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Environmental Issues and Food Security Aspects in the Ongoing WTO-Negotiations on Agriculture

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Summary

At the beginning of 2000, the World Trade Organization (WTO) commenced negotiations on the continuation of the liberalization process in international agricultural trade. This step was agreed upon as early as at the creation of the World Trade Organization in 1995; however, it had been largely ignored by the broader public after the spectacular failure of the WTO ministerial conference in Seattle in December of 1999. Nevertheless, a large number of WTO members, among them a majority of Developing Countries, have tabled detailed and far-reaching demands.

The focus of these demands was on further opening of agricultural markets to Developing Country exports, reducing subsidies in Industrialized Countries and for increased consideration of concerns to the majority of Developing Country members regarding food security. Environmental concerns do not play a central role in the negotiations.

This study attempts to identify those sections of the WTO agreements, in particular the Agreement on Agriculture (AoA), the Agreement on Technical Barriers to Trade (TBT) and the Agreement on Sanitary and Phytosanitary Measures (SPS), that will have to be amended in order to avoid contradictions to the goals of food security as well as protection of the environment and health.

1. Environmental Problems in Agriculture

Agriculture has far reaching effects on the environment, both in the Industrialized Countries of the OECD (Organization for Economic Cooperation and Development) and Developing Countries.

Agriculture in the **Industrialized Countries** has become heavily specialized and industrialized since the 1950s. Contamination of soils and water with pesticides and fertilizers grew rapidly. Diversity of plants and animals decreased due to the specialization on a few high yielding varieties and breeds. At the same time the habitats of many wild species were diminished. The specialization of farms and international trade in feedstuffs has interrupted nutrient cycles on farms and at regional levels. Consequently crop producing farms rely on the intensive use of mineral fertilizers, while manure resulting from intensive animal production causes environmental problems in their respective areas.

In **Developing Countries**, the picture is more differentiated. In some countries and regions intensification leads to problems similar to those in Industrialized Countries. This is especially true with irrigated agriculture, where over-utilization of freshwater reserves occurs in many regions. On the other hand, inappropriate farming methods result in insufficient nutrient supply, hence leading to the loss of soil fertility (soil-mining).

Certain forms of agriculture also result in **positive environmental effects**. Examples are the conservation of traditional cultural landscape and traditional plant varieties and livestock breeds. In the international discussion this is referred to as the **multifunctionality** of agriculture, which also covers positive effects on food security and rural development. Due to the different environmental problems, internationally uniform policy recommendations are not possible.

2. Environment, Food Security and the Importance of Agricultural Trade

International trade affects the environment in different ways. The necessary transportation of goods leads to negative effects from emissions and the utilization of area for infrastructure. Besides that, four different effects are distinguished in economic literature, all of which can have positive as well as negative consequences for the environment: **Product effects** occur when the traded products themselves have an effect on the environment. In agriculture, the spread of plant and animal diseases through imported goods can be quoted as a negative example. **Technology effects** occur when imports facilitate the utilization of new technologies. In agriculture, the change in farming practices with regard to the use of pesticides and fertilizer which is facilitated by the import of these inputs and seeds adapted to them is a case in point. Environmental effects can be positive as well as negative. **Scale effects** occur when international trade affects the level of economic activity in a certain sector. An example in the agricultural sector is the expansion of production beyond national demand in exporting countries and lower production in importing countries. The environmental effects depend on how far the resulting intensification and extensi-

cation processes are adapted to ecological conditions. **Structural effects** occur when the composition of goods produced in a country is altered through international trade. An example in agriculture is higher production of export crops such as cotton and coffee instead of staple foods for domestic consumption. Environmental effects depend on whether the exported products are more or less suitable to the ecological conditions than those produced for the domestic market.

