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**POLICY DYNAMICS IN NORTH AMERICAN AGRICULTURE:
DEFINITIONS OF AND PRESSURES FOR HARMONIZATION,
CONVERGENCE AND COMPATIBILITY IN POLICIES AND
PROGRAMS AFFECTING THE AGRI-FOOD SECTOR**

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INTRODUCTION

The theme of this Workshop is the process of harmonization, steady convergence and increased compatibility of public policy in the area of agriculture and the related parts of the food sector in the three economies of North America. My specific task is to define the terms “harmonization, convergence and compatibility” (hereafter H/C/C); to raise at least at a general level the issues which such a process poses for the countries concerned; to illustrate the way in which the H/C/C process is related to the implementation of North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) Agreement on Agriculture; and to relate these issues to the broader changes in the agricultural policy environment expected in the future.

Two underlying concepts can be used to guide this exploratory paper. The first is that as the market for agricultural and food commodities becomes more and more integrated on a continental basis the regulations which are needed to govern that market will also over time become continent-wide. This phenomenon could be called “shifting the regulatory framework to fit the scope of the market”. It is essentially an efficiency argument, and one that relies on notions of the optimal jurisdiction of policy instruments. The second concept is that entering into a free trade area essentially changes the nature of the policy decision within the member countries. This could be called “changing domestic policy to be compatible with free regional trade”. At one level it poses the question as to whether the provision of free trade itself takes precedence over other policy objectives. At another level it challenges the notion that a free trade area is a “light” form of integration that needs no elaborate institutional (supranational) structure. Of course these two concepts tend to overlap: the solution to the problems of the loss of autonomy for national policy may be to redefine policy to fit the scope of the market. But each provide a powerful underlying logic to the process of H/C/C.

The logic of these conceptual arguments may be satisfying to an academic observer, but in the world of agricultural policies it can cause political difficulties. The tension is clear in the case of NAFTA in that the development of common approaches to common problems requires a degree of political interaction among the three governments which may be impossible at this time. The comparison with European integration is illuminating. The administrative and political framework was established for a common approach to agricultural sector problems at the beginning of the integration process. Though issues of sovereignty came up in many contexts, no one really doubted the desirability of doing certain things at the level of the European Union (EU). But the question as to what should be done collectively is still alive, in particular in issues of environmental policy, income support and structural change.

The international dimension to H/C/C is also worth exploring in this context. There is a close parallel between what is going on within regions and what is being attempted within the WTO. The problems faced are similar and the solutions are also likely to contain the same elements. The articulation between the regional and the multilateral processes is of great significance for agriculture. The question for NAFTA is therefore as much a question of harmonization, convergence and compatibility with the policies of Brazil and Europe as within the North American continent.

The paper is organized in the following way. The next section gives a suggested definition of the process of H/C/C and illustrates it with respect to NAFTA, the EU and the WTO. The three concepts are then developed further with respect to their main characteristics: harmonization is entwined with the issue of sovereignty; convergence with the process of growing constraints on domestic policies as a result of regional integration; and compatibility with the development of dispute settlement or avoidance mechanisms on the North American continent. The paper concludes with a discussion of the future agenda for talks at the multilateral level, specifically the next round of trade negotiations in the WTO.

DEFINITIONS OF HARMONIZATION, CONVERGENCE AND COMPATIBILITY

As a first step in categorizing the development of agricultural policies in North America, an attempt at a definition of the terms harmonization, convergence and compatibility may help to focus the discussions of the topic.

Harmonization The process of introducing uniform or essentially similar regulations in different countries. This can come about through two different processes: the enactment of common policy instruments, by agreement between the countries, and the use of similar instruments within a common framework. The first corresponds to the category of Regulations in the EU, while the second can be thought of as Directives agreed by the EU to be implemented by national legislation. Both types of harmonization can be said to

constitute a “common policy” for the sector. But this policy can coexist with national instruments in other aspects of regulation.

