IMPACTS OF WTO AGREEMENTS ON GLOBAL AGRICULTURAL TRADE AND SUSTAINABLE DEVELOPMENT

Péter Pálinkás - School of Economics and Social Sciences
“Szent István” University, Gödöllő, Hungary

ABSTRACT

Trade liberalization is one of the most important tendencies of today’s global economy. It is almost impossible for any countries to avoid its effects. By diminishing trade barriers like tariffs and quotas the markets of each country gets more and more opened for other countries’ producers. Liberalized trade helps to improve the economic performance of countries but it also can cause serious socio-economic problems that can have heavy impacts on the future chances of nations regarding national and global economic aspects and sustainable development.

One of the most significant contributory institutions to globalized trade is the World Trade Organization (WTO) whose main objective is to provide an international forum for nations to set up common strategies and agreements on fostering free international trade and to give the opportunity to countries to settle the occurrent trade disputes within an institutional framework. However many countries have criticized the WTO as they think it is beneficial only for the developed countries because they can gain access to more markets but they are able to protect their own internal markets and producers even if the WTO should provide equal circumstances to all countries.

One part of the paper deals with the impacts of the Agreement on Agriculture established by the Uruguay Round agreements in Marrakech in 1994. The Agreement has brought serious changes in agricultural trade worldwide and the WTO has managed to work out a consensus among the member states on the fields of market access, export subsidies and domestic support. Another part of the paper examines the results of the next WTO round which started in Doha, Quatar in 2000. Its main objective is to continue the deepening of free trade around the world.

The main objective of the paper is to reveal the positive and negative impacts of the WTO agreements by their examination. The paper deals with the fields of global agricultural trade and sustainable development with special regard to the developing countries.

Key words: trade liberalization, WTO, globalization, sustainable development

I. The WTO Agreement on Agriculture (AoA)

The Agreement on Agriculture was signed in Marrakech in 1994 and came into effect in 1995. The Agreement had the clear objective of create a less distorted agricultural trade among the member nations. The main areas of negotiations and reforms were: domestic agricultural support, market access and export subsidies.

The agriculture is probably the most problematic field of negotiations as developed members like the EU, USA and Japan have highly subsidized agricultural system and they want to protect their producers and markets from cheap imports. On the other hand, country groups like the Cairns Group (including Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay) want to fully liberalize agricultural trade as they have just a small level of subsidies or do not have at all. For their interests protectionism in the most developed countries (USA, Japan, EU) makes it quite difficult to embark on their markets. Developing countries, accounting for the 80% of WTO membership fight for abolishment of protectionist measures.

Least developed countries do not have to make commitments to reduce tariffs or subsidies. The base level for tariff cuts was the bound rate before 1 January 1995; or, for unbound tariffs, the actual rate charged in September 1986 when the Uruguay Round

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<th>Table 1. The AoA includes the following measures</th>
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<td>Developed countries</td>
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<td>Tariffs</td>
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<td>average cut for all agricultural products</td>
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<td>-36%</td>
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<td>minimum cut per product</td>
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<td>Exports</td>
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Source: www.wto.org
began. The other figures were targets used to calculate countries’ legally-binding “schedules” of commitments. AMS is for Aggregate Method of Support, the calculation of support for agriculture.

A separate agreement was signed on import limitations based on health concerns (Agreement on the Application of Sanitary Phytosanitary Measures).

The AoA also prescribed a “minimum access” for all agricultural products. Import possibilities (tariff quotas) had to be provided in the 3% of the domestic consumption and it had to achieve 5% until the end of the implementation period. Domestic support measures were overseen and put into different categories, so called “boxes”, depending on how trade distorting a measure is (amber, green and blue boxes). The so called “de minimis” principle was also implemented, which is as follows. Product specific subsidies were not to decrease if their aggregate level did not exceed the 5% of the production value of the given product (10% in the case of developing countries). Non-product-specific domestic subsidies were also not to decrease if they did not exceed the 5% of total agricultural product value (10% in the case of developing countries).

