THE IMPACT OF TRADE LIBERALISATION ON AGRICULTURE IN AFRICA AND THE CHALLENGES OF WTO ON TRADE

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Ladies and Gentlemen

I would like to thank the organisers for inviting me to speak on the impact of trade liberalisation on agriculture and the role and challenges of WTO on trade and development, particularly on African agriculture and also to share my personal experience as LDC coordinator at WTO.

The G90, i.e. the African Union, LDC's and African Caribbean Pacific (ACP) were suspicious from the beginning about launching the new trade talks, termed as the Doha Development Agenda. Suspicious because, as much as the developing and LDC's have been consistently consistent in its demands, the rich countries have been consistently inconsistent in their responses.

To reverse our marginalization in the unfair world trading system, the LDC's have consistently sought to have (1) duty free and quota free market access in developed and developing countries (2) cessation of dumping e.g. cotton (3) simplified Rules of Origin (4) a solution of erosion of preferential trade protocols. However, let's take for instance the agreement that we reached at the WTO Hong Kong ministerial meeting in December 2004 on Duty free Quota Free market access for LDC's. Since the Hong Kong meeting, there have been no significant negotiations at the WTO; instead we have had nothing but ridiculous procrastination.

Agricultural subsidies have become the largest corporate welfare system in the OECD countries. It is estimated that over US$280 billion is spent annually while Official Development Assistance amounts to just over US$80 billion annually. OECD countries dominate world trade in agriculture, with over 70% of exports and 75% of imports, whilst the Least Developed Countries (LDC’s) account for about 1% of world agricultural imports and exports. Food prices measured at the farm gate in OECD countries are about 30% higher than in international trade. The biggest and the richest 25% of farmers receive 90% of all support provided in the USA and 70% in the EU. As the Financial Times recently pointed out, the cash subsidy to a dairy cow in the EU exceeds the EU development assistance per person in Sub- Saharan Africa.

Let me now start with the impact of trade liberalisation on agriculture by asking the question – what liberalisation are we talking about?

Trade in agriculture has not been liberalised where I come from – it is now far more difficult to trade in agricultural products than it was, say twenty years ago. In WTO speak trade liberalisation means reductions in tariffs. For those not familiar with WTO speak – it is a form of English in which every-day words and phrases are given a different meaning. For those of us who are not native English speakers, and I suspect even for those who are native English speakers, this can become very confusing.

Let me take, for example, reductions in domestic support. If you or I were to talk about reductions in domestic support I suspect that what we would be talking about would be reducing the amount of money paid to a group of farmers in the support of agricultural production. But in WTO speak this is not what it means. A reduction in domestic support can mean a real increase in domestic support. For example, let us take the European Union. With the reform of the Common Agricultural Policy, or CAP for short, the European Commission is supposed to be reducing the level of domestic support it provides to farmers. So, how is it that between 2005 and 2006 this level of support went up and went up quite legally
according to the WTO? Simple. All the EC needed to do was to re-categorise the subsidy. What was a subsidy that was previously categorised as an Amber Box subsidy becomes a Green Box subsidy. In WTO, Amber Box subsidies are considered to be trade distorting so need to be got rid of. Blue Box subsidies are considered to be slightly trade distorting so are frowned upon but tolerated to some extent. Green Box subsidies are not considered to be trade distorting so everyone is happy to have lots of these.

So, what could be easier than to call an Amber Box subsidy a Green Box subsidy? This can be done in the WTO tradition of redefining the meaning of words. WTO even has a term for this – it is called box-shifting. Fortunately, although the rich countries of the world are not keen to put in place disciplines to avoid box shifting, there are some disciplines in place. A Green Box subsidy needs to be “decoupled”. In WTO speak a decoupled payment means that the subsidy is not linked to areas planted or production levels. So, in order to decouple its domestic subsidies the EC gives its farmers a payment that is not related to areas planted and not related to production. So, instead of giving its farmers generous hand-outs for not growing a crop or not keeping livestock they give them generous payments that are not related to anything. In other words they just give their farmers generous handouts for being farmers. I have always been confused as to how a payment not to grow something is less trade distorting than a payment, even a bigger payment, that is just a handout. Getting money from the state not to grow a crop is the same as getting money for just being a farmer. It allows a farmer to operate a farm that would not be profitable without the payment, so, to me, these decoupled payments are still as trade distorting as the coupled payments.

