

A vision for multilateral agricultural policy reform

World agricultural markets continue to be distorted by support provided in Europe, north America and north east Asia

Negotiations in the World Trade Organisation (WTO) have commenced at a time when protection for agriculture is around the highest ever estimated (figure A).

World agricultural markets continue to be distorted by the high levels of support provided in Europe, north America and north east Asia. In 1999, support to agriculture in these areas amounted to US\$360 billion.

The losers from these arrangements are widespread.

Consumers in countries that provide market distorting support are denied the benefits from competitively produced food and fibre, while taxpayers are forced to subsidise high cost, often environmentally damaging, production.

Such market insulating policies depress and destabilise world market prices, disadvantaging the producers in

economies that can either not afford, or are not willing, to provide support.

Efficient farmers in these countries are thwarted in their efforts to realise their economic potential by extensive import barriers that are far higher, on average, than for nonagricultural products.

A better way

The road toward agricultural trade liberalisation has hardly yet been trodden.

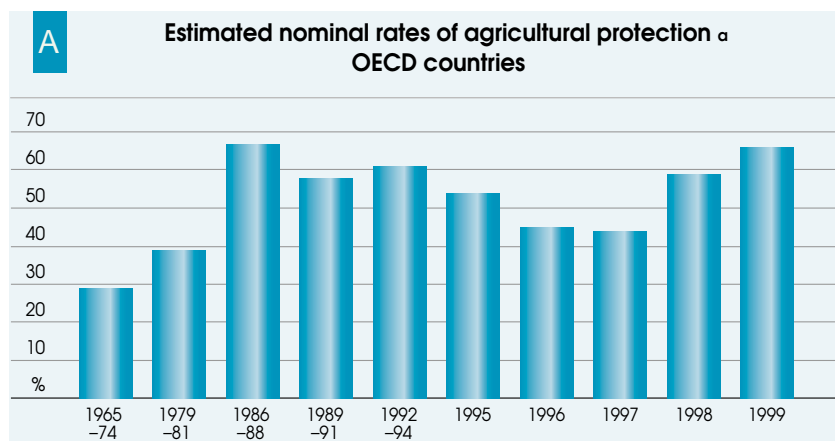
The only serious attempt was that made through the Uruguay Round of trade negotiations that concluded in 1994.

That round was a symbolic success for agriculture, although its substantive achievements were minor. It provided a framework for an integrated, comprehensive approach to agricultural trade reform.

However, most potential benefits are yet to be realised because extensive loopholes and escape hatches enabled many countries to comply with the agreement while implementing minimal changes.

A number of estimates have been made of the benefits from further pursuing trade reform. All estimates are substantial and of similar orders of magnitude. For example:

- ABARE estimates that a 50 per cent reduction in agricultural support would increase global gross domestic product by US\$53 billion in 2010 (Freeman et al. 2000).



^a Estimates are for 24 OECD countries which include the 15 EU members, Switzerland, Norway, Iceland, Turkey, Canada, the United States, Japan, Australia and New Zealand. The estimate for 1965-74 was derived from a comparison of data from Tvers and Anderson (1992), with OECD data for later years. As the OECD (2000 and previous) introduced a new method of calculation, data before 1997 were rebased on a value basis to be compared with the newer data.

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- Hertel, Anderson, Francois and Martin (1999) estimate that a 40 per cent reduction in post Uruguay Round agricultural tariffs and export subsidies would result in an increase in real world incomes by around US\$60 billion a year.

Both studies concluded that both developed and developing countries would benefit.

Principles

As levels of protection and market distortion are so great and entrenched, a long term strategy is required to enable the global benefits from efficiently operating world markets to be fully realised.

To reach that objective requires fundamental changes in agricultural policies.

Certain guiding principles provide the logical underpinning to the objective of achieving open markets with minimal market distorting support. At the same time it is important that a path for progress toward that goal is developed to ensure continuous progress over the long term and to ensure that the process is not derailed.

At the global level, some of the most important principles involved are:

Principle 1

Support in particular countries should not harm other countries

Barriers to trade and distorting subsidies all harm supplying countries, while export taxes harm importing countries.

The path toward this goal involves all countries reducing such measures.

Principle 2

All measures that distort production, consumption, trade or prices should be eliminated in each country

Unsubsidised prices on open, competitively structured markets are the prime determinant of outcomes that maximise economic benefits globally.

Adoption of these measures by nations is in their own economic interest.

Principle 3

Governments should be free to provide public goods and services, but only those necessary for efficient resource use

While governments should be free to provide these goods and services, they should not provide support in forms that directly distort production.

Principle 4

Trade policies should not be used for other goals — be they in areas such as environment, aid, regional employment, health and community welfare

Efficient policies require targeting to meet specific objectives. For example, trying to address labor standards or environmental issues through trade measures will provide inefficient outcomes.

Principle 5

Any support arrangements should be fully transparent

Support arrangements in many countries are so complex that it is virtually impossible to determine whether changes are improvements or not.

Simplified and easily understood measures are essential to reform.