Convergence The process of approximation of policy instruments over time. This can also be as a result of two different pressures: market interdependence, where policy instruments are constrained by the linkages among markets; and seemingly-unrelated policy pressures where countries react independently to similar events and thus converge in policy responses. Both these types of convergence can be consistent with independent policy-making processes and may go unnoticed by actors in those processes.

Compatibility The development of policies and instruments which avoid conflict and are designed to be consistent with those in other countries. In some cases the conflict is removed (by policy shifts which fall short of harmonization or convergence) and in other cases the conflict is resolved, perhaps as a result of dispute resolution processes. In the latter case the compatibility is imposed, which may lead to political tensions. Both types of compatibility have a fundamental problem of visibility; such compatibility may be evident only by looking at alternative policies which might have led to conflict. Policies which are already compatible do not show up on the political radar screen.

Each of the three concepts therefore has a “strong” and a “weak” variant. These variants are illustrated in graphical form in Table 1. As with any taxonomy there are likely to be a number of disputed cases where the allocation is arbitrary. Cause and effect may be difficult to distinguish, and the fact that policies are constantly changing leads to differences in interpretation as to the moment of policy shifts. Nevertheless that categorization seems to be quite useful in the case of North America and Europe, and for linking to the changes at the international level.

Table 1. Schema for Classifying Harmonization, Convergence and Compatibility

	Harmonization	Convergence	Compatibility
Strong form	“Regulations”, Common Policies	Market Interdependence and Arbitrage	Conflict removal by policy change
Weak form	“Directives”, Similar Policies Agreed frameworks	Reaction to common influences	Conflict resolution by dispute settlement

The extent of H/C/C embodied in NAFTA is shown in Table 2 and the situation in the EU is described in Table 3. Policy harmonization has occurred only in very limited areas of agriculture in North America, in particular in the conditions of internal market access, relative to the Common Agricultural Policy of the EU and the numerous EU regulations and directives that govern the food industry. (The closest that NAFTA has come to the use of

directives may be the labour and environmental side-agreements, which reinforce rather than replace national law but within a common framework). Convergence is already noticeable in North America and is likely to continue — as discussed at length below. The pressure to converge is of course country-dependent: the United States as the dominant economy and polity of the region will naturally consider itself more immune to change, and Canada and Mexico are more likely to be under pressure to converge their policies with those of the United States. In Europe the process of convergence was largely preempted by the stronger process of harmonization as a result of the more functional common institutions. The issues of compatibility are likely to be a focus of attention in North America, as policies are adapted to avoid or resolve conflicts. In Europe the strong compatibility was embedded in the Treaty of Rome which determined the rules of competition and the scope of national competence: weak compatibility is well illustrated by the widespread use of “mutual recognition” as a way of avoiding conflict among national policies.

Table 2. Harmonization, Convergence and Compatibility in NAFTA

	Harmonization	Convergence	Compatibility
Strong form	Internal Tariff Reduction	Market Interdependence and Arbitrage	Rules on internal export subsidies
Weak form		Coordination of approaches within GATT Round	Dispute settlement Mechanism set up for Conflict Resolution

Table 3. Harmonization, Convergence and Compatibility in European Union

	Harmonization	Convergence	Compatibility
Strong form	“Regulations” for External and Internal Trade: Common Agricultural Policy (CAP) instruments		Control of domestic policies; competition policy.
Weak form	“Directives” for national legislation, Structural and environmental policies		Conflict resolution by appeal to European Court of Justice

Convergence can also happen on a global scale, and this may indeed be a more significant pressure at present, at least for the United States, for policy change. The situation

at the end of the Uruguay Round is illustrated in Table 4. Tariffication represents a major step in harmonisation of policy instruments, and the Sanitary and Phytosanitary Agreement falls into the category of weak harmonization. Convergence is implied in the limits on export subsidies and in the changes in national policies in the same direction over the past few years. Compatibility also plays a part in the agreement with rules on subsidies and the strengthening of the dispute settlement mechanism.

