



The Next WTO Round: What Does it Mean for California Agriculture?

by Colin A. Carter

The World Trade Organization (WTO) has been very much in the news lately, and contrary to premature reports by some labor unions and environmentalists, the WTO is not dead yet! This article discusses the relevance to California agriculture of further multilateral trade negotiations in the WTO. It is an understatement to say that trade is important for California agriculture, as about twenty percent of the value of agricultural commodities produced in California are exported abroad. I believe that the WTO's liberalization of agricultural trade will significantly improve global competition and strengthen California's opportunities for trade in agricultural products. The WTO will also help promote global prosperity and raise living standards in poor countries. The resulting higher incomes in developing countries (e.g., in East Asia and Latin America) will, in turn, lead to greater import demand for California's agricultural exports.

The WTO and the Seattle Conference

The WTO is an international organization and its goal is to establish rules of trade that give importers and exporters confidence in the system when trading with other WTO members. The WTO mediates when trade disputes arise, and generally works to reduce obstacles to freer trade. One reason that the WTO is so important for California farmers is that agricultural trade liberalization is far behind that for manufacturing, as illustrated by the fact that agricultural tariffs are currently at about the same level as manufacturing tariffs were 50 years ago!

Fortunately, the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) brought agriculture into the WTO. The WTO was established in 1995 as a successor to GATT, and now has 134 members, more than 100 of which are developing countries. The Uruguay Round Agreement

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on Agriculture (URAA) set new rules for trade in agricultural products and initiated a modest reduction in protection. The URAA improved market access and disciplines on domestic support and export subsidies. Additional trade commitments were covered under the agreement on sanitary and phytosanitary measures.

The anti free-trade protestors at the WTO Ministerial Conference in Seattle this past December certainly heightened the debate over the labor and environmental effects of further trade liberalization. Those who took to the streets in Seattle to protest further globalization apparently fail to understand the large economic benefits that globalization has provided. Global trade has grown 17 fold since 1950, in part due to a decline in average import tariffs on manufacturers from 40 percent to 4 percent. At the same time, world per capita income has doubled. Rapid trade growth has facilitated the integration of developing countries in Asia and Latin America into the global economy. Strong economic growth in Asia and Latin America has resulted in large benefits to the California economy, through trade linkages.

As some street placards in Seattle correctly indicated, global economic growth has been uneven and individual developing countries have lagged behind. However, blocking further trade reform is not going

to solve this problem. The majority of the world's poor are in fact developing-country farmers, and it is now their turn to benefit from liberalized agricultural trade. It is for this very reason that the WTO's Director General, Mr. Mike Moore, has referred to the next WTO round of negotiations as the *Development Round*. For instance, there are about 300 million farmers in China and their per capita income is only \$300 per year. In India, there are at least 300 million living below the poverty line, with incomes lower than those in China.

The farmers in these poor countries are adversely affected by subsidies in rich countries such as the European Union (EU), Japan, and the United States that lead to over-production and depressed world commodity prices. Freer trade would help raise farmgate prices in countries like China and India. For instance, since 1995 India has exported 3-4 million metric tons (mmt) of rice each year. However, world rice trade is one of the many distorted commodity markets as rich nations' policies depress world rice prices. Unfortunately, the URAA left most agricultural subsidies in place. According to a recent report by the United Nations (UNCTAD), annual agricultural support for developed countries totals \$350 billion, double the value of total agricultural exports from developing countries. (United Nations Conference on Trade and

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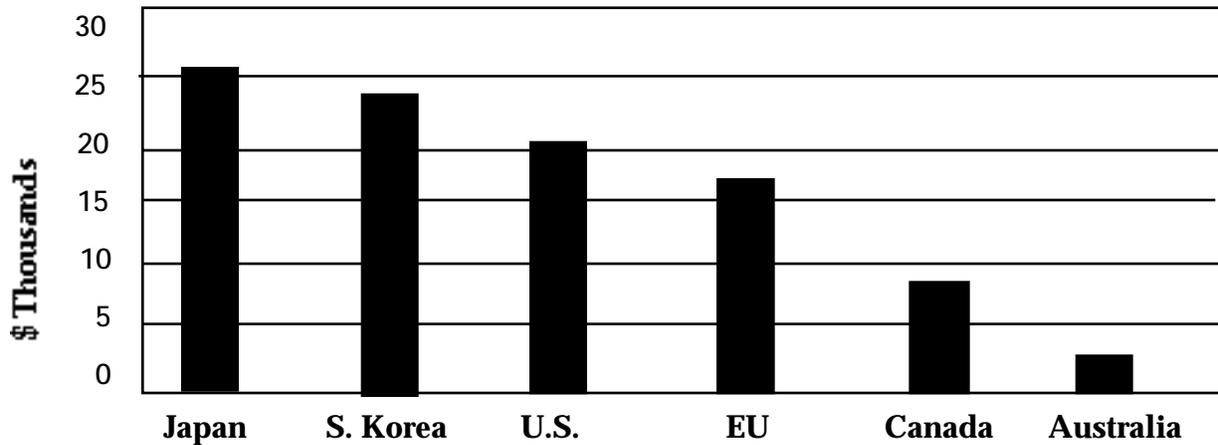
Table 1. California's Major Export Markets and Commodities, 1998

