

Agricultural Adjustment and the Uruguay Round Agreement on Agriculture:

Some Issues Facing Countries in the LAC Region

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Introduction

As is well known, the Latin American and Caribbean region went through a remarkable period of reforms in agricultural trade policy over the latter half of the 1980s and the early 1990s. These agricultural policy reforms have been part of a package of economic policy changes induced by a combination of external pressures and long-term paradigmatic change. The trade reforms generally involved the removal of non-tariff barriers and the setting of low fixed tariffs against imports. In addition, parastatal marketing institutions were abolished or modified to give a greater role to the private sector in trade. The remarkable fact is that politicians did not shy away from the inclusion of agricultural markets in the overall reform of economic policy. In most cases, difficult decisions had to be made in the face of opposition from rural constituencies, and governments often showed considerable fortitude in pursuing economic policy reform in agriculture. But problems of agricultural adjustment have accompanied this process of reform which need to be addressed if the policy changes are to be broadly acceptable and if there is not to backsliding. As history has demonstrated, economic reforms in the region can easily be reversed by a change in regime as well as by a change in paradigm. To lock in these reforms governments have been actively seeking trade agreements with

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other countries, on a bilateral and regional level. The signing of a trade agreement in effect constrains future governments by raising the cost of a reversion to protection. Export interests are developed which are likely to resist such a policy reversal. Agricultural reforms can therefore be cemented both by an expansion of access into the regional or extra-regional markets and by the development of local markets. In addition, further multilateral reform will also help to support domestic reform. Conversely, failure to continue the process of policy reform at the regional or international level makes it more difficult to continue the current economic policies. Domestic agricultural sectors will argue that they should not be alone in having little protection in an incompletely-reformed international market. Any breakdown of the multilateral trade accords in particular is likely to encourage a resurgence of protectionism within Latin America. Agricultural trade in the region will be among the first casualties.

To complement the region's trade policy reforms and prevent a return to protectionism a positive domestic strategy is also needed. Reforms will unwind if the increased competitiveness on domestic markets is not accompanied by policies that allow or encourage adjustment into and out of agricultural activities. But these domestic approaches need to be consistent with trade obligations and broadly acceptable to regional and multilateral trade partners. The object of this paper is to consider some of the adjustment issues and explore the range of remedies that are both WTO-compatible and FTAA-friendly.

Agricultural Adjustment and the LAC Region

Different countries face different agricultural adjustment issues with respect to the more competitive environment. This suggests the need for some basic framework or taxonomy in which to capture the range of issues. Such a taxonomy needs to include both the degree of reform and the market situation for different commodities. Not all countries in the region have moved so fast or so far in the direction of a reformed agricultural trade policy. In general one can separate the “reformed” countries from the “laggards”. In addition, there are significant differences between the policy problems related to import

commodities and those concerned with export products. Most countries in the region are net exporters of agricultural goods taken as a whole, and often export tropical products. However, it is common for LAC countries to import a high proportion of temperate zone products such as cereals, oilseeds, meats and dairy products for which market conditions are very different.

This suggests a two-way classification of issues depending upon the trade position and the stage of reform. This is shown in Table 1, below. The table indicates a four-category typology of issues in the interface of trade and agricultural adjustment. Those that have undergone structural adjustment and economic policy reform face different issues with respect to both their import markets and their export sectors from those who have not undergone that change. These differences will determine in large part their reaction to further trade liberalization both at the regional level and in the WTO, as well as the range of adjustment policies which are possible, desirable and acceptable.

Import Competition in Reformed Economies

Among the most sensitive of issues is that of adjusting domestic agriculture to additional competition from abroad in those countries where economic reforms have dramatically reduced the level of border protection. In many cases the economic reforms have removed import license systems which were operated by government departments to keep up the demand for domestic products. In some cases parastatal marketing agencies performed the buying function. Even when no overt barriers to imports existed, customs procedures and restrictions on health and safety ground put imports at a disadvantage. Reform programs have reduced the scope for blocking imports, replacing non-tariff barriers with a tariff often of scalable height. Regional agreements have removed even this modest protection on partner imports, and the next round of multilateral talks will doubtless whittle away at the third-country tariff levels.

The manifestation of this issue is the fierce competition felt by domestic producers of such products as chicken, pork, beef and milk products, and in some cases by cereal and oilseed producers. In the case of livestock products, the spillover from the US market tends to dictate the price levels in LAC markets, and in the dairy sector the influence of European policies is dominant. Cereal and oilseed producers compete in a world market

heavily influenced by the struggle for market share that has characterized relations between the EU and the US since the late 1970s, with some impact from “off season” competition from Australia.