Table 4. Harmonization, Convergence and Compatibility at the International Level

	Harmonization	Convergence	Compatibility
Strong form	Tariffication	Convergence through limits on national export subsidies	Rules for Green Box
Weak form	SPS Agreement	Liberalisation of agricultural policies for domestic reasons	Conflict resolution by WTO dispute settlement, subject to Peace Clause

HARMONIZATION AND THE ISSUE OF SOVEREIGNTY

The issue of harmonization is intimately bound up with sovereignty. Countries like to feel that they have independence in policy making, and resist the yielding of power to a supranational body. In the NAFTA context, the degree of sovereignty-reduction is minimal (*pace* Patrick Buchanan): the detailed agreements on tariff reductions are the stuff of most trade negotiations, and no one doubts the ability of the United States to suspend any provision of the NAFTA that was seen to cause serious domestic harm.

However the definition of sovereignty is often hazy and the issue of when one gives it up is never clear cut. Can one cede sovereignty for limited periods of time, in the best interests of the country? This issue is significant in the current European discussion. There has always been a strong feeling in the United Kingdom (UK) that sovereignty has been abridged by joining the EU. But the British Parliament could at any time repeal the European Communities Act and regain total control over economic policy. So long as this remains the case, one could argue that ultimate sovereignty has been retained. These fears are being raised at present on the extent to which sovereignty would be significantly curtailed by Monetary Union. In this case a vital aspect of nationhood, the currency, would be issued by a supranational entity, albeit with UK representation. But one could argue that such representation itself constitutes a willing suspension of sovereignty. The pound could always reemerge if the euro failed.

With respect to NAFTA the issues are not quite so clear-cut: there is no likelihood of Political Union in North America. But even in this case one can raise the issue of sovereignty. At what point does participation in a regional arrangement such as NAFTA become irreversible? As one sets up institutions to handle the trilateral relationship, might decisions get taken against the wishes of the national legislature? Or is the issue not so much ultimate responsibility but the day-to-day managerial functions and current oversight of policy that politicians wish to preserve?

In the case of NAFTA one also has to make the distinction between the member states. The U.S. Congress would be reluctant to accept any constraints over its constitutional authority for domestic legislation. Foreign policy is shared in an uneasy way between the Legislative and the Executive Branches. Trade policy can be negotiated by the Executive Branch subject to a mandate. If that Congressional Mandate allowed for the negotiation of a uniform NAFTA tariff against third countries then one could argue that would not violate sovereignty any more than negotiating tariff reductions in the WTO.

Sovereignty in the area of domestic agricultural policy is perhaps more problematic. For one thing such policies usually involve funds, and the notion of spending taxpayers money on farm programs in neighbouring countries is one that is unlikely to catch on in the United States — though of course it is a significant part of the agricultural policy regime in Europe. In NAFTA only relatively minor steps in the direction of common policies, such as the inclusion of Mexican producers in U.S. marketing schemes would be possible. Negotiating the peanut policy with Mexico and Canada at the table seems more remote. And yet the more the markets become integrated the more attractive such common policies are likely to become.

Sovereignty is also likely to be an issue for Canada and Mexico, which would no doubt wish to avoid the imposition of regulations decided in Washington. But the NAFTA institutions do offer the possibility for some pooling of sovereignty which could be to Canada's advantage and could be even more attractive to Mexico. Transportation policy is one obvious area where the rejection of NAFTA-wide schemes in the name of national independence could have a high cost. The same is true of many technical regulations such as packaging standards, where arbitrary differences merely make work for border officials and bureaucrats without adding to the store of human happiness. Sanitary and phytosanitary regulations on traded goods at present are the cause of much friction within the North American market. Harmonization of such regulations is a clear case of the reduction of transactions costs. Moreover it might avoid policy capture by interest groups and allow a modernization of established regulations. And it fits in with the concept of tailoring the regulatory instruments to the appropriate geographical space.

