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IMPACT OF THE URUGUAY ROUND AGREEMENTS ON TRADE IN FOOD PRODUCTS

INTRODUCTION

1. International trade in food products represents an important part of total trade. In 1992, exports of food products represented 9.6 percent of total world exports whereas imports accounted for 10.2 percent of total world imports. For Africa, this proportion is even more important. For the same year, Africa's imports of food products amounted to 20.5 percent of the continent's total imports. On the export side, this proportion was 13 percent 1/.

2. The term "food" can be understood differently depending on the context in which it is used. Throughout this paper, "food" represents "any material consisting of carbohydrates, fats, proteins, and supplementary substances (as minerals, vitamins) that is taken or absorbed into the body of an organism in order to sustain growth, repair, and all vital processes and to furnish energy for all activity of the organism" 2/. This definition is clarified by the following classification which shows what is considered to be food in international trade transactions. Food items are listed in section 0, division 01 to 09 of the Standard International Trade Classification (SITC) under the following: (01): Meat and meat preparations; (02): Dairy products; (03): Fish (not including marine mammals), crustaceans, mollusc and aquatic invertebrates, and their preparations; (04): Cereals and cereal preparations; (05): Vegetables and fruit; (06): Sugars, sugar preparations and Honey; (07): Coffee, tea, cocoa, spices, and manufactures thereof; (08): Feeding stuff for animals (not including unmilled cereals); and (09): Miscellaneous edible products and preparations. To be included are items of section 1 (beverages and tobacco), section 4 (animal and vegetable oils, fats and waxes) and those from division 22 (oilseeds and oleaginous fruit) 3/.

3. Africa's dependence on food imports has increased over the years. In 1989-1991, for instance, Africa spent almost half of its export earnings on imported food products. With the implementation of the Uruguay Round agreements, African countries are expected to be more adversely affected by their trade in food products, at least in the short to medium term, for two main reasons. On the one hand, African countries are expected to lose their traditional market shares due to the fact that the liberalization process brought about by the Uruguay Round will erode their preferential trade margins negotiated within the framework of the Lomé Convention and the GSP Schemes. The erosion of these preferences will have negative impact on Africa's export earnings. On the other hand, the cut in subsidies to the agricultural sector in developed countries, which are the main sources of African countries' food imports, will increase international food prices and hence Africa's food import bills. As a result, African countries

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1/ United Nations (1994), UNCTAD Commodity Yearbook 1994

2/ According to Websters Third New International Dictionary.

3/ United Nations (1986), Standard International Trade Classification (SITC), Revision 3, Series M, No. 34, New York.

will suffer from the depletion of their meagre foreign exchange; this will have a negative impact on their balance-of-payments.

4. It is within this perspective that this study is carried out. Chapter II will review the trend in Africa's trade in food products. Chapter III will analyze the current trade regimes as well as the different provisions of the Uruguay Round that will affect international trade in food products. In chapter IV, attempt is made to assess the likely impact of these provisions on Africa's trade in food products. In light of the developments in chapter IV, chapter V will draw conclusions and make policy recommendations with the aim of enabling African countries derive maximum advantage from the implementation of the provisions of the Uruguay Round agreements relating to trade in food products.

CHAPTER I: AFRICA'S TRADE IN FOOD PRODUCTS

A. AFRICA'S TRADE DEPENDENCE ON FOOD PRODUCTS

5. Africa is the most vulnerable part of the world to food imports. Among 31 Low-income food deficit countries (LIFDCs) in the world with the lowest capacity to finance their food imports surveyed by FAO in 1990, 19 of them or 61 percent are from Africa 4/. Many African countries have indeed been excessively dependent on food imports for a long time, with their situation worsening over the years. This tendency of continuous overdependence on food imports is shown in table 1.

Table 1: Selected indicators of food-import size and weight in total trade for Sub-Saharan Africa.

	Africa's share in world Food imports	Food imports over total imports	Food imports over export earnings	Per capita food imports (US$)
1961-63	20.7	19.0	27.9	2.2
1975-77	21.1	18.8	32.6	6.7
1989-91	25.3	20.8	47.7	13.1

Source: Based on data from FAO (1995), The State of Food and Agriculture 1995, p. 44

4/ According to FAO these are countries which spend at least 25 percent of their export earnings on food imports. Based on 1988-1990 data, they are: Cape Verde, Gambia, Lesotho, Djibouti, Egypt, Mozambique, Guinea-Bissau, Somalia, Comoros, Sierra Leone, Ethiopia, Burkina Faso, Togo, Senegal, Benin, Rwanda, Mali, Mauritania and Sudan.

6. It should be noted that, while Africa is highly dependent on food imports, the continent also exports important quantities of food to its traditional trade partners, namely the European Union, Japan and the United States of America. Data on exports for 1990-1992 show that, on average, over US$ 40,267 million worth of exports from Sub-Saharan Africa, 34.9 percent came from commodity exports, of which 53.1 percent were food items . This means that over 18.5 percent of African total exports consist of food products. By comparison, Asia's exports of food products represent 7.7 percent of total exports while for Latin America this proportion is 27.2 percent 5/.

7. This brief statistical description shows that Africa's external trade is heavily weighed with trade in food products, both in terms of exports and imports. It is however clear that the dependence is more acute in case of food imports. It is in this light that the impact of the Uruguay Round on trade in food products will be assessed in this study, keeping in mind that the trade balance of Africa in food products is largely negative 6/.

B. NATURE AND CATEGORIES OF TRADED FOOD PRODUCTS

8. Analysis of Africa's international trade data on food products reveals that African countries depend to a large extent on the export of tropical food products and the import of temperate zone food products. The following table shows the main food products exported by African countries and the main exporters.

5/ UNCTAD (1995), The Uruguay Round and International Commodity Trade and Prices, Addendum, Statistical Annex, table 1

6/ In 1990-1992, Africa as a whole had a negative trade balance amounting to US$ 8,355 million, of which Sub-Saharan Africa accounted for US$ 3,462 million.

Table 2: Main food products of export interest to African countries

Product	Main Exporters	No. of exporters
I. Tropical beverages (Coffee, cocoa, tea and their products)	Uganda, Rwanda, Ethiopia, Kenya, Burundi, Sao Tome, Côte d'Ivoire, United Republic of Tanzania, Ghana, Madagascar, Central African Republic, Togo, Malawi, Equatorial Guinea, Cameroon, Sierra Leone, Benin, Zaire, Guinea, Zimbabwe, Nigeria.	21
II. Spices and essential oils	Comoros, Madagascar, United Republic of Tanzania	3
III. Oilseeds and vegetable oils	Senegal, Guinea Bissau, Sudan, Gambia, Sao Tome, Benin, Cape Verde, Côte d'Ivoire, Malawi, Mozambique	10
IV. Tropical fruits and nuts	Somalia, Cape Verde, Côte d'Ivoire, Kenya, Mozambique, Swaziland, Mali, Madagascar, Cameroon, Tunisia, United Republic of Tanzania, Malawi, Burkina Faso, Guinea Bissau, Benin, Togo	16
V. Fish and fishery products	Seychelles, Gambia, Namibia, Mauritania, Guinea Bissau, Sao Tome, Senegal, Mozambique, Somalia, Cape Verde, Madagascar, Morocco, Sierra Leone, Tunisia, Ghana, Equatorial Guinea, Côte d'Ivoire	17
VI. Livestock and dairy products	Botswana, Zimbabwe	2

Source: Based on data from UNDP/UNCTAD (1994), Evaluation of the Final Results of the Uruguay Round by African Countries, Table C and D and GATT Secretariat (1994), Les Résultats du Cycle d'Uruguay et les pays africains, Table 11.

9. With regard to the main food imports of African countries, information provided in the UNDP/UNCTAD (1994) publication cited above, shows that all African countries imported in 1987-1989 certain amounts of the following products which can be grouped in five categories. These are: cereals; dairy products and eggs; animal and vegetal oils; live animals and meat; and sugar and honey. Cereals account for 55 percent of the total imports of the above five categories. Indeed, cereals are the single most important category of food products imported by African countries.

10. In the light of table 2 and paragraph 9 above, the focus of the paper in terms of categories of food products traded by African countries (both imports and exports) will be on:

(i) Cereals and cereal preparations
(ii) Oilseeds
(iii) Fish and fishery products
(iv) Fruits and vegetables
(v) Dairy products
(vi) Meat and preparations
(vii) Tropical beverages: coffee, cocoa, tea and maté 7/
(viii) Sugar and honey

C. TREND ANALYSIS OF AFRICA'S TRADE IN FOOD PRODUCTS

11. The impact of the Uruguay Round on trade in food products differs according to whether a product is imported into Africa or exported. To find out which product or group of products should be considered as an import or an export item, it is important to analyze food import and export time series for a period of time long enough to give a clear idea on the nature of trade in the product. In this context, a deficit means that the product is a net import. Conversely, a surplus indicates that the product is a net export. Data on the above commodities are represented graphically in Annexes I and II 8/. The analysis of these graphs reveals that:

(i) As a whole, Africa is a net importer of cereals and cereal preparations

(ii) Africa is a large net exporter of oilseeds

7/ Maté is also called Paraguay tea or Jesuit tea

8/ Data presented here is on Sub-Saharan Africa. However, analysis of trade data on North African countries shows that the inclusion of these countries in the analysis would not change the nature of the trend given by Sub-Saharan Africa's data. Reference will be made to North African countries in instances when a given country from the subregion contributes substantially to trade of a given commodity. All graphs are based on FAO Database, SOFA 95.

(iii) Africa exports and imports large amounts of fish and fish products. However, on average for the whole period covered by this study (1961 to 1993), the continent is a net importer and the consolidated balance of trade is negative (even though it is positive starting from 1985). In North Africa, Tunisia and Morocco are relatively big exporters of fish and fish products.

(iv) With respect to the fruit and vegetables group, Africa is, on average, a net exporter. If Northern African countries are included, the positive balance of trade becomes larger, thanks specially to the Moroccan and Tunisian substantial exports.

(v) Throughout the whole period covered by the study, Africa has remained a net importer of dairy products with a wide negative trade balance.

(vi) Even though Africa was a net exporter of meat and meat preparations up to the mid-1970s, imports have outpaced exports since then and, on average, the balance of trade is negative. In North Africa, Morocco exports and imports important quantities of meat but this does not change the overall picture.

(vii) Africa is a net exporter of tropical beverages (coffee, cocoa, and tea and maté). The balance of trade has been positive throughout the whole period under consideration.

(viii) Data on Africa's trade in sugar and honey follows a fluctuating movement both for the exports and imports. On average, the balance of trade is positive.

12. Analysis of the impact of the Uruguay Round agreements on trade in food products has to distinguish between products of interest on the export side and on the import side. This brief discussion pointed out to which of the two categories the different groups of products belong. On the one hand, cereals and preparations; fish and preparations; meat and preparations; and dairy products will be analyzed as products of import interest to African countries. On the other, oilseeds; fruit and vegetables; tropical beverages; and sugar and honey will be regarded as products of export interest to African countries.

D. AFRICA'S EXPORTS OF FOOD PRODUCTS AND COMPETITION 9/

13. Africa's trade in the four categories of food products has faced stiff competition throughout the three decades starting from the early 1960s. As shown in the graphs in the two annexes, Africa's exports have either declined or stagnated, while the other developing regions

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9/ Refer to graphs in annexes I and II.

saw their trade multiplying between 1961 and 1993. It is to be noted that all the three developing regions, namely Africa, Latin America and Asia and the Pacific were at more or less the same level of exports for most of these food commodities in the early 1960s.

14. Africa has lost ground on oilseed exports. Export earnings which amounted to about US$ 500 million in 1961 fell to one-fifth of this level in 1993. During the same period, Africa's competitors (the other developing regions) tremendously increased their exports. Latin America, which was exporting negligible quantities in 1961 has emerged as the main exporter among the three regions, with exports of over US$ 2 billion in 1993. Likewise, Asia doubled its exports to about US$ 800 million during this period.

15. Exports of fruit and vegetables show a substantial increase for Latin America and Asia and the Pacific. Both show well pronounced exponential trends, rising from less than US$ 1.0 billion in 1961 to almost US$ 10 billion and US$ 8 billion respectively. For this period, the trend of Africa's exports is linear and horizontal and the total export earnings for 1993 did not even approach US$ 500 million.

16. Africa made some progress with respect to its exports of tea and maté when compared with Latin America, but Asia and the Pacific did much better. Whereas the slope grows steeper for the Asian and Pacific region, that for Africa is flatter and Latin America had an almost horizontal trend. In other words, exports from Asia and the Pacific increased much faster than those from Africa, whereas Latin America's remained almost at the same level during the period under investigation.

17. The graph on coffee exports illustrates clearly that Latin America remained the main coffee exporter throughout the whole period under consideration. However, the region, like the other two, was also hit by the general decline in coffee markets since the mid 1980s 10/. One interesting feature is that, although Asia and the Pacific region had negligible coffee exports in 1961 when Africa's exports were almost 500 million, Asian exports increased while Africa's decreased to be at the same level in 1993. This shows how well Asia has done and how poorly Africa has performed with respect to coffee exports 11/. This is well illustrated by the convex curves for Latin America and Asia and the concave curve for Africa.

