AN OVERVIEW OF THE INTERNATIONAL TRADE POLICY FRAMEWORK FOR SUGAR

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INTRODUCTION

Country signatories to the GATT-WTO agreed to follow certain basic principles including non-discriminatory treatment, reciprocity in trade relations and more transparent trading practices. Within this context, the Uruguay Round Agreements (URA) provide the current international trade policy framework for sugar.

This presentation will deal with an overview of the international trade policy framework as it applies to access terms on the MFN basis (Most Favoured Nation). It will not deal with preferential schemes because although these play an important role in the trade of many countries, the focus of trade negotiations under GATT-WTO is to improve access terms on a MFN basis. Also reference to preferential schemes and regional trading arrangements of importance in sugar trade will be discussed in some of the market-specific presentations later today and tomorrow.

THE AGREEMENT ON AGRICULTURE

The 1994 Uruguay Round Agreements included agriculture and agricultural products in the multilateral trade negotiation process fully for the first time since GATT was initiated in 1947. The Uruguay Round also included a means to continue the reform process in agriculture through the Article 20 of the Agreement on Agriculture (AoA).

The AoA negotiated terms for the reform of three types of government intervention in agricultural trade, stipulating that signatory countries commit to reforms in order to reduce domestic support levels, increase market access through the reduction of border protection schemes, and reduce both the value and volume of export subsidies.

All of these commitments as well as special and differential treatment for developing countries, safeguard measures and dispute settlement proceedings are particularly important to the overall international policy framework affecting agricultural products, though the impacts to date have differed greatly for individual commodities. For some more sensitive products, such as sugar, the effects have so far been limited. However, the establishment of a rules-based discipline of agricultural trade is in itself of paramount importance and has far-reaching implications for the future.

SPECIAL AND DIFFERENTIAL TREATMENT

The Uruguay Round Agreement on Agriculture recognized the numerous and serious constraints faced by developing countries and called for greater market access for agricultural products of particular interest to developing countries. One of the overall goals of the trade round was to assist the integration of developing countries into the global trading system by providing special and differential treatment (SDT). Special and differential treatment provisions call for the recognition of the special interests of developing countries. Thus, a number of special trade concessions were negotiated, such as establishing tariff reduction rates at two-thirds those of developed country levels, allowing a ten-year implementation period instead of six years and exempting specific rural support schemes from reduction commitments. In addition, attention was drawn to the need for increased technical and financial assistance for developing countries, although no binding commitments were made.

REDUCTIONS IN DOMESTIC SUPPORT MEASURES

In order to reduce domestic support levels for agriculture, all support measures determined by the AoA to have distorting impacts on trade were to be quantified into one measure called the Aggregate Measurement of Support (AMS). Although no commitments for individual agricultural products were made, countries agreed to progressively reduce domestic support measures by 20 percent from the base period. The AoA divided domestic support measures into three broad groups: one, policies having significant impact on trade patterns (amber box); two, policies with no significant impact on production and trade (green box); and three, support policies which limited production of particular products (blue box). Only those domestic support policies which were determined to have significant impact on trade patterns were included as part of the current AMS calculation.

Developing countries, as part of the SDT provisions, were exempted from implementing reduction commitments on domestic support systems that were considered rural development measures. These measures primarily describe investment subsidies generally available to agriculture and agricultural input subsidies available to low-income and/or resource-poor producers. About 70 percent of the developing country notifications to the WTO showed a need for this provision and underlined its importance to developing countries.

INCREASES IN MARKET ACCESS

The AoA called for countries to increase market access by replacing non-tariff barriers, including variable import levies, on agricultural products by tariffs and tariff-rate quotas. Base rate tariff levels were determined using the 1986-88 period. After binding all tariffs to a base rate, developed countries agreed to progressively reduce all tariffs by an average of 36 percent over the six year implementation period (ending in 2000), with a 15 percent minimum reduction per tariff line. Developing countries agreed to an average of 24 percent reduction with a minimum reduction per tariff line of 10 percent over a longer ten-year implementation period (ending in 2004).

Overall, tariff reduction commitments of between 10 to 59 percent on average for all commodities were negotiated. However, tariff reductions for sugar since the UR have perhaps proven to be less substantial than originally envisaged, as tariff reductions were negotiated from very high base-period levels.

The AoA market access provisions have two important exceptions, the special and differential treatment as mentioned above and the special safeguard provisions. Developing countries, as part of the SDT provisions, could choose to offer ceiling bindings on border protection, instead of tariffication schemes, with no requirement to provide minimum import access commitments. Most developing countries utilized this provision, did not have to compute tariff equivalents and in the case of high bound rates, retained the right to review tariffs more carefully over the implementation period. The special safeguard provisions, applicable only in the case of tariffication for products designated in country schedules, were to be applied temporarily to protect domestic markets from sharp declines in import prices or to prevent rapid and substantial increases in import volumes.