Table 1: Issues of Agricultural Trade Policy Disaggregated by Country Situation

	Reformers	Laggards
Import Agriculture	<p>Issues of adjustment of domestic agriculture to increased competition from abroad.</p> <p>Issues of instability of prices from imported products.</p> <p>Issues of dumped and subsidized products from developed countries.</p> <p>Issues of regional supplies from neighboring countries.</p>	<p>Issues of high cost agriculture leading to high food costs and high costs for local processors</p> <p>Issues of overvalued exchange rate and imports available at too low a price</p> <p>Issues of high protection from tariff and non-tariff barriers</p> <p>High tax on poorest income groups</p>
Export Agriculture	<p>Issues of increasing productivity to secure export markets</p> <p>Issues of quality control, market differentiation and labeling</p> <p>Issues of development of non-traditional markets and new uses for traditional products</p> <p>Issues of servicing tourist and other service sectors</p>	<p>Issues of efficiency of parastatal export boards</p> <p>Issues of trade preferences</p> <p>Issues of competition with import agriculture</p> <p>Issues of access into markets</p> <p>Issues of undue concentration and vulnerability to shocks</p>

These markets illustrate the twin problems of instability and depressed prices. Price swings can put severe strains on local producers. Depressed prices due to foreign subsidies can challenge even the efficient producer. Most OECD countries have some form of stabilization policy still intact to protect producers from the worst impact of price volatility. Many LAC countries have removed the policies that provided such stability. Industrial countries have retained the ability in many cases to impose additional tariffs when prices are depressed. LAC countries have experimented with such policies but in ways that could run foul of the WTO. The dilemma faced by both sets of countries is how to help farmers weather the market gyrations and depressions without encouraging them to produce at uneconomic levels. The answer presumably lies with a combination of income support instruments and conditional import measures. The nature of these measures will be discussed below.

Import sectors in reformed countries also face additional competition from regional suppliers, under the network of bilaterals and regional trade pacts. With export subsidies rare, and with most countries open to third country competition, it is less apparent that reactive measures are needed.¹ In many cases what is more appropriate is assistance to domestic farmers to find alternative products to sell into regional markets in exchange for the import items.

Imports and Slow Reformers

The “laggards” face a different set of agricultural import problems. A few countries in the region have yet to remove non-tariff trade barriers as required by the Uruguay Round Agreement on Agriculture. Some others have maintained trade barriers against regional partners in the face of free trade commitments. Yet others have preserved parastatals and price controls, or are still using sanitary and phytosanitary rules as trade barriers. For these countries the problem is that they are delaying adjustment and risk denying their agricultural sectors the access to capital which could help in that adjustment. Investment is unlikely in sectors that are made profitable only by the persistence of protection, in

¹ Of course there is a risk of trade diversion from regional imports if the partner country is a high cost supplier. This emphasises the need to keep domestic tariffs low on goods which are not produced efficiently within the region.

particular if that protection is scheduled to be removed. Moreover, high food costs and the greater raw material costs for food processors make the export sectors of these countries less competitive. Lack of macroeconomic reform in these laggards has a similar depressant effect on investment in general, and often implies an “overvaluation tax” on tradable sectors such as agriculture. Thus, despite avoiding some of the problems that come with reform, the laggards are not in the longer run putting their agricultural sectors in a position to develop competitive activities. In other words, if the future is for an open market in agriculture, at least in the Americas, those countries that are lagging behind in agricultural adjustment will be disadvantaged when that time comes.²

Export Issues for the Reformed Economies

The export issues for both reformed and laggard economies are somewhat different, and pose their own adjustment problems. Many of the countries in the region sell agricultural export goods out of the area, to Europe and to the US. The conditions under which such sales take place are changing rapidly. For those that have completed economic reforms the additional competition on the internal market has been complemented by additional opportunities for sales abroad. This has often taken the form of “non-traditional” exports, products which were previously little traded because of exchange rate misalignment or foreign exchange regulations. Some of these additional exports have been regional, taking advantage of free trade agreements, and some have been global, in response to improving market access under the WTO. The requirements of both markets have been quality and reliability of supplies. Prices have generally been satisfactory for those who can meet these standards.