10/

As the observations run from 1961 to 1993, the recent trends in coffee markets during the last three years are not taken into account. There was a recovery which started three years ago but current data show that the recovery did not last long.

11/

Coffee is the most important commodity exported by African countries. It is exported by more than 20 African countries, some of which depending on coffee export earnings in proportions as high as 90 percent.

18. Cocoa is the single product for which Africa is the main exporter. But the problem here is that, although the trend has risen for Africa up to the late 1970s, the early 1980s witnessed pronounced instabilities in export earnings and, since the mid 1980s, export earnings have been on a steady decline. At a lower level, the trend for Latin America has followed more or less the same pattern. In contrast, Asia's trend has been consistently upward-sloping. Unless Africa takes measures to regain its leading position in cocoa exports, Asia may soon overtake it as the main exporter of this commodidty.

19. Regarding sugar and honey exports, the market is dominated by Latin America followed by Asia and then Africa. Africa's exports of sugar and honey increased from around US$ 200 million in 1961 to only US$ 500 million in 1993 whereas exports from Latin America increased eightfold from US$ 1.0 billion in 1961 to US$ 8.0 billion in 1980. Since then, however, exports from the region declined steadily to about half the latter amount in 1993. Asia showed robust growth, from around US$ 400 million in 1961 to about US$ 2.0 billion in 1993.

20. The main lessons from these observations can be summarized as follows:

(i) Although Africa is the region most highly dependent on commodity exports, trends indicate that it is not a major commodity exporter capable of influencing world markets. This is so for all the products but cocoa and to a lesser extent coffee.

(ii) Africa has lost its traditional markets in favour of its competitors from Asia and Latin America. This has clearly been the case for oilseeds, fruit and vegetables, and sugar and honey. Unlike other developing regions, African exporters failed to take advantage of the increase in consumption of commodities at the international level. Latin America increased manyfold its exports of oilseeds; fruit and vegetables; coffee; and sugar and honey. Similarly, Asia made remarkable progress in the export of oilseeds; fruit and vegetable; tea and maté; as well as in sugar and honey.

(iii) For Africa, substantial progress was made only in the case of cocoa exports and even then only up to the mid-1980s. Some progress was also recorded for tea and maté.

21. Africa is a heterogeneous region. The fact that the study has considered only the aggregate African situation naturally conceals considerable national and sub-regional variations. Although Africa as a whole is seen in this study as a net exporter of tropical beverages, oilseeds, fruit and vegetables and sugar and honey, analysis at the sub-regional and national level can show completely different trends. For example, due mainly to different climatic conditions, the North-African subregion as a whole is a net importer of tropical beverages; sugar and honey; oilseeds; and fruit and vegetables (Morocco and Tunisia are big net exporters) although Africa on average is a net exporter of the latter commodities. On the other hand, Morocco from the same subregion is one of the biggest Africa's net exporters of fish and fishery products notwithstanding the fact that Africa is a net importer of these products. It is therefore essential

to keep in mind that the trends analyzed under this section may not reflect the situation at the individual country or sub-regional levels.

22. These developments are important in the sense that they constitute a "starting point" for the analysis of the impact of the Uruguay Round on Africa's trade in food commodities, at least for the export side. This picture should therefore be kept in mind when one seeks to analyze how Africa's trade will be affected by the overall trade liberalization brought about by the implementation of the Uruguay Round agreements.

III. TRADE REGIMES AND URUGUAY ROUND PROVISIONS AFFECTING TRADE IN FOOD PRODUCTS: AN OVERVIEW

23. To analyze the impact of the implementation of the Uruguay Round agreements on Africa, it is important to examine the current trade regimes in the area of food products. This will be the basis of determining the impact of the Uruguay Round agreements relative to the situation that prevailed before their implementation.

A. CURRENT REGIMES GOVERNING TRADE IN FOOD PRODUCTS

24. Africa has three major trading partners: the European Union (EU), the United States of America (USA) and Japan. The first group of countries accounts for almost 60 percent of Africa's total exports; with the United States and Japan accounting for about 6 and 5 percent respectively. The origin of Africa's imports follows more or less the same patterns. Around 70 percent of Africa's total trade is carried out with the three major partners, with the prominence of the EU. This high geographical concentration of trade has many disadvantages, including paying relatively higher prices for Africa's imports 12/. It is not our intention in this paper to dwell on this important fact, but rather to emphasise it since it constitutes one of the many problems the continent will have to address in the post-Uruguay Round period. In the light of the preceding remarks, this section will therefore focus on Africa's trade in food products with these three major trading partners.

25. It should be pointed out that Africa has concluded three main preferential trade arrangements with its main partners which cover a wide range of Africa's exports, including food products. Africa's trade in food products will therefore be analyzed in the framework of three major trade arrangements, namely the Lomé Convention between the European Union and the African, Caribbean and Pacific Group of States (ACP); the Mediterranean Agreement

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12/

For a detailed analysis of this problem, see Yeats A. J. (1990): "Do African Countries Pay More for Imports? Yes", The World Bank Economic Review, 2 (1), 1-47.

between North African States and the European Union; and the Generalized System of Preferences (GSP) between developed and developing countries.

26. These three trade arrangements have benefitted African countries to a certain extent, especially with respect to Africa's exports. With regard to the imports of food products, there is no arrangement as to whether African countries should be treated differently from other countries. However, these trade arrangements have provisions on food aid and/or concessional lending to needy countries for the purchase of food products which have an impact on trade in food products. This is the reason why, although it is not a trade regime as such, the issue of food aid in relation with trade in food products will be discussed under this section.

(i) The ACP-EU Lomé IV Convention 13/

27. Article 168 of the Lomé IV Convention, first indent, summarizes the trade regime governing ACP States' exports to the EU markets: "Products originating in the ACP States shall be imported into the Community (Union) free of customs duties and charges having equivalent effect" 14/. It should be noted that all Sub-Sahara African countries are members of the ACP Group, excluding the Republic of South Africa which is currently negotiating an agreement with the EU. According to this Convention, ACP agricultural products are granted duty-free access to the EU market, subject to specific rules introduced as a result of the implementation of the EU Common Agricultural Policy (CAP).

28. The products of export interest to African countries, which are under analysis in this paper, namely coffee, cocoa, tea and maté; fruit and vegetables; and oilseeds, were exported duty-free to the EU market. They enjoyed effective market access protection in comparison with similar products from third countries which were to face an import tax. With respect to sugar, Protocol 8 of Lomé IV Convention which contains the text of Protocol 3 on ACP sugar appearing in the ACP-EEC Convention of Lomé signed on 28 February 1975 and the corresponding declarations annexed to that Convention sets the "agreed" export quantities from ACP countries to the EU market. African countries concerned are: Kenya, Madagascar, Malawi, Mauritius, Swaziland, Tanzania and Uganda. Chapter IV of this study will examine the trade margins enjoyed by African countries members of the ACP Group for the main categories of food products of export interest to Africa and point out the level of their erosion as a result of the implementation of the Uruguay Round agreements.

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The aim of this section is to discuss briefly the way in which Africa's trade in food products is affected by the provisions of the Convention. The complete text of the Lomé IV Convention may be found in The Courrier, No. 120, March-April, 1990.

14/
Ibidem, Article 168

(ii) The Mediterranean Agreement

29. The Mediterranean Agreement is a trade arrangement between the North African states (except the Libyan Arab Jamahiriya) and the European Union. In 1969, every North African country signed a bilateral agreement with the then European Economic Community covering a range of issues, including trade cooperation. In 1976, these agreements were replaced by new ones considered to be wider in scope and called "cooperation agreements". They included trade, finance and technology components. In their trade component, these agreements accord to the EEC the Most Favoured Nation (MFN) status in return for duty-free access of the signatories' products to the market of the Community 15/. The widening of the European Union to include Greece, Spain and Portugal had an adverse impact on the North-African countries' exports in the sense that these new comers would flood the market of the Community with the same products as those traditionally exported by the North-African countries. This was the case, for instance, of food products such as wine, olive oil, tomatoes and grapes, for which competition became particularly stiff with the new members of the Community.

30. Since the late 1980s, and during the negotiations of the Uruguay Round, the North-African countries faced some difficulties to preserve their trade privileges with the European Union. Among others, market access for agricultural products on the European market became more and more difficult, threatening these countries to lose their market shares. In any case, it is to be noted that North-African "cooperation agreements" were reached on terms less favourable than those offered to the ACP countries. One major limitation of the agreements is the fact that these countries have never managed to negotiate their cooperation package as a group (as was the case within the Lomé Convention).

(iii) The Generalized System of Preferences Scheme (GSP)

31. The GSP was instituted as a means of assisting developing countries increase their international trade with their trade partners from developed countries in view of the imbalances in international trade between these groups of countries. This was done by facilitating market access into the preference-giving countries for specified products from developing countries by removing or lowering import duties. The GSP is a bilateral agreement between the preference-giving and the preference-seeking country. Preference-giving countries are mainly those belonging to the Organization for Economic Cooperation and Development (OECD); preference-seeking countries are all developing countries.

32. As formulated in Resolution 21 (II) of UNCTAD II held in New Delhi, India, in 1968, "the principles and objectives of the generalized, non-reciprocal, non-discriminatory system of

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15/ Some restrictions are applied with respect to duty-free market access of both some industrial and agricultural products.

preferences in favour of the developing countries, including special measures in favour of the least advanced among developing countries, should be: (a) to increase their export earnings; (b) to promote their industrialization; (c) to accelerate their economic growth 16/. In 1994, there were 166 developing country GSP beneficiaries among which were virtually all African countries.

33. In markets outside the European Union where African exports of food products enjoy a preferential treatment in the framework of the Lomé Convention, African countries' exports usually enjoy preferential arrangements under the GSP scheme. Due to the high geographical concentration of Africa's exports, the bulk of the latter are destined to the three largest preference-giving countries or group of countries, namely the European Union, the US and Japan which account for 80 percent of total imports from all beneficiaries under the GSP, the Lomé Convention and the Mediterranean Agreement 17/. African countries have therefore, in general, enjoyed one or more of these trade arrangements, and this has been the case for their trade in food products.

(iv) Food Aid

34. The provision for food aid to developing countries is a feature that is common to all multilateral trade arrangements. Lomé IV Convention includes articles on food aid under Title II, Chapter 1 on "Agricultural Cooperation and food security". In the GATT negotiations, food aid to poor contracting parties has always been given consideration; in the framework of the Uruguay Round, this issue is prominent in the Marrakech Ministerial Declaration. The Food and Agriculture Organization of the United Nations (FAO) has also pioneered the establishment of a "Food Aid Convention" putting together food aid providers and beneficiaries in a more orderly framework. Food aid has gained this importance in multilateral cooperation conventions due to the fact that the latter put together countries at very different levels of development and in an environment characterized by inequalities in trade relations. Rather than dispensing food aid, Africa has been a net beneficiary due to its low level of development.

35. In 1995, 15 African countries required exceptional and/or emergency food assistance 18/ due not only to natural disasters such as drought in the South-African part of the continent, but also to political instability prevailing in countries such as Burundi, Rwanda,

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16/ See OAU (1996), The Impact of the Uruguay Round on Trade Preferences: Toward a Forward-looking Trade Agenda for African Countries, document EDECO/TD/12/067.96, p.8

17/ Ibid, pp.7-8

18/ See FAO (1995), The State of Food and Agriculture, p.6

southern Sudan, Somalia, Liberia and Sierra Leone. Sub-Sahara Africa remains the major beneficiary of food aid, accounting for more than 40 percent of total shipments to Low-income food deficit countries 19/. This situation shows that any analysis of Africa's trade, particularly trade in food products, must take into account the high dependence of many African countries on food aid in order to grasp more fully the strategic importance of the food sector in these countries. Although food aid is not a trade issue per se, policy recommendations in the area of trade in food products must integrate this dimension in order to be consistent with the real needs of food-aid dependent countries in Africa.

B. URUGUAY ROUND PROVISIONS ON TRADE IN FOOD PRODUCTS

36. Notwithstanding the fact that the implementation of the Uruguay Round agreements will have a cross-cutting impact on different sectors of the national economies of individual countries, the Uruguay Round provisions in three areas will have a direct impact on trade in food products: (i) The concessions and commitments on market access, domestic support to agriculture and export subsidies contained in the Agreement on Agriculture; (ii) the Agreement on Sanitary and Phytosanitary measures and; (iii) the Ministerial Decision concerning Least-developed and Net-food Importing Developing countries.

(i) Agreement on Agriculture: Concessions and commitments on market access, domestic support and export subsidies

37. In the Agriculture sector, commitments taken relate to market access, domestic support and export competition policies.

