

**Specific characteristics of agriculture
and the need to treat agriculture
separately within WTO**

*International Conference on Non-Trade Concerns in Agriculture
Ullensvang, Norway, 2-4 July 2000*

Discussion Paper One

Presented by Switzerland

Table of contents

SUMMARY AND CONCLUSIONS		iv
1. OVERALL FRAMEWORK – STATE OF THE CURRENT NEGOTIATIONS		1
2. SPECIFIC CHARACTERISTICS OF AGRICULTURE		2
2.1. Land use function		2
2.2. Supply and demand characteristics		2
2.3. Agriculture as a producer of positive externalities and public goods		2
2.4. Food as a most essential good		3
2.5. Agriculture as a key element for the development of other sectors		3
3. NEED FOR A SPECIFIC TREATMENT OF AGRICULTURE WITHIN WTO		3
3.1. Specific treatment in GATT and URAA		4
3.2. Need for continued specific treatment within WTO		4
ANNEX		5

SUMMARY AND CONCLUSIONS

1. This paper focuses on the specific characteristics of agriculture, first exploring the state of the current negotiations on agriculture in WTO and the different approaches the main country groups take. It then continues in summarising the main specific characteristics of agriculture: The land use function, the supply and demand characteristics, the contribution of the agricultural sector to the provision of positive externalities and public goods, food as a unique and most essential good and agriculture as a key element for the development of other sectors, particularly in developing countries.

2. The paper concludes in underlining the need for continued specific treatment of agriculture in the WTO. This last section looks at the GATT 1994 and the Marrakesh Agreement and states that the URAA recognises different situations (including the need for S&D), agricultural policies, and the right of each WTO Member to preserve an agricultural sector. Therefore specific characteristics of agriculture need continued separate treatment within WTO. The question to be addressed is whether the actual provisions under the URAA are sufficient to let agriculture fully play its specific role and to fulfil the multiple objectives assigned to it by societies.

1. OVERALL FRAMEWORK – STATE OF THE CURRENT NEGOTIATIONS

3. This year Members of WTO have started further negotiations on agriculture aiming at an additional step towards establishing a fair and market-oriented agricultural trading system. The preamble and article 20 of the Uruguay Agreement on Agriculture (URAA) form the basis of these negotiations. The Agreement establishes the start of such a process in 2000.

4. All WTO Members may participate in these negotiations. Countries in accession have an important role as observers. Besides the individual countries we may recognise different groups of countries promoting particular interests. Several countries may belong to more than one of the following categories: Net food importing developing countries and developed net food importers, developing countries with small (international) trade, least developed countries, small island economies, countries with an agriculture responding to non-trade concerns (NTC), countries with primarily export interests etc.

5. The particular interests reflect the wide diversity of general policy goals and agricultural policies in the world. A world-wide harmonised agricultural policy does not exist. While progressive liberalisation brought about success in manufacturing and many services, the trade policy objective is only one element of many national agricultural policies. The common denominator for the negotiations on agriculture is therefore rather small. This explains the difficulties to reach a balanced result in sectoral negotiations on agriculture. The following approaches could be described to represent the main issues at stake identified in the negotiations.

6. “Market only-Approach”: Countries having primarily exporting interests restrict their approach mainly on trade concerns and argue within the trade policy logics. They strive for an agricultural trading system governed by the same disciplines as trade in general, with only few, if any, non-trade concerns taken into account.

7. “Article 20 Approach”: For countries with an agriculture responding to non-trade concerns as “food security and the need to protect the environment” (URAA), the market orientation alone will not be sufficient to respond to multiple societal objectives which need to be met in order to enhance national and global welfare as well as to the criteria “fair” of the preamble and article 20 of the Agreement. A fair agricultural trading system would in their view also comprise the preservation of agriculture’s capacity to produce specific outputs – positive externalities¹ – beyond the production of food and fibre.

8. The difficulties of the various groups to understand each other and to reach a mutually satisfactory result are obvious. The reason for the conflict between the views of the “Market only-group” and their wish for a “full integration” of agriculture and the views of others promoting an approach going beyond the mere trade aspect seems to lie in the distinct view on specific characteristics of agriculture. While the first group argues that agriculture has no specific characteristics compared to other sectors, the second group attributes specific positive externalities and public goods to it like the protection of the environment and of finite resources, the contribution to food security or to socio-economic development of rural areas.

9. In this paper we will address the specific characteristics of agriculture and the need to treat aspects of agriculture separately within WTO.