| Japan | EU | Canada | S.Korea | Hong Kong | Mexico | Taiwan |
|--------------------------|-------------------|---------------------|------------------|--------------------|--------------------|--------------------|
| <i>(Million dollars)</i> | | | | | | |
| Beef 182 | Almonds 461 | Tomatoes* 113 | Cotton 202 | Oranges 87 | Milk&Cream 65 | Cotton 37 |
| Cotton 172 | Wine 253 | Lettuce 101 | Beef 29 | Cotton 45 | Table Grapes 22 | Peach-Nect 22 |
| Wine 88 | Raisins 85 | Table Grapes 101 | Oranges 22 | Table Grapes 42 | Beef 18 | Milk&Cream 22 |
| Oranges 80 | Walnuts 75 | Wine 85 | Milk&Cream 13 | Pistachios 29 | Tomatoes* 14 | Table Grapes 11 |
| Hay 79 | Prunes 61 | Oranges 80 | Almonds 9 | Milk&Cream 10 | Almonds 11 | Oranges 11 |
| All Others 572 | All Others 195 | All Others 540 | All Others 23 | All Others 81 | All Others 56 | All Others 73 |
| Total 1,173 | Total 1,130 | Total 1,020 | Total 298 | Total 294 | Total 186 | Total 176 |

*Processing Tomatoes

Source: University of California Agricultural Issues Center

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Figure 1. Estimated Subsidy Level per Full-Time Farmer: 1999

Source: OECD

Development (UNCTAD), *Trade and Development Report*, Geneva: 1999.) As shown in Figure 1, the annual subsidy per full-time farmer in developed countries ranges from \$17,000 to \$26,000 for the EU, the U.S., S. Korea and Japan.

The WTO offers the most hope for stopping this subsidization, as the WTO helps governments in the EU, Japan, and the United States to keep their own domestic special interest groups in check. For example, if there is further progress on trade liberalization, the U.S. would have to grant better access to its markets - including sugar, dairy products and peanuts - and to do so it must stand up to domestic lobby groups.

The meeting in Seattle failed to reach any agreement on goals for agriculture, but the talks will continue. The lack of immediate success in Seattle is not that surprising. After all, the unwillingness of the EU to make significant concessions on agriculture blocked the Uruguay Round agreement for several years. This next WTO round of talks will not be held for at least one year, as significant progress is not expected until after the next U.S. election.

Impact on California's Agriculture

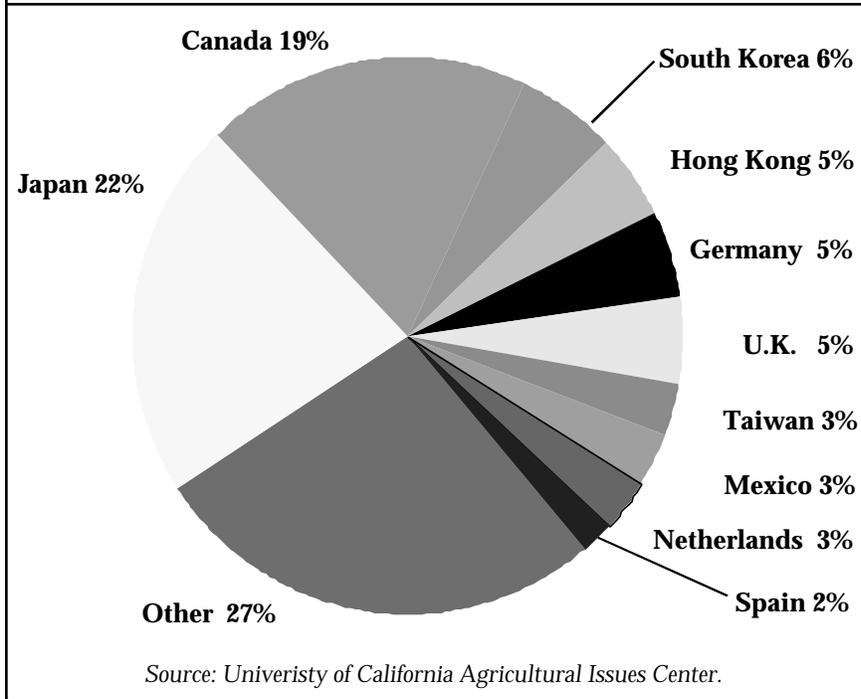
The University of California Agricultural Issues Center estimates that as of 1998, leading export destinations for California agricultural commodities included the EU (\$1.13 billion annually), Japan (\$1.17 billion), Canada (\$1.02 billion), South Korea (\$298 million), Hong Kong (\$294 million), Mexico (\$186 million) and Taiwan (\$176 million). See Table 1 and Figure 2. With the sole exception of Hong Kong, these countries

