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The Uruguay Round: From Cold War To Cooperation In Negotiating Temperate-zone Agricultural And Trade Policies

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It is not likely that Governments will take precipitous action following the Uruguay Round. However, the large industrial economies should continue to press heavily for the revision of farm programs until a better accommodation is reached. The moves toward gradual decoupling of farmers' support payments from agricultural output and price levels should be the first order of business of Governments everywhere. This reform should be supplemented by greater international attention to domestic policies which create non-tariff barriers to trade.

1. Introduction

About two years ago I addressed the British Agricultural Economics Society on the subject "Confessions of a Double Agent in the EC-US Policy Argument." An alternative title was "Appreciating the Opposition in Agricultural Policy" (Hillman 1992). The essential observation was that certain political and economic events and forces are driving Europe and the United States toward compromise and accommodation in their agricultural and trade policies and that they should get on with the process. That adjuration now includes all the temperate-zone industrialised world.

In what follows I should like to continue the theme of the Aberdeen paper, but expand, update and try to be a bit more specific with some suggested directions and levels of activity toward resolving the major hurdles in the farm and agricultural trade policies of the developed countries. I choose two major issues to illustrate a thesis of conciliation, cooperation and understanding, rather than confrontation and obstruction, toward agricultural trade policy resolution. After a brief description of the current subsidy situation and the Uruguay Round of GATT, I make equally brief observations on macroeconomics and the role of government. From there, I proceed to select two areas for com-

mentary and policy suggestions: national agricultural policies and non-tariff barriers. Finally, I make some comments as to the role of the United States in helping improve agricultural policy and the multilateral trading system.