38. With respect to market access, all non-tariff border protection measures were replaced by tariff measures which provide more or less the same level of protection. There is a minimum reduction requirement for each tariff line and the overall tariff in the sector has to be reduced by 24 percent over ten years for developing countries as opposed to 36 percent over six years for developed countries. LDCs are not required to reduce their tariffs. The Agreement also provides for the maintenance of current access opportunities and the establishment of minimum access tariff quotas whenever current access is less than 3 percent of domestic consumption. A "special treatment" clause was introduced to facilitate implementation of tariffication in specific sensitive situations; it allows, under specifically defined situations, a country to maintain import restrictions up to the end of the implementation period. Special and differential treatment provisions found in this Agreement apply to primary agricultural products from a developing country provided the product is the predominant staple in the traditional diet of the country invoking this clause.

19/ Ibid., p.15

39. In the area of domestic support, the Total Aggregate Measurement of Support (Total AMS) covers support measures taken on a product or non-product basis. In such a case, developing countries are required to reduce their support by 13.3 percent during the implementation period; LDCs have no requirement to reduce their domestic support. Domestic support measures that do not have a direct impact on trade, "green box" policies, are excluded from reduction commitments. In addition to "green box" measures, other policies excluded from Total AMS are listed in the Agreement.

40. Regarding export subsidies, the Agreement is framed in a way that would ensure substantial progressive reductions in support and protection. No reduction requirements apply to the LDCs. Developed countries are required to reduce the value of direct export subsidies by 36 percent relative to their 1986-1990 base period over the six-year implementation period and the quantity of subsidized exports by 21 percent over the same period. Other developing countries' requirements are two-thirds those of developed countries over a ten-year period. The Agreement sets out criteria for food aid donations and the use of export credits. The Agreement also sets up a committee whose aim is to monitor the implementation of the commitments. It calls for further negotiations in the fifth year of implementation which will also be an occasion for assessing progress made during the first five years.

(ii) Agreement on Sanitary and Phytosanitary Measures

41. This Agreement deals with food safety and animal and plant health regulations. According to this Agreement, governments have the right to prevent imports from entering their territories for safety reasons. However, this should not be done in a way that discriminates arbitrarily and unjustifiably between members. They are urged to base their measures on international standards and on scientific facts as far as possible. To this end, WTO Member countries may refer to the standards set by the joint FAO/WHO **Codex Alimentarius Commission** for food safety; the International Office of Epizootic for animal health and to the International Plant Protection Convention for plant health. The equivalence of standards should be accepted by Members whenever the exporting country demonstrates to the importing country that the former's exports meet the latter's standards. The Agreement contains requirements on transparency which should be attained through, among other things, the publication of regulations and the establishment of national inquiry points and notification procedures.

(iii) Decision concerning Least-Developed and Net Food-Importing Developing Countries

42. The Uruguay Round negotiators recognized that LDCs and Net Food-Importing countries would experience hardship with respect to the supply of food imports. In this context, they agreed on the need to grant "reasonable terms and conditions" to such countries. The special Decision therefore sets out objectives regarding the provision of food aid, the provision of basic foodstuffs in full grant form as well as aid for agricultural development. The possibility of short-term financing of food imports by the International Monetary Fund and the World Bank

through concessional debt is also raised. The follow-up to the Decision is entrusted to the Committee on Agriculture established to monitor the implementation of the different commitments in the agriculture sector.

IV. EXPECTED IMPACT OF THE URUGUAY ROUND AGREEMENTS ON TRADE IN FOOD PRODUCTS

43. Different quantitative studies have attempted to estimate the impact of the Uruguay Round on the world economy. Most of them, focusing on developing countries, were undertaken before the Round was concluded. They therefore based their estimations on guesses about the final results of the agreements and their trade liberalization scenarios do not lead to accurate results. Ex post studies in general have tended to adjust downwards the results of the earlier studies which were found to be too optimistic. This has been especially the case with the impact on developing countries which was found to be smaller than forecasted by previous studies, with African countries benefitting the least from the implementation of the agreements. It should be pointed out that all these studies suffer from at least one main limitation: they do not integrate the impact of the Round on several sectors such as the services sector and the impact of a tighter protection of intellectual property rights. They also completely ignore the impact of the strengthening of the multilateral trading system, the economic efficiency resulting from scale economies, as well as environmental impacts. Notwithstanding these limitations, the results presented in this chapter were produced using such models because they still are the "best approximations available at this stage" 20/ for a general evaluation of the impact of the Uruguay Round agreements. The reader should therefore keep in mind the limitations of the models used.

44. With respect to trade in food products, the main impact of the agreements will most likely be an increase in food prices ranging from 5 to 10 percent, as a result of the liberalization of the agriculture sector in developed countries; this will entail a loss for African countries as a whole, at least in the short-run. In the long run, the effects are not clearly predicted as they will depend upon the extent to which these countries will also liberalize or adapt their agriculture to cope with the new trading system.

20/ FAO (1994), Uruguay Round Agreement: A Preliminary Assessment of its impact on Agriculture. This paper was presented at the International Conference on the Uruguay Round and African Countries, Tunis, Tunisia, 24-27 October 1994.

A. IMPACT ON FOOD PRICES

45. As most African countries are net food-importing countries, they will be adversely affected by the increase in their food import bills as a result of the agriculture reform programme in developed countries. According to FAO estimates, increase in food import bills of African countries due to the Uruguay Round will be around 11 percent by the year 2000. The following table shows the effects of agriculture liberalization on prices of selected commodities to the year 2002 from bench-mark levels.

Table 3: Change in prices of selected commodities due to the Uruguay Round

Commodity	Price change (percent)
Wheat	3.8
Rice	-0.9
Coarse Grains	2.3
Sugar	1.8
Beef, veal and mutton	0.6
Other meats	-0.6
Coffee	-1.5
Cocoa	-0.7
Tea	-1.4
Vegetable oils	-0.3
Dairy products	1.2
Other food products	-1.4

Source: Goldin and van der Mensbrugghe quoted by FAO (1995), The State of Food and Agriculture, p.262

46. On the one hand, it can be seen from this table that prices of food products presenting a particular interest to Africa's exports such as coffee, cocoa and tea will decline, meaning a decrease in African countries' export earnings. On the other hand, prices of food products presenting a particular interest to African countries' imports such as wheat and dairy products are expected to increase, inflating these countries' import bills. FAO estimates show that for LIFDCs as a whole (61 percent of its membership is made of African countries) the food import bill is projected to be US$9.8 billion in the year 2000, reflecting a 55 percent increase relative

to 1987-1989 levels. About US$3.6 billion or 14 percent of the increase will be a result of the Uruguay Round. The combination of the two aspects described above, namely the decrease in the prices of Africa's exported food commodities and the simultaneous increase in the prices of imported ones will compound the negative impact that the Round will have on African countries' balance-of-payments.

B. IMPACT ON TRADE PREFERENCES

47. It is now widely accepted that developing countries in general and African countries in particular will experience a sharp loss in their traditional trade preferences. African countries being traditionally the most dependent on trade preferences, they are expected to experience the highest losses due to the erosion of their traditional trade margins under the GSP, the Lomé Convention and other trade arrangements. The following table summarizes the loss of preferences for selected food products on Africa's main three export markets, namely the EEC, Japan and the United States of America.

Table 4: **Erosion of tariff preferences in the EU, USA and Japanese markets** 21/

		European Union				Japan		USA	
Product Group	Average	ACP Loss	% loss	GSP Loss	% Loss	GSP Loss	% Loss	GSP Loss	% Loss
Agri Non Tropical	Simple	6.22	31.5	4.78	50.9	4.68	57.5	2.49	36.0
	Weighted	13.01	24.7	5.20	43.5	5.83	72.9	0.52	10.9
Tropical Agricult.	Simple	6.78	38.5	6.85	80.4	3.93	63.9	3.21	40.0
	Weighted	4.72	50.9	2.93	100	3.86	83.0	3.79	49.4

Source: UNCTAD data compiled from The Impact of the Uruguay Round on Trade Preferences: Toward a Forward-Looking Trade Agenda for African Countries, (EDECO/TD/12/067.96).

48. This table illustrates the fact that trade preferences African countries used to enjoy from their main partners will be dramatically reduced as a result of the implementation of the Uruguay Round agreements. The most interesting information conveyed by this table relates to the erosion of preferences of tropical agricultural products which dominate African exports. These products have lost up to 100 percent of their GSP and more than 50 percent of their Lomé traditional preferences in the European Union. For Japan and the United States, GSP losses are

21/ Loss of preference is defined as the difference between the old and new preferential margins.

as high as 83 percent and 49 percent respectively. These high levels of preference losses are going to adversely affect African countries in the sense that African products on international markets are going to face harsher competition with exports from other developing regions. The fear is therefore that, in the short term, Africa may not be able to compete, resulting in a loss of the small market share the continent had been able to maintain up to now. The long-run impact cannot be predicted accurately as it will depend on whether African countries are able to increase their competitiveness or give way into economic marginalization.

C. IMPACT ON SUPPLY AND DEMAND OF FOOD PRODUCTS

49. Analysis of the impact of the implementation of the Uruguay Round agreements on demand and supply of food products from Africa has to take into account the nature of the food products considered (tropical or non-tropical) and the time horizon of the analysis (short-term or long-term).

50. Africa is a net exporter of tropical agricultural food products. In the short run, the loss of market preferences by African exports will have a negative impact on African countries' stocks of foreign currency as their exported quantities may decrease and sold at probably the same or lower levels of prices. However, the impact on the production of such commodities may not be immediate since most of them are agricultural perennial crops whose supply capacity cannot be changed in the short-run. In the long-run, however, if the short-run impact remains the same, the traditional exports may become less interesting for production and export. In this case, traditional exports may become non-tradables and the countries may shift their resources into sectors and products in which they are more competitive, the impact being the reduction of the supply of traditional exports. This will lead to product substitution effect. On the other hand, if African countries manage to achieve more competitiveness in their traditional export sectors, allowing them to keep their market shares, their current level of supply may either remain unchanged or even increase.

51. With respect to the demand for food products, Africa is a net importer of agriculture non-tropical products from temperate zones. These are products such as wheat, rice, maize, etc. imported from developed countries. As already discussed, the short term impact of the implementation of the Uruguay Round agreements on developed countries' agriculture will be a cut in subsidies which will imply lower incomes for producers, prompting them to cut their production. As a result, consumers will have to pay higher prices. African countries which are net-importers of non-tropical agriculture products will have to pay higher import bills. In the long-run, other things remaining equal, production of non-tropical food products or their substitutes may become more interesting for African countries that currently spend large amounts of foreign currency to import them. As a result, African countries may produce these food products or their substitutes domestically, substituting imports by locally produced goods. This import-substitution policy will increase the supply of food products and probably reduce their price. This, however, cannot be guaranteed as it will largely depend on the capacity of African countries to put in place sound import substitution policies.

D. IMPACT ON FOOD AID

52. The obvious impact of the situation of supply and demand of food products following the implementation of the Uruguay Round will be the reduction in the international levels of food surplus stocks. Historically, the volume of food aid has been highly correlated with the levels of surplus stocks. Therefore, although the Uruguay Round does not set any limit on genuine food aid, the latter's volume may decrease as surplus stocks are run down. African countries stand to be hardly affected since they are the most recipients of food aid. Africa will face an ironical situation whereby it becomes short of its traditional assistance in the form of food aid at a time when it needs it the most 22/.

V. CONCLUSION AND POLICY RECOMMENDATIONS

53. African countries will be negatively affected by the changes occurring in the markets for food products, both tropical and non-tropical. As countries implement the Uruguay Round agreements, the loss of Africa's preferential trade margins will lead to loss of market shares, resulting in less export revenue. In addition, the removal of protection measures to developed countries' agriculture sector will translate in lower levels of production. The impact of this policy will be a rise in import prices of food products and lower transfers of food aid to developing countries, including those in Africa. Although the short-run impact of this situation on African economies will be more likely negative, the long-run impact cannot be predicted clearly due to the following reasons:

(i) Some analysts have pointed out that the implementation of the Uruguay Round agreements in the agriculture sector, especially considering what is required of the developed countries and the way the implementation process is framed in the agreements, may not make much difference in terms of reforming the agriculture sector.

(ii) International agreements of the Uruguay Round type are non-binding. The question that therefore arises is up to which extent developed and developing countries will implement the provisions of the Uruguay Round, especially those having important economic, social and political costs as this has already been observed in some countries.

(iii) Adaptation of African economies to the new international trade environment will to a certain extent depend on both Africa's willingness and capacity to reform its economies. Africa has proved to be committed to economic reforms; the number of countries in the

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22/ Due to the fact that these countries will be paying higher import bills and, at the same time, experience a reduction in their export revenue as a result of the loss of their traditional market shares.

continent under structural adjustment programmes is the demonstration of this 23/. However, putting in place and implementing such reforms is beyond the capacity of African countries and requires cooperation and assistance from the international community.

54. The success of the adaptation of African economies and the ability of African countries to actively participate in the international trading system will therefore depend much on the level of assistance developed countries are willing to mobilize for this purpose. But this should not in any case be understood as abdicating Africa's obligation for managing its development. African countries bear the primary responsibility for organizing themselves in a way that will enable them take full advantage of the opportunities offered by the Uruguay Round agreements and mitigate the immediate negative impact.

