



The Challenges Facing Farmers' Organizations in the Liberalized Trading Environment

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INTRODUCTION

1. Liberalization, that is, the removal of barriers to trade (in particular) is perhaps the most defining characteristic of the world economy since the turn of the century. In fact even before the start of this new millennium, the creation of the WTO in 1995 with sweeping powers to regulate trade in goods, and services, as well as disciplines in investment and intellectual property, among others, has significantly redefined the global landscape. Such redefinition of this global landscape seems to be taking place in an asymmetrical manner. Small vulnerable economies, for instance, are being required to engage in trade on reciprocal terms. Such reciprocity means that these economies are being required to liberalize their tariffs to the same extent to which larger, significantly more powerful economies liberalize theirs. Additionally, reciprocity also implies, for many of these small states, reduction and or elimination of trade preferences. Moreover, despite the 'one

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country one vote' principle that exists in the WTO, in practice, real decision making is exercised by the larger and more powerful countries through what is known as the "Green Room" process.

2. In the remainder of this address I shall speak on the following issues. First, in order to understand the environment in which farmers' organizations have to exist today, one needs to first understand the "old order", that is, the environment characterized by protectionist and non-reciprocal preferential trading arrangements, within which farmers' organizations existed prior to the creation of the WTO in particular, and what that implied in terms of challenges and opportunities presented to them. One of the questions that farmers' organizations should reflect upon at that stage, is "how did they respond during the old order and whether such response was adequate".

3. Second, I shall systematically define and clarify key elements of the "new order", that is, the era of the trade liberalization process, with a focus on the theatres where Caribbean interests are most tested and at stake: the World Trade Organization (WTO); African Caribbean Pacific (ACP) --- European Union (EU) relations; the Free Trade Area of the Americas (FTAA); and the Caribbean Single Market and Economy (CSME). Then, I will discuss in some detail, what some of the outcomes of these processes have meant for Caribbean states, using the examples of preference erosion in traditional "protocol" commodities, notably bananas and sugar. I shall then discuss the thrust of the liberalization challenge with respect to Agriculture, paying due regard to developments in the WTO up to August this year, given that it seems to be the only theatre, where the large and powerful

countries that subsidize their agriculture, are prepared to revisit such practice, but, not surprisingly, under special circumstances.

4. Third, I shall address the question of the implications of the liberalized trading environment for farmers' organizations, isolating not only the challenges, but also the opportunities that are posed by this new order.

TRADE BASED ON NON-RECIPROCAL ARRANGEMENTS PROTECTIONISM --- THE "OLD ORDER"

5. In the period following the **Second World War** up to the early 1990s, trade in the world economy was dominated by discriminatory, protectionist type arrangements, despite the early attempts at establishing a world trade body, the International Trade Organization since the 1940s. Instead, the GATT was established in 1948. [Interestingly, the WTO was not created in the 1940s largely because the United States Congress refused to ratify the agreement for its creation at the time. Yet, it is precisely that same country that has become the biggest proponent for liberalizing world trade in the present era]. Such non-reciprocal trading arrangements meant that Caribbean countries could export products to the preference granting country without such products being subjected to any trade barriers, while the Caribbean was free to impose any type of trade restricting measure in relation to products exported from the preference granting country into the Caribbean. And in practice, Caribbean countries have imposed trade restricting measures [normally tariffs and quotas] on goods coming from preference-granting countries, though such measures have largely been for fiscal revenue purposes.

6. Countries of the Caribbean were among the beneficiaries of preferential trading arrangements during that era. By far, the major trading arrangement from which Caribbean countries benefited considerably during that era was the Lomé Convention, established as a bi-regional trade and economic cooperation agreement between countries of Africa, the Caribbean and the Pacific (ACP) and the European Union (EU) since 1975. Because development cooperation was the core concern of that agreement, the EU significantly opened its market to Caribbean countries to supply its member states with a fairly diverse range of products, that were not subjected to any trade restrictions, i.e., tariffs or quotas, upon entry into the EU.