The issues for this set of countries in the export sector is to continue the pressure for further progress in liberalizing trade both within the region and more generally. The FTAA talks give a good opportunity to push ahead with regional opening. The US and Canadian markets are large and affluent enough to support a multitude of export activities in LAC agriculture. The deficiencies are more likely to be on the supply side, with

² One aspect of this disadvantage is the shock to domestic sectors which may come from the probable imposition of reciprocity in dealings with Europe and the US. Countries that have embraced reform are in a better position to deal with this change in the preference system. This is discussed below in more detail.

quality and timeliness sometimes difficult to maintain.

Export Issues for Slow Reformers

The laggards tend to face a different set of export issues. They are often those countries that still rely heavily on preferential access for certain commodities in the markets of Europe and the US. In part this may be coincidental: preferences are more important to some of the smaller countries in the Caribbean, and these in general escaped the debt problems of the 1980s which precipitated economic reforms in Latin America. But in part the two phenomena are related. Dependence on the export of a few crops, perhaps inevitable in small countries, has led to a focus on maintaining preferential access as the dominant aspect of trade policy. Improvements in productivity, diversity in markets, adding value to raw materials, quality control and brand name identification have tended to be given lower priority. The changes that have often followed structural adjustment, such as the growth in non-traditional exports, have tended to be inhibited by the emphasis on traditional exports. Marketing institutions have also not changed so quickly in those economies most dependent on traditional exports: often the need to fill quotas has been interpreted as a need to maintain government control over all stages of the marketing chain.

So long as preferential access is maintained, productivity enhancement will be a key to competition on these markets. Diversification of the product mix is not likely to be profitable and moving up the value added chain is likely to require heavy investment. But productivity improvement itself may not be easy in a situation of economic uncertainty. The laggards will be under increasing pressure to “catch up” with their neighbors in terms of trade reform. Unless they think they can devise a viable and stable alternative to the Washington Consensus the solution could be in accelerated reforms rather than further delay. Removal of preferences may paradoxically be the stimulus that these countries need to convince themselves of the benefits of economic reform, trade liberalization and agricultural adjustment.

WTO-consistent Options for Agricultural Adjustment Policy

What options exist for agricultural adjustment policy under the new trade rules? Some have painted the WTO as restricting what countries in the region can do to promote their own agricultural adjustment. It is true that the Uruguay Round has changed the environment in which agricultural policies are enacted. For the first time there are limits on what countries can do to influence markets, prices and farm incomes. The Agreement on Agriculture imposes restrictions on both the type of instruments that can be used and the level of support which can be granted through those instruments. At the border countries can use only import duties, at no more than bound levels, and these levels in many cases are scheduled to be reduced over the next few years. Countries can only continue their use of export subsidies under closely monitored conditions, and no new export subsidies can be introduced. Domestic policies have been categorized under the Agreement into those that are production-neutral and those that are output enhancing. The former ("green box" policies) are permitted without fear of challenge; the latter are monitored and the total amount of such support is reduced over time. Only time will tell how closely these new regulations are observed, and what happens if there is an irreconcilable difference between domestic political necessity and international probity. For now one must take the new rules at face value.

In general these new rules on agricultural policies as laid out in the Agreement are not inconsistent with current thinking as to the way in which agricultural policies should change to make them more in tune with national economic policy. However, two caveats should be made. First, the allowable policies under the WTO include some policies that may not be "first best" in terms of their role in development. There is still room to maintain or implant a "bad" agricultural policy that is nevertheless consistent with a country's WTO obligations. Secondly, trade policy reforms were the result of a global set of negotiations: they were not specifically designed as guidelines for developing countries that were reforming their food systems. In that sense, specific policies hammered out as a part of a structural adjustment package are more likely to be tailored

to the needs of the country concerned than the somewhat looser constraints imposed by the URAA and the schedules of WTO commitments.³

This is not to imply that the WTO agreement does not help the countries of the Latin American and Caribbean region. The countries of the region have been among those that suffered most from lack of access and unstable world markets, and should benefit from the stricter rules on agricultural trade policy. However the restrictions on domestic policies and on export subsidies were negotiated and concluded almost exclusively with the developed countries in mind. Even the green box was designed to preserve some types of program in the developed countries that were thought to be less trade distorting. Moreover the developing countries did not find it necessary to record their base levels for domestic subsidies in their GATT schedules, thus effectively giving them a zero base for coupled policies. This has led to some to conclude that developing countries emerged the losers from the agricultural part of the Uruguay Round agreement. This notion is reinforced by the likelihood that world prices for many of the products that developing countries buy in world markets could go up over time as a result of the agreement.