55. In the light of this, the following actions should constitute Africa's agenda in this regard:

(i) Diversification of African exports beyond the tropical product sector with a view to decreasing the high dependence on the export of a narrow range of agricultural commodities. In this context, African countries should aim at putting in place policies towards attaining food self sufficiency since acquiring food through international channels (both imports and aid) is going to be more and more difficult.

(ii) Putting in place mechanisms for taking maximum advantage of the differential and preferential treatment provisions contained in most agreements relating to production and trade of food products 24/. This should go hand in hand with efforts aimed at changing the current policies into those compatible with the provisions of the Uruguay Round. For instance, African countries should understand that price-based actions such as subsidies should no more be their main instruments for agricultural policy.

(iii) Adoption of appropriate agricultural and marketing policies can help African countries mitigate the negative impact of the Uruguay Round agreements on the food sector and also contribute to the overall competitiveness of African countries on international markets.

(iv) Mobilizing the required resources, both technical and financial, to ensure a smooth implementation of the Uruguay Round agreements.

23/

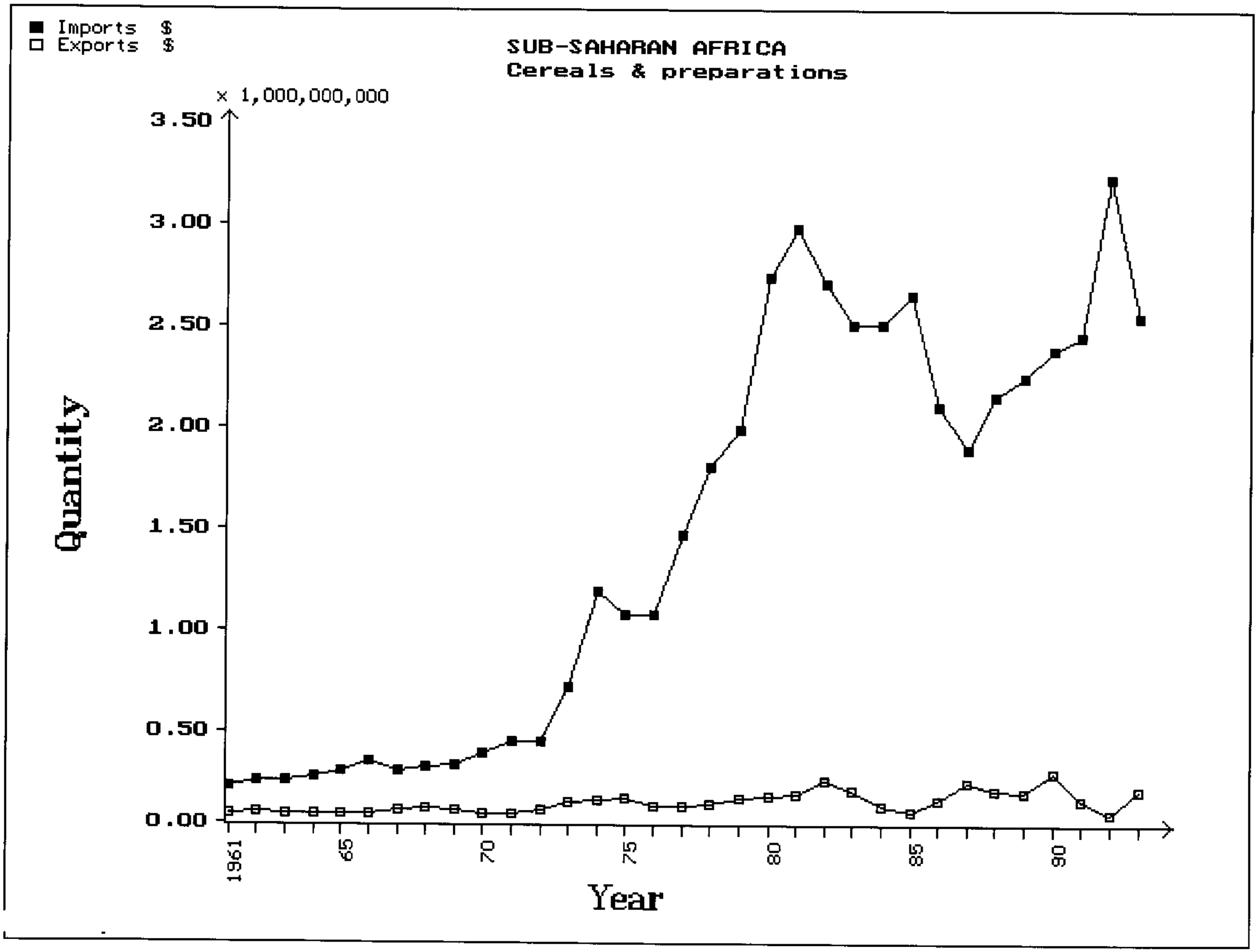
In 1992-93, 35 or about three quarters of Sub-Sahara African countries were undergoing Structural adjustment programmes sponsored by the IMF and World Bank.

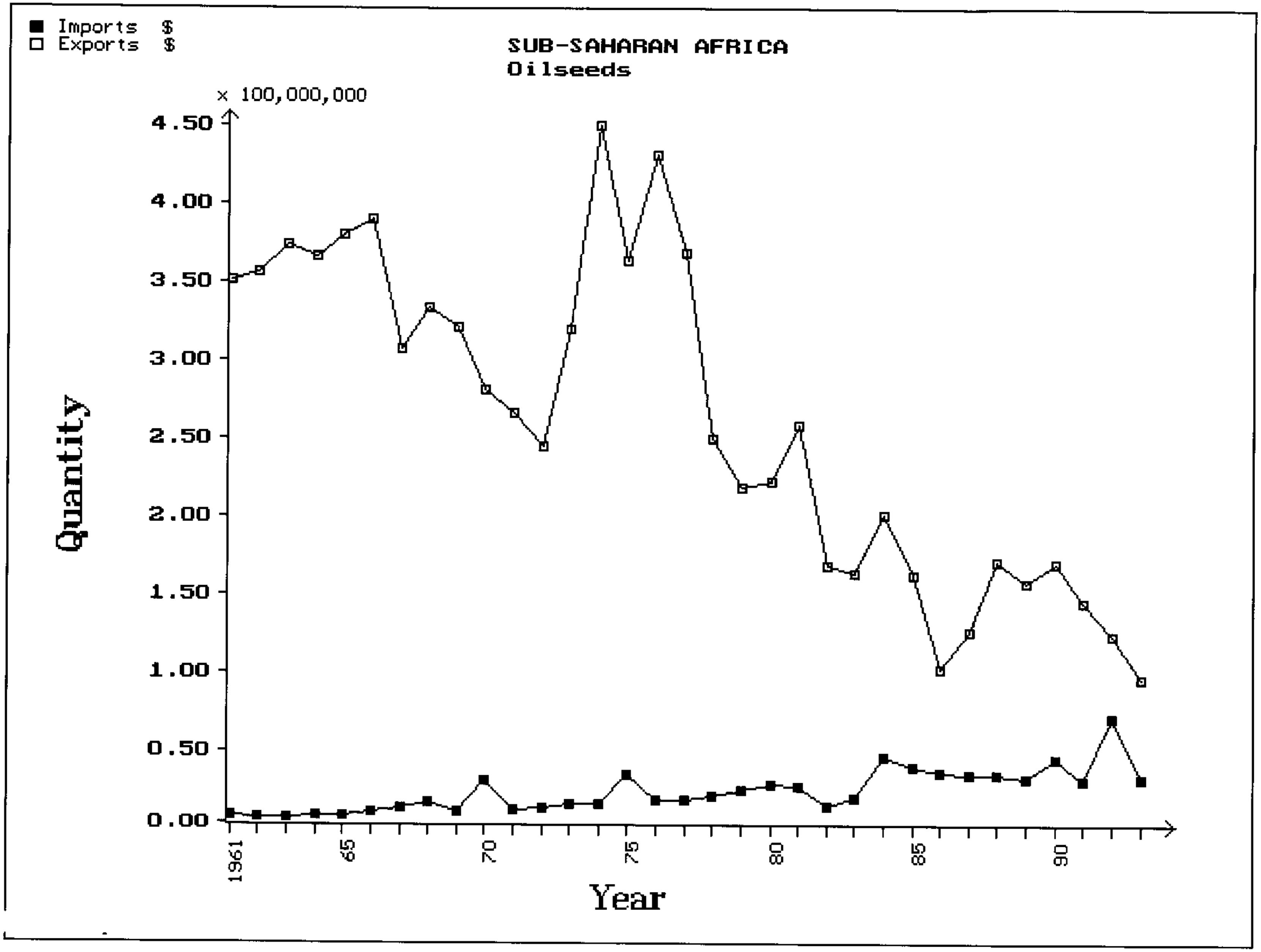
24/

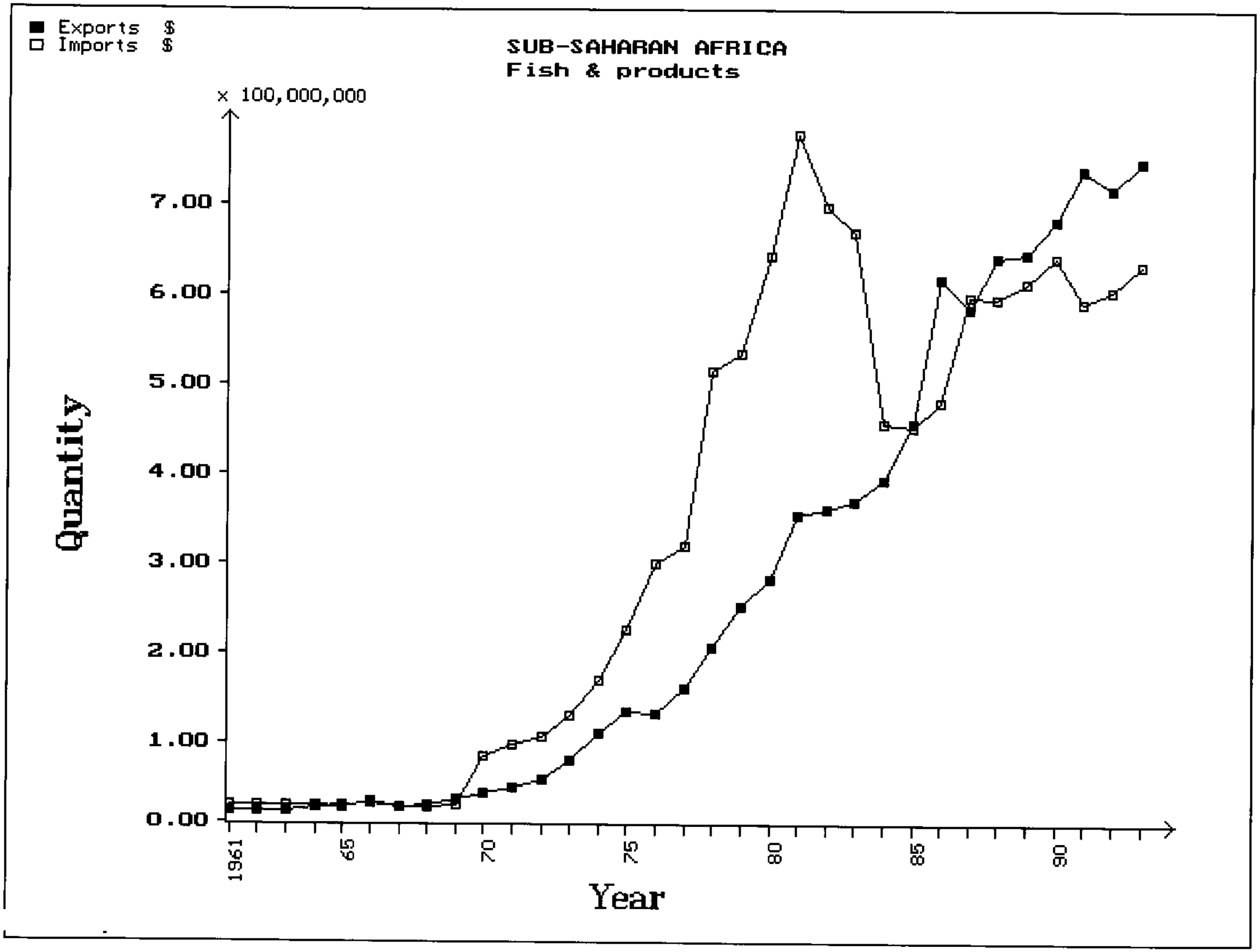
In most of these agreements, African countries, especially LDCs, are not required to implement the policy changes expected from other countries; in addition, longer transitional periods are provided for. There are also provisions pertaining to assistance these countries should expect from developed countries in the implementation process.