2. The Current Situation

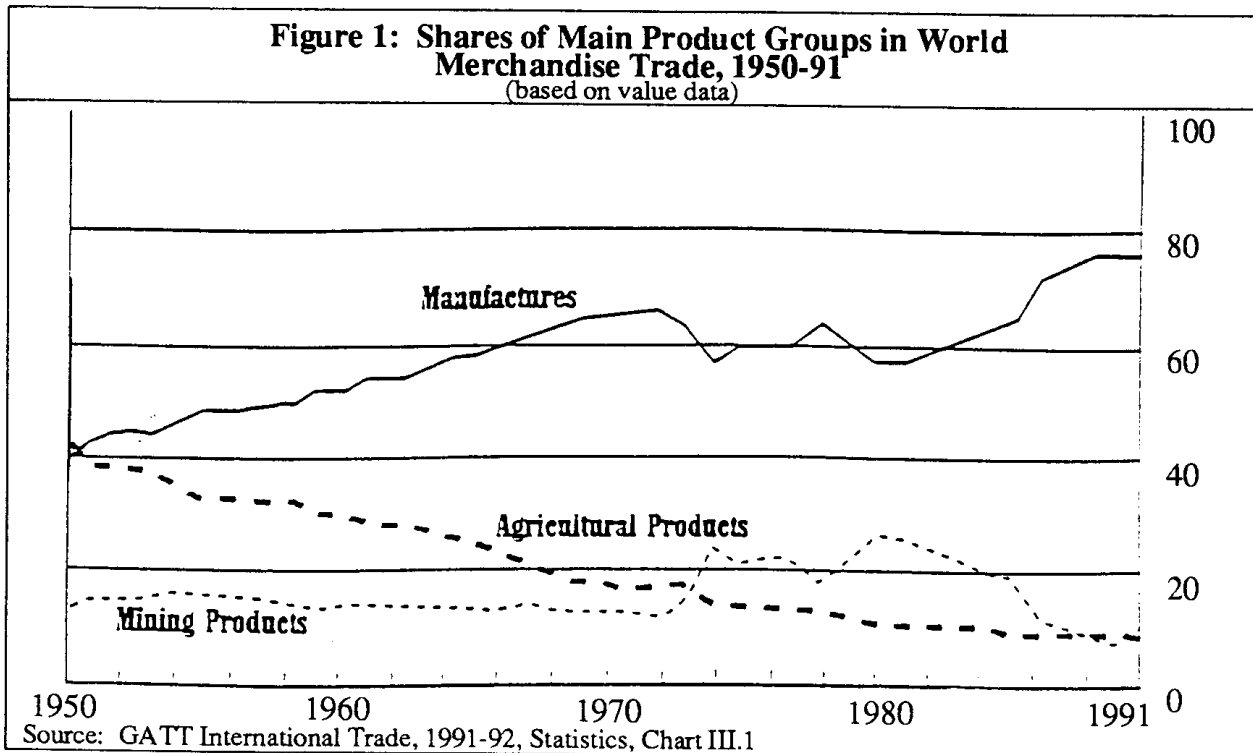
2.1 Subsidy and Protection

Temperate zone agriculture is increasingly characterized by large-scale industrialised farms with highly controlled production processes, buttressed by governments that influence market processes through all sorts of intervention mechanisms, price support policies border protection and export-import manipulative devices. It is instructive to study the latest OECD report on agricultural policies where 20 pages are devoted to a *Glossary of Agricultural Policy Terms* (OECD 1993, 205-225). Enormous bureaucracies have been built up across the industrialised world to administer farm programs, to manage agricultural commerce, and to supervise the legislative and regulative constructs attendant to modern agricultural trade flows.

The apparent inconsistency between a relatively declining agricultural sector, numbers of farms, etc., and a relatively increasing set of industries, institutions and bureaucracies associated with farming and agriculture is a broad subject beyond our need to fully analyse here. Suffice it to show

* Professor Emeritus, University of Arizona. Revised version of Invited Paper to 38th Annual Conference of the Society, Victoria University, Wellington, New Zealand, 10-12 February 1994.

Review coordinated by Richard Wallace and the Editor.



that shares of agricultural products in world merchandise trade have been in secular decline at least since 1950, while the costs of protecting this declining share appear to be rising. Agriculture today stands at about 10 per cent of world trade, compared to 80 per cent for manufactures. Shares going to mining products make up the difference (Figure 1).

It is more important to point out that despite this declining relative share for agricultural trade and the concomitant declining absolute number of farmers everywhere, total transfers of benefits from taxpayers and consumers to agriculture have continued to rise generally over the past several decades. (See Table 1 for the years 1988-92.) Hence, we can logically conclude that agricultural protection and agricultural trade distortion have risen relative to the manufacturing sector. Producer Subsidy Equivalents (PSEs) and Consumer Subsidy Equivalents (CSEs) as measures of support for agribusiness have their critics (Johnson 1991, 43-46; de Gorter and Harvey 1990) but until better measures become available they can be used to make the point. In 1992 the OECD calculated that net transfers from consumers and taxpayers associated with agricultural policies were US\$354 bil-

lion, of which US\$160 billion was for the European Community, \$91 billion for the United States, and US\$74 billion for Japan. Total transfers per full-time farmer equivalent in 1992 were US\$17,700 for Europe, US\$36,100 for the United States, and US\$24,000 in Japan.

What is the rationale for subsidising and protecting a relatively declining agricultural sector and fewer farmers, disregarding the benefits which accrue to the distribution of comparative advantage in agriculture? Many studies of agricultural protection have been made in recent years without coming up with an accepted explanation of the differential levels of protection across the industrialised world. Whereas the old 'farm problem' disappeared, as defined by agricultural economists in the post-World War II decades, the variety and the magnitude of interventions did not. In fact, the programs of the mid-1980s were the costliest in history while 20 per cent of United States farmland was held idle. Despite a modified version of the MacSharry Plan, for reforming the Common Agricultural Policy (CAP) of the European Community, costs remain high and controversy remains. The basic issues of high costs and the maldistribution of benefits - from a political vantage point - remain in most countries.

Table 1: Total Transfers Associated with Agricultural Policies (in billion US dollars)

