

A large traditional Chinese junk boat with red sails is docked on a city waterfront at sunset. The boat's hull is dark blue with a red stripe at the bottom. The sails are a vibrant red, and the rigging is made of bamboo. In the background, modern skyscrapers are illuminated by the golden light of the setting sun. The water is a deep blue, and the overall scene is a blend of traditional and modern urban life.

MAIN FEATURE

MULTILATERAL TRADE LIBERALISATION — FRIEND OF FOE?

by Koos Coetzee, Milk Producers' Organisation economist

It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy ... What is prudence in the conduct of every private family, can scarcely be folly in that of a great kingdom, said Adam Smith in The Wealth of Nations in 1776.

Trade liberalisation is based on the principle of comparative advantage, initially explained in 1776 by Adam Smith. If every country concentrates on producing those goods and services that they can produce more cheaply than other countries, and buy those goods and services they cannot produce cheaply, everyone will benefit.

Trade liberalisation has been an ongoing process since the 1940's – initially through successive General Agreements on Tariffs and Trade, and since 1994 under the auspices of the World Trade Organisation (WTO). The benefits of trade liberalisation are well-known. Economic growth is faster in more liberated countries and more liberated countries are generally more peaceful.

The benefits of trade liberalisation affected different countries very unevenly. Various factors combined to ensure that the real benefit of trade liberalisation accrued to the developed countries while the developing world actually grew poorer. Developing countries soon found that their exports of raw material increased while their importation of processed goods increased. This resulted in dire consequences for the developing world. The main reason for this negative effect lies in the massive support developed countries gave to their local agricultural sectors to the detriment of agriculture in developing countries.

Agricultural support and subsidies are not a new phenomenon. When the European Union (EU) (then known as the European Economic Community or EC) faced famine after World War 2, it developed a programme for agricultural support, named the Common Agricultural Policy. It worked so well, that it changed dangerous shortages into massive surpluses in a few years time. European countries and the USA use a combination of export subsidies and import tariffs to protect their highly subsidised local industries.

The effect of these measures on global trade is very high. For instance, EU support to the dairy industry works out at US\$2,70 per cow in the EU, while a vast percentage of Africa's population earns less than that per day. Cotton farmers in the USA earn more in subsidies than



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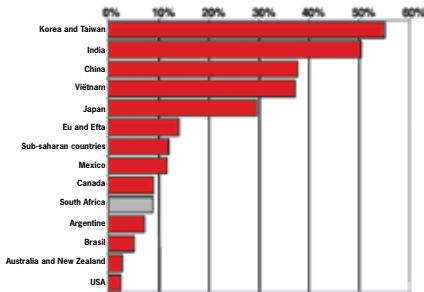
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FIGURE 1: Applied agricultural tariff levels in selected countries, 2001



Source: OECD, 2005

the total value of the African cotton crop. There are various other examples of the extreme effect of support on developing countries.

Dissatisfaction with the direction of trade liberalisation resulted in a pitched battle between police and demonstrators in the streets of Seattle in 1999. After Seattle the WTO leadership took care to involve developing countries in the process. At the following meeting in Doha in 2001, they even renamed the current round of WTO negotiations as the Doha Development Agenda and promised substantial reform.

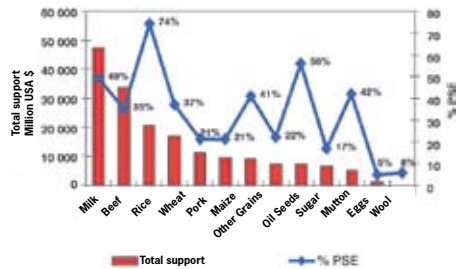
The next WTO ministerial meeting in Cancun ended without any decision being taken, mainly because a newly formed group of countries, known as the Group of 20. This group of countries were against export and other subsidies and refused to negotiate any other aspect of the agreement unless export subsidies were lowered.

Since Cancun, negotiators worked hard to put the round back on track. The recent WTO ministerial meeting in Hong Kong took place with a mass of media and other interest. It ended with some progress on the main pillars of trade liberalisation, namely export subsidies, domestic support and market access.

