

# WORLD TRADE ORGANIZATION

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## WTO NEGOTIATIONS ON AGRICULTURE

Submission by Croatia

### INTRODUCTION

The Uruguay Round has played an important role in the process of establishing a fair and market-oriented agricultural trading system. The reform process agreed during the Uruguay Round was related to trade concerns (market access, export competition, domestic support), and non-trade concerns, which were reflecting the important societal goals.

We have now embarked upon the continuation the process of gradual reform, governing the production and the trade of agricultural products, as called for in Article 20 of the Agreement on Agriculture.

The Croatian position in the existing WTO round of multilateral negotiations on agriculture is connected with the fact that Croatia only recently became a Member of WTO, and that our agricultural sector is in the transition process. Needless to say, Croatian negotiations for a WTO accession were the most difficult in the agricultural area.

Croatia is one of the co-sponsors of the negotiating proposals of the transition countries on market access (G/AG/NG/W/57) and domestic support (G/AG/NG/W/56). We believe that inclusion of the mentioned proposals as a specific provision into the Agreement on Agriculture as well as in any negotiating guidelines and modalities, would address the particular needs of transition countries, as it would help them to establish and consolidate a market-oriented domestic agricultural sector.

In addition to these proposals at this stage we would like to point out Croatian position on four elements of future negotiations:

- non-trade concerns
- special safeguard clause
- export competition
- the application of new obligations

### NON-TRADE CONCERNS

Being a country in transition with long tradition and employment in agricultural sector, Croatia recognises the multifunctional role of agriculture and considers that it should be given the place that deserves. It is especially important to emphasise the role of agriculture in sustainable development, in the protection of environment, and poverty alleviation in the areas with unfavourable economic conditions in agriculture.

In order to achieve the objectives of creating a fair and market-oriented agricultural trading system as envisaged in Article 20 of AoA, there is a need to acknowledge, *inter alia*, the future coexistence of various forms of agriculture based on each country's production conditions and potentials and historical and cultural background.

The continuation of the reform process should ensure that different functions of agriculture for different Members, which are of vital interest to them, are preserved.

Croatian agricultural policy is an important building block of overall economic policy contributing to sustainable growth of whole economy, employment, conservation of natural potentials and regional development.

In Croatia, agriculture contributes about 9 per cent in GDP and employs about 10 per cent of the economically active population. Its share (including agro-processing) in total foreign trade is about 12 per cent. However, due to its multifunctionality, the importance of agriculture is much more important for rural areas.

In total population of 4.5 million almost 45 per cent live in rural areas according to the last census of population. Significant number of population is engaged in agricultural production as a periodical or permanent activity. More than 2/3 of family farms are part-time farms. Besides that there is a high percentage of old households – 51 per cent of farmers are older than 50 years.

In accordance with mutually agreed rules, each country should be given the possibility to achieve its own societal goals arising from specific and multifunctional characteristic of agriculture. Strengthening the socio-economic viability and development of rural areas, food security and promoting the co-existence of various types of agriculture are of great importance.

Croatia has very diversified scope of less favoured areas for agricultural production such as islands, mountain regions, depopulated areas, war damaged areas (especially problem of mined areas).

We think that all relevant aspects have to be examined throughout the negotiations and taken into account when preparing new rules and disciplines for agricultural trade in the future.

Attention should also be paid that measures which address non-trade concerns should be well targeted, transparent and implemented in no more than minimally trade-distorting ways and should not become disguised restrictions to trade.

## **SPECIAL SAFEGUARD CLAUSE**

During the post Uruguay Round period, the Special Safeguard Clause (SSG) has played an important role in preventing unpredictable surges in imports or fluctuations in import prices.

During the accession process Croatia converted all import barriers (quantitative import restrictions, non-tariff measures maintained through state-trading enterprises) into ordinary custom duties (tariffs). In that way the conditions for SSG use were created but as a new Member that acceded to the WTO after the conclusion of the Uruguay Round, Croatia had not been given the right to use such a measure for a limited number of most sensitive agricultural commodities.

If all countries agree that due to special character of agriculture, the special safeguard clause should be maintained, Croatia would like to have the right to use SSG measure.

## **EXPORT COMPETITION**

Export subsidies reduction commitments are among the most important achievement of the UR agricultural negotiations and gives hope that further reduction in export competition will contribute to an improvement of agricultural trade based on comparative advantages of each Member country.

The application of export subsidies and all other instruments of export competition is putting Member countries, which are not allowed to apply them or cannot afford them, into disadvantaged position.