SAFEGUARD PROVISIONS

Aside from the AoA special safeguard measure, there are several general GATT safeguard provisions that allow an importing country to temporarily suspend WTO obligations if necessary to protect domestic markets from a surge in imports and/or decline in import prices. The most prominent of these are anti-dumping, countervailing and emergency safeguards.

Safeguard provisions are important to the agricultural sectors of both developed and developing countries for several reasons. Agricultural sectors may require safeguard protection due to the volatile nature of commodity markets. The sharp declines in the world market price for raw sugar over the past year demonstrates the need at times to stabilize domestic prices when challenged by short-term volatility, rather than in the course of medium-term trends during which market fundamentals pressure domestic prices and market structures. Price instability is particularly difficult for developing countries as the agricultural sectors of these countries are typically more vulnerable to external shocks. However, safeguard provisions are more accessible to developed countries, as developing countries may not always have the legal, institutional or financial resources necessary to fully utilize the safeguard measures. Moreover, the widespread use of safeguards usually requires compensation to trading partners.

REDUCED VALUE AND VOLUME OF AGRICULTURAL EXPORT SUBSIDIES

The AoA called for a 36 percent reduction in the value of export subsidy expenditures for developed countries by 2000 and a 21 percent reduction in the quantity of export subsidies. Developing countries agreed to 24 percent reduction in the value of subsidy expenditures by 2004 and a 14 percent reduction in subsidized export volumes. The most significant SDT provision in regard to export competition was the exemption of domestic subsidies provided for marketing, internal transport and freight costs on agricultural product exports.

WTO IMPACT ON THE INTERNATIONAL SUGAR POLICY FRAMEWORK

To date, the impact of the Agreement on Agriculture on the world sugar market would seem to have been at best limited. Reductions in domestic support for sugar have been minimal. Aggregate measurements of support referring to overall agricultural production, high base period support levels and special exemptions (green box and blue-box measures) allowed the sugar sector to be precluded from reduction commitments. As a result of the Blair House agreement between the European Community and the United States, no reductions in domestic sugar price support were required as overall reductions in domestic price supports were negotiated in aggregate terms.

While increased market access was to be achieved through reductions in tariff levels, the option to use averages to measure tariff cuts as well as high base period rates have resulted in high bound tariffs which continue to insulate domestic sugar support measures. Also, reductions in the tariff levels for sugar were much smaller than for other agricultural commodities. The dairy sector, with an average reduction of 26 percent, was the only other category reviewed by WTO to show less reduction than sugar; and thus the amount of reductions in bound tariff rates did not substantially reduce border protection and result in increased market access in many instances. In fact, the International Sugar Organization reported that while the reduction in the tariff level for raw sugar was 24 percent, the weighted average base period tariff level remained relatively high, falling from 93 to 72 percent over the implementation period. For refined sugar, the reduction in the tariff level for white sugar was 22 percent with the weighted average base period tariff level falling from 109 to 88 percent. For developing countries that chose binding ceiling tariffs, the weighted average tariff level for raw sugar is 110 percent and 102 percent for refined sugar by the end of the implementation period.

To meet concerns regarding possibly prohibitive bound tariffs, the UR gave rise to the concept of Minimum Market Access through a system of Tariff Rate Quotas (TRQs) designed to maintain market access opportunities. Since a considerable amount of sugar trade was undertaken through bilateral arrangements at preferential tariff rates, the AoA legitimized this trade in the form of current access commitments. For sugar the total volume of the TRQ was about 14 percent of overall world trade. Only limited additional access commitments were made, amounting to less than 1 percent of world trade in 1995, with twenty countries agreeing to increase market access through the TRQs.

While reductions in tariff levels for sugar may have not been as successful as for other agricultural products, quota fill rates at 70 to 76 percent are some of the highest fill rates for all products. This is particularly true for quotas in the European Community and the United States. These high fill rates may have been due to attractive domestic prices in these countries, maintained so through the TRQs.

Commitments to reduce export subsidies may have had a greater impact on the world sugar market. Member concerned agreed to reduce subsidized export volumes by 1.3 million tonnes, or about 20 percent of subsidized tonnage in the mid-1990s. However, only now are these constraints beginning to impact the market.

CONCLUSIONS

To date, very little substantive change has occurred in sugar policy of most major producing and trading countries relative to the overall WTO objectives. The AoA provisions and commitments have not been binding for most countries with significant sugar price supports and/or border protection to require reform of their domestic support policies. The reduction formula used in the UR allowed these countries the flexibility to not reform policies for sensitive commodities such as sugar. The availability of such flexibilities means that world sugar production may not respond to price signals in the international market. In addition, it is possible that low prices could trigger the widespread use of policy instruments such as subsidies, safeguard measures and tariff increases which collectively can exacerbate the very market problems which they are intended to resolve.