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## MARKET ACCESS

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The area that was supposed to benefit developing countries most as a result of the implementation of the Agreement on Agriculture was greater market access and larger amounts of exports to the developed countries, as a result of their being more competitive when subsidies in the OECD countries are reduced and trade barriers are lowered. Unfortunately, after five years of implementation, the expected market access opportunities have not materialised. The FAO has reported that, 'On the whole, few studies reported improvements in agricultural exports in the post-UR period – the typical finding was that there was little change in the volume exported or in diversification of products and destinations'.<sup>1</sup>

In fact, the irony is that the opposite scenario seems to have taken place. There seems to have been more exports from the developed countries into the markets of developing countries. The FAO reports that for developing countries, 'Food imports were reported to be rising rapidly in most case studies. There was a remarkably similar experience with import surges in particular products in the post-UR period. These were dairy products (mainly imports of milk powder) and meat products (mainly poultry)... On the whole, a common observation was the asymmetry in the experience between the growth of food imports and the growth of agricultural exports. While trade liberalisation had led to an almost instantaneous surge in food imports, these countries were not able to raise their exports'.<sup>2</sup>

According to UNCTAD statistics, the share of developing countries in world agricultural exports remains low: from 31.7 per cent in 1970-1972, it fell to 25.4 per cent in 1990-92 before increasing to 30.7 per cent by 1996 – 1997. This is a figure that is smaller than 25 years earlier. In contrast, between 1980 and 1996, the *annual* growth of exports by OECD countries of primary agricultural commodities and processed agricultural products was respectively, 2.5 per cent and 6.5 per cent.<sup>3</sup>

The stagnation and even deterioration in trade performance in agricultural products is cause for concern especially for the low-income countries. The lower the income of a country, the higher the percentage of agricultural exports, as a proportion to total merchandise exports, thus the greater the importance of exports to a country. In 1996, for example, of 55 developing countries, half had a share of agricultural products in total merchandise exports in excess of 30 per cent. A quarter had a similar

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<sup>1</sup> FAO 1999 Symposium on Agriculture, Trade and Food Security: Issues and Options in the Forthcoming WTO Negotiations from the Perspective of Developing Countries, Paper No 3: Synthesis of Country Case Studies, Geneva 23-24 September 1999.

<sup>2</sup> Ibid.

<sup>3</sup> UNCTAD1999 'The World Commodity Economy: Recent Evolution, Financial Crises, and Changing Market Structures', Trade and Development Board Commission on Trade in Goods and Services, and Commodities, TD/B/COM.1/27, 16 July.

share in excess of 50 per cent. Similarly, as a proportion of GDP, agriculture's value added only made up 1.5 per cent in the high-income OECD countries between 1990 – 1996. In contrast, in upper-middle-income countries, this figure was 8 per cent, and 34 per cent for low-income countries (excluding China and India).

### **Why has Agricultural Liberalisation and AoA Implementation Not Led to Increased Market Access and More Positive Overall Results for Developing Countries?**

In the light of studies and experience, the following reasons can be offered:

#### **Dirty tariffication and tariff peaks:**

When converting non-tariff barriers to tariffs, many developed countries took on tariff levels that were much higher than their non-tariff equivalents. The QUAD countries in particular have set some very high tariffs, reaching 350% or more. A recent OECD study on border protection showed that actual border protection to agriculture was higher in 1996 compared to 1993 in 8 out of 10 OECD countries (treating EC as one).<sup>4</sup>

The post-UR tariff profile of many developed countries is typically characterised by relatively high rates on temperate-zone food products, and lower rates on tropical products. Tariff reductions were also generally lower for temperate-zone products. Developing countries as a whole have a high stake in the export of temperate-zone products as these are also the products where the market is still expanding.<sup>5</sup>

Tariff peaks in agriculture are most common in three product groups: major food staples; fruit and vegetables; and the food industry (processed food products).<sup>6</sup> Products with the highest frequencies of tariff peaks and escalations are in the major agricultural staple foods – cereals, meat, sugar, milk, butter and cheese - as well as those of export interest to developing countries, such as sugar, tobacco, cotton and fruits and vegetables.<sup>7</sup> Indeed, it is not uncommon that these high OECD tariff peaks exceed 100 per cent. In contrast, an UNCTAD /WTO study found that agricultural tariffs above 100 per cent were rare in developing countries.<sup>8</sup>