Therefore Croatia expects that, in addition to further significant reduction of value and quantity of export subsidies, all other forms of export competition will be covered by specific WTO rules and disciplines. That is to say that Members should undertake obligations to regulate and reduce other instruments of export competition such as food aid, export credits, state trading enterprises.

## **THE APPLICATION OF NEW COMMITMENTS**

The similar problems of other economies in transition and the need for flexible approach in the WTO Commitments are the natural reasons that led Croatia to co-sponsor the negotiating proposals of a group of numerous transition economies in respect of market access and domestic support.

Private producers always dominated Croatian agriculture. Currently, many of them face difficulties caused by war and transition of the economy to a market-based economic system. Perhaps the most serious problem is the small average farm size (average of less than 3 ha) fragmented into several land plots, which make agricultural production uneconomic in a market-orientated way. Also, from the large number of agricultural households (approximately 500,000), only a small part are full-time market-oriented agricultural producers. A large number of them are old households forced to engage in some kind of agricultural production to compensate for low pensions. Despite these problems, many private farm producers are optimistic about the prospects for Croatian agriculture.

During occupation, 29 per cent of agricultural land was inaccessible for several years. During the war one third of the livestock (one half of the cattle) and one fourth of agricultural mechanisation were destroyed. More than 400,000 people mostly from rural areas were dislocated and turned from agricultural producers into consumers.

Restructuring in agricultural sector and the process of adjustment to a market-based economy faces difficulties. A particular difficulty is the restructuring of the former agrocombinats<sup>1</sup>, which dominated food processing and distribution. Despite favourable conditions for agricultural production in Croatia, the dislocations caused by the restructuring of agrocombinats<sup>1</sup> resulted in huge declines in agricultural production and food processing, which was compensated by imports. It is important to highlight the accelerated import value growth of agricultural and food products since independence. Agricultural imports increased from US\$400 million in 1993 to US\$865 million (average import from the 1997 to 1999). For the same period, agricultural exports increased only marginally - from US\$497 million to US\$506 million.

Average annual deficit in agricultural and food trade at the end of 90s was about US\$411 million or approximately 20 per cent of agricultural GDP. For the same period, average agricultural and food import accounted for about 40-50 per cent of agricultural GDP.

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<sup>1</sup> Formerly state-owned, large-scale agricultural enterprises.

Croatian agricultural sector is in reform process trying to increase its efficiency and competitiveness. It is a long-term process and results will not be seen over night in our socially sensitive agricultural sector. Even the negotiation results of our accession process are one of the additional factors that should be considered.

Croatia is aware that further reduction in support and protection are necessary but in process to adjust to the international competition, additional flexibility is needed. Croatia only recently became a WTO member and the transitional period for most of tariff lines is 3 or 4 years. Due to situation in agricultural sector, the application of new commitments needs some postponement. Therefore we would like to stress out the following:

**1. Market access:**

The new reduction commitments should not affect the transitional period for the implementation of the commitments made in accession's negotiations.

Croatia would like to ask for a possibility of at least 2 years as a pause after the implementation of accession's commitments at the level of individual tariff line before it begins with the implementation of new reduction commitments. For products which do not have transitional period (or transitional periods are significantly shorter), the beginning of implementation of new commitments should not be before 1 January 2005.

As a co-sponsor of the proposal made by group of transitional economies with regard to market access, Croatia would like to once again emphasise the elements contained therein. This proposal aims at the following: inclusion in any negotiating guidelines and modalities for the purpose of future tariff reductions and other market access commitments, specific flexibility provision. Such provision would, *inter alia*, exempt low tariffs from further reduction commitments for transition countries, as well as would allow for selective reduction commitments.

**2. Domestic support:**

The new reduction commitments should not affect the transitional period for the implementation of the commitments made in accession's negotiations.

Croatia would like to ask for a possibility of at least 2 years as a pause after the implementation of accession's commitments. That means that the beginning of implementation of new reduction commitments should not be before 1 January 2006.

As a co-sponsor of domestic support proposal of transitional group of countries, Croatia would once again like to emphasise the necessity of specific provision. This provision would exempt investment subsidies and input subsidies generally available to agriculture, interest subsidies to reduce the costs of financing as well as grants to cover debt repayment from domestic support reduction commitments that would otherwise be applicable to such measures. It would also increase the *de minimis* threshold applicable to the transition economies. The provision could be invoked by individual countries only until the problems in the agricultural sector described above do persist.

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