ANNEX I:

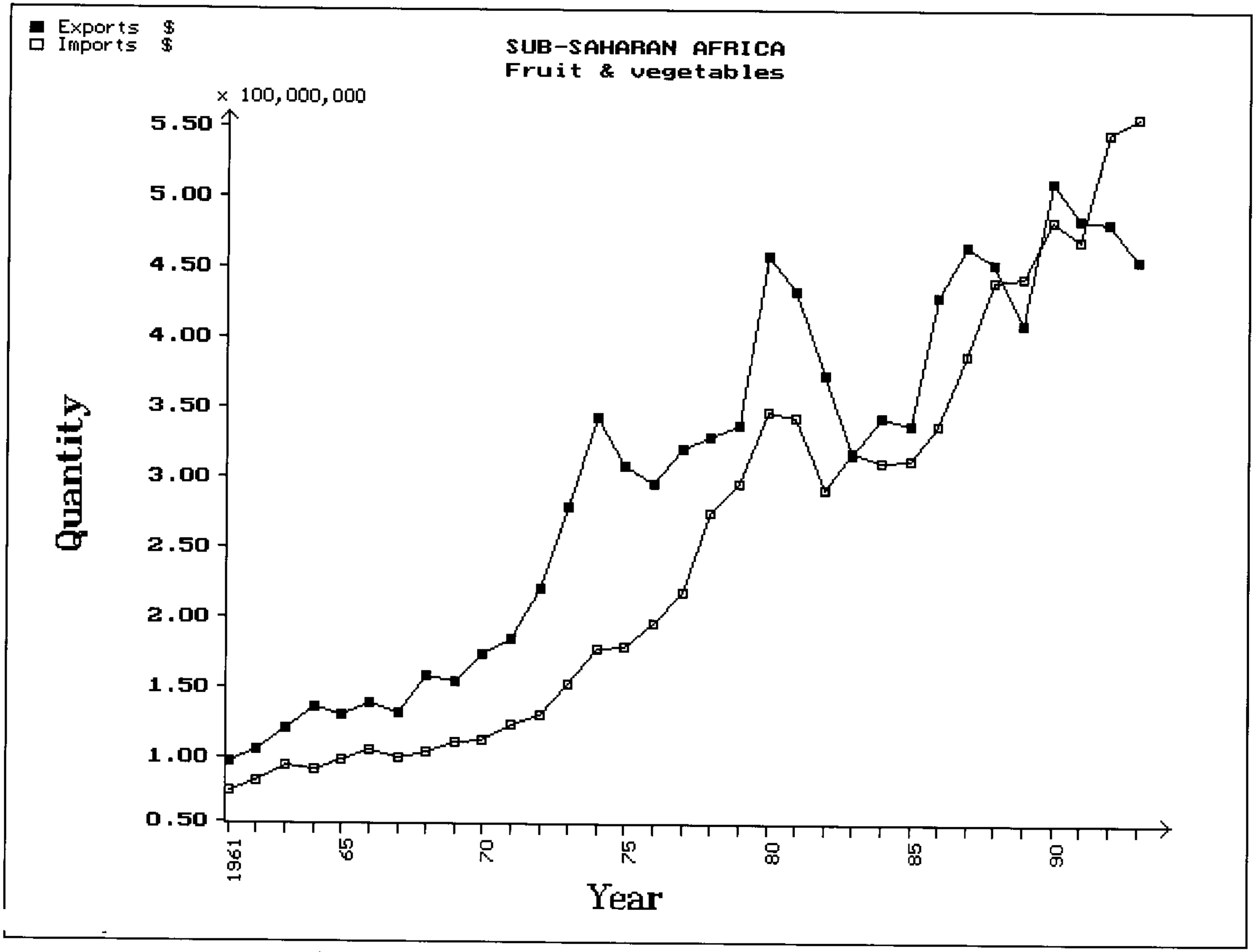
AFRICA'S TRADE IN FOOD PRODUCTS: COMPARISON OF IMPORTS AND EXPORTS

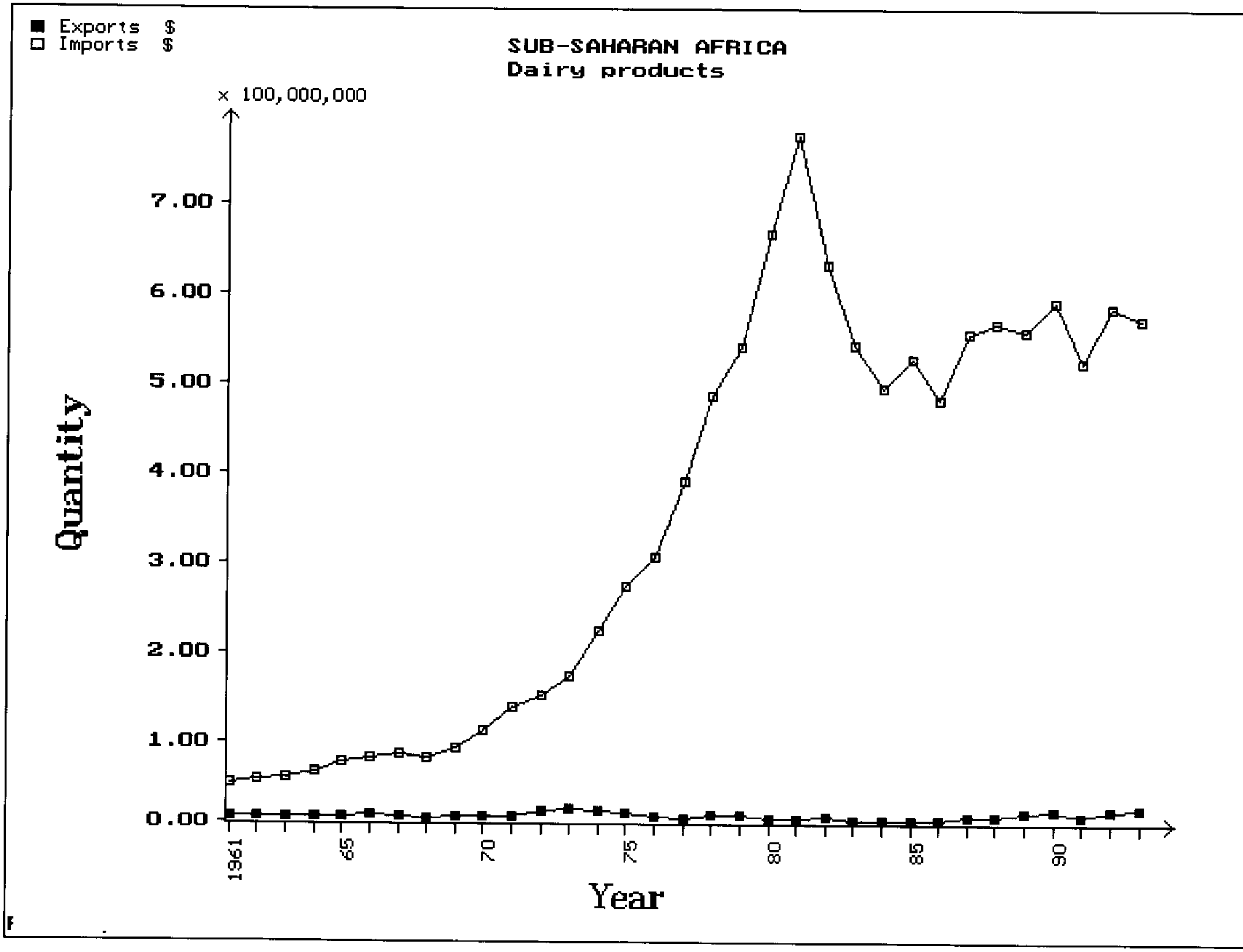

Imports $
Exports $
SUB-SAHARAN AFRICA
Cereals & preparations
× 1,000,000,000
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Quantity
1961
65
70
75
80
85
90
Year


Imports $
Exports $
SUB-SAHARAN AFRICA
Oilseeds
× 100,000,000
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Quantity
1961
65
70
75
80
85
90
Year

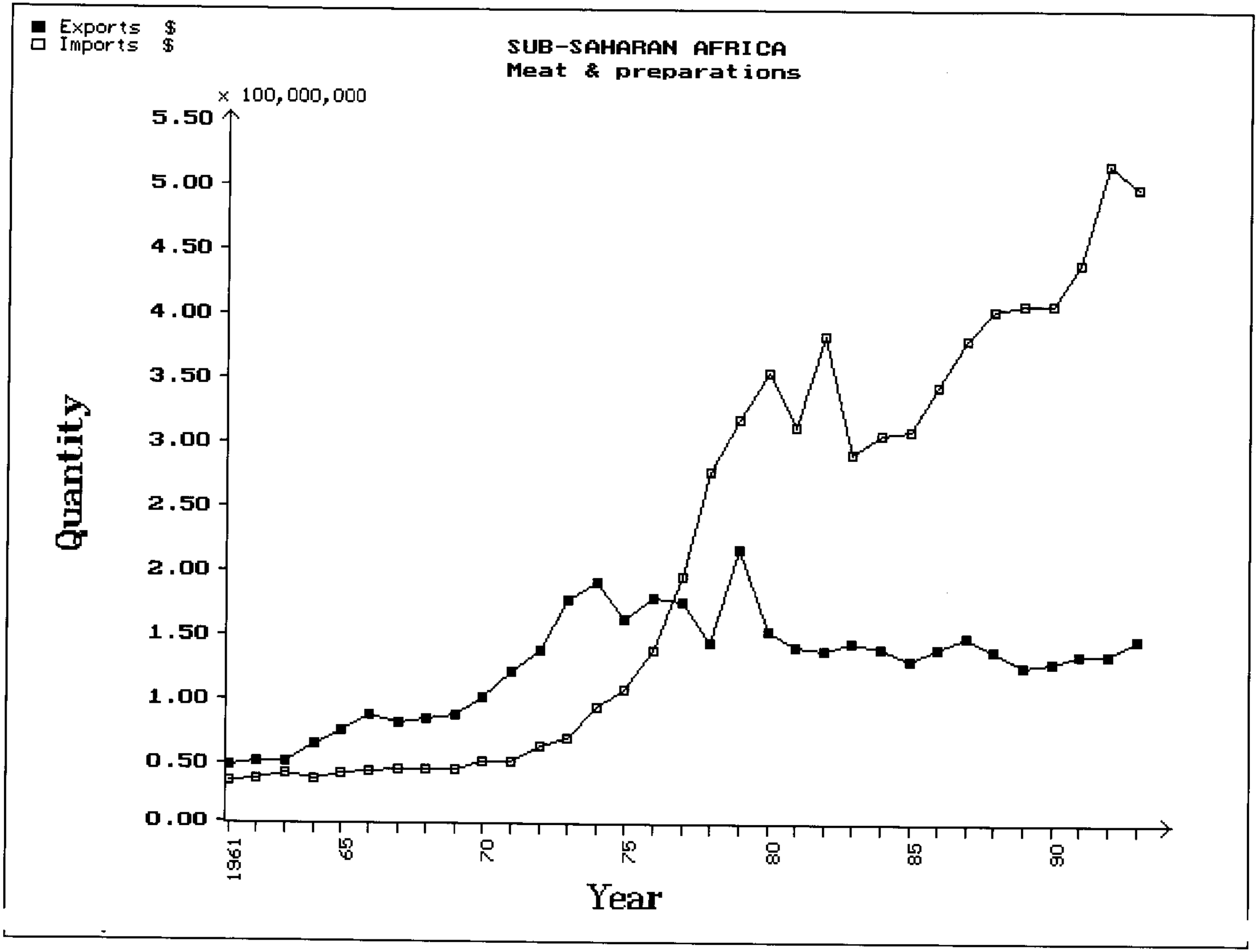


Exports $
Imports $
SUB-SAHARAN AFRICA
Fish & products
× 100,000,000
Quantity
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
1961
65
70
75
80
85
90
Year