PRESSURES FOR CONVERGENCE IN AGRICULTURAL POLICIES

If harmonization is likely to come slowly through the logic of the benefits of collective action, the pressure from arbitrage among markets for convergence of policies could be quite rapid. Convergence of policies within free trade areas such as NAFTA may have important consequences for agriculture: the implications of including agriculture among the sectors which are subjected to free trade may turn out to be the most effective way to get continued reform of agricultural policies. Domestic programs of the traditional type require border measures to be effective; removing these border measures makes most domestic programs difficult to work. If one allows free trade within a Free Trade Agreement (FTA) one is agreeing to modify domestic programs. Moreover the external trade policies of the members are also impacted by the FTA, as the independence of the policy instruments meets the realities of market arbitrage. The internal and the external market pressures in the direction of convergence are dealt with separately below.

Internal Market Pressures for Convergence

Free agricultural trade within a region such as NAFTA has strong implications for the future scope of domestic policies. Free trade does not however threaten to eliminate farm programs altogether. Governments are not likely to buy the argument that forming a free-trade area involves giving up all domestic sectoral, regional and industrial policies. In practice, the question is how to constrain policies that give a marked incentive to expand the production, or reduce the consumption, of a product of export interest to a trading partner.

One would expect the issue of internal market access to be the most immediate concern in FTAs: the natural focus of such agreements is on a reduction on tariffs and quantitative trade restrictions on intra-bloc trade, leaving members to run their own external commercial policy. The tariff reductions can be subject to safeguard provisions, which can act to "snap-back" tariffs if imports rise too fast. The U.S.-Canada Free Trade Agreement included liberalization of Canada's import licensing arrangements for cereals. NAFTA goes further to include tariffication of a large number of non-tariff import barriers. Among other forms of protection, it also seems natural that FTA partners remove all Voluntary Export Restraint (VER) arrangements between them, perhaps after a transition period. This happened in both the U.S.-Canada Agreement and in the NAFTA: each country exempted its partner(s) from the application of VERs on meat.

Export subsidies operated by one member are also likely to be objectionable to producer interests in a FTA, on grounds that competition is distorted. The U.S.-Canada Free Trade Agreement removed export subsidies on intra-FTA trade in agricultural products, presumably because both countries had a similar export composition. The issue is not so clear-cut when one country is an importer. On occasions an importing country may wish to keep the advantage of subsidized imports from the partner, at the expenses of domestic producer interests. NAFTA, therefore, allows export subsidies on internal trade if the importer agrees to them, and in cases where the importer is benefiting from subsidized goods

from third countries. This allows, for example, continued U.S. government credit guarantees on sales of dairy and grain products to Mexico.

This problem of what to do with institutions that run current policies arises also in the case of state trading. A parastatal importer can offer protection without the need for a tariff or explicit quota. The effective quota is the amount imported, which can be less than would have come in under free trade, and the implicit tariff revenue is the profit made by reselling on the domestic market. Export agencies also can influence traded quantities, often giving an effective subsidy through trading losses. The NAFTA experience is interesting. Mexico has, as a part of its economic reforms, curtailed the actions of CONASUPO. It would in any case have been contentious. Canada seems less willing at present to sacrifice the Canadian Wheat Board. Instead, one can sense a long protracted battle over the issue of hidden subsidies arising from Board operations. Canadian provincial marketing boards also seem to have survived NAFTA, though one can foresee a gradual diminution of their powers. A country may be reluctant to give up its cherished institutions on account of a FTA: in practice, some accommodation will be found to prevent conflicts arising within the FTA from state trading activity.