Taking into consideration the effects of the Uruguay Round in the case of the European Union, we can see that imposed challenges were relatively easy to cope with for the Union as it had already accomplished partly similar reforms in 1992. Regarding several products the EU was able to maintain more or less the pre-Agreement levels of protection. Level of EU’s AMS was lower than those laid down in AoA because price subsidization was decreased during the 1992 Common Agricultural Policy (CAP) reform and the implemented direct payments belong to the “blue box”. They did not have to be decreased as they promote the reduction of agricultural production. New market access commitments were easy to complete as the level of market access was almost 5% in the EU before the AoA. The main difficulty for EU was the new rule on reduction of export subsidies. In order to meet this requirement the EU had to alter several Common Market Organizations (CMOs).

**Developing countries and AoA**

Rest of the developing countries could not utilize the opportunities created by the Uruguay Round as they were underdeveloped in the aspect of agriculture, both in productivity, output and in resources. The AoA set up a scenario for their farmers where they had to compete with other producers from developed, rich countries both in export and in domestic markets. Developed countries had the economic power to shift from price support to direct payments that are exemptions from the “amber box” as there are production-neutral (EU, US, Canada).

As it was mentioned before “de minimis” rule was implemented for member states. On the other hand, developing countries generally did not report much or any trade distorting supports, so now they are allowed to support their producers up to an even relatively small low level compared to developed countries with high pre-Agreement level. Domestic support in developed countries remains high despite the disciplines agreed in the AoA.

Export subsidy levels were capped and also reduced both in terms of value and volume. Countries without previous export subsidies during the base period were prohibited from providing them, except for certain exemptions made for developing countries. Export subsidies have been reduced on several products but they are still high especially in the case of cereals, meat and dairy products. Another harm caused by such subsidies is not just the distorting effect on trade but also the destabilization of world prices.

Before the AoA one of the main hindrances to free trade was the existence of non-tariff trade barriers. In the Agreement decision was made to transform such barriers into bound tariffs (so called “tarification”) that are more transparent, easier to monitor and both supply and demand sides can receive valid market signals. In many cases agricultural tariffs remain high and complex despite these improvements. Various tariffs are widely used for many products and also for the processed ones providing protection for domestic processors (e.g. fruits, vegetables, oilseeds). Despite the new opportunities created by tariff rate quotas only about 60-65 percent of the potential trade under tariff rate quotas has actually occurred (data from FAO). Many countries that were under preferential agreements faced the fact of the decreasing benefits of these agreements along the decline in general tariffs. At the same time those countries that did not enjoy preferential access to major markets have seen a modest benefit.

So called special safeguard (SSG) provisions were made available for those countries that converted their non-tariff barriers fully to tariffs. The SSG is available for a given country in the case of an import surge or a serious fall in import prices. Under SSG the country can increase tariffs to even a higher level than the bound rates. Most developing countries did not shift to tariffs but chose another procedure but for that SSG can not be applied. It means that many developing countries missed another option for protection in case of need. To countervail

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1 Tariff quota: a certain amount of import that is not charged with tariffs.
this deficiency several developing countries started to raise their applied tariff rates but these still remain under bound rates.

In order to help improving the situation and perspectives of developing countries two forms of special and differential treatment were included in the AoA. One of them is providing longer implementation of new rules in the affected countries and the other one is the exemptions for certain kind of export subsidies. After the AoA came into effect it turned out that these methods are insufficient for developing countries and they need more help to cope with occurring problems and to be able to improve their agricultural sectors. The Agreement was also supposed to result in better trade possibilities for developing countries but this effect is still to come.

Although the AoA was not able to benefit for all developing countries or result in the expected outcome of trade liberalization, export shares of countries without notable export subsidies have risen for example in cereals or beef. Beside the evolution of export it is important to add that the value of total food import also increased 44% for developing countries and 21% for the developed nations.

Part of the distinguished treatment of developing countries is the Decision on Measures Concerning the Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries. It provided four response mechanisms in favour of helping these countries. The mechanisms are as follows: food aid, short-term financing of normal levels of commercial imports, favourable terms on agricultural export credits, and technical and financial assistance to improve agricultural productivity. The Marrakech Decision recognized that some countries might be adversely affected by the reform process due to higher food prices and import costs. Despite the essential need for such measures the Decision has not been realized yet.