Other implications of the focus on developed country policy problems in the Uruguay Round can be cited. Many countries in the region had already converted non-tariff barriers to tariffs before the conclusion of the Uruguay Round, as a part of their domestic economic reforms. This implies that the direct impact on these countries of the conversion of non-tariff barriers to tariffs has been minimal. It has however had the (perhaps unintentional) effect of limiting their use of the special safeguards (see below) which were an option for those situations where new tariffs were imposed during the Round.⁴ The main implication of the “tariffs only” rule for the region is not to force immediate policy change but to prevent the reintroduction of non-tariff measures. The level of tariff protection is also unlikely to change much as a result of the Agreement: there is little by way of tariff reduction reflected in the schedules of most countries in the

³ Some of these instruments are generally available to all countries and some are confined to developing countries. In addition, the time scale is different for developing countries: they have ten years to complete any tariff or subsidy reduction, and the reductions themselves are less..

⁴ By the same token they were not required to grant minimum access quotas on import items, another aspect of the process of tariffication.

region. Countries chose in most cases the option of “ceiling” bindings rather than establishing individual bound rates for each commodity. Many of these ceilings were at rates higher than those actually used. As a result the market access provisions of the Agreement impact on the region more from their position as exporters than directly on their import policies.⁵

The new constraints on export subsidies are not likely to change domestic policies in the Latin American and Caribbean region: few countries have had the resources or the need to subsidize exports. None of the countries in the region entered any significant export subsidies in their schedules and therefore will not be able to use them in the future without risking challenge. The main impact of the curb on export subsidies is likely to come as a result of the limits on such subsidies in the EU and the US, and on the impact on world markets of such limits. This should increase over time the import prices for products such as cereals and dairy and make less frequent the incidence of dumped commodities depressing domestic market prices.

The agreement to classify domestic policies into those that are deemed to be trade-neutral (green box) and those that are trade distorting (amber box) clearly has the potential to limit policy choice for developing countries - perhaps even more than for developed countries. Most policy instruments that aim directly to encourage investment in farming and infrastructure, along with nutritional and other poverty programs will fit comfortably in the green box. Price support policies that rely on administered prices to farmers will be subject to constraints. As most developing countries chose to consider their agricultural policy instruments as “green” they did not include in their schedules a base “aggregate level of support” (AMS). This base is therefore, from the point of view of other countries, zero. Developing countries will therefore have less scope to continue such price support policies than the developed countries that registered large AMS payments to agriculture in the base period and thus can continue them at a slightly reduced level for some years to come.

⁵ The sugar quotas of the EU and the US are, for instance, included in the schedules of these countries as “current access” commitments and hence are “bound” in the WTO.

Domestic Instruments for Agricultural Policy

Even with the constraint on price supports, the range of adjustment instruments available to countries under the WTO Agreement on Agriculture in the Latin American and Caribbean region is extensive. The list of such available domestic policy tools is given in Table 2, below. Perhaps the most important category is that of “general services” which includes most of the policies necessary to help agriculture become internationally competitive. Research, extension and training, along with quality control, infrastructure and marketing, come at the top of the list for most Ministries of Agriculture as well as their economic advisors and the representatives of development institutions. Where these items of public expenditure are inadequate to ensure a reasonable income for those farmers that would otherwise be productive in the sector the category of direct payments allows a range of specific targeted programs. Under the category of food security instruments countries can accumulate stocks (if not just a side-product of generous price supports) and run nutrition programs.

As an aspect of “special and differential treatment” for developing countries there is also the possibility of employing subsidies for investment and input use, under certain conditions, which would in developed countries be included in the “amber” box. The amount of support given by amber box policies is also larger for developing countries. The *de minimis* limit is set at 10 percent of the value of production for any commodity-specific program (which could mean a higher level of marketed output), with a similar limit for more general subsidies.

It is likely that most of the countries in the region will be able to fashion an agricultural adjustment policy involving these domestic instruments. The main criterion is that the policy instrument does not directly stimulate output of one commodity. Taken with the prohibition of non-tariff trade barriers, this implies that adjustment policy will need to be targeted at specific types of situation or individual rather than commodity. Direct action will have to replace broad protection at the border. In general this trend is likely to be beneficial to the country in the longer run.

