

LEGITIMATE NON-TRADE CONCERNS

Item 6 of the work programme

Submission by Argentina

I. PREFACE

1. This paper was previously submitted to the Committee on Agriculture, entitled "Legitimate Non-Trade Concerns" (G/AG/NG/W/88). Argentina also wishes to submit it for consideration to the CTE under Item 6. According to the Decision on Trade and Environment adopted at Marrakesh on 15 April 1994, the CTE has "to identify the relationship between trade measures and environmental measures, in order to promote sustainable development". Under Item 6 of the CTE's work programme, the Committee is requested "to address the environmental benefits of removing trade restrictions and distortions". This paper depicts three of the most acute environmental and social consequences of the existing trade restrictions and distortions affecting trade in agriculture: rural poverty, unemployment and environmental degradation.

II. INTRODUCTION

2. The Agreement on Agriculture calls for the continuation of the reform process by substantial progressive reductions in support and protection. These negotiations are aimed at determining what further commitments are necessary to achieve the objective of establishing a fair and market-oriented agricultural trading system. In doing so we need to take into account non-trade concerns and special and differential treatment to developing countries.

3. Therefore, while considering non-trade concerns, governments should not undermine the objective of these negotiations (i.e. delivering the fundamental reform for trade in agriculture) and should also be mindful of the consequences for developing countries.

4. Argentina, as much as every other WTO Member, has important non-trade concerns to take care of at home. Some of these are particularly related to the consequences of existing trade restrictions and distortions.

5. Argentina's non-trade concerns are aimed at promoting human welfare. Some of the world's most acute problems could only be relieved by correcting and preventing restrictions and distortions to trade in agriculture.

6. Rural poverty, unemployment and environmental protection are three of our main non-trade concerns. We believe these are legitimate non-trade concerns because they could be pursued by all WTO Members consistently with the objective of establishing "a fair and market-oriented agricultural trading system".

7. As we explain further on, these three legitimate non-trade concerns are all intrinsically related to current trade-distortive policies implemented by some of our richest trading partners.

III. RURAL POVERTY

8. It has been widely acknowledged that rural poverty is largely responsible for environmental degradation in developing countries. Rural poverty is also at the root of migration to overcrowded cities, rising unemployment rates and social unrest in developing countries.

9. Since the beginning of the Asian crisis OECD countries have increased support to agriculture by 9,95 per cent.¹ From every \$100 an OECD producer earns, \$40 are granted by consumers and taxpayers. In 1999, OECD countries spent a record of over \$361 billion to support their agriculture and this is estimated to cost developing countries US\$20 billion per year.²

10. How does this affect global human welfare?

11. From 1997 onwards, the crisis caused a fall in demand for the main commodities on whose export many developing countries depend. Lower demand normally leads to lower prices, and if this is then followed by a reduction in supply, a new equilibrium price is reached.

12. Unfortunately, as from 1997, some of our richest trading partners, instead of cutting production, increased the use of subsidies. This generated even larger surpluses, which had then to be dumped onto the international market at subsidized prices.

13. Moreover, precisely in 1997 and 1998, some countries found it timely to use accumulated export subsidies, i.e. those unutilized in 1995 and 1996 due to international high prices. This is particularly the case of sugar, a commodity on which many developing countries depend. In 1997 and also in 1998, the EU overshot its annual limits in terms of both budgetary outlays and volumes.

14. The OECD has estimated some of the effects that would flow from eliminating certain subsidies.³ For example, if the EU did not subsidize its wheat exports, the price per tonne today would be 4 per cent higher. If the EU did not subsidize its maize exports, the price per tonne would be 9 per cent higher. In turn, if the United States had not increased the use of domestic subsidies, soya today would be worth between 6 and 7 per cent more. Obviously the downward pressure on these commodities also has consequences for the prices of substitute products, such as palm oil or cereal substitutes for wheat and maize.

IV. UNEMPLOYMENT

15. Tariff escalation is another good example of an environmentally and socially disastrous trade policy in terms of the adverse impacts on developing countries.