Export subsidies

Developed countries use export subsidies to enable their highly subsidised producers to compete internationally. The EU is the main user of export subsidies followed by Switzerland, Norway and the USA. The dairy, beef and sugar industries

FIGURE 2: Total producer subsidy per product and percentage support for selected products, 2003



Source: OECD, 2005

carry the highest level of export subsidies – about 34% of total export subsidies in the EU is spent on dairy products. Export subsidies reduce world prices to a level where it becomes impossible for developing countries to compete.

Domestic support

Direct support to agriculture distorts international agriculture. Total agricultural support amounts to about US\$ 200-million per year or a sixth of the total trade in agriculture. The EU and USA are each responsible for a third of subsidies and Japan for 15%.

Market access

When negotiators decided to include agriculture in trade negotiations in the Uruguay Round, the protection countries afforded against imports were translated into import tariffs. In the agreement the maximum level or bound level for every product was negotiated. Countries agreed to lower tariffs to the bound level.

Agricultural tariffs are higher than industrial tariffs. Tariff levels in some selected countries are shown in Figure 1.

Impact on dairy industry

Although only 7% of total dairy production is traded internationally, the price of dairy products on the world market and the price producers receive is based on these prices. Milk carries the highest total support, followed by beef, rice, wheat and pork (Figure2).

Various studies have shown the large impact of



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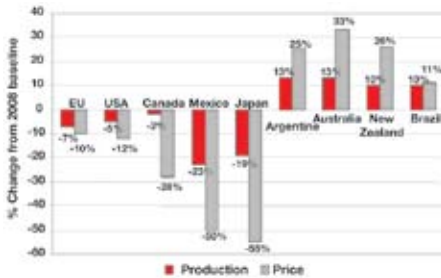
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FIGURE 3: Impact of trade liberalisation on dairy production and prices in selected countries, 2008



Source: Vavra OECD, 2005

domestic and export support on the international trade in dairy products. A recent OECD study (OECD 2005) shows that trade liberalisation will result in a substantial increase in producer prices in unsubsidised and decrease in subsidised countries. The simulated effect of trade liberalisation on production and prices in selected countries is shown in Figure 3.

The Hong Kong decisions

The Hong Kong declaration fixed 2013 as the final date for phasing out export subsidies. Although all members agreed to this, it seems as if the EU still regards this decision as preliminary. EU trade commissioner, Peter Mandelson, recently threatened to withdraw the EU's offer to phase out export subsidies if South Africa does not make an offer on trade in services.

It was decided at Hong Kong that countries with the highest levels of domestic support would have to reduce support more than those with lower levels of support. The EU will have to reduce domestic support by 70%+, USA and Japan by 50-75%, and other countries by 30%-70%.

Import tariff bound rates must be reduced by various amounts with higher commitments in the case of high than in the case of lower tariffs. No final date for the implementation of tariff reduction was decided.

Implications of Hong Kong

As in Cancun, the Group of 20 as well as the African Group stood firm against the developed

countries. They achieved a measure of success. Lower export subsidies and less domestic support means that world prices of most agricultural commodities will increase. Higher world prices will translate into higher producer prices in developing countries – a weaker US\$ may limit the benefits of higher prices somewhat.

Increased market access through lower bound rates will probably not impact too much on local markets, as effective tariff levels are already significantly below bound levels.

“It was decided at Hong Kong that countries with the highest levels of domestic support would have to reduce support more than those with lower levels of support”

On face value the Hong Kong decisions thus seem favourable to the dairy industries in sub-Saharan Africa. However, as in the past, it is dangerous to take WTO declarations seriously. The EU has already threatened to rescind on the 2013 date if South Africa does not tow the line. Export subsidies and domestic support are very emotional issues in the USA and EU. To change these will be very difficult.

Greater access to the lucrative markets in the developed world for African products remains an African dream. Although lower import tariffs promise easier access, African processors will still find it very difficult or impossible to comply with EU and USA phyto-sanitary measures, some of which have no other purposes than to keep products out of their countries.

Thus, while the decisions taken at Hong Kong seem positive, African countries will have to work hard to ensure that they receive their fair share of the potential benefits of the fairer trade. Dairy sectors in African countries will have to ensure that decision-makers are well aware of the problems and opportunities faced by the dairy industries – regional co-operation between the different dairy industries can aid in this. **DMA**