Producer subsidies raise problems for FTAs only slightly less serious than direct trade barriers. Competitors in other countries are likely to challenge producer subsidies as distortive of competition. Deficiency payments are a special breed of producer subsidy, triggered by the relationship between market prices and a pre-set guaranteed price. They add stability to farm prices (if not incomes) and are generally considered by recipients to be the next best thing to adequate market prices. To give up these policies in NAFTA may prove difficult. It may be necessary to put limits on such subsidies, or to attempt to harmonize the levels of such assistance. The U.S.-Canada Free Trade Agreement attempted to deal with this issue in the context of opening up Canadian markets to U.S. grain, as noted earlier. In the end, it is likely that attempts to "decouple" such payments, as has now been done in all three countries, will largely defuse the problem of producer subsidies in NAFTA.

Consumer subsidies are unlikely to generate significant problems within a FTA, even though they may distort competition. Similarly benign are programs that are effectively decoupled from output and consumption decisions, such as food stamps (which act much as an income supplement) and crop insurance (so long as it is not commodity specific).

How compatible are the policies that fall into the category of wholly or partially decoupled payments such as income supplements. These may pose some problems in a FTA, though if truly decoupled from current output decisions they may have a minimal impact on competition. The payments under the new Farm Bill in the United States could be deemed to be non-distorting within NAFTA. But what about payments per hectare, such as employed in the PROCAMPO program in Mexico? The Mexican program looks like an imaginative solution to internal policy issues broadly compatible with NAFTA. But with a deepening of the market integration such schemes may have to be carefully designed to avoid challenges from other countries. Over time one would expect to see a qualitative shift in domestic policies as a result of negotiations within FTAs. Moreover, members will tend to modify their policies over time even if not the subject of negotiations, as a way of adjusting to the reality of intra-bloc trade.

Third Country Trade Policy and Convergence

The problem of domestic instruments as barriers to market access for FTA partners is the focus of most attention in free-trade negotiations. On the face of it, members can remove those policies that cause the most trade friction within the FTA and still maintain their individual policies against non-members. But an equally important issue that has received somewhat less attention is the impact of freer intra-bloc trade on the effectiveness of trade policy instruments that might be used by member countries on third country trade.

The act of opening up one's market to a FTA partner changes the range of policy instruments that can be used on third country trade. The feasible commercial policy set in a FTA is much smaller once protection against partner trade is removed. The loss of policy effectiveness can be illustrated by considering the various instruments in the presence of free partner trade.

The problem of disparate tariffs on third country trade among FTA members is well known. Trade can be "deflected" through the country with the lowest border protection and dilute the protection in the other countries. It is normal in FTAs to deal with trade deflection by means of rules of origin. To qualify as "internal" a product must have undergone a substantial transformation (or acquired a particular value added) in the partner country. Unfortunately, this remedy is of limited use for agricultural products. Rules of origin are both more difficult to enforce and likely to be less effective for a homogenous good: even if one could trace the origin of a particular bushel of wheat or gallon of milk, national supplies are fungible. The low-priced country could import up to its total consumption needs to free up exports to the high-priced market. The significance of this "leakage" will depend upon the size of domestic production in the low-price partner relative to imports into the high-price region. The impact can range from the capture of some rents by the low-price partner exporters all the way to the erosion of the market price in the high-price country to that of the low-price market.

Similar problems apply in the case of tariff-rate quotas on third country imports. One country cannot effectively maintain such quotas if its partner with free access does not. Import quotas can be fully effective only if "regionalized" to apply to both markets — in effect the introduction of a "common policy" — just as tariffs will only be fully effective if harmonized. Third-country import policy can still be nominally independent in a FTA, but in practice pressures will mount for convergence in the case of homogenous products.

Export policy fares no better. An export subsidy (on third country trade) may survive the negotiation of a FTA. But if there is free access into the market of the subsidizing country, and supplies are fungible, production from the non-subsidizing country will flow to the subsidizing partner and over time may cause the policy to collapse. Canadian wheat enters the United States not directly to be exported with the aid of Export Enhancement Program (EEP) payments but to fill the market left by the EEP exports. Once again, the solution is either common policies or the abandonment of the instruments. Home-market schemes and "producer-financed" export subsidies also lose their efficacy in a situation of free partner access, even if restricted to third countries. The ability of marketing boards to

operate such schemes is impaired by lack of control of all sources of supply. Consumers can in effect choose not to subsidize exports: they merely buy partner-country products instead.