#### **Tariff escalation:**

Tariff escalation (the situation where tariffs rise as the processing chain advances) was reduced slightly in the post-UR period. However, it still prevails. An FAO study indicates that the post-Uruguay Round tariff wedges (ie the difference between the tariffs on processed products and a primary input commodity) in developed countries remain at an average tariff escalation of 17 per cent.<sup>9</sup>

As a trade barrier, tariff escalation is becoming more and more of an issue since trade is rapidly shifting to processed products. Furthermore, this is also a major obstacle for developing

<sup>4</sup> OECD 1999 'Preliminary Report on Market Access Aspects of UR Implementation, Document COM/AGR/APM/TD/WP(99)50, June 1999, OECD, Paris.

<sup>5</sup> FAO 1999 'Issues at stake relating to agricultural development, trade and food security', FAO Symposium on Agriculture, Trade and Food Security, Geneva 23-24 September 1999.

<sup>6</sup> UNCTAD / WTO (TD/B/COM.1/14), 1997.

<sup>7</sup> Ibid.

<sup>8</sup> UNCTAD 1999 'Examining Trade in the Agricultural Sector, with a view to Expanding the Agricultural Exports of the Developing Countries, and to Assisting Them in Better Understanding the Issues at Stake in the Upcoming Agricultural Negotiations', TD/B/COM.1/EM.8/2, 23 February 1999.

<sup>9</sup> ESCAP/ FAO 1997 'The Impact of the Uruguay Round on Tariff Escalation in Agricultural Products', by J. Lindland.

countries interested in escaping from the cycle of producing and exporting primary products and earning less and less given the deteriorating terms of trade for primary commodities.

Tariff escalation prohibits diversification, which is very important for developing countries' economies, particularly as most of the value added is created at the latter stages of production. Unfortunately, to date, due to the tariff structures in OECD countries, the value-added from processing is largely captured by the developed countries.

The cocoa sector illustrates this situation. UNCTAD reports that the share of cocoa-producing countries in world exports declines as the stage of processing increases. In 1997-98, for cocoa beans, cocoa liquor, cocoa butter, cocoa powder and chocolate, the shares of developing countries were respectively 90 per cent, 44 per cent, 38 per cent, 29 per cent and 4 per cent.

### **Unweighted tariff reduction:**

This has also been the cause of the poor market access for developing countries. As part of market access commitments, the developed countries were to reduce their unweighted average bound tariffs by 36 per cent. Each specific item was required a tariff reduction of only 15 per cent of the claimed 1986-88 tariff equivalent. Moreover, the claimed tariff equivalent for the base was much higher than the actual tariff equivalents of the time.

The result was that OECD governments reduced high tariffs on sensitive products (such as products which they produced) by a smaller percentage, while reducing low tariffs by a larger percentage. The FAO found that few developing countries took advantage of this possibility of reducing low tariffs by high amounts, in contrast to developed countries.<sup>10</sup>

### **Complex, non-transparent tariffs:**

Post-Uruguay Round tariffs in the agricultural sector has become more complex, especially in the case of the developed countries, which is contrary to the UR's promise of a simple 'tariff-only' regime. There has been an increase in the number of tariff lines to accommodate different tariffs applicable to the same product, such as seasonal, in-quota and above-quota tariffs, and more frequent use of non-ad valorem tariffs.<sup>11</sup>

Non-ad valorem tariffs disadvantage developing country exporters. They are less transparent, and complicate the comparison of trade restrictiveness across countries and products, creating uncertainties for exporters. In many cases, these tariffs also vary according to one or more technical reasons, such as sugar content or alcohol content, making them even less transparent.<sup>12</sup> Non-ad valorem tariffs also weigh more heavily against lower-priced imports, and are therefore not in the interest of developing countries.