Problems of developing countries do not originate only from reforming the tariff regime but also from agreements regulating additional issues. The Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) and the Agreement on Technical Barriers to Trade (TBT) provide the opportunity for countries to apply measures necessary to protect human, animal and plant life and health. It can be carried out by setting up technical regulations and standards governing quality requirements for food, packaging, marking and labelling, and national zoo and phytosanitary measures to protect animal and plant life and health. Measures under SPS have to be based in scientific principles and their use has to be proved by suitable evidence.

Developing countries expressed concerns regarding the potential of SPS and TBT measures to restrict their exports. Their concern is based on two reasons. First, they lack the technical and financial capacity to fully participate in activities of international standard-setting bodies such as the Codex Alimentarius Commission (CAC) and the International Plant Protection Convention (IPPC). Second, they do not have sufficient supplies that can meet stricter standards adopted by developed countries. In many countries standards are underdeveloped and it takes more time and significant financial resources to implement those that are accepted by agreements in international trade.

Developing countries in the future have to face a new situation where commodity prices are lower and the only way of protection is bound tariffs. Increasing import can cause serious fallback in domestic agriculture both in production and competitiveness. For these reasons such countries are interested in a kind of agricultural safeguard easier to apply.

II. The Doha Round

The second round of WTO started in Doha, the capital of Qatar, in November 2001. According to expectations this round will change the situation and possibilities of developing countries.

Scope of negotiations is likely to be broadened to issues like competition policy, international investment, intellectual property, electronic commerce and informatics. Beside these closely trade related topics so called “non-trade concerns” are also discussed. These are for example food safety, environmental protection and animal protection. Developed countries force new issues to negotiate like environment, labour and social concerns but developing countries resist these issues as for them these are barriers to their development. These conditions of the new round make its outcome and time of end more uncertain.

For the European Union one of the most important issue is the question of non-trade concerns that should get much more emphasis than ever before. The USA represents a different approach since its main objective is to make an agreement on just a few highly important issues, e.g. agricultural subsidies, trade in services, labour issues and market access. The other powerful group, the Cairns Group wants to achieve the absolute and comprehensive trade liberalization but not all the members agree in every case.

Developing countries also want to enforce their interests especially by requesting special and differentiated treatment. They ask for freer market access for textile products, but on the other hand they would like to have more indulgence in the case of acting in contravention of copyrights. The EU is supporting the policy of developing countries while the
USA disagrees. At the same time the USA wants to achieve the involvement of sufficient labour standards that is opposed by developing countries as a factor affecting their competitive advantages in a negative way. These countries also disagree with the standardization of environmental norms which they see as a measure of protectionism from the side of developed countries.

The following issues have been put on the Doha agenda so far:
- Further reduction of industrial tariffs;
- Agricultural trade;
- Trade in services;
- Trade and environment;
- Trade and sustainable development;
- Competition rules and trade;
- Capital flow;
- Being in debts and trade;
- Technology transfer and trade.

In September 2003 a new Ministerial Conference was opened in Cancun, Mexico. The main objective of negotiations was to work out the next package of rules providing further liberalization of trade. The conference ended without any considerable result, it was a failure in fact. One of its reasons was the growing complexity and widening range of issues to be debated. Growing number of members also makes the achievement of agreements even more difficult. The main reason of failure was the lack of compromise (with developing “G21” countries led by China, Brazil and India) on regulation of investments and competition and in the field of public procurement and trade procedures.

Developing countries did not agree with reduction of tariffs for processed products and trade in services as long as the EU and the USA does not agree with the total elimination of agricultural subsidies. Many developing countries have only a few products for export and they think that they do not get suitable compensation for opening their markets from the developed countries. Some preferences have been offered to them but these can easily lose from their values because of other issues like environmental protection, animal welfare, sanitary and phytosanitary and food safety standards.

Finally, on the 1st of August 2004 147 members of the WTO signed the General Council’s decision, the so called “July package”, in which the member states committed themselves to continue the Doha Development Agenda (DDA) and they agreed on the frames of agricultural trade liberalization.