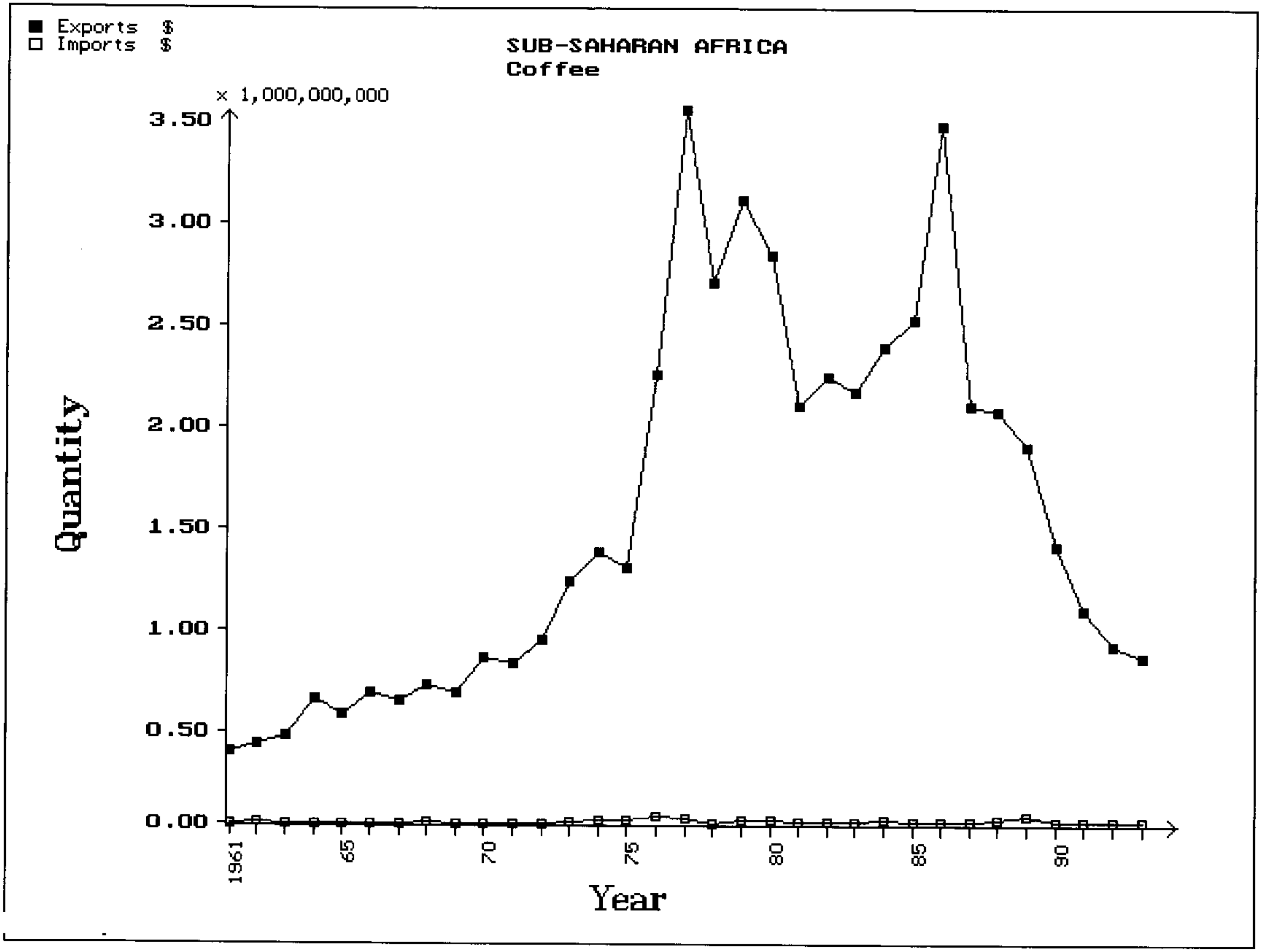

SUB-SAHARAN AFRICA
Fruit & vegetables
Exports $
Imports $
× 100,000,000
5.50
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
Quantity
1961
65
70
75
80
85
90
Year



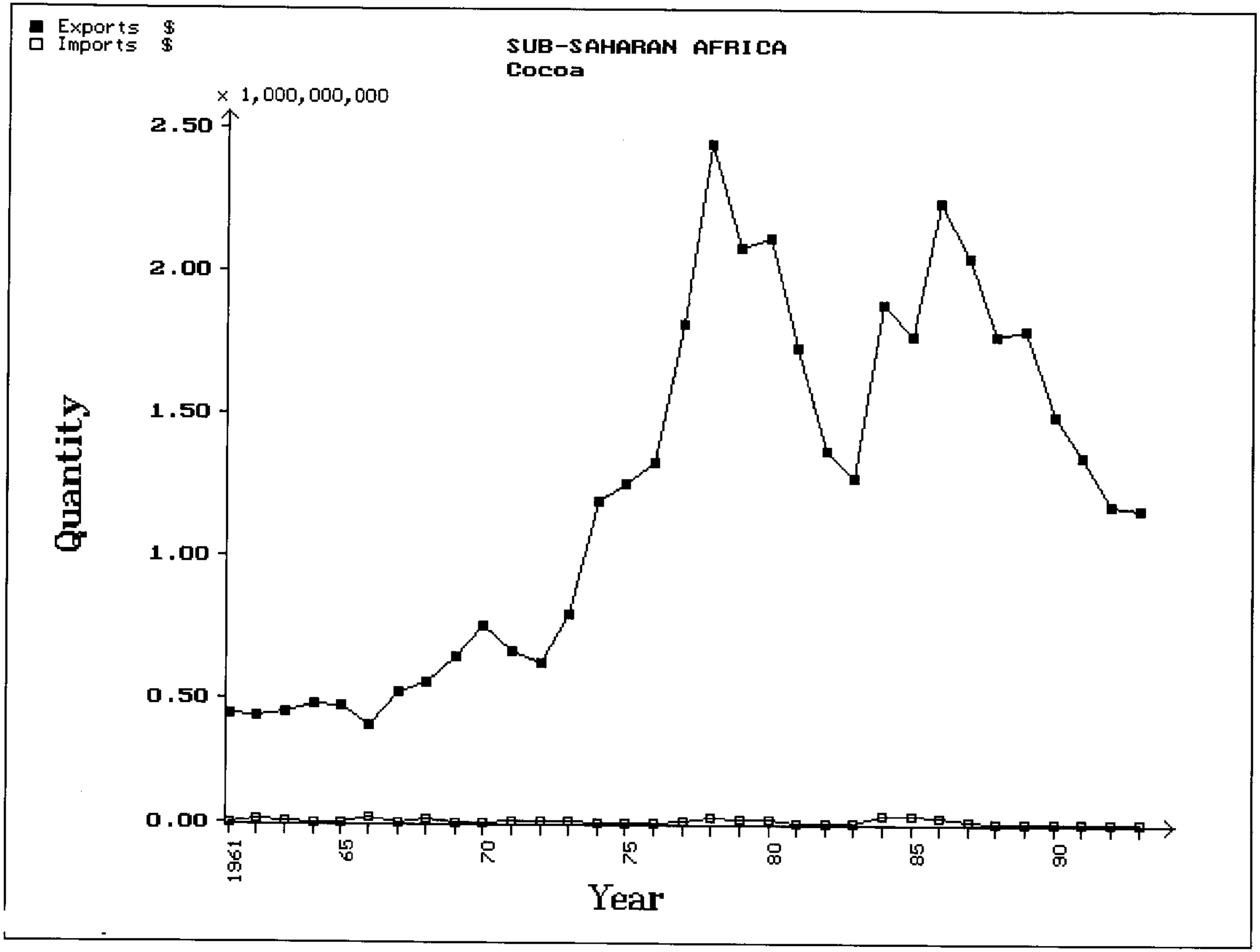
Exports $
Imports $
SUB-SAHARAN AFRICA
Dairy products
× 100,000,000
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Quantity
1961
65
70
75
80
85
90
Year

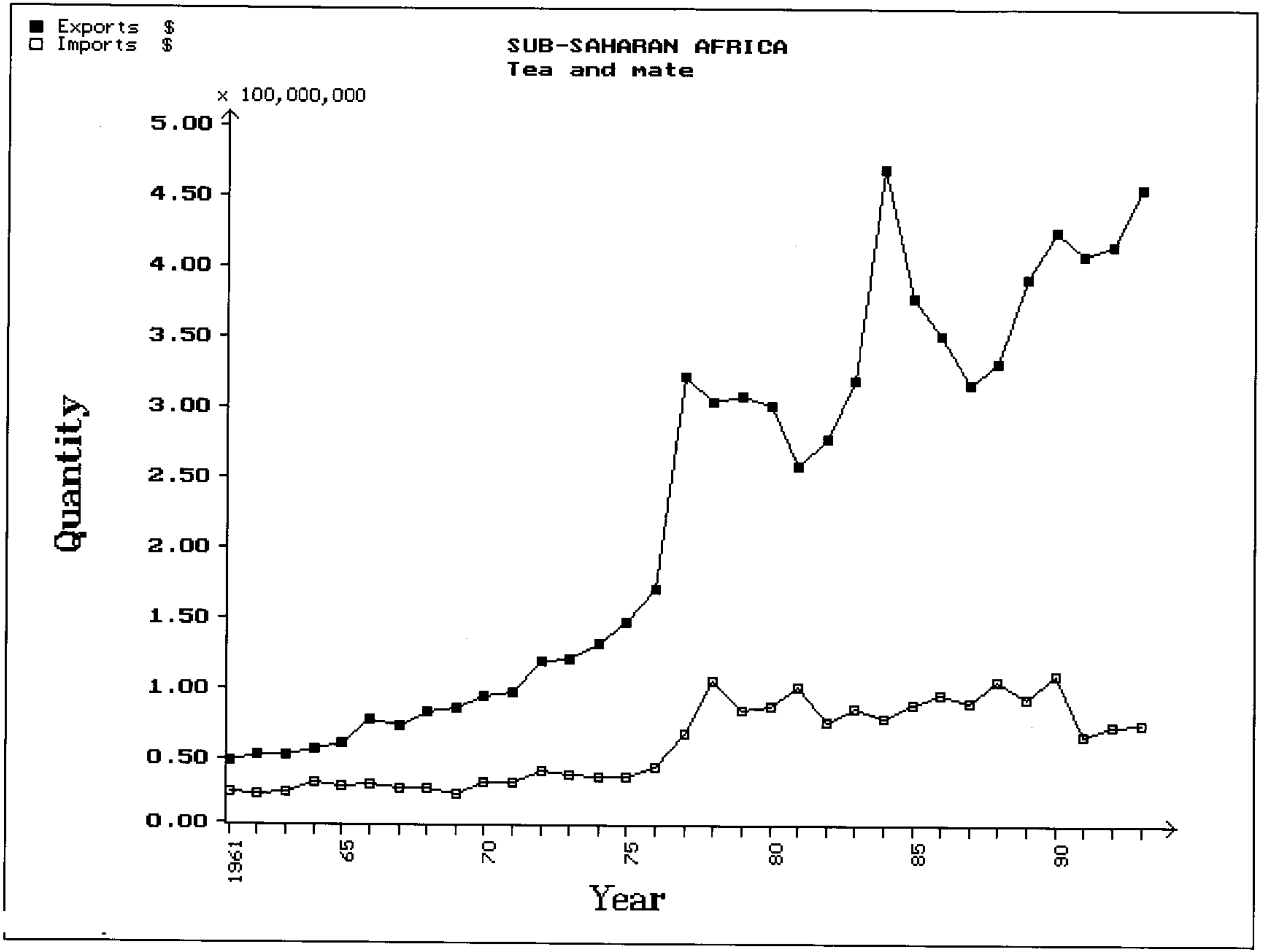


Exports $
Imports $
SUB-SAHARAN AFRICA
Meat & preparations
× 100,000,000
5.50
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Quantity
1961
65
70
75
80
85
90
Year

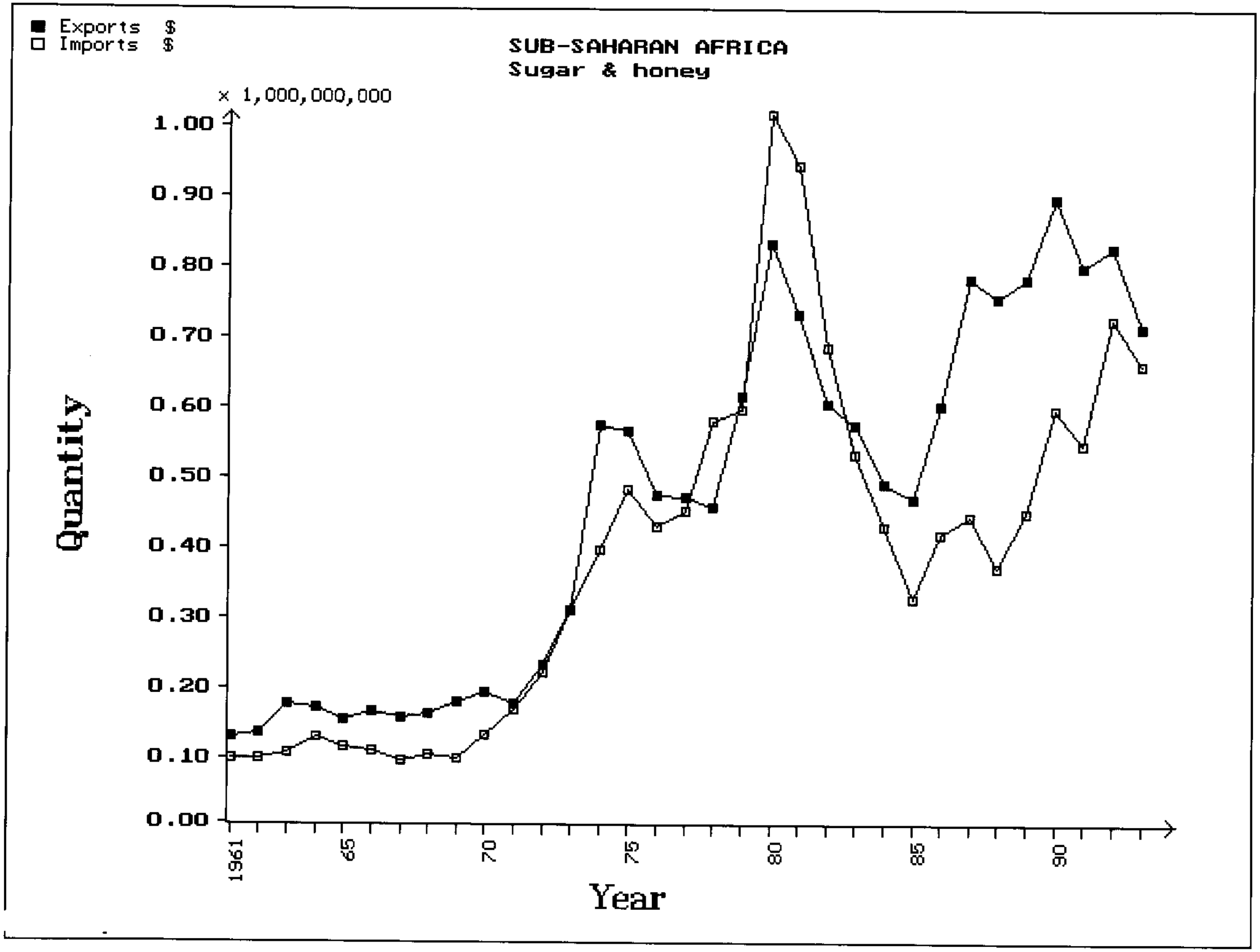


■ Exports $
□ Imports $
SUB-SAHARAN AFRICA
Coffee
× 1,000,000,000
Quantity
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
1961
65
70
75
80
85
90
Year