The ecological effects of liberalizing agricultural trade depend heavily on the **environmental framework conditions** in the importing and exporting countries. In its final declaration, the UN Conference on Environment and Development (UNCED), held in 1992 in Rio de Janeiro, defined principles for environmental and development policy. The most prominent ones in the debate on trade and the environment are the polluter pays principle and the precautionary principle among others. To counter ecologically problematic effects of international trade in agriculture, **three environmental policy instruments** are frequently applied: **Product standards** specify certain characteristics a product has to meet in order to be marketed in a country. They relate to domestic as well as imported products. The WTO Agreements recognize the application of those standards. However, certain conditions regarding transparency in application and scientific justification have to be met. The latter can lead to conflicts with the precautionary principle, which calls for effective measures to be taken to avoid serious environmental damages even when scientific proof of the causes of the damages has not yet been established. Standards for processes and production methods (**PPM standards**) define requirements for processes by which products are made, even if these have no direct effects on the properties of the product itself. The aim is to avoid the use of environmentally harmful production processes. In the WTO it is generally not allowed to apply those standards to imported products. **Subsidies and border protection** aim to prevent the loss of agricultural production in marginal areas and of possible positive aspects of multifunctionality in these areas. The WTO allows for targeted subsidies for agri-environmental programmes and rural development, if they meet certain requirements.

Several **international environmental agreements** were concluded in the follow-up of UNCED, which are also of relevance to agriculture. However, as a rule they do not define precise standards and conditions for agricultural and environmental policy. Concerning soil protection, the **Convention to Combat Desertification** and **Agenda 21** only call for the development of national action plans to eliminate the reasons for inappropriate land use. Agenda 21 is not binding by international law. Hence the measures defines to protect freshwater resources through the limited use of chemical inputs in agriculture and the development of water saving farming practices are recommendations only. In the **Kyoto Protocol for Climate Protection**, the provision most relevant to agriculture is the recognition of forests and grassland as carbon sinks in that it creates incentives to increase these areas. The **“Biosafety Protocol” to the Convention on Biological Diversity**, has a direct relation to agricultural trade. It recognizes explicitly the right of countries to invoke the precautionary principle to justify the restriction of imports of genetically modified organisms.

International trade affects food security at all levels. According to the definition of the UN Food and Agriculture Organization (FAO) food security has three dimensions: **Availability, Stability and Access**. Food has to be available in sufficient

quantities to meet the need. Supply has to be stable to ensure that seasonal fluctuations do not result in a reduction below need. Finally all parts of populations and individuals need access to food.

Especially in countries where yields vary widely, international trade can contribute to the **stability of supply**, but world market prices are subject to large variations. Many experts expect a stabilization of prices in the long term as result of the liberalization measures agreed in the WTO. Imports can only be financed on a sustainable basis, if they are matched with sufficient **export capacities**. However, the traditional agricultural exports of Developing Countries face, and have faced for decades, a trend towards declining prices, while non-traditional exports such as fresh fruit and vegetables face high protectionist barriers in Industrialized Countries' markets. In addition it is not clear how far Developing Countries, especially the poorer ones, will be able to match the high and further increasing **standards regarding food quality and health** in Industrialized Countries and gain access to their markets. World market prices for many agricultural products, especially basic foodstuffs such as grains, are depressed as a result of **subsidized exports** mainly from the EU and the USA. Many farmers in Developing Countries cannot cover the cost if they have to market their products at these low prices and as a result are driven out of their local markets. Hence their food security is directly threatened. In addition, the opportunity to import grains at low prices creates an incentive for governments in many Developing Countries to neglect domestic production of basic foodstuffs.

It is **necessary** to support agriculture and especially small farmers in Developing Countries through a variety of measures. Improved extension and infrastructure are as important as better access to inputs and the stabilization of output prices.

3. Relevant Provisions in WTO Agreements

The **Agreement on Agriculture**, which came into force in 1995, sets rules for three main areas: **Market access** can only be regulated with fixed tariffs. **Export subsidies** had to be reduced but are permitted at the reduced level. Different categories of **domestic support** measures were developed which are commonly referred to as "boxes". Measures which fall into the Amber Box are qualified as trade distorting and had to be reduced by 20 %. The measures consist mainly of payments which are directly linked to production and guaranteed prices above the world market level. Blue Box (payments in the framework of production limiting programmes) and Green Box measures however can be expanded without limitations. The Green Box consists of measures which are deemed to have no or at most minimally trade distorting effects. Payments in the framework of agri-environmental programmes also belong to this category, but they are only allowed to compensate for additional costs which arise from the participation in such a programme.

In all areas there are provisions on **special and differential treatment for Developing Countries**. Besides longer implementation periods and lower reduction commitments for tariffs and subsidies, Developing Countries have the right to support low income resource poor farmers through the provision of inputs at subsidized

prices. Overall, however, the agreement is tailored to fit the interests of industrialized countries, allowing the continuing usage of their agricultural policy measures.