Convergence of Domestic Farm Policies

The ability of countries within a FTA to run independent policies on third country trade are *de facto* restricted by arbitrage; but surely they can still run domestic policies to maintain and stabilize farm incomes? Arbitrage, however, has a debilitating impact on even such "domestic" policies. In general, it is difficult for one country to stabilize its market if it has free trade with a less stable partner; instability will flow across the border. This will tend to lead to either a departure from FTA principles or a common stability policy. Independent stability policies may not survive for as long a regional free trade regime. Take as an example the control of domestic markets through storage schemes. Storage policies will become less effective, as one partner attempts to stabilize the whole FTA internal market. There may be no objection from trading partners to such a scheme, but it might prove too expensive for one country to have to stabilize the whole FTA market. In addition, different policies toward trade with third countries will make such storage schemes even less manageable. The "storing" country could attract imports through the lowest-price FTA member. If this member chose to buy at world market prices, the storage policy would in effect be attempting to stabilize world markets. Without some coordination of import regimes, it is not easy to see how any country could run its own independent storage scheme. The tendency will be to develop coordinated or collective storage policies.

The same result is even more evident in the case of the control of domestic supply through production or marketing quotas. Free partner trade will not in itself prevent such quotas from operating. The effectiveness of such quotas, however, will be significantly limited. It is clear both from economic analysis and trade policy practice that domestic supply controls need trade measures as support. If substitute production can be freely imported from a FTA partner, the supply control will be ineffective in maintaining price. This was the reasoning behind the exception in the GATT to the rule of "tariffs only" (Article XI), which allowed quantitative restrictions when domestic production was controlled — until overtaken in the Uruguay Round Agreement on Agriculture by the provision that converted non-tariff barriers to tariffs. It also lay behind the use of import quotas under Section 22 of the U.S. Agricultural Adjustment Act (as amended) which mandated such action in support of domestic policies until abandoned as part of the Uruguay Round Agreement.

Decoupling such policies from output decisions, suggested above as the response to the intra-FTA competition issue, would also tend to free farm incomes from market prices. The set of decoupled policies will generally be left unaffected by freer intra-bloc trade. Crop insurance, hectareage payments (for the reduction in price support, tending the land, or abstaining from chemical dependency) and food stamps can all thrive in an environment of free trade. In some cases, there might be higher costs, if market prices fell or were more unstable, but such extra costs in effect would be compensation for the beneficial impact of lower cost supplies. It is no coincidence that the same set of policies are placed in the "green

box" in the Uruguay Round Agreement. Policies that are consistent with free regional trade are also likely to be acceptable at the international level. They are not only consistent with market access and competition needs of a FTA, but also they, almost alone among existing policies, can be run effectively in the presence of free trade among partners. The reinstrumentation of policies towards decoupling and targeting may be the only way for farm groups to preserve benefits without facing head-on the movement to regional free trade.

POLICY COMPATIBILITY AND FREE TRADE AREAS

The argument for the need for compatibility among agricultural policies of different members of a free trade area is relatively easy to make. To look at the issue of compatibility it is useful to review some of the conflicts that have come up recently in the context of NAFTA. The one major conflict that has arisen is a consequence not so much of NAFTA but of shifting technology and consumer taste. The case is the inflow of tomatoes from Mexico that caused growers in Florida in March 1996 to seek help from the Courts to force the U.S. Administration to impose restrictions over and above NAFTA safeguards on these imports. The Mexican government was concerned over the precedent but recognized the political pressures on the U.S. Administration in an election year and helpfully agreed to a minimum import price. The surge of tomato imports was however hardly a reflection of market liberalization under NAFTA (tariffs on tomato imports were low already): rather it was a result of quality improvements in Mexico and good marketing skills in the United States. Unfortunately it does not appear that the "snapback" provisions which are supposed to guard against such import surges were effective, but then if the imports were not growing in response to the cuts in tariff then the snapback would not have helped.

