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"AGRICULTURE IN THE NEXT SET OF MULTILATERAL TRADE NEGOTIATIONS. A PERSPECTIVE FROM THE CAIRNS GROUP"

I - Expected outcome

The CAIRNS Group is composed by 18 countries, out of which 15 are developing. Our expectations for the current negotiations are to definitely and fully integrate trade in agriculture within the general rules of the Multilateral Trading System.

As you know, the Agreement on Agriculture was envisaged as just the first step in the reform process that would establish a "fair and market oriented agricultural trading system". This achievement was characterised as a "long term objective" to be sustained over an agreed period of time. We began with a six-year "implementation period" that will expire by the end of this year. Article 20 of the Agreement on Agriculture prescribes that reform of the sector has to continue, as an ongoing process till the long-term objective is achieved.

To put it in a nutshell as a result of this negotiations Agriculture should no longer be the Cinderella of international trade system.

Basically we will seek to agree on **when** and **how** should the reform process be completed. We should identify the modalities and a period of time on which tariffs should be lowered to levels comparable to those for other goods, export subsidies should be definitely outlawed and domestic support should be subject to disciplines similar to those of the Subsidies and Countervailing Measures Agreement.

II - Starting point

The continuation of the reform process has to be based on the experience of the implementation period, which has been thoroughly revised by the Committee on Agriculture in the so called "Analysis and Information Exchange" exercise.

The Cairns Group has helped to identify some pitfalls on the implementation as well as some lagoons on rules that should be redressed during the next negotiations. Let me give you some brief comments on these concerns:

The results of the Agreement on Agriculture were particularly modest in opening new market access opportunities. As you know due to the so called **"tariffication"** (turn non tariff barriers into tariffs) very high tariffs had to be accepted and Trade Rate Quotas (TRQs) were created to guarantee some access opportunities. Quantifying non tariff barriers, such as quotas or import licences is quite an arbitrary process that gave way to the so called "dirty tariffication", namely tariffs resulting in even more protection than the non tariff barriers they replaced. As a result we still face very high tariffs and due to enormous disparities between "normal" tariffs and in-quota-tariffs, TRQs are working as quantitative restrictions. On top of that many are administrated in very curious ways and remain unfilled.

Another highly sensitive issue is that of **export subsidies**. The use of this unfair means of competition remains high and has proved to be particularly perverse for developing countries.

The use of export subsidies increases when international prices fall, and therefore they further depress commodity markets, making things even worse for poor countries that cannot shelter their rural populations with domestic support measures and that are highly dependent on commodity exports to obtain hard currency.

Moreover, during the implementation period some countries, as those from the European community, found it was timely to make recourse to non-used accumulated export subsidies in the midst of the crisis. As international prices were high during 1995 and 1996 export subsidies were not always needed and could be accumulated and then dumped into the market when the international crisis turned the tide of prices downwards.

This was irresponsible and even contradicted efforts that EU national governments were making in parallel, to prevent the international crisis from getting even worse. To put it in a nutshell: the European tax payer was forced to pay for both, the export subsidies that made us poorer further depressing commodity prices and also for the extra loans that provided developing countries with the money they were not getting because of the fall in commodity prices. This king of contradiction in conduct is medically known as schizophrenia, but I see that some officials in the Community prefer to call it "Multifunctionality".

I come back to this concept but let me first say something about **Export credits**.

The Agreement on Agriculture left them with no disciplines but just with the commitment "to work toward the development of internationally agreed disciplines". This quite loose commitment has, so far, proved to be fruitless. After more than five years of negotiations in the OECD we still do not have an agreement, mainly because the US has resisted to accept any disciplines that could restrain their capacity to "match" EU`s export subsidy practices. As a result we are still caught in the middle of big players insensible use of abundant capital.

In the Cairns Group we feel that price and quality are the only fair means of competition and that it is equally unfair to support exports by subsidising prices or the terms of payments.. Subsidised export credits as much export subsidies are particularly damaging for developing countries that cannot neither match nor offset them. Currently they are only possible for trade in agriculture and we believe this situation has to be redressed immediately.

Some **domestic support policies** are also of great concern for the Cairns Group. As you know we have three boxes there:
a) the good one (the Green Box, namely support with no effects on production nor trade and provided by publicly funded government programmes -not price support-),
b) the very bad one (the amber Box, namely all the other forms of support, remarkably price support) and
c) the very strange one (the Blue Box, namely direct payments under production limiting programmes, therefore related to production but still with no reduction commitments in the Agreement on Agriculture).

The "Green Box" has no reduction commitments, the "amber Box" has to be reduced in 20% over 6 years, and the "Blue Box" is in the limbo. The main problems we are facing are abuses in the Green Box (i.e support for policies that have impact on production); abuses in the amber Box (switching the load of subsidies from less sensitive to more sensitive products) and migration towards the Blue Box, due to lack of reduction commitments.

Developing countries cannot shelter their own producers from the consequences of these policies. Firstly because we cannot match them due to lack of money, secondly many are simply not entitled to use domestic support beyond the limits of the "de minimis" exception (equivalent to the 10% of the value of production) since they were not using this kind of support during the base period (86/88).