	Transfers from taxpayers					Transfers from consumers					Budget revenues					Total transfers				
	(1)					(2)					(3)					(1) + (2) + (3)				
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992
Australia	0.6	0.7	1.2	1.2	1.1	0.3	0.4	0.5	0.6	0.4	0.0	0.0	0.0	0.0	0.0	1.0	1.1	1.7	1.8	1.6
Austria	1.0	0.8	1.1	1.2	1.3	2.5	2.0	2.9	3.0	3.0	0.1	0.1	0.1	0.1	0.1	3.5	2.8	3.9	4.1	4.2
Canada	5.3	5.4	5.3	6.7	5.4	3.4	3.4	4.0	4.1	3.7	0.0	0.0	0.0	0.0	0.0	8.7	8.8	9.3	10.8	9.1
EC-12 ¹	45.7	40.7	49.9	58.7	67.0	76.3	63.9	84.0	88.3	89.7	1.0	0.9	0.9	0.7	0.8	121.0	103.7	133.0	146.4	155.9
Finland	1.9	1.8	2.4	2.4	1.9	3.2	3.2	3.8	3.5	2.8	0.1	0.0	0.0	0.1	0.1	5.0	5.0	6.1	5.8	4.5
Japan	19.6	18.0	15.8	17.4	18.0	66.4	59.8	54.9	62.9	68.8	15.2	12.1	0.2	14.7	12.8	70.7	65.6	60.6	65.6	74.0
New Zealand	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.1
Norway	1.9	1.8	2.1	2.1	2.2	1.7	1.6	2.1	2.0	2.1	0.1	0.1	0.1	0.1	0.1	3.5	3.3	4.1	4.0	4.1
Sweden	0.6	0.5	0.5	1.1	0.6	2.7	2.6	2.9	2.8	2.9	0.1	0.1	0.1	0.2	0.3	3.1	3.0	3.3	3.8	3.2
Switzerland	1.8	1.8	2.2	2.4	2.6	4.7	3.6	4.4	4.4	3.9	0.8	0.6	0.6	0.6	0.7	5.6	4.8	5.9	6.2	5.8
United States	44.2	47.8	44.2	54.6	63.4	22.9	23.0	26.7	27.4	28.6	0.9	0.7	0.8	0.9	0.9	66.2	70.1	70.1	81.1	91.1
TOTAL	122.7	119.5	124.7	163.6	163.6	184.2	163.5	186.2	199.0	205.9	18.5	14.7	12.8	17.3	15.8	288.4	268.2	298.1	329.5	353.7

¹ Including ex-GDR in 1990, 1991, and 1992.

Source: Agricultural Policies, Markets and Trade; Monitoring and Outlook 1993, Table II. 15.

In passing it should be noted that public choice theorists have their explanations of this apparent incongruity. Tullock and Hillman (1991) examined the power of interest groups in US agriculture. More recently Schonhardt-Bailey (1993) has proposed that the form of asset holding is an important determinant of different propensities to protect domestic agriculture, allowing for different incentives of groups to lobby for a change in trade policy.

2.2 GATT: The Uruguay Round

Details of the draft GATT agreement concluding the Uruguay Round are set out in the preceding article. It can be safely said that farm-trade disputes continue to divert the industrialised countries from the main goals of agricultural policy - and the main goals of world trade harmony and economic growth. They are keeping the GATT from decisions on other kinds of commerce, including services and non-agricultural goods, and tend to hamper economic growth in under-developed countries. The dumping of cheap corn, wheat and other commodities in poor countries has discouraged agricultural advancement. And that is a basic source of economic growth, as rich countries certainly should know from their own experience.

It should be noted that, while a signed GATT agreement does not assure the world of free trade in agricultural products, it does represent an advance over the situation that existed before the Uruguay Round began (Josling 1993b) and that a better deal on agriculture might have to wait a while longer (Ingersent, Rayner and Hine 1994).

3. Observations on Fundamentals

The agricultural sectors of temperate-zone countries have many problems in common some of which should bind them as to solution. As is often the case, however, the issues that divide overshadow those which should unite, and particular problems arise only to be blown out of proportion by the rhetoric of the combatants. What should be strategies for long-term evolutionary betterment of farmers and rural population never surface, or are

lost in the shuffle of tactical manoeuvring over commodity trade issues in the short run. Examples of this are the US-EC soybean argument, the US-Japan controversy over citrus, beef and rice, the Canadian-US (also Canadian-Australian) issue of pork imports, etc.

Economic philosophies, trade disputes and trade tensions that cannot be mitigated by commercial diplomacy are continuing subjects for economists and political scientists. Most analyses have centred on the differences between the United States and European Community on farm trade issues (Moyer and Josling 1990) because of the acuteness of disputes. But the time has come to think more generally, in a longer time frame, and certainly in broader geographical terms.¹ Also, as already mentioned, when an industry - agriculture in this case - is losing power relatively, it should seek accommodation and make alliances.