¹ Positive externalities represent or contribute to public goods, with a given demand and no or insufficient economic compensation. Demand for such a public good may result in an explicit policy objective aiming at satisfying supply. An existing example of such explicit policy objectives is given in the Annex (Article 104 of the Swiss Federal Constitution).

2. SPECIFIC CHARACTERISTICS OF AGRICULTURE

2.1. Land use function

10. In many countries agriculture is the biggest land user. Agricultural activities over centuries have given rise to unique landscapes with a rich variety of semi-natural habitats and species dependent on the continuation of farming. The high cultural and nature values of the farmed landscape can be harmed both by the intensification of agriculture and the marginalisation or abandonment of agricultural land.

2.2. Supply and demand characteristics

11. For most bulk commodities the supply can not respond to raising demand in short time. In particular many production cycles have a period of one or more years. Short-time in-elasticity of supply results in high price fluctuations. For longer production cycles conservation of soil-fertility and partly know-how is important, since fertility can not be achieved in short time. On the other hand demand is generally inelastic, since food is a basic good.

12. Climatic conditions and soil-quality predestine certain regions for production of certain agricultural products or give them the possibility to produce most efficiently. Other climatic conditions and soil-quality are less favourable to production. Overall geophysical potential for agricultural production in the world is shrinking in terms of soil as the basic factor for production. At the other hand demand is rising since world population is still very rapidly growing (especially in low purchasing power countries and population segments). It is therefore desirable from a world food perspective to keep the production potential even in areas with non-optimal climatic conditions or soils. Restart of agricultural production under altered overall conditions may be difficult because of production time-lag, lack of specific know-how, soil deterioration and destruction (including non-agricultural uses), irreversibility of know-how loss if next generation does not farm and if research and development is not continued etc.

2.3. Agriculture as a producer of positive externalities and public goods

13. In many countries we can observe numerous societal demands for non-marketable non-commodity outputs of agriculture like natural resource protection, rural landscape and recreation areas. Differences in natural and economic conditions between and within countries, including in the demand for the non-commodity outputs, strongly suggest that there will be no single solution to multiple non-trade concerns that is optimal for all countries and areas.

14. Agriculture provides public goods or positive externalities, such as environmental services, natural resource protection, rural landscape and recreation areas. Agriculture contributes to fulfilling societal goals like viability of rural areas and their development, decentralised settlement of the territory, food security, preservation of cultural heritage etc. Agriculture may also have positive spill-over effects on other economic sectors such as tourism.

15. Awareness exists of the fact that agriculture is able to contribute in a specific way to the fulfilment of societal goals other than food production, although this awareness is developed in different intensity. Accordingly many positive externalities produced by agriculture in their quality of public goods like rural landscapes (recreational values, benefits to tourism) or biodiversity are often consumed unconsciously. The awareness of the public regarding agriculture as a producer of such outputs became more accentuated when the goods became scarce. Reasons

for scarcity are manifold, e.g. an intact environment may be harmed by the intensification of agricultural production due to short time benefit strategies in rapidly liberalised markets.

2.4. Food as a most essential good

16. Food is a most essential good and by this fact every person attributes a high value to it. This particular characteristic of food, its significance for the nourishment of people makes food production and thus agriculture an inherent part of each society's culture and policies. Consumers may also wish to link food production to cultural and/or ethic concerns including health concerns, food safety and quality.

17. Experiences with respect to insufficient or abundant availability of food always strongly influenced governmental policies and corresponding actions all over the world. The experiences may of course differ from one country to another and so would the respective policy objectives, however, given the basic need for food both economical and emotional concepts are linked to it.

18. Negative experiences regarding the availability of food led to the formulation of food security policies which comprises local production, stock-piling, trade and other measures to assure sufficient food security (cf. Conference paper on food security). Besides the need to satisfy the basic need of nourishment, high importance is given to aspects of safety and quality of the products. Abundant illustrations to this fact can easily be enumerated.

19. Negative experiences often combined with scarcity of land resources and input factors, climatically unfavourable conditions etc. led almost everywhere to a high esteem for agriculture, which may go far beyond its actual share in a country's domestic economy. It is therefore essential to take into account the background of experiences and culture for a better understanding of the various agricultural policy objectives of different countries. Thus the mere existence of tariffs to protect local production can not be squarely attributed to protectionist behaviour in the sense of defending the special interests of the farmer society.