7. In practice, Caribbean economies were largely undiversified at the time, with agriculture, notably bananas and sugar, dominating their export trade with the EU. It meant that Caribbean farmers were the most important recipients of the benefits of the protectionist trade arrangement. For Windward Islands farmers in particular, their banana industry flourished, injecting millions of dollars into their pockets on a weekly basis, with a considerable multiplier effect. Farmers of these islands are known to have been capable of sending their children to university, constructing comfortable homes, and in general, hardly any poverty existed within the sub-region at that time.

8. So, what was the role for farmers organizations in such an environment? How did they respond to it? Clearly, with guaranteed market access under preferential terms into the lucrative EU market, farmers organizations had very little to concern themselves about, with regards to external trading arrangements. Moreover, such complacency of farmers' organizations was intensified by trade "safety nets" that were in place with

respect to their exports to the EU. The EU had created an export stabilization fund (STABEX) under which farmers, through their governments, were effectively able to be guaranteed minimum prices for their exports in the event that there existed too much price volatility in the world market. And in addition, such funds were accessible after a natural disaster, serving as a sort of insurance mechanism for Caribbean exports.

9. Of course, other countries, like the United States, also extended some form of preferential trading arrangement to the Caribbean, notably its Caribbean Basin Initiative (CBI), and separate arrangements for trade in sugar. However, I shall not spend any time on the CBI trading arrangement given that though in principle it provided duty free treatment for the bulk of agricultural exports, in practice, effective market access tended to be complicated by requirements of sanitary and phytosanitary (SPS) measures. Compliance with such measures proved extremely difficult for farmers, especially those in the smaller Caribbean economies and as a consequence, such measures effectively served as trade barriers. [Incidentally, it has not been only the small Caribbean countries that had difficulty in accessing the US markets, but even larger countries like the Dominican Republic have suffered from these problems]

10. So, to summarize what I have said so far, during the era of protectionist, non-reciprocal trading arrangements, there was little concern for farmers' organizations about developments in the external trading arrangements, given that such developments did not adversely affect their production decisions, or lifestyles. Trade was guaranteed to take place under terms that favored farmers, which meant their incomes were relatively stable. The focus of farmers' organizations was therefore domestic.

Although these preferential trading arrangements still exist today, their value has eroded considerably, and their continued operation is subject WTO waivers. That, was the “old order”.

**TRADE BASED ON RECIPROCAL ARRANGEMENTS
LIBERALIZATION --- THE “NEW ORDER”**

11. Now let me say a few things about the “new order”, i.e., trade based on reciprocal arrangements. I shall first discuss a few things about the thinking behind this “new order”. Although this might sound bizarre to you, the thinking behind liberalization is that by lowering or removing the barriers [especially tariffs and quantitative restrictions] to international trade between all countries of the world, consumers will pay a lower price for every product that is presently being traded. Because consumers will pay a lower price for each product, more consumers will be inclined to buy all existing products than they presently do, and that in turn will induce producers of all products to supply more. So, as all producers supply more of all products, more of all products get sold and consumed and global wealth will expand. Additionally, if every country can be a major supplier of a few of these products, then producers in every country will share in this expanded global wealth, so not only global wealth, but also global welfare should improve. Such is the thinking behind the “new order” or liberalization.

12. So, does this sound like something bad for anyone? Clearly not. Therefore, why is it so difficult to accept? There are many reasons for resisting such thinking and I shall briefly touch a few of these where Caribbean countries are concerned. First, there is the question of trade-related fiscal revenue dependency, i.e., the revenue governments collect on

the importation of most products. The concern is that if tariffs are reduced or removed altogether, government revenues will decline and they will not be able to balance their budgets. Second, is the question of jobs. The concern is that if after liberalizing another country can produce a product cheaper than the country that has liberalized, that cheaper import product will displace local production and will increase unemployment. Third, is the question of trust. Will all countries do it simultaneously and to the same extent? Or will some countries cheat and hence take advantage of others?

13. All of the concerns cited above are legitimate and they are precisely the reasons why the liberalization process is being managed or coordinated throughout the world at several levels: multilateral, i.e. between all countries of the world desiring to liberalize trade, in the WTO; bi-regional, i.e., between countries of two regions of the world, e.g., between the EU and the Caribbean; Hemispheric, i.e., among the countries of one part of the world, e.g., the FTAA; or regional, i.e., countries of one region of the world, e.g., through creation of the CARICOM Single Market and Economy.