The proportion of OECD tariff lines which are expressed in non-ad valorem terms is significant, at 22 per cent for Canada and Japan, to 42 per cent the EU and the US, and around 90 per cent for Switzerland.<sup>13</sup>

The use of variable tariffs by developed countries has also added to creating a non-transparent tariff structure. OECD countries which bound tariffs at high levels (higher than their non-tariff

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<sup>10</sup> FAO 1998 'The Implications of the Uruguay Round Agreement on Agriculture for Developing Countries: A Training Manual, FAO, Rome.

<sup>11</sup> UNCTAD 1999, TD/B/COM.1/EM.8/2, 23 February 1999, *ibid*.

<sup>12</sup> FAO 1999 'Issues at stake relating to agricultural development, trade and food security', *ibid*.

<sup>13</sup> *ibid*.

equivalent) have also applied variable tariffs below the binding. Experts have concluded that while tariffication had been expected to deliver on more stability in the international market, the use of these variable tariffs together with the very high bound tariff levels in developed countries will bring about little, if any improvements in fluctuation.<sup>14</sup>

### **Tariff rate quota (TRQ):**

The purpose behind introducing the system of tariff quotas under the AoA was to ensure that the tariffication process would not reduce the current level of imports (current market access opportunities), or prevent the achievement of agreed upon level of access (minimum access opportunities) for products previously subject to non-tariff barriers. Also the TRQs were not a permanent solution and the ultimate objective remained full liberalization through gradual increases in TRQs. However, the implementation of the tariff quota system was left up to importing countries, with the result that there were little improvements in additional access under the quota schemes for developing countries. The **administration of tariff quotas** has played a big part in determining whether or not new access for new suppliers resulted in the post UR period.

There have also been instances of **manipulation of domestic consumption calculations** in setting current and minimum access levels. The Modalities states that current access opportunities 'shall be no less than average annual import quantities for the years 1986-88'. However, there is no mention of a specific base period for calculating domestic consumption for the minimum access commitment, giving countries wide latitude.<sup>15</sup>

**The practice to establish TRQs to allot quotas based on highly aggregated commodity groups**, rather than on a product-by-product basis is also problematic. This is contrary to specifications in the modalities, where it was said that minimum access opportunities were to be established on a relatively disaggregated product level.

There have been numerous cases of **quota under-fill**, i.e., imports falling short of the volume specified under tariff quota commitments. According to UNCTAD, in some cases, even when the tariff quota volume was under-filled, imports were levied at the higher above-quota tariff rate. UNCTAD also concludes that 'general lack of domestic demand as a reason for quota under-fill, is seriously challenged when the domestic prices of those goods were clearly higher than world prices'.<sup>16</sup> Other experts, Anderson, Erwidodo and Ingco have suggested that one possible reason for quota under-fill is that quotas have been allocated deliberately to suppliers incapable of making full use of them because of their international competitiveness.<sup>17</sup>

As shown in the table below, comparing the low in-quota and high out-of-quota tariffs for selected products in OECD food-importing countries, there are huge benefits for exporting countries to be allocated a quota license, amounting to more than \$25 billion a year for the product markets listed in the table. The extent of quota under-fill is also illustrated:

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<sup>14</sup> Anderson, Erwidodo and Ingco 1999 'Integrating Agriculture into the WTO: The Next Phase', Paper presented at the WTO/World Bank Conference on Developing Countries' in a Millennium Round, 20-21 September 1999, Geneva.

<sup>15</sup> Gorter 1999 'Market Access, Export Subsidies and Domestic Support Measures: Issues and Suggestions for New Rules', Paper presented at the WTO / World Bank Conference on Agriculture and the New Trade Agenda in the WTO 2000 Negotiations, 1-2 October 1999.

<sup>16</sup> UNCTAD 1999 'Preparing for Future Multilateral Trade Negotiations: Issues and Research Needs From A Development Perspective', Expert Group Meeting, 21-22 September 1998, Geneva.

<sup>17</sup> Anderson, Erwidodo and Ingco, 1999 'Integrating Agriculture into the WTO: The Next Phase', The WTO/World Bank Conference on Developing Countries' in a Millennium Round, 20-21 September 1999, Geneva.