Border Instruments for Agricultural Policy

The major constraint imposed by the Uruguay Round on border instruments was of

Table 2: Instruments Available for Support under WTO

1. Green Box policies (defined in Annex 2 of Agreement on Agriculture)
 - (a) General services
 - research
 - extension
 - training
 - pest/disease control
 - inspection
 - marketing and promotion
 - infrastructural services
 - (b) Direct payments
 - decoupled income support
 - income insurance
 - safety net programs
 - disaster relief
 - retirement schemes
 - structural adjustment policies
 - environmental programs
 - regional assistance programs
 - (c) Food stocks
 - purchased at market prices
 - part of national food security program
 - (d) Domestic food aid
 - nutritional programs
 - food programs for poverty relief
2. ‘Special and Differential Treatment’ clause, for developing countries
 - (a) Investment subsidies, so long as they are generally available
 - (b) Input subsidies, when intended for use of poor producers
 - (c) Diversification support, as subsidy for diversification away from illegal crops.
3. Non-exempt measures (“amber box” policies)
 - (a) Price supports up to a limit for developing countries of “less than 10 percent of farmgate value” (de minimis provision)
 - (b) Up to the AMS constraint agreed in the country schedule (subject to reduction over time), but this was set at zero for most developing countries who chose instead to claim current policies as ‘green.’
4. Payments linked to acreage limitation programs (“blue box” - not used by countries in the LAC region).

course to remove the use of non-tariff trade barriers. Countries do however retain some instruments that can be used at the border - in particular safeguards against disruption of domestic markets by imports. These safeguard measures are listed in Table 3.⁶ They range from general balance of payments safeguards which allow for trade barriers to be kept when foreign exchange reserves are low to specific provisions for supplementary duties in those cases where non-tariff barriers were converted to tariffs as a part of the Uruguay Round agreement. The three most likely to be found useful to developing countries in the region are anti-dumping and countervailing duties and emergency safeguards. Anti-dumping duties require a complex procedure for establishing the dumping margin, showing injury to the domestic sector and then linking the two. In practice such a procedure is hardly likely to be useful to prevent sharp price declines on domestic market arising from a flood of imports. By the time the process had run its course the damage would have been done. Most government subsidies against which one would apply countervailing duties are now in any case protected under the WTO schedules. This leaves emergency safeguards, a mechanism quick to use and effective but not suitable for long-term protection of vulnerable industries. A combination of emergency safeguards and adjustment assistance may be necessary.

In addition to these instruments there are certain types of measure which have a less certain legitimacy in the GATT/WTO.⁷ These include price bands, as first used by Chile and later adopted by Central America and by some of the Andean Pact countries.⁸ Price bands need not be protectionist in themselves: in their original form they rebate tariffs if

⁶ A safeguard is a provision that allows an importing country to abstain temporarily from applying in full the WTO/GATT agreements (i.e. to put an extra tax on imports) under given circumstances. However it is sometimes useful to distinguish between those cases where the action is taken as a result of "exceptional" or "abnormal" events, with no implication that the exporter is at fault, and those where the exporter is suspected of "unfair" trade practices, such as subsidies and dumping. For convenience, both types of safeguard are included in the table.

⁷ Price bands have not been challenged as yet in the WTO.

⁸ The concept of a price band is the introduction of a temporary additional duty when the price of certain goods at the border drops below an average of previous import prices, coupled with the remission of duties when world prices are high. Thus the Chilean system, introduced in 1984, operated for a small group of basic food products and used the average of the world prices for the past 60 months (five years). A similar system for Central America (El Salvador, Honduras, Nicaragua, and Guatemala) covering rice, maize and sorghum, was introduced later, followed by somewhat more extensive systems for Colombia, Ecuador, Peru and Venezuela. The Andean Pact countries eventually moved to a harmonised system of price bands to prevent inconsistencies between these systems.

Table 3: Trade safeguards and remedies available under WTO rules

1. General Balance of Payments safeguards (Articles XII and XVIII B)
 - import restrictions allowed when foreign exchange reserves are low
2. Anti-dumping duties (Article VI and 'Agreement on Implementation')
 - duties allowed when imports less than 'normal' value
 - have to establish dumping margin
 - have to prove domestic injury
 - have to show injury due to dumping
 - UR clarified calculation of dumping margin and injury criteria, de minimis threshold, established time limits for investigation, introduced 5-year sunset clause
3. Countervailing duties (Article VI and 'Agreement on Subsidies and CVM')
 - countervailing duties allowed when imports benefit from foreign subsidy
 - have to show injury related to imports
 - have to show subsidy paid by exporter government
 - UR clarified injury determination, subsidy calculation, conditions for ending investigation. But many subsidies are now protected in country schedules.
4. Emergency Safeguards (Article XIX and 'Agreement on Safeguards')
 - measures can be applied if increased input quantities cause or threaten serious injury
 - proper investigation, public notice, hearing
 - four years and four renewable
 - have to remain "off" as long as they were "on"
 - some discrimination possible among supplies
 - compensation no longer required in first three years (if increase in imports has been absolute)
 - UR attempted to make Article XIX safeguards easier to apply to counter the attraction of anti-dumping and voluntary export restraints.
5. Special Safeguards (UR Agreement on Agriculture, Article 5)
 - price trigger operates supplementary duty
 - import surge activates supplementary duty
 - can only use one of the two triggers
 - only for goods 'tariffed' and indicated by "SSG" in schedule