14. But, you may be asking yourself, why should there be a need for so many levels at which countries commit to liberalize, wouldn't a single level, e.g., the WTO, suffice? In principle the WTO should suffice. But in practice, given the differences in incomes, size, levels of development, and other factors, among countries, countries find it easier to agree to liberalize to certain degrees within smaller groups. The trading agreements concluded among these smaller groups are called free trade areas (FTAs) and are meant to be consistent with obligations these countries have entered into within the WTO. As such, these FTAs commit countries to liberalize trade between themselves to an extent greater than that which they have agreed to, within

the WTO. Presumably, if all countries in the world enter into an FTA, at some stage the sum of these bi-lateral liberalization commitments would be greater than that they have agreed to within the WTO. So, FTAs can serve as a catalyst for multilateral trade liberalization. However, one of the downsides of FTAs is that participants can make up their own origin rules, thereby further distorting world trade. Additionally, FTAs can also have significant trade and investment diversion effects.

15 A defining characteristic of the “new order” is the concept of most favored nation (MFN) treatment. It means that the tariff rate that a country applied to its most preferred trading partner before joining the WTO for a specific product, is the tariff rate that has to be applied to all other WTO members, upon its accession. Where Caribbean farmers’ organizations are concerned the real question becomes one of what applies with respect to agriculture. I shall address that question shortly, with special emphasis on the text that was adopted by WTO members at a General Council meeting in August this year. But let me first discuss the experience of the Caribbean so far with liberalization, with special reference to its “protocol” products, i.e., sugar and bananas.

OUTCOMES AND TRENDS IN THE TRADE LIBERALIZATION PROCESS FOR THE CARIBBEAN --- SELECTED PRODUCTS

16. As I have mentioned earlier, the Caribbean had been one of the major beneficiaries of the EU’s trade preferences during the “old order”. For the Windward Islands, bananas represented the major product that was exported to the EU under preferential terms, i.e., duty and tax free entry into the EU. However, since 1992, when the EU became a single market, Caribbean

preferences in that market are being gradually eroded, and the extent of preference erosion has accelerated since a WTO panel ruled on the illegality of the EU's banana regime in 1997.

17. In export revenue terms, in 1992 Windward Islands banana exports grossed ECD 376 million, but this had declined to ECD 150 million in 1997. Additionally, after the WTO ruling in 1997, exports continued to decline at an even more accelerated rate, reaching ECD 118 million in 2002. So, the Windward Islands lost 69 percent of their banana export revenue between 1992 and 2002. Whilst one cannot attribute all of this loss to liberalization, it is nevertheless clear that liberalization is responsible for the greater part of this loss.

18. Where employment in the Windward Islands banana industry is concerned over the same period, approximately 86 percent of the labor force in the banana industry was made unemployed. Employment in the sector declined from approximately 62,000 in 1992 to a mere 14,000 in 2002.

19. So, the case of bananas clearly demonstrates, that the reluctance of preference dependent countries to liberalize, might be well-founded.

20. Moreover, the banana precedent is rapidly becoming the norm for other commodities, which the Caribbean has traditionally enjoyed preferential market access in the EU. Sugar, another "protocol" commodity which other CARICOM countries have long enjoyed preferential market access into the EU for their exports, is also under threat. In October 2002 the challenge to certain aspects of the EU's Common Organization of the Market for Sugar, and its application and implementation procedures and

measures, was initiated by Australia and Brazil when they requested consultation with the EU in accordance with WTO Dispute Settlement Procedures. In March 2003, Thailand, notably the world's fifth largest sugar exporter, also filed similar complaints against the EU's sugar protocol.

21. The gist of the claims made by these countries is that high prices guaranteed to sugar produced within the A and B quota limits, enable EU producers to export sugar produced above the quota limits at prices below its cost of production. As such, the EU was subsidizing the cost of producing sugar under its C quota. In addition, such subsidy appears not to be counted in the EU's reduction commitments under the WTO. Export refunds on surplus in-quota sugar was also seen as an export subsidy by these countries, which is in excess of the EU's export subsidy reduction commitments under the WTO.

