

Agricultural Outlook Forum 1999

Session: SETTING THE STAGE FOR NEW TRADE NEGOTIATIONS

Perspective from Argentina

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Setting the stage for new trade negotiations

A vision from Argentina

by Arturo Vierheller

Introduction

The new set of rules established during the URAA represents the genuine incorporation of agriculture into the multilateral rule system for the first time ever. In particular, they allow countries to use only decreasing, fixed tariffs at the border and force countries to reduce trade distorting subsidies.

However this process of tariffication produced a number of tariffs bound at very high levels and even with the agreed reductions still leaves agricultural trade barriers well above those for other traded products. Because of the succession of GATT rounds, manufacturing tariffs are now at modest levels, in the range of 5 to 10% in most of the cases while agricultural tariffs average above 40% with some so called mega-tariffs of over 300%.

The three major areas on which negotiation focus-market access, export competition and domestic support-provide a convenient framework not only for understanding the benefits achieved by the URAA but also to understand what is needed to complete the reform.

Some commodities have remained largely outside the reform process. The markets for dairy products and sugar remain highly protected in most countries. These products are very likely to be in the center of the discussion of the next round and probably will be followed by peanuts, poultry and rice.

In addition, the agreement on the application of Sanitary and Phitosanitary measures (SPS Agreement) established rules to make it easier to distinguish between disguised protection and genuine health and safety issues.

By projecting the rate of change under the current URA beyond 2000 it is unlikely to expect significant impact on trade and prices. The world needs more rapid measures to ensure a further deepening of the process of trade liberalization.

It is imperative then to accelerate the process of reducing the levels of agricultural import protection. Dependence upon artificial market whether it is done via keeping high import tariffs or direct intervention in the market using price support, blocks the signals from the consumers and distorts production and investment decisions. A country's best guarantee of food security is a diversified export sector that provides the funds for needed imports, along with the sound macro-economic policies to keep those export competitive.

Moving towards a more liberalized world trade with less participation of governments, not only would add transparency and efficiency, but would also close the door for possible corruption practices.

It is furthermore essential at the time that the negotiations re start to consider the agenda of such negotiations not only as a continuation of the URAA but to shape it considering the importance of the global economy and what has been called as the global food system. Abundant, accessible, affordable food supply of increasing quality, variety and reliability requires increasing efficiency in the world's agri-food system. To meet the demand of the poor, the emerging middle classes and the wealthiest consumers, barriers to agricultural trade should be removed.

Argentine facts

In my country, Argentina, for many decades, the Government controlled the key industries like oil, electricity, natural gas, mining, telecommunications, ports, grain elevators, airlines, rail transport. This economic disorder created sky-high rates of inflation that reached during 1989 a figure near 5.000 %, as well as deficient infrastructure, reduced levels of investments, falling labor productivity, and growth of poverty.

A combination of dramatic market-oriented reforms implemented since 1989 and strong price incentives led the changes in the Argentine economy and particularly in the agricultural and food sector.

The bulk of the reforms took place after the convertibility law which in 1991 established the parity of one dollar equals to one peso. The deregulation of the economy, the across the board privatization of government owned industries and utilities, the opening up to foreign capitals and the restructuring of government institutions produced an accumulative change measured as a comparison from the decade 1981-90 to the average 1991-97 of GDP :from -11% to +51% and Industrial output : from -19% to +41%.

Among the specific reforms that directly benefit the agriculture/food sector where the dismantling of the National Grain Board, the National Meat Board, the National Sugar Bureau and the elimination of export taxes on agricultural commodities together with the tariff reduction on imported imputes like fertilizers, machinery, herbicides and pesticides.

During the last five years the annual sales of combines and irrigation equipment have duplicated. The use of fertilizers that during the 80's demanded 300.000 tons per year, in 1996 went up to over 2 million tons.

The cultivated area with no-till system increased from 500.000 hectares in 1991/92 season to 5 million hectares (about one quarter of the total crop land) during the last season, reflecting a very important change of attitude of our farming community.

Argentina has during the last few years advanced almost at the same speed as the United States in the commercial development of the genetically modified seeds, particularly in the case of soybean where, for the coming crop we expect a participation of above 30% of the total acreage.

The completion of the dredging of the Parana River waterway to 36 feet draft which will be hopefully finalized in about 2 years, will be the key for the further development of the heart of the Mercosur region by giving a much more competitive transport system to an area of 5 million square kilometers.