world prices are high. Insofar as they are based on an average of world prices they merely provide some useful smoothing function. But it is often feared that they could become the first step toward granting "relief" from legitimate competition. Manipulation of the world price, the proliferation of commodities covered, the failure to pay the import subsidies when required, and the management of the band through producer-controlled agencies

could each taint the pure stabilization objective. Thus the administration of the price bands becomes an important aspect of their desirability.

The level of protection under the price bands should of course be limited by the height of the bound tariff in country schedules, though it is noticeable that countries with price bands generally bound tariffs for the covered commodities at a higher level. Countries can legitimately argue that varying the tariff within the binding is acceptable. But even if the level of duties under such schemes cannot be challenged the instruments themselves must be acceptable under the WTO/GATT. This is where some ambiguity arises. Article 4.2 of the Uruguay Round Agreement on Agriculture specifically prohibits the use of variable levies, minimum import prices and similar measures other than ordinary customs duties. Price bands are not variable levies, as the latter were operated by the EU.⁹ They are not attached to domestic price targets. But neither are they "ordinary customs duties". Though probably benign, and certainly better than high fixed tariffs, the status of the price band system could be usefully clarified in the next round of negotiations.

The Pace of the WTO and Structural Adjustment Programs

The dictates of structural adjustment and domestic policy reform move countries in the same general direction as does the Uruguay Round Agreement. The WTO-consistent types of policy discussed above are similar to those favored by international donors. There are times when the conditionalities appear to move countries at a faster pace than the Uruguay Round would require. Under these conditions there can arise two different questions: (a) the relationship between the WTO schedules for tariff reduction and those negotiated with the international lenders, and (b) the adequacy of WTO safeguards to the process of liberalization under structural adjustment.

The comparison between the pace of adjustment in the WTO schedules and those under structural adjustment programs is essentially a false comparison. The former was never devised, as mentioned above, as an indication of the desirable pace of adjustment for

⁹ It could be pointed out that the EU was in effect forced to keep a "variable" levy for grains, as a result of the stipulation that the duty-paid import price should not exceed 155 percent of the (internal) intervention price. In addition, the EU introduced a system of "entry" prices for fruits and vegetables which also triggers extra duties when world prices are low. The Special Safeguard, mentioned above, works in a similar way.

individual countries: it merely represented the best that countries collectively could agree at the end of a set of complex negotiations. By contrast the particular SAPs that have been negotiated individually reflect specific circumstances and objectives. In a large number of countries, both developed and developing, the actual pace of reform of agricultural policies exceeds that required by the WTO schedules.

The issue of safeguards against too rapid a movement to the CET is however a legitimate concern.¹⁰ The contingent protections (anti-dumping, countervailing duties and emergency safeguards) of the WTO would still be available to the country.¹¹ But there is some argument for having a negotiated safeguard that is designed for situations of rapid reductions of tariffs rather than subsidy-depressed world prices or dumping by overseas firms. Two devices would appear to be useful in this situation: (a) a snapback to a previous step in the tariff reduction schedule if there has been an import surge or a collapse of domestic market prices as a result of the pace of tariff reduction, or (b) the payment of compensation to domestic producers who are injured by the price decline. The latter has a direct fiscal cost but is preferable where local producers are unlikely to become competitive with imports.

Those policies that can not be used under the WTO are often the same as those removed under SAPs. These include non-tariff border measures such as quotas and negative lists, export subsidies, and significant price support programs that are financed through the taxpayer or an increase in the consumer price. Non-tariff barriers are not the appropriate instruments to use for a private-sector trade environment. Export subsidies expend scarce budget funds to the benefit of overseas consumers. Price supports send inappropriate signals to farmers and consumers and encourage investment in the wrong activities. Supporting commodity prices is rarely the best way to help individual firms and farmers. The UR constraints still leave ample space for constructive agricultural adjustment

¹⁰ Though this has arisen in terms of the SAPs it can also be cast as a question of moving from a free trade area to a customs union. How do you encourage countries to move rapidly to a common tariff from much higher levels of protection? Some safeguard provisions might be useful in such a transition.