22. In August of this year, the WTO presented its preliminary ruling, which has upheld the complaint by Australia, Brazil and Thailand that the EU provided export subsidies to its sugar industry in excess of its WTO limits. Yet, it appears that the major impact on the Caribbean in the short run, will be from the EU's own reforms, announced in July this year, which entail a 33 percent reduction in the price that ACP sugar will receive. The EU will compensate its own producers for income loss through direct "decoupled" payments under the Green Box, which is supposed to be "non trade-distorting". However, ACP producers are not assured of any such compensation.

23. So, like bananas, while the WTO challenge has been to the EU's sugar regime and not the Caribbean preference per se, since they are linked any

adverse ruling against the Sugar regime which leads to reduction in sugar prices for EU sugar producers will likely reverberate through the chain of activities which make up the Regime and will result in a loss in income to CARICOM and other ACP sugar producers.

24. Therefore, the experience of the Caribbean with liberalization so far, is that it results in erosion of their trade preferences and directly undermines their ability to continue exporting these preferential products. Let me now address the thrust of liberalization with respect to agriculture.

THRUST OF TRADE LIBERALIZATION WITH RESPECT TO AGRICULTURE

25. With respect to agriculture, the most coherent approach to trade liberalization has taken place within the WTO, so I shall address the dominant themes that have been raised there, with a focus on what should be of interest to the Caribbean farmers' organizations.

26. First of all, let me say that as far as the WTO is concerned, the original objective of its Agreement on Agriculture is to establish a fair and market-oriented trading system through a program of fundamental reform. That original objective still obtains today. What has happened since establishing that objective, however, are additional negotiations planned to offer the additional precision and provision of a sound basis for the negotiations of full modalities in the next phase of the Doha Round. The most recent position on agricultural trade negotiations in the WTO is found in what is commonly known as the "July Package", a body of text developed by trade negotiators during the last WTO General Council Meeting in Geneva, which ended in early August 2004.

27. The “July Package” recognizes the need to incorporate operationally effective and meaningful provisions for special and differential treatment for developing country Members, given the critical importance of Agriculture to their economic development. As such, the “July Package” recognizes the need for developing country Members to pursue agricultural policies that are supportive of their development goals, poverty reduction strategies, food security and livelihood concerns.

28. However, the package calls for reforms in its three pillars, i.e., domestic support; export competition and market access. With respect to domestic support, the “July Package” calls for substantial reductions in trade-distorting domestic support, paying due regard to special and differential treatment for developing countries and harmonization in reductions made by developed countries. [Harmonization implies an attempt to cut higher levels of domestic support more than lower levels.] Yet, the major users of such domestic support tend to be the rich and powerful countries, and the provisions for reduction in trade-distorting domestic support (Amber and Blue boxes) may yet turn out to have minimal effects. Further, the so-called ‘non trade-distorting’ support (Green Box) through which rich countries also support their farmers, will not be subject to any real disciplines. Since Caribbean countries have not traditionally been users of domestic support, this implies unbalanced advantages in favor of the rich countries.

29. In the export competition pillar although countries have agreed to negotiate “an end date” to export subsidies, it remains to be seen whether this can be achieved.

30. Finally, regarding market access, the “July Package” seeks to commit countries to commit to levels of liberalization beyond those that the package commits members to, with respect to domestic support. The package calls for a tiered-approach to tariff reduction that will take into account differences in tariff structures of WTO members. Additionally, it calls for deeper cuts in higher tariffs with some flexibility for sensitive products, but does not exempt small vulnerable economies from such cuts. [Although CARICOM agricultural tariffs are generally bound at 100%. With the provisions for “sensitive products” (for all countries) and “special products” (for developing countries) Caribbean countries should have enough flexibility.] What that implies for the Caribbean is greater access to their markets by developed countries upon implementation of commitments under the Doha Round.

CHALLENGES AND IMPLICATIONS OF THE LIBERALIZED TRADING ENVIRONMENT FOR FARMERS’ ORGANIZATIONS

31. Let me now address the challenges posed by the “new order”, i.e., the liberalized trading environment, for farmers’ organizations. The challenge in surviving in the “new order” is for farmers’ organizations to understand, that this “new order” is about competition and the efficiency of investment of scarce factors of production: land, labor and capital. It implies that farmers’ organizations need to approach farming with a business mindset, no different from that which is employed by a commercial firm that has been set up for the production and trade on non-agricultural products. In addition, information technology has a crucial role to play in meeting those challenges and should be a cross-cutting instrument throughout. I shall now discuss the

characteristics of this new business mindset that is required to survive in the “new order”.