**Table 1: In-quota and out-of-quota tariff rates and estimated maximum TRQ quota rents, selected agricultural products and OECD countries, 1996**

	<b>In-quota ad valorem tariff, %</b>	<b>Out-of-quota ad valorem tariff, %</b>	<b>Maximum quota rents (\$US billion)</b>	<b>Quota fill ratio, %</b>	<b>Quota as a % of total Imports</b>
<b>EU</b>					
Wheat	0	87	0.0	21	2
Grains	35	162	0.4	74	26
Sugar	0	147	2.4	100	87
Dairy	24	91	1.1	99	80
Meats	19	128	2.3	100	73
Fruits and Vegetables	11	51	0.0	78	20
<b>US</b>					
Sugar	2	129	1.0	97	76
Dairy	11	70	0.6	77	95
Meats	5	26	0.0	67	102
<b>CANADA</b>					
Wheat	1	49	0.0	27	218
Dairy	7	262	0.3	100	75
Meats	2	27	0.0	124	72
<b>JAPAN</b>					
Wheat	0	234	3.4	109	95
Grains	0	491	10.8	109	84
Dairy	29	344	2.8	93	91
<b>KOREA</b>					
Rice	5	89	0.0	100	53
Grain	3	326	1.9	148	61
Oilseeds	8	545	0.0	157	62
Dairy	21	106	0.0	85	106
Meats	40	42	0.4	97	77
Fruits and Vegetables	47	305	0.0	99	83

*Ref: Elbehri, Ingco, Hertel and Pearson 1999 'Agricultural Liberalisation in the New Millennium', paper presented at the WTO/World Bank Conference on Agriculture and the New Trade Agenda from a Development Perspective, 1-2 October 1999, Geneva.*

In contrast, experts Abbott and Morse note that for developing countries, the majority of applied tariffs are well below both MFN bindings and the low in-quota tariff rates set for TRQs. Hence, their actual tariff regimes are virtually never in violation of AoA commitments. Also, the lower tariffs applied are MFN tariffs, not subject to administrative requirements of a quota system. Imports of agricultural commodities for most of the countries using TRQs have either continued past trends or expanded significantly beyond historical trends (in many cases).<sup>18</sup>

For developing countries, under-fill is not an issue because substantial MFN tariff reductions in developing countries have occurred. Cases in which imports are below commitments are simply following prior trends. The more likely reasons for under-fill are low demand for these commodities, the high transportation costs and the attractiveness of these markets. Furthermore, overfill is as common as under-fill, reflecting the extent of liberalisation achieved.<sup>19</sup>

<sup>18</sup> Abbott and Morse 1999 'TRQ Implementation in Developing Countries', Paper prepared for the World Bank/ WTO Conference on Agriculture and the New Trade Agenda in the WTO 2000 Negotiations, October 1-2 1999, Geneva.

<sup>19</sup> Ibid.

### **High subsidies in OECD Countries :**

The high OECD subsidies are a major market access obstacle for developing countries in several ways. For example, the subsidies result in huge OECD food surpluses which are often exported to developing countries, hence taking away third country markets from exporting developing countries. In addition, subsidised OECD imports into developing countries destabilises and depresses prices, destroys producers, and hence reduces developing countries' production capacity and export potential.

In 1998, 24 OECD countries (excluding Czech Republic, Hungary, Korea, Mexico and Poland), provided total agricultural support amounting to about \$335 billion, with producer support at \$251 billion. This makes total agricultural support three times the official development assistance (ODA) flows and more than twice the foreign direct investment (FDI) flows to developing countries in that year. It also makes up almost 60 per cent of total world agricultural trade in 1997.

Support provided to some products which are also exported by developing countries is many times the value of world trade in these items. In 1997, in the 24 OECD countries, producer support to rice and meat was, respectively, 4.11 and 6.18 times the value of world exports of these products.<sup>20</sup> According to UNCTAD, a clear example of how subsidies have destroyed developing countries' domestic production and exports is that of Western Africa's tomato concentrate industry. Domestic production in exporting West African countries has fallen dramatically, so that from being exporters, some of these countries are now importers of the tomato concentrate.<sup>21</sup>

### **SPS as a Trade Barrier:**

FAO's investigation has revealed that more developing countries are experiencing trade obstacles due to SPS measures.<sup>22</sup> A major problem is that there is a lack of mutual recognition of inspections and standards. Several major importing countries are asking for 'sameness' in the process, rather than 'equivalence'. Moreover, so far, only a handful of equivalence agreements have been agreed upon, all amongst developed countries.

