expanding trade in agricultural products and food.
- Most countries have extensive and detailed legislation on the protection of the health and life of humans, animals and plants.
- Despite this legislation a significant number of people still die from food poisoning.
- The biggest food scare in recent years was the discovery that bovine spongiform encephalopathy (BSE) may be transmissible to humans.
- BSE has changed the climate in Europe on food safety matters; precaution has become the order of the day.

- Whom do consumers trust?
 - Public authorities, nevertheless
 - Well known brand names
 - The producers they know
- Differences of legislation and of consumer perceptions are a threat to international trade.

Slide III:

The response of the international trade system to consumer concerns on food safety.

- There are mainly three sets of international rules which are relevant:
 - GATT 1994
 - SPS Agreement
 - TBT agreement
- They recognise the principle that international trade can be restricted in order to protect the life and health of humans, animals and plants. However, the question remains on what basis and to what extent.
- Article XX of GATT states that measures to protect human, animal and plant health must not be applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries, or a disguised restriction on international trade.
- The SPS Agreement seeks to circumscribe further the application of sanitary and phytosanitary measures.
- The TBT Agreement comes in where the SPS Agreement does not apply.

Slide IV:

The SPS Agreement is the most comprehensive set of rules on food safety.

It is based on the following principles:

- Measures shall only be applied to the extent necessary to protect the health and life of humans, animals or plants.
- Measures must be based on scientific principles and shall not be maintained without sufficient scientific evidence.
- Measures must not be taken without appropriate risk assessment based on scientific evidence, but also taking into account relevant economic factors.
- Measures must be consistent with measures taken in other cases.
- Where relevant scientific evidence is insufficient, measures may be taken on the basis of available pertinent information.
- International harmonisation is needed.

- Whenever available, international standards should be used. However, governments may set their level of protection higher if this is done on the basis of scientific evidence.
- WTO members should mutually recognise equivalence of measures.
- Transparency is ensured by the obligation to notify the WTO Secretariat. of measures taken.

Slide V:

The main dispute settlement cases under the SPS Agreement.

Veterinary and phytosanitary measures have been challenged under the new dispute settlement system in three cases:

- The EU ban on import of beef meat from animals treated with growth hormones.
- The quarantine requirements applied by Japan on imported fruit.
- The ban applied by Australia on uncooked salmon.

All three cases have been lost by the defendants:

- The EU due to lack of a proper risk assessment.
- Japan because of insufficient scientific evidence and lack of proper risk assessment.
- Australia due to inconsistency with measures taken in similar cases.

The most interesting case is the case on the hormones ban, because it has been a response to consumer concerns without sufficient scientific evidence which the EU is now trying to provide.

Slide VI:

Guiding Principles when Dealing with Consumer Concerns about Food Safety and New Technologies.

Any measure interfering with international trade in order to meet consumer concerns must take into account the interest of consumers in free trade which has been the basis of their well-being over the last 50 years. Therefore,

- Any trade restricting measure should only be taken as a measure of last resort.
- It should be taken within existing trade rules; any unilateral or discriminatory action should be ruled out.
- If consumer concerns cannot be met by other measures than those affecting trade, the measure should be proportional to the measure pursued.
- Measures should neither be arbitrary nor used as a pretext for protectionism.
- A prudent approach should be taken when considering amendments to existing rules.

- Precaution is required, however it should not be used as a pretext for protectionism.
- Labelling is essential to enable the consumer has the opportunity to decide for himself.
- There is no alternative to scientific evidence to address consumer concerns.

Slide VII:

Is there a need to change international trade rules to meet consumer concerns on food safety?

Three issues may be identified in this context:

- The scientific basis of measures,
- the precautionary approach,
- and labelling

Slide VIII:

The scientific basis of measures to protect food safety:

- The SPS agreement requires that sanitary and phytosanitary measures be based on scientific principles.
- Sometimes it is claimed that science has proven unreliable and therefore, does not meet consumer concerns.
- This is a dangerous proposition and should be resisted.
- It is true that scientists have sometimes divergent opinions. Sometimes they change their mind.
- However, giving up scientific evidence as the basis of addressing food safety concerns would seriously undermine the international trade system.