¹¹ If the use of a WTO safeguard implied violation of a provision for tariff reduction in an SAP, the country would have to request a modification of the country-specific agreement. It seems likely that if the conditions were such as to allow a WTO safeguard action that the other parties to the SAP would not object to the action.

policies. The individual country still has to determine which of the policy options are chosen.

Special Treatment and Preferential Access

The issues of special treatment under the WTO/GATT for developing countries and of preferential treatment in market access have been of importance to the Latin American and Caribbean region for some time. There is a strong possibility that these questions will arise in the next round of agricultural trade negotiations either as separate issues or as a part of the discussion of market access. Different countries in the region will be affected in different ways by changes in these systems. Although it may not be possible for all countries to speak with one voice on the issue, some degree of mutual understanding would be useful.

The issues of special treatment and preferential access are related but separable. Special and Differential Treatment which has been a part of the GATT/WTO for forty years. However, it may be increasingly difficult for developed countries to maintain such programs in the future. Developed countries will certainly try to limit such preferences to the least developed countries. Moreover, it may not be in the best interests of the recipient countries to request such a continuation. The time may be approaching for a different kind of solution. Perhaps more immediate is the question of the status of the preferential trade agreements between several countries in Central America and the Caribbean on the one hand and the European Union and the US (and Canada) on the other. On the import side, the non-reciprocity of these agreements implies that access into these markets from the US and Europe is at most-favored-nation levels of tariffs, whereas these countries grant (almost) free access into their own markets for goods coming from the Central American and Caribbean countries. On the export side, the preferred access is for a certain set of commodities to the European and North American markets.

Special and Differential Treatment

The practice of granting to developing countries special and differential treatment (known as S&D) was designed at a time when it was felt that they were unable to take on the full burden of GATT obligations. The greater number of developing countries that are

now members of the WTO, together with the much more open nature of their economies, suggests that such preferential treatment is likely to be weakened in the future. Whether this is desirable or unfortunate may depend more on the nature of the concession underlying S&D.

Three types of S&D “benefit” can be distinguished. One such concession allows countries to operate under less strict rules. One problem with such a concession is that the rules may in fact induce harmful policy changes in the developing country. To be allowed to use input subsidies for agriculture, for instance, could encourage high cost production. And to be allowed to export goods with less strict quality or safety standards would be very problematic. It would seem self-defeating for a country to be allowed to run more lax standards on items sold to health-conscious consumers in industrial countries. Only when the rule is clearly against interest of the country could one argue that a derogation is a desirable policy. In agriculture such desirable exemptions may be few.

A similar type of "benefit" from S&D gives developing countries more time to adopt certain regulations. In the Uruguay Round Agreement on Agriculture, tariff reduction timetables were tailored to allow developing countries longer to make adjustments. However, extending timetables is subject to the same caveats as waiving rules. If the change is in the interest of the country then to delay such change may be counter-productive. It may even provide fuel for domestic groups who argue against change. Thus the slower pace of tariff reduction in developing countries has been used in some countries to indicate that needed reforms be slowed so as not to get ahead of WTO commitments. This is, of course, to misunderstand the nature of the WTO schedules that were never intended as policy prescriptions for individual countries.

A second type of concession is that of granting better access to developing countries. This has a history through the Generalized Scheme of Preferences (GSP) that most industrial countries operate. As permanent preferences these GSP schemes also are beginning to look out of place in a global trade system. However, there is a type of concession that would give both benefits to developing countries and not undercut their own trade reforms. If preferences were granted as temporary measures which give to developing countries advanced implementation of improvements in market access which

will eventually be given to other countries then such a scheme may be truly beneficial. In effect there would be a temporary transfer of “rents” from tariff free access to assist the developing country in competing in the market. The less developed countries would enjoy faster access in other markets rather than having to slow down the adjustment in their own. Under such circumstances, and with the understanding that the value of such “accelerated access” will be eroded, schemes such as these could play a constructive role in both regional and multilateral agreements.

A third type of "benefit" comes from the provisions of funds and technical assistance to developing countries. This does not suffer from the drawbacks of the other two types of assistance. Of course, investment funds can be wasted and food aid can be squandered, but the obligation to make such transfers has been widely accepted and the smooth working of the global economy would seem to require

Non-reciprocal Preferences

Among the non-WTO schemes for giving developing countries improved access, the most important are the non-reciprocal preferences granted in particular by the US and the EU. There are two contrasting views of non-reciprocal preferences. One view holds that they are necessary, in particular for small countries, which would otherwise have difficulty in competing with the larger, more advanced countries.¹² Even if they should eventually be phased out, the argument is made for a long transition period to give the economies time to adjust.