The variation and stringency of measures for imported food products can be gleaned from the example of imported poultry meat. The different standards raises the issue of how arbitrary standard setting can be. Of the 135 countries which are WTO members, 15 are currently allowed to export fresh, chilled or frozen poultry meat to the EC, five may export to the US, one to Canada and none are allowed to export to Australia.<sup>23</sup> FAO rightly comments that indeed, 'Trade harassment' is 'considered a common problem'.<sup>24</sup>

The huge obstacle for developing countries is the lack of financial or technical resources to implement these stringent requirements or even to take a significant role in the standard-setting process. In terms of financial and technical assistance, FAO reports that there are few cases of concrete assistance to developing countries from outside, as had been promised.

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<sup>20</sup> *ibid*

<sup>21</sup> *ibid.*

<sup>22</sup> FAO 1999 'Synthesis of Country Case Studies, *ibid.*

<sup>23</sup> Roberts, Orden and Josling 1999 'WTO Disciplines on Technical Barriers to Agricultural Trade: Progress, Prospects and Implications for Developing Countries', WTO/World Bank Conference on Agriculture and the New Trade Agenda in the WTO 2000 Negotiations, 1-2 October, Geneva.

<sup>24</sup> FAO 1999 'Synthesis of Country Case Studies', *ibid.*

A number of developing countries had made specific proposals in relation to the concerns relating to the SPS agreement in the pre-Seattle preparatory process. Redressal of these implementation concerns is at present under consideration in the Special Session of the General Council.

### ***Recommendations***

#### **Tariff Reduction, Tariff Peaks and Escalation**

1. The forthcoming negotiations must address the elimination of tariff peaks and escalations in developed countries and an appropriate formula should be used to bring down these extremely high tariffs by larger amounts to more reasonable levels. A harmonisation formula should also be designed to reduce tariff escalation, including the provision by developed countries, of the full liberalisation for tropical products in processed forms.
2. Tariff reductions should also be weighted, rather than unweighted, in order to ensure that sensitive products in developed countries are not given further protection.
3. Variable tariffs used by developed countries such as price band schemes ,as well as seasonal tariffs, should be eliminated. Variable tariffs should only be allowed as a Special and Differential Treatment for developing countries.
4. Tariff structures in developed countries should be made more transparent and less complex and all tariffs should be converted to ad valorem tariffs.

#### **Tariff Rate Quotas**

6. The administration of tariff rate quotas by developed countries needs to be simplified and made more transparent and equitable for all trading partners. TRQs should not act as quantitative restrictions. To this end, there should be
  - i) Guidelines simplifying the administration of quotas so that there is complete uniformity across countries and products and a complete transparency in their administration.
  - ii) Common base period for calculating domestic consumption for the minimum access commitment.
  - iii) Basing of quotas on specific products, rather than aggregated commodity groups.
  - iv) A mandatory filling of quotas, in developed countries, before imports take place at the above-quota level.
  - v) Appropriate arrangements to ensure that new suppliers from developing countries should have equal access to allotment within the TRQs.
  - vi) Regular enhancement of the TRQs administered by developed countries so as to improve market access for developing countries.

Sanitary and Phytosanitary Measures:

7. The difficulties encountered by developing countries in the context of the SPS Agreement, particularly in relation to those provisions and procedures, which inhibit the ability of developing countries to export agricultural products, must be suitably addressed.

Domestic Support:

8. Dumping must be prohibited and export subsidies of all forms (direct or indirect) by developed countries must be eliminated. Domestic support provided by developed countries under various categories should be substantially reduced, and then capped, so as to limit its trade distorting impact.<sup>25</sup>

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<sup>25</sup> A number of developing countries have already submitted specific proposals in this regard, as contained in G/AG/NG/W/13 and 14 and may individually or jointly with other Members add, elaborate or further develop the proposals included in this paper in future.