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## Sugar and the World Trade Organization (WTO): Major Issues<sup>1</sup>

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This is part of the Sugar Policy series, which discusses policy issues facing the U.S. sweetener industry in general and Florida's sweetener industry in particular. Several articles have been developed to discuss economic and policy issues that have, or will have, an impact on Florida's sweetener industry. The objective of this article is to summarize the major issues of the World Trade Organization.

### Introduction

The Uruguay Round Agreement on Agriculture (URAA), completed in 1994 under GATT, was the first step in the process of global agricultural policy reform. This is discussed in another article in this series (SCO22, Sugar and the General Agreement on Tariffs and Trade). The URAA included a provision for resumption of negotiations on agriculture by December 31, 1999. However, the URAA was replaced by the World Trade Organization (WTO). The November 1999 WTO meetings in Seattle, Washington did not successfully initiate a new round. Agricultural negotiations did not begin until March 2000 among the 140 WTO member nations. Today,

these negotiations, conducted as special sessions of the WTO Committee on Agriculture, take place in Geneva, Switzerland.

### Major Issues

The negotiations seek to fulfill three main objectives:

1. Reduce or eliminate all forms of export subsidies.
2. Improve market access.
3. Reduce trade-distorting domestic support.

A successful outcome would expand global markets and reduce trade barriers. WTO members (both developed and developing countries) have agreed to establish commitments to achieve its objectives by March 2003. The entire negotiating process is to be completed by January 2005. The United States has agreed to the objectives.

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1. This is EDIS document SC 055, a publication of the Department of Food and Resource Economics, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, FL. Published July 2002. This publication is also part of the Florida Sugarcane Handbook, an electronic publication of the Department of Agronomy, University of Florida, Gainesville, FL. For more information, you may contact the editor of the Sugarcane Handbook, Dr. R.A. Gilbert ([ragilbert@mail.ifas.ufl.edu](mailto:ragilbert@mail.ifas.ufl.edu)), Everglades Research and Education Center, University of Florida, Belle Glade, FL 33430. Please visit the EDIS website at <http://edis.ifas.ufl.edu>.
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### ***Reducing or Eliminating All Forms of Export Subsidies***

GATT's Uruguay Round and the WTO have both mandated the reduction and eventual elimination of all forms of export subsidies. GATT sought a reduction of 36 percent by value and 21 percent by volume of subsidies on exports of developed countries. It is obvious that, although some progress has been made, there is still much work to be done at the WTO negotiations before export subsidies are phased out.

The United States does not subsidize sugar exports. The country, with rare minor exceptions, has always been an importer of sugar since domestic consumption is greater than domestic production. Therefore, at the time of GATT's final agreement, the U.S. sugar program was already fulfilling the ultimate goal of trade without sugar export subsidies. Since it is still doing so, the negotiations and final provisions of the WTO will have no direct impact on sugar producers and processors in Florida and the rest of the sugar-producing areas of the United States. An indirect impact could result from the reduction or elimination of such subsidies in other countries, especially the European Union since they could influence the world market for raw sugar.

### ***Improving Market Access***

The GATT agreements required that a minimum access (imports) equal to three percent of domestic consumption be established initially. Individual countries were also required to increase the minimum access to five percent over the six years of the agreement. The United States was already fulfilling this goal of improved market access since it was importing around 15 percent of domestic sugar consumption per fiscal year (October-September) at the time of the agreement. In spite of that fact, the United States made a commitment to import 1.256 million short tons, raw value, including at least 24,251 short tons of refined sugar, considerably above the minimum market access provisions still in place.

Improving market access as a result of the WTO negotiations will be a very difficult goal to achieve. On the one hand, low-cost suppliers, particularly

Australia and Brazil, will push hard for sugar to be included in the tariff reductions of the agenda. A successful outcome for these types of producers would be an improved market access through substantial tariff reductions. On the other hand, some developing countries benefit from preferential access into the EU and U.S. markets. Just from the U.S. sugar program alone, 40 developing countries benefit from their earning the quota rent (the difference between world price and U.S. price) derived from exporting to the United States under that system. These developing countries will press hard to avoid losing their privileged access to these preferential markets. This quandary complicates the WTO talks on improving market access.

### ***Reducing Trade-Distorting Domestic Support***

Since most sugar-producing countries have enacted legislation to protect their domestic industries, reducing trade-distorting mechanisms (e.g., subsidies and price supports) were on the list of GATT's objectives. The agreement reached consisted of a reduction in subsidies and price supports of 20 percent, with 1986-1988 being the base period levels.

The U.S. legislation was GATT-ready since the provisions of the sugar programs in the previous farm bills required that commodity price supports should be lowered, on average, by more than 20 percent. Therefore, the loan price of 18 cents applied to sugar-producing states, including Florida, did not have to be reduced.

The sugar legislation in the 2002 Farm Bill maintains the loan program for raw cane sugar at 18 cents per pound. It is interesting to note that loan rates can be reduced, at the Secretary of Agriculture's discretion, if foreign producers reduce export subsidies and support levels below their current WTO commitments.

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