What does this event portend for the compatibility of policies within NAFTA? The negative lesson is that pressure from domestic groups can cause the United States to attempt to modify the NAFTA arrangements, at least over the transition period to free trade, rather than to make domestic adjustments. It was always likely that such domestic pressures would have to be accommodated, but the Treaty itself makes such accommodation to protectionist pleas more difficult. The tomato growers pulled out all the stops and failed to get an anti-dumping decision, ending up with a politically negotiated settlement which in fact will do little harm to the Mexican exporter. It seems unlikely that any other commodity group will take much heart over this, and try to renegotiate their own NAFTA terms.

Domestic, electoral politics was evident not only in the tomato case. Perhaps the most important implementation issue has arisen in the trucking industry. Here is a case where compatibility was built into the NAFTA agreement. Passage of trucks across the border, at least into border states, was to have been in effect by now. The U.S. Administration, upon a request by the Teamsters Union, delayed the implementation of these provisions. The result has been that goods often still have to be off-loaded at the border and be reloaded onto other vehicles. But if pressure of election politics played a role in this decision then the removal of that pressure could lead to a speedy solution. It seems likely that the commercial

interests of traders in the border states, including those selling agricultural products, will prevail over the complaints of U.S. truckers as soon as the Administration is convinced that no safety or environmental issues remain unresolved. Compatibility will have been achieved as a result of the NAFTA decision.

The third irritant which has bedevilled the implementation process is that of the ban on avocados in the U.S. market. The discussions dragged on for years as to the risks of pest infestations to Californian avocado growers, and studies have appeared which indicate that the U.S. consumer pays highly for the trade restriction. A compromise has emerged which would give the Mexican producer at least seasonal access to the market in the Northeast United States, where no avocados are grown, subject to minimum import prices. Though no politician likes to anger a vocal group such as the Californian avocado growers, if one is going to take such a decision then the period after an election is the best time. In the avocado case, compatibility has come as a result of the search for compromise among the agencies in the two countries responsible for phytosanitary regulations.

THE INTERNATIONAL DIMENSION

The common set of issues which countries have addressed in both multilateral and regional trade negotiations is the considerable economic harm being done both domestically and to trading partners by a set of agricultural price support policies which were clearly out of tune with the times. Such policies were at the root of most of the trade tensions between the EC and the United States, the developing countries and (more recently) Eastern Europe. Moreover, they were increasingly unpopular at home and generally agreed to be ineffective. Government after government made efforts to implement domestic reform of farm programs. All agreed that what was needed was international action on the issue, bringing the political benefits of blame-shift and the economic bonus of firmer world prices to reduce the cost of adjustment. It is inconceivable that the situation could have been allowed to go on for much longer. A process of weak convergence in domestic policy allowed the contemplation of stronger harmonization at the international level as embodied in the Uruguay Round Agreement.

The next round of the WTO talks on agriculture is nearly upon us. There is by now general agreement that the Uruguay Round made a useful start to the process of bringing the rules of agricultural trade more into line with those for manufactured trade but achieved only limited success in liberalizing agricultural trade. The process of tariffication has left exposed the high degree of protection still in the sector. Export subsidies are still allowed and indeed are sanctioned to the limits included in the Schedules. Domestic (coupled) support continues to be legal at a level not much below that of the high support period of the mid-1980s. The process of tariffication also exposed the difference in the role of the state in the import regimes in different countries, just as the tighter rules on export subsidies exposes differences in export marketing institutions. These institutional differences are themselves becoming a

trade policy issue which will have to be faced. Thus the agenda for the next Round of trade negotiations is already full, and preparations for the talks should begin as early as possible.