32. First, for the purposes of efficient production-planning there is a need for **redefinition of the Agricultural sector**. The Agriculture sector should no longer be allowed to develop in isolation from other sectors in the economy, but production-planning decisions in Agriculture should directly reflect and take into account, production-planning decisions in the economy as a whole. As such, the Agriculture sector should be extended to include value-added products derived from its raw produce, and not merely its raw produce. Additionally, the Agriculture sector should be linked into the other main producing sectors, like Tourism, so that the sector’s output would constitute natural input into those sectors. Every effort should be made to ensure that the demand for Agricultural products by the Tourism sector is furnished from national or regional sources.

33. Second, is **specialization in the production of a select range of products for final domestic consumption, intermediate demand and export, based on objective criteria for assessing market demand and a fairly scientific knowledge of competitive advantage in the product lines chosen**. Such specialization implies the need for farmers’ organizations to be organized around individual product lines: for instance, a dairy farmers’ organization; a tomatoes farmers’ organization, etc.; which will devote resources to research and development in that product line, planning optimal production plant sizes, and building alliances with like-minded organizations to alleviate the problems of supply-side constraints.

34. Third, is the need for **product differentiation as a means for creating high value niche markets**. Such high value niche markets should be the national focus for Agricultural exports in the “new order”. Here, the farmers’ organizations have a role beyond production on farms, because the export product should be a value-added product. Value-addition, which causes the transformation of a product into another product line, results in a differentiated product of a higher value than its component raw materials. Such product differentiation also gives farmers’ organizations some degree of monopoly power in the market and results in higher returns. [For example, if farmers’ organizations produce peppers for export, it is likely that there are numerous other farms globally where identical peppers are produced. However, if instead farmers’ organizations are focused on producing pepper sauce, then the possibilities increase tremendously. There can be banana flavored pepper sauce, pineapple flavored pepper sauce, mango flavored pepper sauce, etc.] The challenge in product differentiation is to identify what type of value-addition that can be made to a product in the Caribbean, that is *not easily* made elsewhere. When that can be successfully done it will confer some degree of monopoly power to the Caribbean in that product line.

35. Fourth, is the need for **coordination of production decisions across farmers’ organizations**, so that individual farmers’ organizations produce the optimal quantity of each product, taking into consideration both immediate consumption demand, as well as all of the final product lines that each product will be used as an intermediate input into the production of. So, for example, producing a targeted volume of mango-flavored pepper sauce annually, requires a certain mix of controlled quantities of peppers and

mangoes. Therefore, the farmers' organizations responsible for producing mangoes and peppers should be aware of their supply commitments to the mango-flavored pepper sauce production firms, as well as their supply requirements for all other uses (intermediate and final) of their products.

36. Fifth, is the need for **minimizing costs of shipping and distribution in destination markets**. The challenge here is for farmers' organizations to exploit economies of scale in exporting their goods to destination markets. In that regard, the countries from which the Caribbean imports the most, should be targeted as the countries to which the Caribbean should export the most, given the availability of shipping lines. By exporting goods to the countries from which the Caribbean imports the most, overall cost of shipping will decline and even the costs of imports from such countries might decline as a consequence. Strategic alliances across product lines in each country and across countries, might be needed to ensure efficiency in the shipping process.

37. Sixth, is the need for farmers' organizations to request **government intervention**. By this, I am not referring to the traditional interventions of imposing licenses, tariffs, quotas, etc. The days for these are over. What I am referring to is the intervention of government in the production-planning process, ensuring that farmers' organizations have access to appropriate technical and financial assistance in developing value added products and ensuring appropriate safeguards for products which are important for national security considerations.

38. Finally, I would like to close on an encouraging note. The liberalized trading environment poses tremendous challenges for the Caribbean if it is to

survive. But, it also poses some opportunities. In the words of my Director General, Dr. Richard Bernal, “the future of the Caribbean is not what it used to be”, but that does not mean to say that there is no future. If we understand the challenges of trade liberalization and we re-position our ways of doing business to fit the “new order”, then there is hope.