are protectionist when it comes to agriculture. For example, under the appearance of phytosanitary concerns, Japan continues to restrict the importation of several U.S. fresh fruits, vegetables and other horticultural crops. The EU (which includes Germany and the United Kingdom) offers export subsidies on beef, cheese, other dairy products, and processed fruit, in competition with California. South Korea and Taiwan impose import tariff rates of 35-50 percent on California products such as walnuts, table grapes, processed vegetables, beef and fruit. Canada has non-tariff barriers on horticultural products and it severely limits imports of dairy products, eggs and poultry and, in turn, offers export subsidies on eggs and dairy products. (National Trade Estimate Report on Foreign Trade Barriers, Washington, D.C.: U.S. Trade Representative, 1999.)

California is different from other major agricultural states in the nation in that California tends to export numerous high-valued food commodities. This is relevant to the WTO discussion, because import tariffs in important markets such as Japan and in the EU are generally higher on processed agricultural products than on their primary commodities. This tariff wedge between a processed commodity (e.g., processed fruit) and its corresponding primary commodity (e.g., fresh fruit) is referred to as *tariff escalation*, and this is an important obstacle for California agriculture. Tariff escalation produces a trade bias against processed agricultural products.

As traditional agricultural trade barriers are lowered, food safety and animal and plant quarantine

Figure 2. California Export Markets for Agricultural Products in 1998



has reduced its trade activity. China has high import tariffs (exceeding 40 percent) on certain agricultural commodities currently exported by California, such as table grapes, wine, beef and dairy products. China's accession to the WTO would result in a lowering of these tariffs. In addition, if the WTO liberalizes world trade in clothing and textiles (e.g., removes restrictive U.S. import quotas), then China will undoubtedly expand exports of clothing and textiles. This would result in increased imports of cotton into China.

Conclusion

California agriculture has a major stake in the process of global agricultural trade policy reform continuing and this is not a time for U.S. policy makers to hesitate in their approach to trade negotiations. Issues such as labor and environment standards are

measures are increasingly used as obstacles to international trade. This is particularly important for California, an exporter of high valued and exotic foods. The Uruguay Round agreement on Sanitary and Phytosanitary Measures (SPS) established some basic rules for countries to set standards for food safety and the protection of domestic animal and plant species. It allows countries to set their own standards, but it also says regulations must be based on science. California's agriculture stands to benefit from further progress on the strengthening of WTO rules against arbitrary use of sanitary and phytosanitary measures to restrict trade.

China is working toward WTO membership, and progress on this front is being carefully watched by the world and by California. Trade is expected to take on a greater importance for China in coming years once it joins the WTO. In agriculture, China accounts for a relatively small share of global trade and most of China's agricultural trade is controlled by State Trading Enterprises (STEs). Given China's rich agricultural resources and its large population, it has great potential to play a much more prominent role in agricultural trade in the coming years, as both an exporter and an importer. To date, China has maintained a policy of (near) self-sufficiency in agricultural products and this

not trade issues, but rather are domestic issues best dealt with outside of the WTO.

Income growth (and import demand growth) has great potential in developing countries and, to assist in reaching this potential, the next round of WTO is aimed to give developing countries greater access to markets in rich countries. This means the United States should also lower its protectionist trade barriers in agriculture. The 1994 North American Free Trade Agreement (NAFTA) drew criticism from some groups in U.S. agriculture hiding behind trade barriers. However, NAFTA has led to significant gains for California agriculture and, once again, proved the free trade critics wrong. With agricultural trade liberalization a priority in the WTO, economic benefits like those from NAFTA are just the beginning of more to come.

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