Then, we come to cotton, which US farmers can grow and export cheaper than African farmers can because US farmers get domestic subsidies. Everyone agrees that this is morally abhorrent and trade distorting but seemingly the US Administration cannot address this travesty of justice quickly, and to the satisfaction of the rest of the world, because the political fall-out in the US domestic environment would be too horrendous to think about if they take immediate action to remove these subsidies.

So, at the very least, we have double standards. I was in politics during the time when Zambia was “advised” to liberalise their economy under World Bank and IMF supported Structural Adjustment Programmes. No account was taken of the political consequences of this programme of instant liberalisation, despite the fact that multi-party politics had not been in existence for more than a year or two. Yet we are told that the US democratic system, which is hundreds of years old, is not robust enough to take the shock of this liberalisation if it is not phased in over a number of years.

The effects these domestic subsidies have on LDCs, such as Zambia, are numerous. I will take wheat from the European Union as an example. Wheat from the EU is subsidised so that flour inputs to the EU’s food processing industry are cheap. This makes it difficult for non-EU manufacturers to sell their cakes and biscuits in the EU market as the flour these competitors make their cakes and biscuits from is not subsidised so is more expensive. So the EU market is closed to competition. But this is not the end of the story. The subsidised flour that goes into the EU’s cakes and biscuits that
makes these products cheaper than others enables the EU manufacturers to sell their cakes and biscuits (and flour itself) into LDC markets cheaper than local producers can sell these products in their own local markets.

But, all this is perhaps hypothetical as the farmers in the LDCs cannot sell their wheat as they cannot compete with the wheat flour imported from the EU, which, because of trade liberalisation which has taken place in LDCs, faces low tariffs into LDCs. This means that LDC farmers are cutting back on production, so reducing the labour force on the farms, meaning that less people have an opportunity to earn money, so less people can afford to buy the imported cakes and biscuits from the EU.

Wheat is only one example. I could have chosen cotton or a number of agricultural crops in which countries like Zambia have comparative advantage in. They would have competitive advantage if it was not for the payment of agricultural subsidies and because of the subsidies paid in developed countries to already rich farmers, countries like Zambia are kept in poverty. And so it is that the rich get richer and the poor get poorer.

It is for this reason that I agree with Pascal Lamy, Director General of the WTO Secretariat, when he says that the poorest countries have the most to lose from the collapse of the Doha Development Round. Maintenance of the status quo in the multilateral trading system can only benefit the rich.

Let me also quickly touch on Food Aid, which is in many cases an export subsidy. There is no denying that there are occasions when LDCs, and other developing countries, are in need of emergency food aid. At the Hong Kong Ministerial Meeting we agreed on the need for a safe box for food aid to address these emergency situations. However, we must also put in place disciplines in food aid that stop food aid having economic displacement effects. We must stop a situation in which food, in the form of free or subsidised food aid, displaces food from a surplus neighbouring region. If the agricultural sector of a developing country or LDC is not able to sell its surplus at a profit the sector will quickly learn not to produce a surplus which means that the country concerned, and the region it is in, will become less food secure.

Before I speak of my personal experience as LDC Coordinator at the WTO let me briefly touch on another issue which makes agricultural trade less liberal and that is the issue of sanitary and phytosanitary regulations. Again, I will use the European Union as an example, although we need to bear in mind that introduction of stringent SPS rules and regulations are being applied by many countries.

The EU has a large number of directives dealing with food safety but let us just look at the effects of four of these on LDC exports.

The Harmonisation of Maximum Residue Levels and the Pesticide Review Process places “zero tolerance” on pesticides which have been used in the tropics, and approved, for many years, for commercial and not scientific reasons.
This places severe restrictions on food exports to the EU and raises the costs of the exports, with small-scale producers affected the most.

The General Food Law places additional responsibilities on all involved in the supply chain so that all food and feed can be traced from ‘farm to fork’ and each agent in the supply chain must know where the food or feed came from and where it is going. The precautionary principle allows measures to be taken where there is a possibility of harmful effects. It does not require full scientific verification of the threat before action is taken and allows the EC to act on its own initiative to take action to avert threats to public health. The affects of these regulations are, again, felt most by the small-scale producers.