The **Agreement on Technical Barriers to Trade** (TBT) requires that technical regulations and standards shall not be unnecessarily restrictive to trade. At the same time it is recognized that such regulations are legitimate to pursue objectives like protection of the environment. The Agreement is limited to **product standards**. Standards for processes and production methods and corresponding labelling are not covered by the TBT agreement, according to the prevailing interpretation.

The **Agreement on Sanitary and Phytosanitary Measures** (SPS) specifies the TBT Agreement with regard to health and plant protection. It defines stricter requirements for the necessity of standards and **calls for the application of internationally agreed standards**. If national standards are to be set on a higher level, scientific proof has to be established that this results in an increased level of protection. This constitutes a contradiction to the precautionary principle. This became most obvious in the WTO's dispute settlement ruling against the import ban on hormone treated beef in the EU.

Art XX of the GATT (General Agreement on Tariffs and Trade) also plays a central role. Trade restrictions which are based on PPM standards are generally in contradiction to GATT rules. Art. XX allows for deviations from these rules under narrowly defined conditions, *inter alia* if it contributes to the conservation of exhaustible natural resources.

4. The Agricultural Policy of the EU and the Planned Agricultural Turnaround in Germany

The reform of the agricultural policy of the EU, agreed upon in the framework of Agenda 2000, contains **two sets of measures**: Basic standards which aim at the reduction of environmental damages from agriculture are made mandatory. Agri-environmental programmes shall compensate and encourage additional services with positive environmental effects.

The “**agricultural turnaround**”, announced by the German government, aims at strengthening the protection of consumers, the environment and animal welfare. Agricultural policy shall be redesigned to concentrate support to those farms which apply production methods that are environmentally sound and conserve resources. To achieve this, subsidies linked to production shall be further reduced and the money freed shall be used to finance direct payments linked to environmental criteria. In addition support for organic agriculture shall be increased and a comprehensive labelling scheme for food and its ingredients shall be introduced.

Many of the measures proposed in the agricultural turnaround are not in conflict with the **provisions of the WTO**. This is mainly due to the fact that the Blue Box allows for great flexibility in the conditioning of direct payments. However, many countries are calling for the elimination of the Blue Box in the on-going negotiations. The stricter criteria of the Green Box are in conflict with the measures proposed in the agricultural turnaround more frequently. Even the already existing agri-environmental programmes are not in full compliance with the criteria as they do not rule out

payments beyond the compensation of additional costs. If incentives were to be strengthened, the problem would increase further. Another conflict could arise with the labelling of products according to production methods compatible with environmental and animal welfare requirements. This is especially the case for quality seals which concentrate on specific standards such as the abandonment of cage rearing of hens. Equally problematic is the compensation of costs that arise from the application of higher animal welfare standards.

5. The Role of the Environment and Food Security in the Ongoing Negotiations on Agriculture – Proposals by Member Countries

Developing Countries are very active in the current negotiations. They submitted many proposals and participate actively in the discussions. Important issues in many proposals are **food security** and **support for small farmers**. In order to achieve these aims many countries are calling for special provisions in the framework of a “development box” or a “food security box”. In contrast to the existing “boxes”, which refer to domestic support only, the explicit aim of this is to also achieve increased flexibility in border protection for products with importance to food security. Other demands concern improved **market access** for products from Developing Countries and the effective implementation of the decision to support Net-Food-Importing Developing Countries made in 1994. The proposals made by **Japan and Korea** regarding food security point to a similar direction. Japan even wants to increase flexibility in border protection for all countries. The **Cairns Group**, an alliance of competitive agricultural exporters, reacts only on specific aspects of the demands. It emphasizes the negative effects of subsidized exports and calls for a special safeguard mechanism against them. So far the **EU** has addressed the demands of Developing Countries only rhetorically and made no specific proposals concerning food security. The proposal made by the **USA** could even result in reduced flexibility for Developing Countries. A broad spectrum of **Non Governmental Organizations** supports demands for far reaching rights to protect and support small farmers and food security as well as for comprehensive measures to counter subsidized exports. In addition there are detailed proposals to establish an international fund to promote agriculture in Net-Food-Importing Developing Countries.