Principle 6

Reductions in support measures that distort markets should be real, not illusory

Commitments in international agreements are often made on the basis of poor proxies for support rather than real support levels. Examples are bound, not applied tariffs, and the Aggregate Measurement of Support that does not measure actual support at all.

Principle 7

In the process of reducing distorting protective arrangements, items with high levels of support should be subject to larger cuts than those with lower levels of support

Part of the economic benefits from trade liberalisation arise from reducing disparities in support between agricultural products — to achieve those benefits requires reducing high support levels by more than low ones.

Principle 8

Countries providing protection are responsible for providing evidence that their support is in compliance with relevant agreements

This places the onus on the supporting country to justify the treatment of its support. Such evidence must be acceptable to the broad WTO membership

Principle 9

Some measures that help achieve a degree of liberalisation may hinder progress toward long term liberalisation — they should be discarded when their purpose is fulfilled

Tariff-quotas (reduced tariffs up to an agreed quantity) are a tool that can facilitate market access but they are also used to restrict and manage imports in a discriminatory manner.

This tool should be used only as a transitional measure to help countries adjust to tariff-only measures and should be discarded when it is no longer useful.

Principle 10

It should be recognised that developing countries face challenges beyond those faced by developed countries in participating in WTO processes and in capturing benefits from trade reform

In many developing countries, tariffs are an important source of government revenue, and infrastructure and input subsidies are forms of effective assistance to poor communities.

Recipe for a successful multilateral agreement on agriculture

The fundamental requirement of a successful multilateral agreement is that it ensures that there are large reductions in actual levels of market distorting protection and support in all countries.

This can be achieved through the following actions:

Increasing access to markets

Achievable by:

- reducing applied tariffs to a level at least as low as the average for nonagricultural products;

- increasing actual trade volumes through the use of tariff-quotas, with an objective of progressively eliminating tariff-quotas when general tariffs have been reduced sufficiently to ensure that imports rise to above the tariff-quota quantities; and
- substituting *ad valorem* tariffs for all specific tariffs and all combined *ad valorem* and specific tariffs — this is to be done to improve transparency.

Eliminating export measures that distort trade

Achievable by:

- prohibiting export subsidies and eliminating the subsidy elements of substitute measures, including concessional export credits and the misuse of food aid for commercial purposes.

Reducing domestic support

Reducing, and as far as possible, eliminating market distortions arising from domestic support through progressive reductions of actual levels of domestic support in all countries by:

- constructing an Effective Measurement of Support (EMS) for each commodity and for agriculture as a whole. For each commodity, it would include measurements of actual price support *plus* subsidies *less* producer levies. Price support would be determined from the difference between actual internal market prices and border level market prices multiplied by total output. The EMS for agriculture as a whole would be the sum of the individual commodity levels plus nonexempt, non commodity specific subsidies less any non commodity specific producer levies.
- having support reduction arrangements in terms of EMS on a commodity specific basis as well as for agriculture as a whole.

Applying conditions on support

If exemptions are to apply for any form of support, they must meet the following conditions:

- where there is strong evidence that a measure is minimally distorting to production and trade and it is

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- accepted by all members, such arrangements should not be subject to reduction commitments or limits;
- if members agree that a measure is minimally distorting within limits, exemptions from reduction commitments could apply but only within strict limits;
- if members cannot agree that measures are minimally distorting, or if members agree that measures are distorting, those measures must be subject to reduction commitments.

Considering developing countries' circumstances

The speed and extent of reduction processes for support should be slower for developing countries and patterns of reduction should reflect conditions applying in those countries.

The bottom line

This vision statement recommends a challenging program for multilateral agricultural trade liberalisation.

All analyses of trade liberalisation — be it for agriculture alone or for agriculture in conjunction with other goods and services — indicate that there are substantial global gains available from reform. For example, analysis of the effects of cuts in support to both agricultural and manufacturing industries by Freeman et al. (2000) indicates gains of almost double those for agriculture alone.

As the global gains are large, there is scope for everybody to benefit from trade liberalisation. For example, for countries losing benefits from preferential access to previously sheltered markets, there is substantial scope for reorientation of the gains from reform to ensure that all benefit.

In addition, there are greater potential gains for countries whose comparative advantage is in industries other than agriculture, such as net agricultural importers, from a more broadly based negotiating round than for agricultural liberalisation alone.

As Josling (1998) and Spencer (2000) observed, it is widely considered that the opportunities for a successful agreement for agriculture are far greater as part of a wider round than from stand alone negotiations — the scope for benefits and tradeoffs is far greater.

References

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ABARE

Innovation in Economic Research

GPO Box 1563 Canberra 2601 Australia
 Telephone +61 2 6272 2000 • Facsimile +61 2 6272 2001
www.abareconomics.com

Contacts

Ivan Roberts (iroberts@abare.gov.au)
 Troy Podbury (tpodbury@abare.gov.au)
 Fran Freeman (ffreeman@abare.gov.au)
 Vivek Tulpulé (vtulpule@abare.gov.au)

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