■ Exports $
□ Imports $
SUB-SAHARAN AFRICA
Cocoa
× 1,000,000,000
2.50
2.00
1.50
1.00
0.50
0.00
Quantity
1961
65
70
75
80
85
90
Year



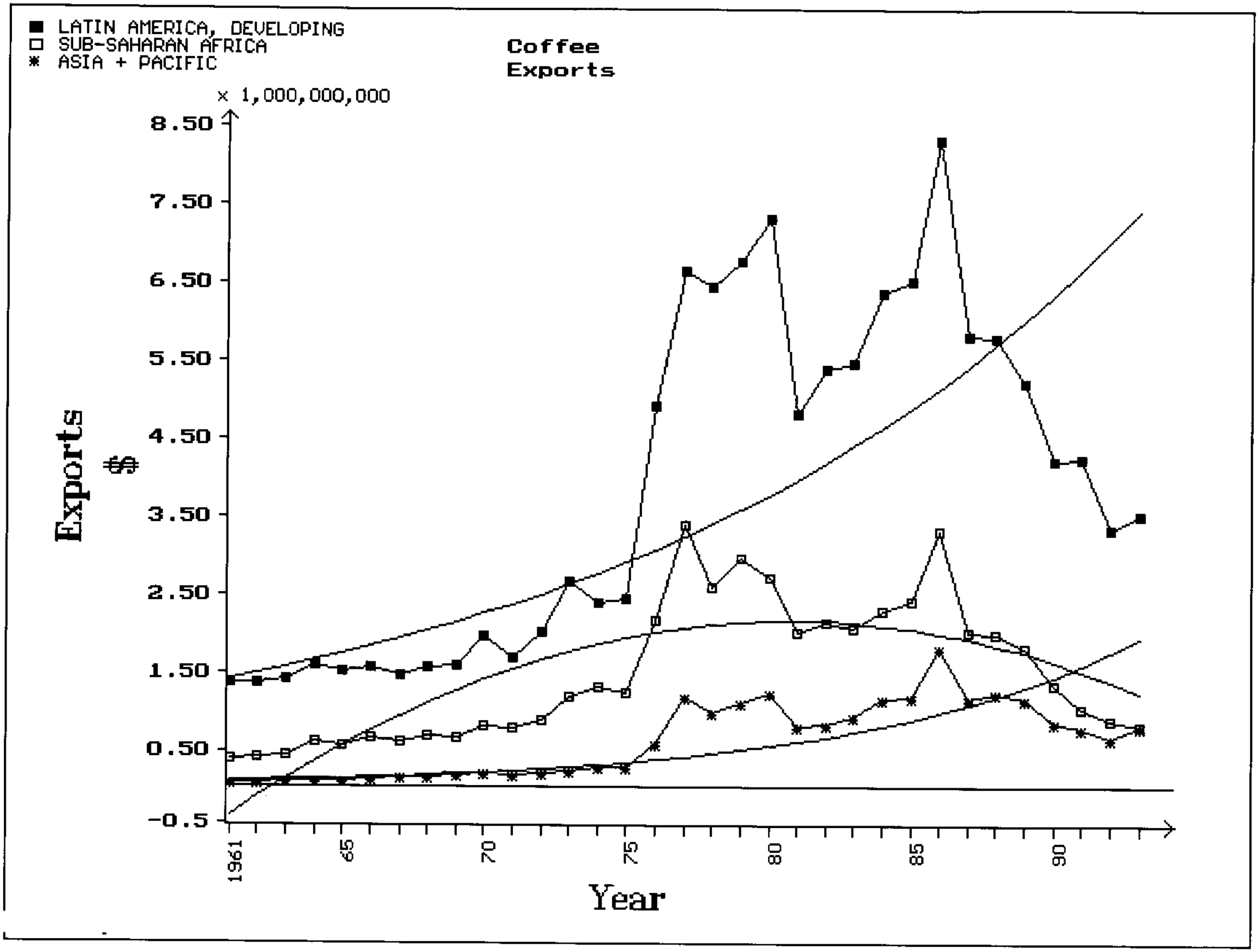
Exports $
Imports $
SUB-SAHARAN AFRICA
Tea and mate
× 100,000,000
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Quantity
1961
65
70
75
80
85
90
Year



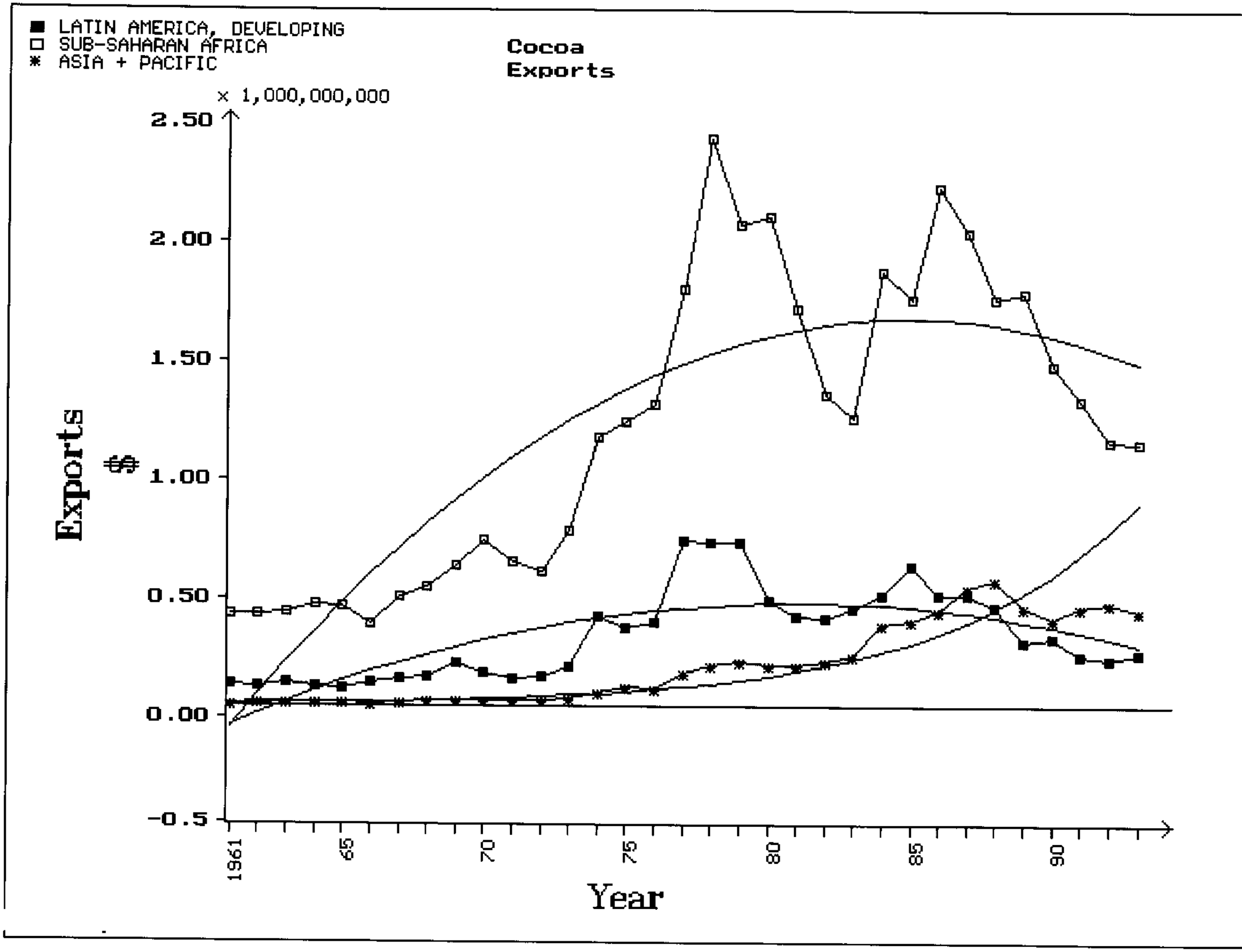
Exports $
Imports $
SUB-SAHARAN AFRICA
Sugar & honey
× 1,000,000,000
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Quantity
1961
65
70
75
80
85
90
Year

ANNEX II:

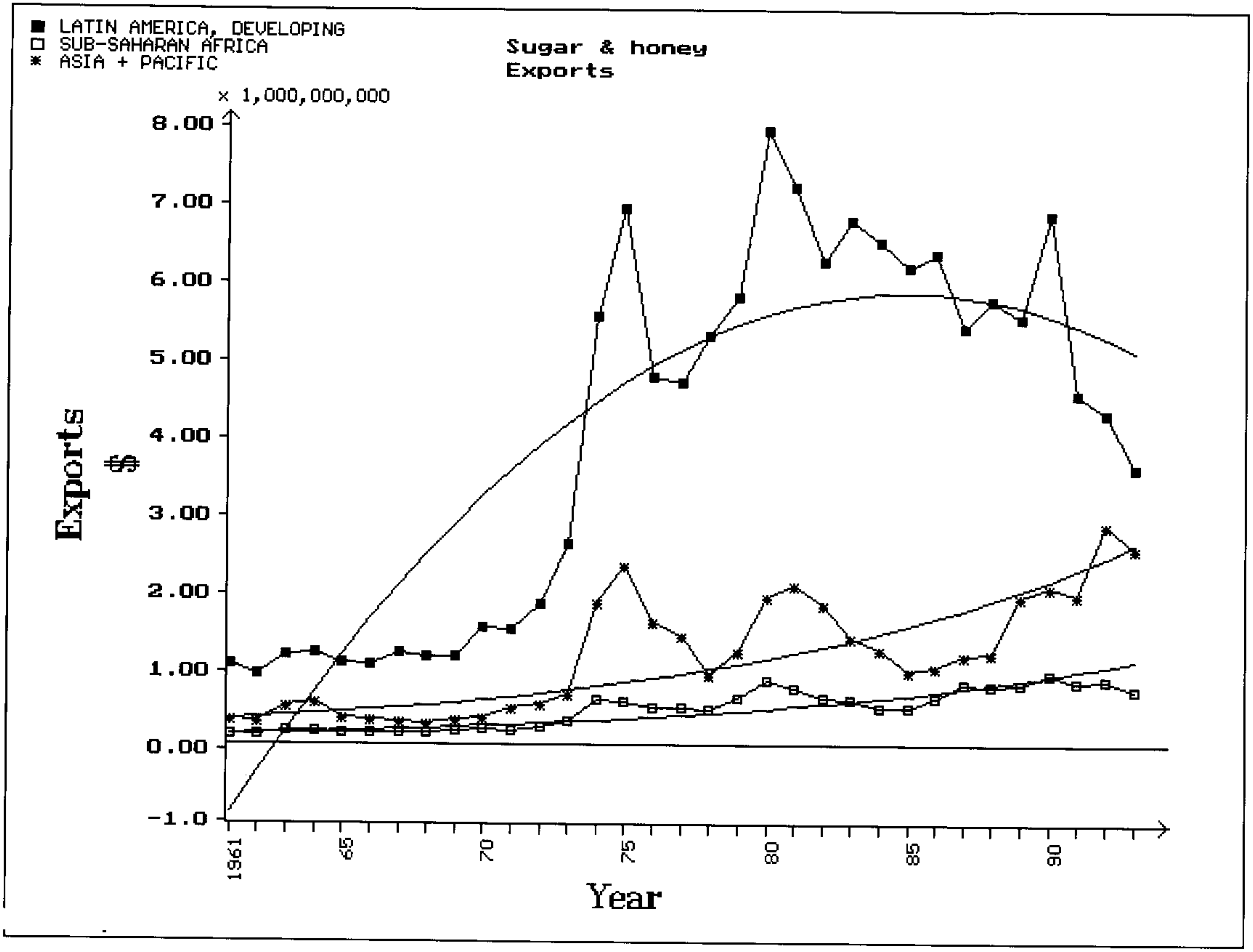
AFRICA'S TRADE IN FOOD PRODUCTS: COMPARISON OF AFRICA WITH ASIA AND LATIN AMERICA