2.5. Agriculture as a key element for the development of other sectors

20. In agrarian societies agriculture has always represented the basic economic activity on which other economic activities were subsequently built (cf. Conference paper on Developing countries and Non-Trade concerns). To take care of this key element is therefore of highest importance not only for countries exporting commodities but for all societies with an important agricultural sector in terms of employment, local production for domestic consumption etc. (cf. Conference paper on rural development).

3. NEED FOR A SPECIFIC TREATMENT OF AGRICULTURE WITHIN WTO

21. Today the share of agriculture in some industrialised countries is very small, while in others agriculture remains a major if not the most important economic sector as it is the case for many DC's and LDC's. But even in countries with a small agricultural sector, agricultural policy has kept high political importance. The specific characteristics of agriculture have not only to be described economically but have as well to be seen on the background of historical experiences which have become part of a society's culture constantly influencing the policy making process.

3.1. Specific treatment in GATT and URAA

22. In GATT 1947 and GATT 1994 we find specific rules for several areas, e.g. public procurement (art. III), film (art. IV) or transit (art. V). Besides this, general GATT rules were never applied without exceptions due to the existence of some overriding policy objectives such as national security and “ordre public” or due to the lack of a stringent dispute settlement. The inappropriateness of some basic rules to certain areas illustrates the need to treat each case on its own merits, bearing in mind the overall WTO objective of enhancing global welfare.

23. During the Uruguay Round this fact and the need for exceptions to general rules and principles was accepted for agriculture as well as in other WTO Agreements, leading finally to a success: With the Agreement on Agriculture WTO Members have for the first time placed agriculture in a systemic way under the overall structure of WTO rules and disciplines. At the same time, and in order to preserve the general equilibrium, they recognised, that the progressive liberalisation process must take into account several other concerns, in particular NTC’s or special and differentiated treatment for developing countries (cf. preamble of the Marrakesh Agreement and preamble and article 20 of the URAA). By doing this the URAA recognises different agricultures, agricultural policies and the right of each WTO member to preserve an agricultural sector.

24. The same motivation to find an equilibrium is recognised in specific and accordant action relating to special and differentiated treatment for developing countries (S&D) in all areas of the multilateral trading system.

3.2. Need for continued specific treatment within WTO

25. Specific characteristics of agriculture and policy objectives in relation with NTC’s call for separate treatment of agriculture within WTO. Market failure for public goods may call for government action to secure optimal supply. In order to do this governments must be able to implement targeted, effective, efficient and least trade distorting instruments.

26. The obligation to drastically and quickly increase market access for basic food commodities, can result in reducing the incentive for local production, especially in countries and regions where producers are less competitive due to specific circumstances or in countries and regions with fragile production structures or low incomes combined with low purchasing power.

27. Given the need to safeguard a certain level of domestic production for the fulfilment of societal objectives, local conditions may require specific instruments to allow farmers to continue production on less favourable areas or under regulations establishing less competitive situations. Current NTC- and S&D-provisions under the URAA provide for such possibilities to a certain extent.

28. Therefore, due to its specific characteristics, agriculture need continued separate treatment within WTO (URAA).

ANNEX

Swiss Federal Constitution of April 18, 1999**Article 104 – Agriculture**

1 The Confederation shall ensure that agriculture shall, through sustainable and market oriented production, contribute meaningfully to:

- a. ensuring the supply of food to the population;
- b. the preservation of the natural habitat and the countryside;
- c. the decentralised settlement of the territory.

2 In addition to such mutual assistance as can be required from the agricultural sector, and as an exception to the principles of free market economy where necessary, the Confederation shall support farm enterprises engaged in working the land.

3 The Confederation shall prepare measures to ensure that agriculture sector accomplishes its multifunctional tasks. In particular, the Confederation's powers and duties shall include the following:

- a. It shall supplement farm incomes with direct payments so as to provide reasonable compensation for services rendered, provided that said services are duly justified and directed towards the established ecological requirements;
- b. It shall encourage, using economically viable incentives, production methods which are particularly suited to and respectful of the natural environment and the animal life;
- c. It shall issue regulations governing the labelling and declaration of origin, the quality, the production and processing methods used in relation to foodstuffs;
- d. It shall protect the environment against the damage of excessive use of fertilisers, chemical products and any other substances;
- e. It can encourage agricultural research, extension and training and distribute grants to promote investment;
- f. It can issue regulations to consolidate rural land holdings.

4 To these ends, the Confederation shall use funds especially set aside for the agricultural sector as well as general Confederation funds.