We expect then the cargo traffic of this waterway to increase from the actual 7 million tons to 20 million tons in the next five years.

These measures induced the all time record crop that we had for the season 97/98 that reached the figure of 67 million tons on 26,1 million hectares whilst in the beginning of the decade, taking the 90/91 season, we produced 39,2 million tons on 20,7 million hectares.

I also want to mention the fact that particularly during the last nine years, there has been a constant flow of foreign and local investment in the food sector, based on the huge upside our country has in terms of adding value to our primary production. The oilseed crushing industry has led this process by investing during this period about 1,5 billion dollars to duplicate the crushing capacity that in 1990 was of 13,6 million tons to 27,3 million tons during 1998.

Not only we are adding value to our feed grain production through the enormous growth of the poultry and dairy sector but also cattle feedlots are becoming more and more common throughout our pampas (some American companies too). Furthermore the hog industry is about to start a big move in terms of expansion as a consequence of the abundance of low-cost corn and some other strategic considerations.

All the above mentioned development have contributed to position Argentina according to FAO statistics as the seventh world food producer and is ranked in the same position as food exporter also on a world basis. We have free markets, no subsidies and we are increasingly promoting the use of risk management tools like futures and options and insurance coverage.

The next round of trade negotiations in agriculture will begin in November of this year, in just 9 months. Argentina applauds the continuation of the agriculture negotiations respecting the time frame defined in the URAA Agreement. In our country, there is a strong consensus that continuing trade liberalization will bring benefits back, not only to the entire agricultural sector, but also to all the people of the world that consume or deserve healthy food on the daily basis. We therefore focus on the following objectives for the next round of negotiations.

New Round

Market access

Market access remains the keystone of any trade negotiation. Tariffication, as was intended in the URAA has made the conditions of market access in agricultural trade significantly more transparent. What is now visible is the high level of protection for long hidden by non-tariff barriers. This level of protection in agricultural markets is in many cases, considered as very high and prevents trade from flowing.

The question for the next round is what process can be initiated to reduce tariffs so that they are no longer prohibitive.

The Uruguay Round Agreement instituted tariff rate quotas (TRQs) in those situations where tariffs replaced non-tariff barriers. For specified quantities the tariff charged would be some fraction of that agreed as a bound tariff in the schedules. The quantity would increase over time, generally from 3 % to 5% of consumption. The idea was to provide a minimum of market opening where previously there was none. But, however laudable the aim, the existence of a TRQ still does not guarantee that level of imports. High in-quota tariffs, the way a TRQ is administrated and the existence of STEs, can still restrict trade bellow that level. As a consequence additional disciplines will be necessary to ensure access in an improved way.

Different techniques can be used for implementing the improvement in market access which should be the heart of the new Round. They range from continuing the tariff reductions from the same base, across the board cuts, formula cuts, zero for zero reductions or binding the actual rates, to mention some of them. A criteria will have to be chosen since the reduction will have to be done.

We believe that the reduction in tariffs should take place at a faster rate for those that are at prohibitive level and that the guaranteed market access agreed to under the URAA should be expanded by increasing the minimum access quotas.

Export competition

Export subsidies are an illegitimate policy instrument which are not allowed in the WTO rules for any other industry. Their use constitutes a source of trade distortion particularly given the increasing use of agricultural components in industrial products. These subsidies are no less objectionable for agriculture than they are for other industries and we believe there is no valid reason to keep them any longer.

It is particularly damaging and it creates unfair competition during circumstances like we have today with low grain prices, and different countries engage in a sort of subsidy war accelerating further price declines in the world market and leaving out of competition other countries that don't use any subsidies.

It should also be clarified that, during the implementation period and until they are finally eliminated, unused subsidies from one year can not be safe for subsequent years. Export taxes on food are as disruptive to the international trade as export subsidies. We believe that they should be phased out on the same criteria as the import tariffs.

Domestic support

While the constraints on the level of domestic support through Aggregate Measure of Support (AMS) have done little by themselves to reduce the level of subsidies for agriculture, they have played an important role in the evolution of agricultural policy in the US, Canada, the EU and elsewhere. It is important that the progress in converting trade distorting support for commodities into non-trade distorting support for farmers, rural areas and the environment continue in the Millenium Round.

In this respect, the Green box should be analyzed and re-defined since presently contains a number of policy instruments which, while less trade-distorting than price or income support still encourage an expansion of agricultural output.