3.1 Macroeconomics

Most everyone would agree that it is difficult for agriculture to thrive in a world economy that is in the doldrums. If we look at the major example of the Great Depression, we see unemployment, slow economic growth, exchange rate instability, lack of direction in central banking, and trade protectionism all abetting conditions of retarded production, low productivity and stifled world trade in agricultural commodities. On several occasions since World War II the world has slid into recession. Accompanying each of the recessions was a series of agricultural trade difficulties, led by forces beyond the power of the agricultural establishment in the industrialised countries to counteract. Long ago the political forces in agriculture had lost the power to greatly influence the macroeconomic agenda (Paarlberg 1981, 1-13). Departments of treasury, foreign affairs, energy, environment and

¹ For example, the impact of industrial countries' farm policies on the developing world can't continue to be ignored (Hudec, 1987).

others are now calling the shots, depending on the country or the region.

Hence, we arrive at my first, and major suggestion: OECD countries, the Group of Seven organisation and the annual IMF-IBRD discussions should focus on a major tune-up for the world economy. Inflated asset prices of the 1980s have required balance sheet adjustments by households, enterprises and financial institutions and, consequently, left a legacy of recession that settled over most parts of the industrialised world (International Monetary Fund 1993). In this context, the importance of having completed the Uruguay Round of GATT to economic recovery and sustainable growth becomes more obvious as a target for leaders of industrialised countries. Weak growth and unemployment in recent years have resulted in a trend toward protectionism, managed trade and resistance to change. Agricultural forces in some countries have taken advantage of this trend and have allied themselves with protectionist elements. Resistance to competition and change are major impediments to growth thus producing a vicious circle - protective measures feeding on economic weakness and economic weakness being aggravated in turn by ensuing protection. While my emphasis is on agricultural trade distortion, the necessity for world leaders to move boldly now that this round of GATT has been completed cannot be overemphasised. They should further exercise their leadership in improving the entire trading system.

In this regard, the establishment of a Multilateral Trade Organization (MTO) was part of the Draft Final Act of the Uruguay Round. Including an MTO might partially rectify the error made (principally by the United States Congress) by not ratifying the Havana Charter (International Trade Organization) in the late 1940s. The MTO would administer GATT processes, the agreement on services, exceptions provided for balance of payment reasons, and trade-related phenomena. It would also undertake a number of obligations with respect to agricultural trade.

3.2 The Role of Government

Many problems arise between governments not because of large fundamental differences in their economic philosophies and their democratic institutions but because of the way governments are organised, the bureaucracies which are put in place to carry out policies, and the tactical weapons which particular administrations use to carry on negotiations, in our case agricultural and trade policies. I have shown elsewhere, for example, that most European countries and the United States historically have taken different attitudes towards cartelisation, trusts and government intervention (Hillman 1992). Moreover, in the recent GATT negotiations the initial US position of zero option - eliminating all subsidies and trade restrictions in ten years - presented the false impression, or false hope, that the administration in power was, indeed, trying to "get the government off the farmer's back" or to "get the government out of [American] agriculture." The ensuing dialogue and negotiation took considerable time - two years or more - to get all parties into a realistic position of bargaining.

Fact is, no government has its hands clean when it comes to agricultural and trade policy intervention. Except for the massive intervention in agricultural production and trade authorised by the Agricultural Adjustment Act (AAA) of 1933 (Amended in 1935, and subsequently), the United States has always postured as the champion of open markets. Only recently, due principally to the success of Japan, has US economic and trade policy rhetoric wavered, with some strong support for more management of the economy through government actions in industry and trade. Ostensibly, such industrial intervention would be taken to offset the growing power of Japan and Europe.

With all the current debate and excitement about "privatisation" and economic liberalisation it should be remembered that much government intervention into markets and trade processes in the past came about because of the failure of markets and breakdown of commercial policies. The AAA and its successors in the United States which still

have the federal government very much at the heart of farm and trade policy, is an example. All Europe, Australia, New Zealand and others had similar experiences with interventions from the turn of the century up to World War II, if not directly in farm production and marketing decisions, certainly in commercial policies, exchange rate manipulation and monetary management, and structural controls. New Zealand is the only country which has, in recent years, fully liberalised and desubsidised its agriculture and related trade policy. I have doubts that in the foreseeable future governments of the industrialised countries will have free and open agricultural markets. Thus, the argument will continue as to what is the best approach to farm and trade policies, how to keep pressure on for freer markets, how to desubsidise and deregulate, and how to reduce costs of farm programs while improving the welfare of the farm population. And, of course, how to be fair to developing democracies. My position is that governments are set up to assist their constituencies; and, further, because of the different situation we now face our collective governments have the responsibility to work together reasonably toward solving agricultural and trade-related issues.