Slide IX:

The precautionary approach:

- There is little doubt that public authorities, as the consumer himself, should act “from perspectives of prudence and precaution” in matters of food safety.
- This has been recognised by the WTO Appellate Body in the “hormones case,” which found reflection of the “precautionary principle” in some provisions of the SPS Agreement without recognising it as a principle of customary international law beyond international environmental law.

- The EU has announced its intention to clarify and strengthen the “precautionary principle” in the agricultural negotiations of the WTO without giving any details so far.
- The “precautionary principle” could be seen as a question of common sense. But there is a risk that it is used to undermine the requirement of scientific evidence and to justify unwarranted protection.
- There is no need to include, for food safety purposes, a “precautionary principle” into the SPS Agreement.

Slide X:

Labelling:

- Labelling is better than trade restrictions.
- Voluntary labelling is better than mandatory labelling.
- In most cases, food safety issues cannot be addressed satisfactorily by labelling alone.
- However, labelling may be the way to relieve consumer concern, although health risks cannot be scientifically proven.
- The TBT Agreement does not ban labelling in those cases.
- Should it ban labelling if it refers to production and processing methods?

Slide XI:

New Technologies:

There are many new technologies. None of them has been as controversial as biotechnology.

Concerns about genetically modified organisms (GMOs) are strong in Europe and have increased recently in other parts of the world.

Concerns relate to the life and health of humans, animals and plants, as well as the environment. Less pronounced, but nevertheless present, are ethical concerns about the limits of man’s interference with nature.

In the EU, any release of a GMO into the environment needs approval. Consent has to be given by member states authorities. Consent will be withheld if there are risks for human health or the environment. Only if a member state wants to give approval will the matter move to the EU level where the Commission decides.

Until now, only 18 GMOs have been approved in the EU, none since 1998. Only about 32,000 hectares have been cultivated with genetically modified crops in 1999. In the UK, a moratorium on cultivation is in place.

Regulators respond to strong public concern.

This situation, which is in sharp contrast with the situation in the US, has already led to transatlantic trade frictions. At this time no dispute settlement procedure has been sought to settle this issue.

The legal situation is far from clear. When the SPS Agreement was negotiated nobody thought of applying it to genetically modified food or feed. Therefore, the scope of its application is in doubt.

The TBT Agreement, which covers areas which the SPS agreement does not, is less stringent.

It is unlikely that a dispute settlement procedure would open up markets in Europe. European consumers turn away from genetically modified food and feed; “free from GMO” has become a strong marketing device.

Slide XII:

What can be done to defuse this potentially explosive situation?

- The EU must resume approval of GMOs under its legislation which is being revised. This revision, would reduce the gap in the regulatory situation.
- This will not be possible without full information provided to consumers.
- Labelling is already mandatory in the EU for food containing or produced from GMOs.
- Labelling, however, is not a panacea. It does not provide information to the consumer concerning risks to the environment.
- Therefore, the gap in perceptions has to be reduced.
- This is a challenge for scientists and public authorities in Europe.
- Intensification of the transatlantic dialogue will help.

Slide XIII:

What can be done in the WTO?

- The WTO cannot do much to close the gap in attitudes towards biotechnology.
- But the WTO could help to reduce the negative impact of the divergent approaches by rules on labelling.
- In this context the WTO should not shy away from looking into:
 - the specificity of GMOs, and
 - labelling of production methods.

Slide XIV:

Guiding Principles for Dealing with Consumer Concerns.