The issue of Multifunctionality has to be further clarified in the light of the existence of various and different interpretations on the concept and the possible implications it has for the WTO rules.

One thing is if it contemplates the social yearnings that must be dealt with in many societies and for which will have to find ways to accommodate these goals in a decoupled way compatible with free trade, and very different is if it shadows trade distorting agricultural policies.

The blue box, which contains the US and EU direct payments that were granted exemption from challenges under the Blair House agreement was in a way a need of its time, necessary to go ahead with the broader Uruguay Round package. However the policies of the US and EU are changing for internal reasons. The new US farm bill goes further than ever before to make the payment to farmers decoupled from output and therefore compatible with the green box, and a similar move is being considered by the European Union which would continue the reform started in 1992 and make the CAP consistent with enlargement.

The blue box then should essentially be phased out during the next round.

Sanitary and Phytosanitary regulations

The SPS agreement regulates the movement of primary and processed products across international borders that are necessary to protect public health and the environment from pests, diseases and contaminants. However, these measures can and are being used to obstruct trade opportunities created by other trade liberalization policies.

This situation is of great concern for countries like Argentina and the United States, because they become major barriers for the expansion of trade opportunities and the welfare of our producers. One of the major challenges faced today by our Sanitary and Phytosanitary agencies is to assure an adequate level of protection from pests and diseases and at the same time maintain the ability to keep markets open and expand trade opportunities presented to us in a global economy.

The Agreement on SPS is grounded, as it should be in sound science. It is imperative that government regulations governing the safety of food be based not on consumer fears or perceptions, but on verifiable sound science. We understand that regardless of whether a particular food or production method is safe some consumers will demand the right to know how the food was grown or processed. This is not an issue of science. It is an issue of labeling. We believe this consumers' right to know should be respected in ways that do not interfere with global trade.

Developing general guidelines of how information could be communicated to consumers without unduly affecting food processors or retailers, and without harming safe food produced by other methods would be another objective of the new round.

Biotechnology

At present there are about six billion people in the world, and some 800 million are not receiving adequate nourishment because they have too little income to buy food and too few resources to produce it. By 2020 the world population will grow to almost 8 billion people and most of them will have enough income to afford adequate diets if sufficient food is available at reasonable prices.

If, however, supply constraints bring about a significant rise in the price of food widespread hunger and malnutrition will occur. This means that the world's output of food will have to expand dramatically in the next quarter century. Achieving this increase in output will require one of two things : either the land devoted to agricultural production will have to be increased substantially, or yields will have to increase on the same amount of land.

We are all aware of the general concern about the environmental impact caused by the cutting of forests to expand cropland area and by desertification. In many countries there is evidence of erosion, salinization and soil depletion due to the expansion of farming into areas unsuited for intensive cultivation and the use of unsuitable or unsustainable farming methods.

Thus, a major task of the agricultural and biological sciences is to increase yields, improve plant characteristics and lower production costs within a system that is environmentally sustainable.

The use of biotechnology not only will contribute to increase the crop yields around the world by neutralizing the effect of diseases and pests that harm them during growth and after harvest but also by increasing the health-enhancing characteristics of commonly consumed food.

It also has the benefit that even small farmers in developing countries can take advantage of this new technology.

We believe then, that the use of biotechnology to improve plants is a significant development in the field of plant science. It promises major benefits to producers and consumers in developed and developing countries. It is true that new technology may have risks, we believe that safety and regulatory procedures can control these risks and make sure that the benefits heavily outweigh any possible costs.

It is then important that all countries agree that a full science based assessment to determine the safety of using plants produced with modern biotechnology is essential and that a mutual recognition of approval processes in countries with the desired level of scientific assessment and mutual recognition agreements among governments be developed as soon as possible.

State trading enterprises

There is a widely spread concern on the lack of transparency in the pricing and operational activities of the STEs whether they are state trading importers or state trading exporters. State trading entities with special or exclusive rights to import are extension of the market access problem. Similarly, state trading entities with special or exclusive rights to export are extensions of the export subsidy problem. We believe, that over time all state trading should be dismantled.

Ladies and gentlemen : we have the legitimate aim that agriculture should be fully incorporated to the same disciplines and concessions of the

industrial products and that we cannot wait for a 3rd. round to see the results of it.

The time has come for policy makers to accept the challenge and the responsibility to move forward and accomplish a more equitable food distribution in the world.