Countries agreed on diminishing the majority of trade distorting domestic supports. Such subsidies would be decreased by 20% in the first year of implementation period. Countries with more domestic support should diminish them to a higher extent. Possibilities caused by “de minimis” would be limited and subsidies connected to production limitations (“blue box”) would be capped at 5% of total agricultural production. “Green box” subsidies would not be modified.

The EU succeeded in achieving that all export subsidies are equally treated. Preferential EU export subsidy constructions should be altered to avoid the highly supportive methods of current subsidy types. Food aids to countries in need will be supplied but they can not be used for commercial purposes and only free food aids will be negotiated.

Easier market access would be provided by the reduction of tariffs and increasing tariff quotas. Diminishing of tariffs would be accomplished in a way that higher tariffs would be decreased to a higher extent than lower level tariffs. On the other hand, “sensitive products” would be taken into consideration and these could be appointed by each country.

According to the decision developing countries would be under “special and differentiated treatment” which includes the followings:
1. longer implementation period at all issues;
2. lower commitments in subsidy and tariff reductions;
3. lower level in providing market access in the case of their sensitive products;
4. full liberalization regarding tropical products;
5. taking the degradation of trade preferences into account;
6. least developed countries do not have any commitment for tariff and subsidy reduction;
7. products of least developed countries exported to developed countries should be free of tariffs and tariff quotas (the EU already fulfilled this point by providing unlimited market access for products of 49 least developed counties except for arms).

III. Additional effects of trade liberalization

According to the studies made by Weisbrot and Baker the liberalization of trade by developed countries is not a sufficient method for developing countries to improve their current situations. These countries also have to diminish their trade barriers but both directions of liberalization (export and import) should in balance in order to result in a better situation.

Recent studies also call attention to other problems of trade liberalization. In case of diminishing tariffs the government loses a certain part of its revenues that for example accounts for 10-30% of state revenues in many developing countries. It is most likely that such countries would collect new kinds of tax that would lead to a more distorting system.
Collecting alternative taxes would harm the domestic economy as it would be probably raised from domestic market actors like companies. Increased taxes means additional financial burden for companies that cause a decline in their competitive advantages.

In some sectors where trade liberalization leads to the withdrawal of actors, unemployed labour should be placed in other sectors. The difficulty of this phenomenon lies in that it takes a long time for labour and the economy to adjust to the new situation, so quick liberalization causes social problems.

Many developing countries would use different kinds of technology and copyrighted or patented products to improve their economies or social welfares. Rest of the developing countries would pay much more for necessary licenses and copyright because of such rules and it makes their situation even more difficult as they have to transfer a high proportion of their incomes to developed countries that own the copyrights and patents. From the part of developed countries it is a way of protectionism contradicting liberalization principles.

There is an additional cost for the majority of developing countries. They have to keep their foreign reserve holdings high to stabilize their currencies in international financial markets. If they rather invest this capital or at least a certain part of it in their domestic economies they would be able to improve their situation.

Some analyses (Weisbrot and Baker, 2002) show that acquittance from the need of high foreign reserve holdings and patent and copyright rules could benefit as much or even more for developing countries than trade liberalization.

IV. Trade, environment and sustainable development

The linkage between trade and environment is based on the fact that every products traded on the markets are made by the utilization of natural resources (e.g. land, ores). The production of products under unfavourable circumstances, when for example a country wants to produce everything by itself, leads to greater damage to nature than to import products from countries where the given products are produced at a smaller environmental cost. Of course a large proportion of damage depends on the applied technology.

Trade can help countries as increased incomes can be used for taking actions to preserve environment (e.g. investing in environment friendly technology). On the other hand, environmental aspects can also be used for the basis of market protection. Some developed countries enforce the environmental standards for imports from poorer countries that do not have the possibility to produce products in the required way. By this developed countries can protect their markets and producers involved in the production of the given commodity.