The Uruguay Round itself agreed the next steps for the multilateral process of trade liberalization. The Agreement on Agriculture calls for talks to be initiated no later than 1999 on the continuation of the process of reform of the trade system for farm products. The Agreement confirms 'the long-term objective of substantial, progressive reductions in support and protection resulting in fundamental reform'. The responsibility for review of the implementation of the Uruguay Round Agreement for agriculture rests with the newly-formed Committee on Agriculture (CoA).¹ This Committee will carry out the review on an ongoing basis in its regular meetings. The CoA would also seem to be the appropriate body to initiate the next stage of the process and to define the agenda for achieving the objective.

The agenda for the next round of agricultural talks is already crowded. First, it will be necessary to review the workings of the Agreement and the progress of transition laid out in the Schedules. Second, the mini-round will have to deal with the remaining anomalies, such as the postponement of tariffication for rice for Japan, Korea and the Philippines and for some products in Israel. Third it will have to decide on the next step toward the greater market-orientation promised at Punta del Este. The strategy for the continuation of the reform process will need to encompass additional market access provisions, further reductions in export subsidies, and more discipline in the area of trade-distorting domestic subsidies.

As a result of these pressures, there could be a movement toward more similar bloc policies, involving convergence of national policy instruments and national treatment for partner supplies. Or the members of the free-trade area could change to policies which rely on simple border tariffs and decoupled payments — in effect making them compatible. The relation between regional and global attempts to liberalize markets will depend on which outcome materializes. It may be politically convenient to sell a FTA as having no impact on domestic farm support policies, but this places additional burdens on global talks to impose such constraints. By contrast, the development of harmonized or collective policies by trade blocs could make negotiation at a global level somewhat easier: problems might be internalized within a group that would otherwise slow down multilateral talks. Policy change along the lines discussed above will also contribute to successful global negotiations. If FTAs move for internal reasons toward decoupled policies, then agreements at a multilateral level would be facilitated.

The conclusion to this line of argument seems to be that there are no longer clear distinctions between domestic and trade policies, nor between regional and multilateral trade processes. It may not matter much what is the order of policy actions, the forum in which agreement is reached, or the label under which the action is taken. Agriculture is being exposed to competition in country after country because the government thinks it makes good sense. The GATT helps in that it is important to have global trade rules. The NAFTA

¹ The Committee is set up in Article 18 of the Agreement. The issue of future negotiations is dealt with in Article 20, entitled Continuation of the Reform Process.

and the Europe Agreements have their roles either leading or following the global talks. Domestic decisions can be spurred by trade policies: they are no longer sacrosanct. Trade policy decisions will be scrutinized by the same constituencies as examine domestic policies. Such a policy environment may be less tidy, but it will not be uninteresting.

CONCLUSION

The economies of Canada, Mexico and the United States are already closely integrated and this process has been accelerated by NAFTA. This implies that policies premised on independence are no longer likely to be viable. Some degree of policy harmonization, convergence or compatibility will emerge, either planned or as an *ad hoc* response to crises and tensions. This is as true of agriculture as of other sectors of the economy. The argument of this paper can be summed up in three propositions, as follows:

- i) Formal harmonization of North American agricultural policies is unlikely to happen outside the conditions of market access and a few areas such as technical standards. The political will to have joint institutions decide on policies, either as regulations or as directives is not present in the United States nor in Canada, and the willingness of Mexico to adopt U.S. standards may even have its limits. Harmonization will continue however at the multilateral level as a result of yet firmer trade rules in the next WTO Round.
- ii) North American agricultural trade policies toward other countries are most likely to converge (rather than be harmonized) as a result of the difficulties of operating divergent policies and the benefits of presenting a common front to other countries. Convergence of domestic policies will be as a result of international pressures as much as NAFTA rules, with each country's agricultural policies looking similar but retaining individual characteristics.
- iii) Compatibility will be a relatively slow process in North America, driven by trade disputes and the results of panels. The NAFTA institutions are unlikely to make much headway in forcing policy change. Nevertheless the result will be to move to more compatible policies. This will over time allow the NAFTA-wide internal market to operate more efficiently and with less conflict.