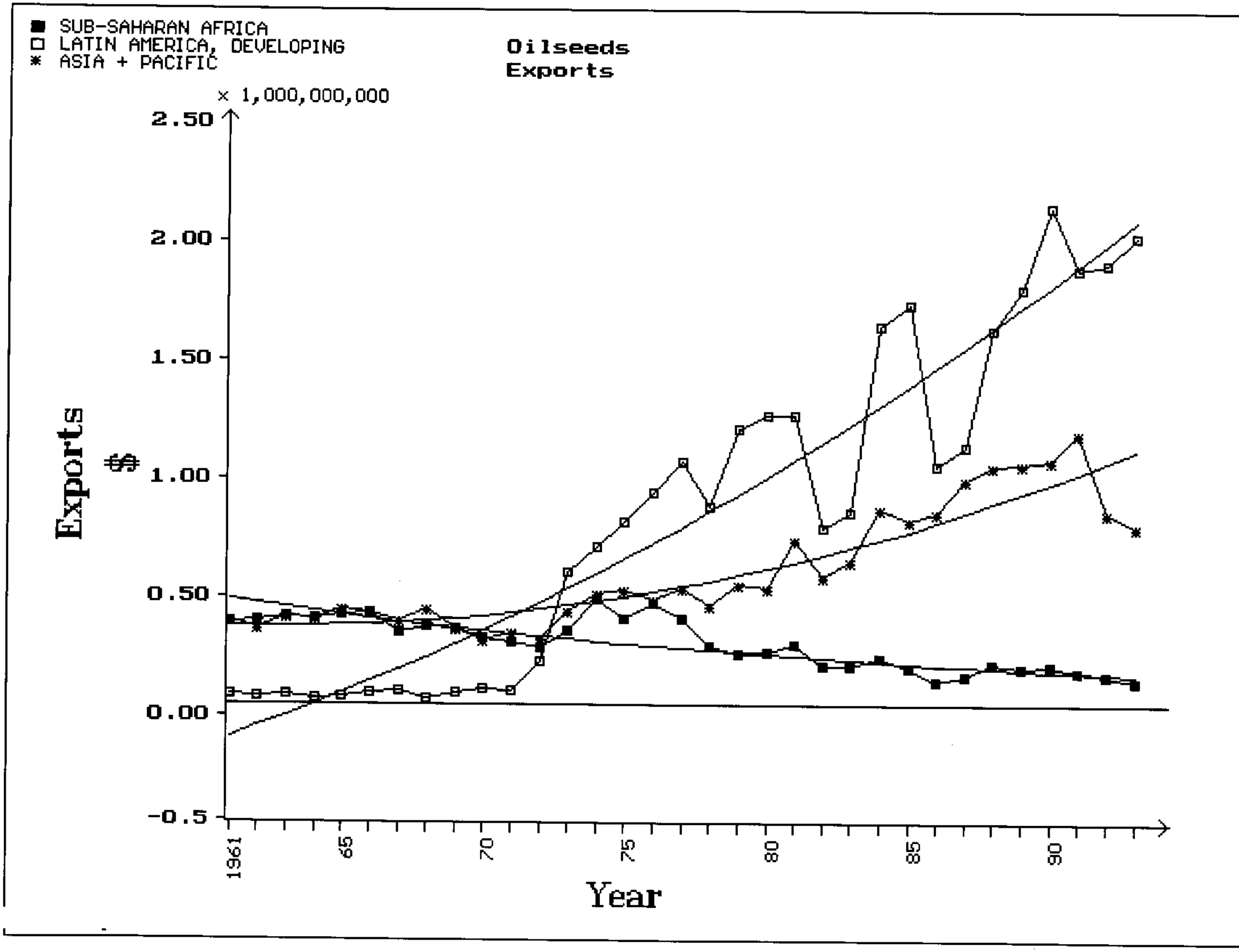
■ LATIN AMERICA, DEVELOPING
□ SUB-SAHARAN AFRICA
* ASIA + PACIFIC
Coffee
Exports
× 1,000,000,000
8.50
7.50
6.50
5.50
4.50
3.50
2.50
1.50
0.50
-0.5
Exports
$
1961
65
70
75
80
85
90
Year

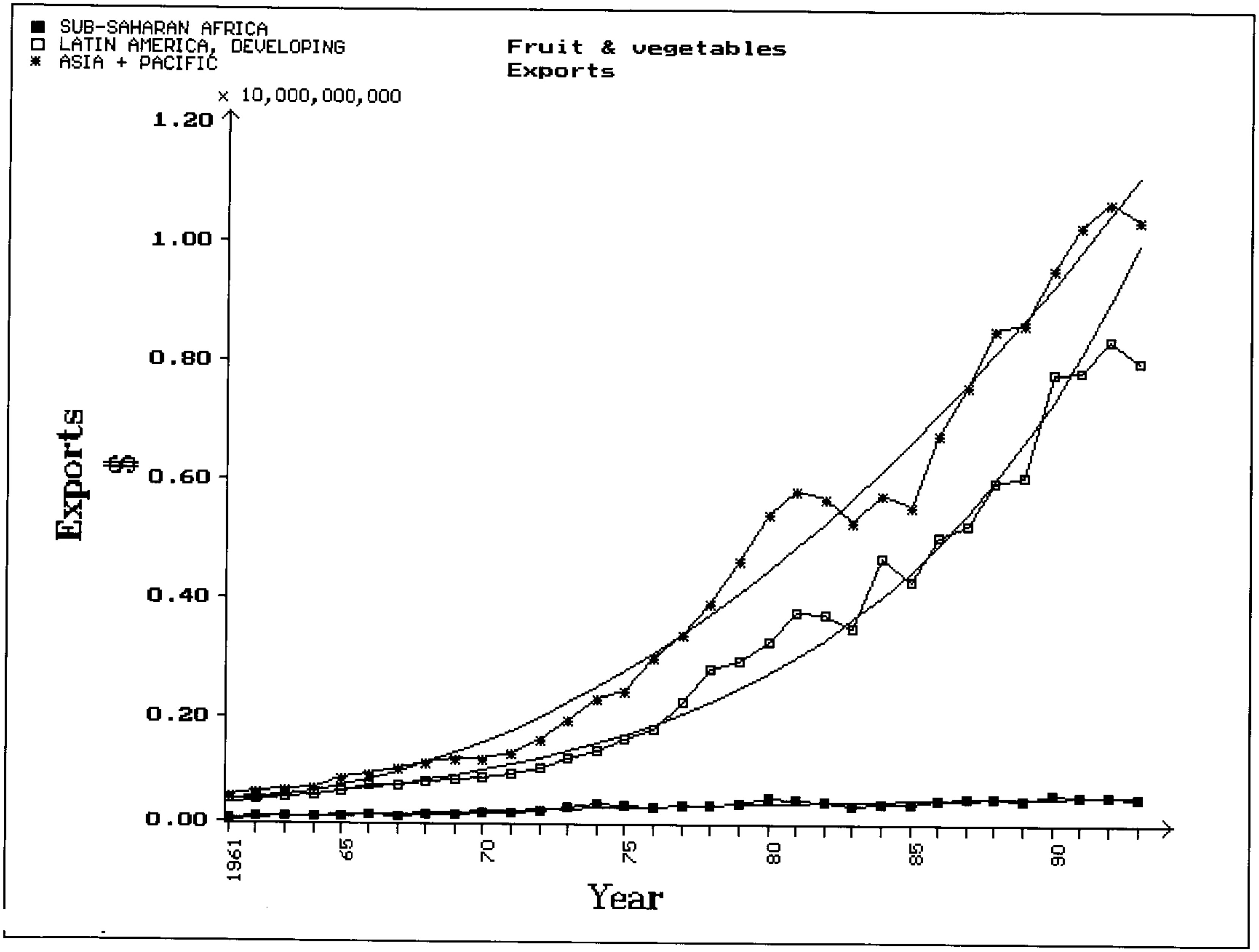


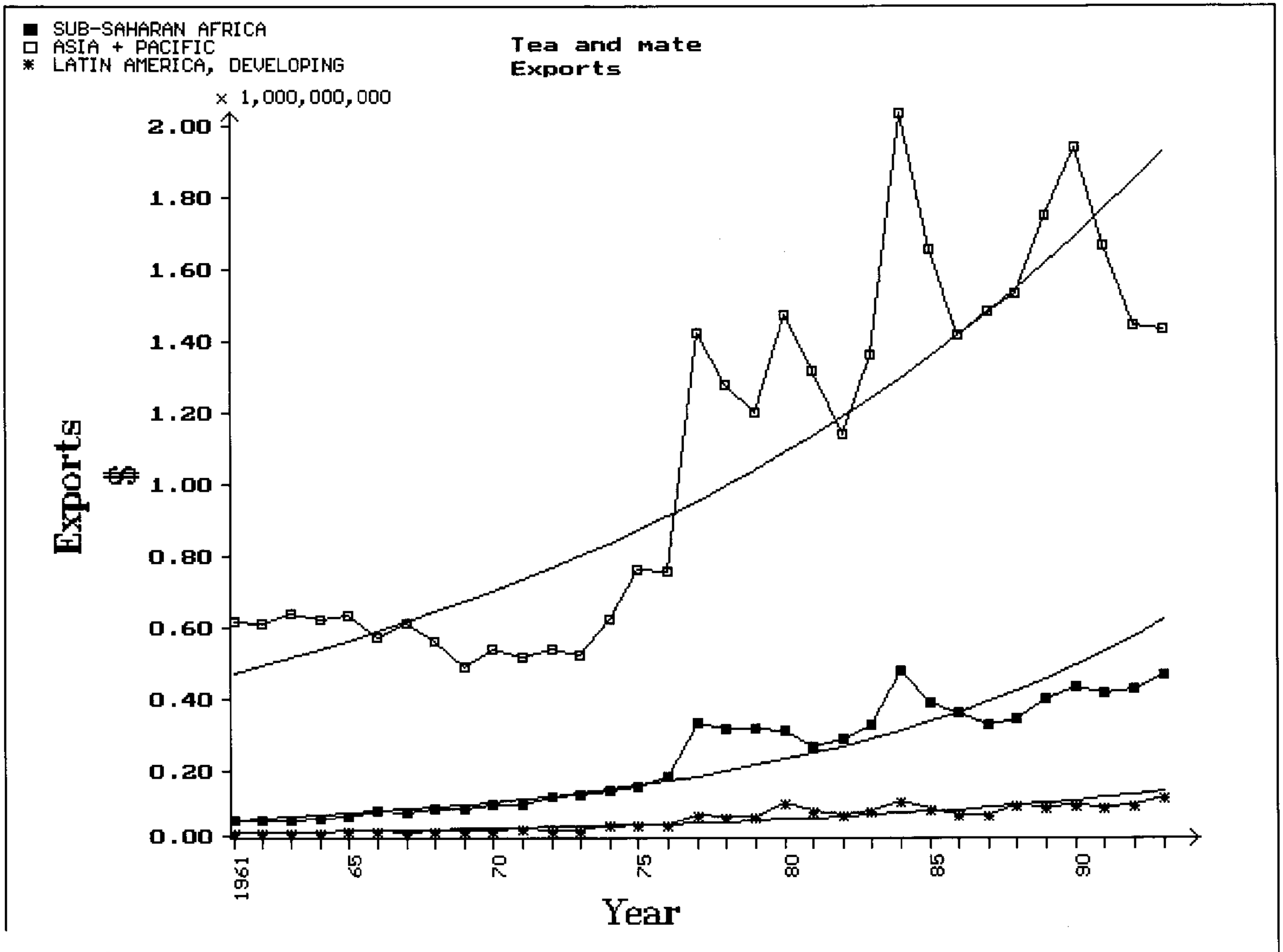
■ LATIN AMERICA, DEVELOPING
□ SUB-SAHARAN AFRICA
* ASIA + PACIFIC
Cocoa
Exports
× 1,000,000,000
2.50
2.00
1.50
1.00
0.50
0.00
-0.5
Exports
$
1961
65
70
75
80
85
90
Year



■ LATIN AMERICA, DEVELOPING
□ SUB-SAHARAN AFRICA
* ASIA + PACIFIC
Sugar & honey
Exports
× 1,000,000,000
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
−1.0
Exports
$
1961
65
70
75
80
85
90
Year


■ SUB-SAHARAN AFRICA
□ LATIN AMERICA, DEVELOPING
* ASIA + PACIFIC
Oilseeds
Exports
× 1,000,000,000
2.50
2.00
1.50
1.00
0.50
0.00
-0.5
Exports
$
1961
65
70
75
80
85
90
Year


SUB-SAHARAN AFRICA
LATIN AMERICA, DEVELOPING
ASIA + PACIFIC
Fruit & vegetables
Exports
× 10,000,000,000
1.20
1.00
0.80
0.60
0.40
0.20
0.00
Exports
$
1961
65
70
75
80
85
90
Year


SUB-SAHARAN AFRICA
ASIA + PACIFIC
LATIN AMERICA, DEVELOPING
Tea and mate
Exports
× 1,000,000,000
Exports
$
2.00
1.80
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
1961
65
70
75
80
85
90
Year