The concept of sustainable development and agriculture represents the way that commodities should be produced by the less damage and change in the state of the environment. For this different measures can be applied like using less harmful fertilizers and pesticides or not using them at all. Developed regions like the European Union are moving to this direction as they have the technical and financial means to do so. On the other hand, developing countries do not have the same means available because of the state of their development. For them the first priority is for example to produce enough food no matter how. In this case they can not afford expensive but environmental friendly methods of production. To expect them to do so is simply not fair.

Regarding the current global situation of environment and the applied methods of production and international trade regimes, we have to see that change is essential. Developing countries represent not just the majority of the world’s population but also essential natural resources.

Today’s tendency shows that responsible and increased protection of the environment is the “luxury of the rich”. At the same time we have to admit that sustainable development that is sustainable for the whole world requires global cooperation. The rich who gained a lot in the past by exploiting underdeveloped regions should help the poor to move to a better direction without jeopardizing their secure supply of food and other essential products.

Nowadays, the only international organization that could make a change on a global scale is the WTO. It should impose compulsory rules for its members on the issue of environmental protection and sustainable development and work out the appropriate mechanisms for helping the developing countries by increased involvement of the developed. It makes it essential to treat social and environmental issues more seriously and cut back the influence of corporate interests on global issues.

V. Conclusions and recommendations

The WTO Agreement in Agriculture (AoA) was the first multilateral agreement on agriculture under the aegis of the organization. Reviewing the results of the AoA, they were different for the developed and the developing countries.

Developed countries preserved the majority of their domestic supportive measures and could maintain protectionist trade regimes. They also reformed their domestic subsidies to avoid their inclusion to the “amber box”. They had to give up some of their trade distorting instruments of protectionism up to a
certain extent but these changes left enough space for maneuvers in agricultural and trade policy making. Majority of new rules and measures provided equal opportunities for member states theoretically (e.g. SPS and TBT) but developing countries are more or less excluded from benefits caused by these circumstances as they do not have the sufficient technical and financial background to have influence in setting up new rules. These disparities should lead to reforms based on practical experiences.

Concessions made for developing countries have been realized in certain issues like longer implementation periods of rules on key areas such as tariffication. These rules were equally obligatory for all states but developed countries has greater experience in managing sophisticated domestic subsidies and they also started the liberalization at a higher level of protection. Developing countries could not benefit from concessions as the new rules were favourable for those who had to decrease protection from a high level, so they still have considerable opportunity to support their own markets.

New rounds of trade liberalization should pay attention to the difference between developed and developing countries. More precise and comprehensive calculations and economic models should be carried out in order to reveal the effects of liberalization as actual methods used by main international organizations are not effective enough. Comprehensive mid-term reviews should be done during implementation and negative effects should be compensated if possible.

International organizations operating in fields affected by trade liberalization (e.g. WTO, WHO, FAO, IMF, World Bank) should cooperate to discuss the effects resulting from new steps of trade liberalization. According to these analyses corrections should be done. Development plans should be done for developing countries to help them in utilizing opportunities offered by liberalization and for developed countries to find out how they can be interested in the close up of developing countries and in the assistance in adaptation of environment friendly methods of production.

Wider range of NGOs\textsuperscript{2} and independent institutions (e.g. universities) should be involved into planning. They could promote the social and environmental aspects and contribute to balancing the corporate influence in the WTO.

Developed countries went beyond the strictly economic aspects of agricultural trade liberalization and they involved the so called “non-trade concerns” into negotiations. These are sensitive issues in WTO as they promote environmental protection that is common interest for the whole world but economic and political aspects differ. Developing countries are worrying because “non-trade concerns” make their exports to developed countries more difficult as they are not able to produce large quantities of products that fulfill all environmental rules.

Developed countries should devote both financial and technical support to these countries especially because many of the important natural resources (tropical forests, biodiversity) are situated in developing regions of the world.

A kind of support could be the remission of copyright and patent costs for environmental friendly technologies and equipment in the case of environmentally most sensitive products. Developed countries could also help the developing ones by easier and cheaper knowledge transfer. In such cases developed countries could expect imported products to meet their environmental standards.

References

1. “July package” – the General Council’s decision www.wto.org

\textsuperscript{2} NGO: Non-Governmental Organization