16. Many tariffs are imposed at a higher level on processed and semi-processed products than on unprocessed products and raw materials. The more value is added to a commodity, the more tariffs escalate. This provides extra protection for processing industries in the importing country and is particularly perverse for developing countries since it virtually "taxes" efforts to diversify production and to move into higher stages of processing.⁴

17. Developing countries are heavily dependent on agriculture and most have vast rural populations that are increasingly expelled from the countryside because they cannot compete against the tariffs and subsidies provided by the richest countries.

¹ OECD, *Agricultural Policies in OECD Countries, Monitoring and Evaluation*, 2000.

² OECD, *Agricultural Policies in Emerging and Transition Economies*, 2000.

³ OECD, *Agricultural Outlook 2000-2005*.

⁴ WTO, *Tariff Escalation*, WT/CTE/W/25, document prepared by the Secretariat.

18. To put it in a nutshell, rural poverty is sending more and more migrants to cities. Our industries cannot generate enough new jobs to decently integrate these people into already over-swelled cities and our governments do not have the means to alleviate the social consequences. These constraints are compounded by limits imposed to our domestic policy options by the TRIMS and TRIPS Agreements adopted in the Uruguay Round. The result is more social unrest and less political stability.

19. Moreover, tariff escalation also has a negative effect on the environment. Since developing countries are regularly pressured to expand their foreign exchange revenue (due to debt and development constraints), tariff escalation is indirectly encouraging the expansion of commodity production beyond sustainable limits. This promotes a vicious circle; an increase in supply of commodities leads to lower international prices and this, due to the foreign currency constraints and the impossibility to shift to higher value-added products, results in more (not less) pressure on natural resources.

20. The only remedy at hand for developing countries is applying export restrictions and export taxes to their commodities. This is meant to "offset" the negative effect of tariff escalation on their processing industries by providing them with cheap inputs. This remedy is - to say the least - not a first best solution since it taxes domestic commodity production and further depresses raw material prices, hence preventing the introduction of environmentally friendly production practices.

V. ENVIRONMENTAL DEGRADATION

21. Argentina, like many other developing countries, is very interested in protecting its natural resources. These are the assets on which our agriculture is based. We are good at producing agricultural products and therefore we have to take special care of land and water protection. To do so we need to implement sound environmental policies.

22. Unfortunately, protecting the environment very rarely pays in the short term. This is particularly true in developing countries, in which, due to capital shortages, setting aside short-term gains for the sake of the medium and long term is regarded as an extravagance.

23. Much has been said about the environmental consequences of price support and other production-distortive subsidies to the subsidizing countries, but less attention has been paid to the negative effects of price-distorting subsidies on distant developing countries.

24. If a government massively subsidizes its commodity production and/or exportation it is very likely also distorting international prices. When governmental policies distort international prices, corresponding distortions are felt elsewhere. Distant decisions about investments, production methods, international trade and consumption patterns are also distorted as a result. This encourages new investments in the subsidized sector and consequently prevents those investments from going elsewhere, for instance to developing countries where production may be less intensive and where poverty, particularly rural poverty, is the main cause of rural and urban environmental degradation. Everything is then affected: resource allocation, international trade and environmental protection.

25. A handful of pretexts is offered to keep price-distorting subsidies in place - no matter if this results in mountains of surpluses that require additional export subsidies and developing country's agricultural producers have to cope with the consequences with little or no support from the government.

26. Summing up, protecting the environment is a compromise between reaping short-term benefits and investing for the future. Our producers do not have the "benefit" of massive subsidising policies and are just too obsessed with surviving in the short-term to be able to put aside adequate resources to ensure long-term sustainable exploitation. Opting for the long term becomes an

extravagance when our rich trading partners can displace our products from domestic and international markets with their subsidies. The result is that our possibilities of introducing sustainable exploitation practices are seriously hindered.

VI. CONCLUSION

27. Non-trade concerns should be pursued consistently with the objective of these negotiations, not at the expense of other trading partners. Argentina, just like every other Member, is committed to achieve substantial and progressive reductions in support and protection in the agricultural sector. This is the framework in which we all should explore the consistent ways and means of taking into account legitimate "non- trade concerns" while being mindful of consequences for developing countries.

28. Argentina, as a member of the Cairns Group, has presented concrete proposals on Export Competition, Domestic Support and Market Access. We will be raising our specific non-trade concerns while dealing with each of them.