- Consumer concerns must be addressed, rather than suppressed or ignored, even if they are not based on solid evidence.
- Consumer concerns should be considered on their own merits and not be confused with producer concerns.
- Given the crucial role trade is playing in economic growth around the world, any measure restricting trade to meet consumer concerns should only be taken as a measure of last resort.
- Measures should be taken strictly within existing trade rules; any unilateral or discriminatory action should be ruled out.
- A prudent approach should be taken when considering amendments to existing rules in order to meet consumer concerns.
- If consumer concerns cannot be met by measures other than those affecting trade, the measures should be proportional to the objective pursued and be as little trade restrictive as possible; subsidisation, preferably in the form of support with no or only minimal trade-distorting effect (“green box” measures) should have precedence over import restrictions.
- Measures should neither be arbitrary nor used as a pretext for protectionism.
- Precaution is required when dealing with food safety and the protection of the environment, but it should be kept within the limits set by the SPS Agreement.
- Labelling is essential to enable the consumers’ opportunity to decide for himself.
- There is no alternative to scientific evidence as a basis to address consumer concerns.

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Soluble Coffee: The Question Between Brazil & the European Communities

Ambassador Ruben Barbosa, Embassy of Brazil

- At the end of 1990, the European Communities decided to adopt a scheme destined to support Bolivia, Colombia, Ecuador and Peru, as countries conducting programs to combat drug production and trafficking.
- This scheme was based in unilateral granting of tariff exemptions for a series of products, amongst which, was soluble coffee.
- Soluble coffee from countries like Brazil, not contemplated in the special scheme, continued to be subjected to the GSP tariff of 9%, as of January 1991.
- In 1992, the Communities decided to extend the benefits of the scheme to the countries of the Central American Common Market and, in 1995, to Venezuela. As the countries of Africa, the Caribbean and the Pacific Basins are benefited by the the terms of the Lomé Convention, the only coffee producing countries excluded from this preferential treatment were Brazil, Mexico and the Asian countries.
- The Brazilian product was, however, the one subjected to the highest tariff of all these countries.
- In 1996, the revision of the European GSP system introduced a sophisticated mechanism of graduation of countries, which was based on their level of economic development, classification of products and, as a measure of their share of the European market, the so-called sensitivity of each product of the applicant countries.
- Brazil was graduated under this mechanism and soluble coffee was classified as a "sensitive product". Therefore, any small advantage still enjoyed by soluble coffee from Brazil was suspended. The tariff imposed on Brazil has varied, from time to time, between 9 and 10.5%.

Presently it is 9%, while the countries under the preferential treatment benefit from zero tariff.

- In order to give an idea of how this affected the Brazilian exports, the following numbers collected by the Brazilian Association of Soluble Coffee Industry (ABICS) at the International Coffee Organization are helpful:
 - In 1991, the European Union imported 2.409 millions bags of soluble coffee, of which 16.68% originated in Brazil and 9.71% in Colombia and Ecuador.
 - In 1998, the Europeans imported 3.325 millions bags of soluble coffee, but Brazil's share decreased to 7.66% of the total and that of the two above mentioned countries increased to 12.06%.
 - So, while the European Union's imports of soluble coffee increased by 38.02% in relation to 1991, Brazilian exports of the product to that region decreased by 36.56%, and those from our Andean neighbors increased by 79.05%.
- In December 1998, Brazil requested formal consultations with the European Communities under the WTO Dispute Settlement Understanding (DSU), as Brazil considers that this special treatment is discriminatory against Brazilian soluble coffee and affects negatively its exports to Europe. Furthermore, the anti-drugs special scheme was created as a transitory, exceptional incentive but has acquired a character of continuity, as it is repeatedly renewed.
- The consultations did not proceed at that time. The European delegation prevented an agreement, but hinted at the possibility of some kind of conciliatory action, which did not materialize.
- Brazil has now decided to re-start the proceedings and request new formal consultations with the European Communities. The objective of the action is to obtain Community market access conditions identical to those accorded to the product originating in Colombia and the other competitors.

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