The counter view of such preferences is that they are an anachronism in a global market, a relic of a post-colonial attitude toward trade by which developed countries, in particular those in Europe, maintained a special relationship with newly-emerging nations. This was in part intended to continue the flow of raw material for processing in the metropolitan country. This gave some security of export sales in initial years but may by now have lost some of its purpose. Indeed, countries that do not have such one-way access to the EU

¹² Small countries are not always poor, nor are large countries always more developed. But the argument in favor of preferences tends to rest on the vulnerability of small economies and their inability to compete. One could also note that the larger countries are less likely to be given such non-reciprocal treatment as they are more likely to be seen as an economic threat to the importing country.

have increased their market share relative to those that do enjoy such access.¹³

This view has been reinforced by the WTO ruling that the Lomé agreement between the EU and the African, Pacific and Caribbean countries (the ACP) is in breach of Article XXIV, as it is not a reciprocal free trade area. Neither does it qualify under the “Enabling Clause” as a generally available preference system for developing countries. Though the EU has been granted a waiver for the next two years, it will need to renew this when the next Lomé Convention is signed in the year 2000 or bring the agreement into conformity with the WTO.

For both of these reasons, the EU Commission has suggested a strategy of moving toward full reciprocity (i.e. a free trade area) at least with the Caribbean members of the ACP. Thus the future of non-reciprocal access to the European market is uncertain even if it were to be desirable. But the Caribbean Basin Initiative (CBI) which grants tariff free access to Central American countries and those in the Caribbean on a non-reciprocal basis is also vulnerable to challenge in the WTO, as is the parallel Canadian scheme, CARIBCAN. It would seem to be quite likely that these two trade relationships will mutate to become free trade areas in the next few years. Indeed this issue will have to become subsumed in the FTAA talks at some stage: free regional trade will overtake the preference systems. This in turn will force a similar change on the EU relationship, as Europe has indicated that it will not be content with access under Lomé less favorable than that given to the US.¹⁴

This issue of preferences will play itself out both in general terms and with respect to particular commodities. It is after all a major factor behind the banana dispute that has split the region. Relatively small quantities of bananas are sold from the Caribbean to Europe under highly preferential terms. There will be pressures to continue such schemes so long as the exporting countries concerned are unconvinced of their own

¹³ Though this view seems to have statistical validity (Asian exports to Europe have increased faster than those from Africa and the Caribbean) the commodity structure of such trade is perhaps more important. In other words, Caribbean sugar exports may not have increased, but neither have European imports of sugar from Asia.

¹⁴ The logic is compelling. Why should Europe grant free access for Caribbean goods if that region imports freely from the US but not from Europe? Nostalgia or *noblesse oblige* will no longer suffice. Old colonial

competitiveness.

Conclusion

Developing countries will play a much greater role in the next round of agricultural talks. The task will be to develop consistent positions that are both constructive in terms of the global trade system and supportive of domestic development and growth aims. The different position that countries find themselves with respect to whether they have reformed their own agricultural and trade policies will complicate this task. A few countries still regard the world market as a threat to their domestic agricultural sectors, and are hesitant about moves to open up to imports. Most have taken that step, but are still concerned about the import of instability. Some regard themselves as unable to be competitive without the security of preferential access into the major European or US markets. Many, however, view the world market as a challenge with rich rewards if the quality and consistency of supply can be maintained. Increasingly, these countries will reject preferential access as being dependent on the declining will of the major developed markets to continue such arrangements. Investment likes open access and stability of trade relationships, rather than political deals for special market access that can be reversed within a few years.

The challenge for countries in the Latin American and Caribbean region is not just to agree on a common set of objectives. It will also take considerable diplomatic skill to present a cohesive position to other countries. Adding to the complication is the proliferation of different trade negotiations, each overlapping in coverage. The Free Trade Area of the Americas is already under negotiation, as is the next Lomé Convention. The WTO talks on agriculture must start within the year. To coordinate among countries in each of these trade talks will truly test the skills of the regions trade diplomats.

ties are in any case much weaker with the continual enlargement of the EU. And in some respects Europe has a new “colonial” problem of Central and Eastern Europe to concern it.

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Some Issues Facing Countries in the LAC Region

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