There are considerably fewer proposals concerning **the environment**. Korea wants direct payments to be allowed in unrestricted amounts if they are directed towards farmers who deliver public goods such as environmental protection and the conservation of cultural heritage. Norway and Jordan argue that they need border protection to maintain their agriculture and its multifunctional features. The EU and Switzerland deem the current provisions of the Green Box appropriate to pursue environmental objectives. The EU however is calling for payments to compensate for costs of higher animal welfare standards to be allowed as well. The US wants to tighten the criteria for the Green Box in order to minimize trade distorting effects. Many Developing Countries and individual members of the Cairns Group want to introduce an overall limit for domestic support, which would also affect payments in

the Green Box and the Blue Box. Many countries are call for the elimination of the Blue Box. Non-Governmental Organizations especially from the environmental sector are demanding a combination of the Green and Blue Boxes, and allowing only those measures that effectively serve environmental protection purposes.

6. Recommendations

The Agreement on Agriculture in the WTO already provides some starting points for the integration of food security and environmental protection. However, the **rules have to be improved urgently**. In particular, the criterion of being “at most minimally trade distorting” should no longer be decisive for the admissibility of support measures. Instead, the central question should be whether measures are effective to promote non trade concerns.

The rules of the Agreement on Agriculture have to **respect the fundamental differences between the agricultural sectors in Industrialized and Developing Countries**. Export subsidies have to be eliminated completely within a few years. In addition easier mechanisms for protection against dumping have to be established. If Industrialized Countries export products which benefit from domestic support measures they should recoup the subsidy through an appropriate export levy. Otherwise the importing countries should have the right to levy countervailing duties.

Developing Countries must be given more scope in agricultural policy through the **introduction of a Development Box**. Domestic support measures, especially for the stabilization of prices should be allowed without limitations if they are targeted towards disadvantaged producers. The necessary complementary border protection has to be allowed too. A fund should be established to support Net-Food-Importing Developing Countries. During periods with high world market prices it should finance food aid for vulnerable parts of the populations. If world market prices are low, the fund should finance programmes to **promote small farmers and subsistence farmers**.

Market access for Developing Countries has to be improved. Exporters and authorities have to be supported in adapting the products to environmental and health standards in the industrialized countries which constitute the major markets. This is especially necessary if the standards exceed internationally agreed levels.

In order to improve respect for **the environment and health** in agricultural trade, not only the Agreement on Agriculture but also the TBT and the SPS agreements need to be reformed. As a first step, the Agreement on Agriculture’s limitation of payments in agri-environmental programmes to the amount of additional costs should be dropped. This would allow for real incentives. Payments for higher animal welfare standards on the other hand should be permitted, but limited to the compensation for additional costs. The **criteria for the Green Box and the Blue Box** have to be modified so that ecologically inefficient payments are not allowed in unlimited amounts. On the other hand environmentally effective programmes should be permitted even if they have trade distorting effects.

The **precautionary principle** has to be strengthened in the SPS Agreement. Trade restrictions established in the framework of the Biosafety Protocol must not be subject to dispute settlement in the WTO. **Labels concerning production methods** have to be respected in the TBT Agreement. Developing Countries have to be supported in setting up appropriate certification organizations. Those labels could form the basis for additional tariff reductions in the EU's Generalized System of Preferences which already takes ecological criteria into account.

7. The Negotiations on Agriculture After the Last WTO Ministerial Conference

The results of the **fourth ministerial conference of the WTO in Doha**, laid out in the ministerial declaration of November 2001, raise few prospects for short- to medium term progress towards achieving the necessary ecological reforms in the international agricultural trade regime. The **paragraphs on the negotiations on agriculture** only confirm that non-trade concerns will be taken into account as provided for in the Agreement on Agriculture. The EU failed in large parts to introduce its agenda on trade and environment. The paragraphs on trade and environment do not even mention the precautionary principle, and the question of environmental labelling is referred to the Committee on Trade and Environment for further discussions.

The move by the EU and the USA, against the opposition of a majority of Developing Countries, to extend the competencies of the WTO to new issues like **investment and national competition policy** in the framework of a "new round" has destroyed urgently needed confidence for the delicate negotiations on environmental concerns. The demand by many Developing Countries to review and adapt existing agreements, summarised under the phrase "implementation issues", has clearly been addressed inadequately.

A fundamental reform of the existing WTO agreements, however, is necessary not only from a development but also an environmental point of view. Should the EU and the USA insist on the decision made in Doha to launch negotiations on new issues like investment and competition, an environmental reform of the WTO will not be an opportunity for the foreseeable future.