The Hygiene Package places primary responsibility for food safety with the enterprises involved in the industry at all levels and requires them to implement a ‘hazard analysis and critical control points’ (HACCP) system. All products covered by these hygiene regulations have to meet these EU standards. Most small-scale producers in LDCs will have difficulty in implementing HACCP.

The Food and Feed Control Regulation de facto places responsibility on third country governments to ensure the safety of food traded into the EU market. LDCs should have serious concerns over the ability of existing government institutions to meet the challenge of verification of compliance. Even if private-sector operators have fully met all EU standards, if the government ‘competent authority’ is not able to verify compliance to the EC’s satisfaction, then EU market could be closed to exports from the LDC, or any other country, concerned.

This is the legislative environment of the EU. Private sector bodies in the EU often impose standards that go beyond the formal legal requirement, since the legal obligation to ensure the safety of food imported into the EU market is placed on the importer. If importers are not able to prove that they took all possible precautions to prevent unsafe food entering the EU market they can be fined around €40,000 per consignment and could face imprisonment for up to two years. Importers now insist on adoption of ‘good practices’ from field to embarkation, with this being certified by independent organisations. EU importers are refusing to deal with suppliers who cannot guarantee both the traceability and food safety of the consignments supplied.

This is the environment we find ourselves in regarding trade in agricultural goods. I leave it to you to decide whether this is a liberal trading environment.

Let me now turn to my personal experiences as WTO Coordinator of the WTO LDC Group by concentrating on lessons learned especially in the Ministerial negotiations in Hong Kong.

The LDC Group is a very heterogeneous one and, by its very nature, disorganised. I have asked myself whether we are LDCs because we are disorganised or we are disorganised because we are LDCs, but the bottom line is that we
are disorganised. To try to address this it is essential to put a good technically competent negotiating team in place well in advance of the “event” being prepared for to support the Minister, with each member of the team clear as to what role he or she is to play.

It is important to assess the Group’s strengths and weaknesses at a very early stage and design strategies that capitalise on the strengths.

It is important to ensure that the WTO LDC Coordinator has technical arguments to support the Group’s negotiating positions. If the positions are not technically viable and defensible the Group will rapidly lose credibility and will be sidelined and the Minister and the technical team will also lose credibility.

It is often more difficult to maintain consensus within the LDC Group than it is to negotiate with another Group or country. This is because the interests of the countries in the LDC Group are not identical and the people on the other side of the negotiating table will do all they can to exploit this, even resorting to putting strong political pressure on individual countries. A strategy needs to be devised on how to help countries resist this political pressure, which can be intense and from the highest sources. A “bottom up” process is essential if cohesion is to be maintained.

Be clear about what the “red lines” for the Group are and stay within the red lines. If a negotiator comes away from a negotiation with something lower than the acceptable minimum this would be seen as a failure and would be used by others, inside and outside the Group, to get a rejection of the whole deal.

Be clear about what the “red lines” are for other Groups.

Do not rely on any other Group or country to fight your corner. In the LDC Group’s case we had confirmation of support for our position from a number of Groups and countries. However, when the LDC Group made its presentation in the Green Room, countries and Groups who said they would support the proposed text kept quiet. These Groups and countries have their own corners to fight and will not take on a fight unless it is in their own direct interests at the time to do so.

Ensure that the core negotiating team knows exactly who has to do what and when. There is a lot going on during the WTO Ministerial Meetings and these side events needed to be covered. The Zambian delegation was 30+ strong, with only 6-8 people covering the negotiations revolving around the Green Room. Others covered side events and met every day to brief the team on the day’s negotiations and agree on coverage for the following day. This backup is essential. It is of equal importance to collect information on positions of other countries and Groups, to ensure your own Group is fully briefed at all stages of the negotiations. We had people assigned to report back on positions of major players. We had identified the main points of opposition so spent the time we did have in negotiating with the Members who had serious objections.
Let me end by reminding ourselves what the UK Commission for Africa noted, rich country barriers and support are “absolutely unacceptable; they are politically antiquated, economically illiterate, environmentally destructive and ethically indefensible. They must go.”

And finally, what Pascal Lamy of the WTO said recently “while the political decolonization took place more than 50 years ago, we have not yet completed the economic decolonization. It is therefore one of the purposes of the current multilateral negotiations to continue the rebalancing of rules in favour of developing countries”

Thank You