The US and the CAIRNS Group theoretically agree in pursing substantive reductions in trade distortive domestic support. In spite of this coincidence, in practice the US administration has substantively increased the use of trade distortive domestic subsidies. US producers are sheltered from falling international prices and as a result, some crops, remarkably Soya, increased instead of adjusting to the falling international demand. This has contributed to further depress international prices and our producers are facing very serious consequences.

Moreover, we are not receiving timely notifications of trade distortive subsidies and due to the Peace Clause, we are impeded to challenge trade distortive subsidy practices that are provided within reduction commitment limits.

Multifunctionality. According to article 20 we should also to take into account "non trade concerns". There are some very legitimate policy objectives, such as the protection of the environment, landscape, rural culture, food security and even recreational activities in the list. However, some countries seem to interpret that those "non-trade concerns" could be used to justify their old trade distortive policies.

We see it from a different perspective. Legitimate policy objectives have to be pursued by specifically targeted policies and not by price support or export subsidies. Take the case of the environment. It is a basic premise that the welfare of society is undermined when prices fail to register the relative scarcity of resources giving misleading signals relating to the optimal use of environmental assets. A better allocation of economic resources can lessen the demand of production on the environment, rendering also social benefits (by reducing poverty and permitting the development of processing industries in debt burdened countries) and generating wealth (by gains in overall efficiency).

Moreover, governmental policies that distort commodity pricing are particularly perverse for developing countries, since they are highly dependant on commodity exports. Therefore, the elimination of these practices gives an excellent opportunity to promote a virtuous circle, namely "win - win -win" solutions, for the environment, trade and development.

The case of subsidies that encourage commodity production and distort international prices is quite transparent. Obviously only very rich governments can massively provide subsidies. These policies tend to encourage overproduction and therefore overexploitation of the natural resources involved. Moreover, they subtract important markets from developing countries' exports and on top this, they frequently result in the accumulation of mountains of surpluses that are subsequently dumped onto the international markets, competing unfairly with producers located in developing countries that cannot be shielded with additional subsidies. Developing countries' producers are then forced to reduce costs at the expense of their environment and social development. The result is more rural poverty, more environmental degradation, the swelling of overcrowded cities and growing social unrest.

The level of support that OECD countries are providing to the sector is incredibly high (U$S 362 billion in 1998) and generating mountains of surpluses that have to be permanently dumped onto the international market with additional export subsidies.

The environmental costs to the subsidising countries are quite easy to see. When a farmer decides how much of input is needed, such as fertilisers, pesticides, herbicides or irrigation water, he considers both the benefit he expects to receive and the cost of the input. Since many of these agricultural subsidies are provided through price support policies, farmers use additional increments of inputs until the marginal return obtained equals its cost. When prices are supported, returns are artificially increased and consequently input utilisation also increases.

Less attention has been paid to the negative effects of price distorting subsidies on distant countries. When governmental policies distort international prices, distant decisions about investments, production methods, international trade and consumption pattern result equally distorted. If a government massively subsidises its commodity production and exportation it is very likely also distorting international prices. This encourages new investments in the subsidised sector and consequently prevents those investments from going somewhere else. For instance, to developing countries where production may be less intensive and where poverty, particularly rural poverty, is the main cause of rural and urban environmental degradation. Everything gets wrong: resource allocation, international trade and environmental protection.

A handful of pretexts is offered to keep price distorting subsidies in place. Agricultural subsidies pretend to be justified because the sector is "multifunctional", no matter if this results in mountains of surpluses that require additional export subsidies and developing country's producers have to cope with the consequences.

Unfortunately this irrational use of abundant capital creates addiction, and therefore some governments prefer to "correct" the most evident environmental consequences with additional "green" subsidies. This is as folly as turning on the air conditioning while keeping on the heater.

Tariff escalation makes another good example of a potential win-win-win solution for trade, environment and development. Many tariffs are imposed at a higher level on processed and semi-processed products than on unprocessed products and raw materials. The more value is added to a commodity, the more tariffs escalate. This provides extra protection for processing industries in the importing country and are particularly perverse for developing countries since it virtually "taxes" efforts to diversify production and move into higher stages of processing.

Since developing countries are regularly pressured to expand their foreign exchange revenue (due to debt and development constraints), tariff escalation is indirectly encouraging the expansion of commodity production beyond sustainable limits. This promotes a vicious circle; an increase in supply of commodities leads to lower international prices and this, due to the foreign currency constraints and the impossibility to shift to higher value-added products, results in more (not less) pressure on natural resources.

The only remedy at hand for developing countries is applying export restrictions and export taxes to "offset" the negative effect of tariff escalation on their processing industries. This remedy is not a first best solution since it taxes domestic commodity production and further depresses raw material prices hence preventing the introduction of environmentally friendly production practices.

Summing up, tariff escalation comes on top of production and export subsidies. The combination of these perverse incentives is working as a lever to foster underdevelopment, rural poverty, natural resource over-exploitation and social unrest.

If the very few rich subsidising countries are genuinely interested in promoting "Multifuncionality" they should begin by redressing these perversities.