4. Selected Areas for Compromise and Reconciliation

4.1 Development of Rules on National Policies

Though the Uruguay Round has been finalised, much remains to be done to assure mutually acceptable agricultural and trade policies in the industrialised countries. One might state further that, given the unlikelihood of (1) zero intervention in agricultural markets on the one hand and (2) a return to high price supports linked to yields and commodity output on the other, it behooves signatory countries to move beyond the current agreement package to another level of accommodation.

It would help here to again remind ourselves that the "Old Order" agricultural policy argument is no longer valid, i.e., a policy based principally on the

assumptions of (1) chronic low income in agriculture for those farmers who are responsible for a high percentage of aggregate output, and (2) that the income problem in agriculture can be corrected through adjustments in farm output prices alone. The United States and the European Community have now taken significant actions to move away from old schemes of internal support and have agreed to actions on market access (through tariffication) and export subsidies which should be a solid base for future activities. The GATT-MTO forum is an excellent place for this to take place.

The centrepiece for future policy reform consists of actions taken by the United States and the European Community to break the direct link between price support levels and producer receipts; i.e., to decouple payments to farmers from individual farm output. Yield decoupling is a positive development for liberalised world trade and is a rational economic procedure for allocating resource use in agriculture. It has the advantage in GATT of fitting "green box", or productionneutral specifications. Fortunately, progress has been made in this process, first by the United States in the 1985 and 1990 farm bills, then by the Community in 1991 as a result of efforts by Commissioner MacSharry. Though the approaches are different, a reform process is underway which will be politically difficult to reverse.

The move toward decoupling in the United States accelerated with the 1990 Farm Bill. Although not the first such idea², it was the beginning of major legislative efforts to deal with program costs, distributional issues, and trade linkages all in one

² The first major test for decoupling from fixed high prices, while still supporting the income of commercial producers, was made in the late 1940s by U.S.D.A. Secretary Charles F. Brannan. Known as the Brannan Plan, his proposal was to allow prices to be set by the market. The differences between support levels and market prices were to be made up through direct compensatory payments. Brannan also proposed a limit on the amount of the crop from each producer that would be eligible for payments. Although not decoupled, in the sense that payments were to be tied to production, the plan relied on the market to establish prices (Reinsel 1989).

acreage. Producers may plant any eligible commodity, except fruits and vegetables, on up to 25 percent of the crop acreage base. Producers will not receive deficiency payments on 15 percent of the crop base. On the remaining 10 percent of the flexible acreage, producers will receive deficiency payments only if they plant the original program crop. Producers' base history is preserved regardless of the eligible crop planted on flexible acres if they comply with the provisions of the programs. These provisions give added pressure to move away from rigid programs of the past which linked output with price support levels for specific commodities, and give added impetus to market orientation in international trade package. Specifically, in the "Triple Base" idea, target-price base acreage yields were continued frozen, or historically fixed, and deficiency payments can be received only on 85 percent of base.

A brief but excellent demonstration of the decoupling effects of the 1985 and 1990 US farm legislation is outlined by Wescott (1993). Aggregate payment coverage ratios are calculated, and indicate a reduced government role in the farm sector through traditional commodity programs. These trends largely reflect fixed program payment yields and reduced payment acreage, factors that will continue to reduce the role of government commodity programs on agricultural supplies. Table 2 shows that projected farm-level payment coverage ratios for corn, wheat, rice, and upland cotton in 1995 and 2000 will be lower than 1992 ratios. Additionally, should target prices remain fixed and market prices increase, deficiency payment rates will decline. A likely result is that program participation rates will also fall, lowering aggregate payment coverage ratios for each crop.

In sum, farmers will base more of their planting decisions on market signals as government payments continue to cover a declining portion of production at both the individual farm and national aggregate levels. Planting flexibility provisions will continue to provide farmers the opportunity to respond to market signals in their cropping choices on part of their land (Wescott 1993, p.7).

Table 2: Current and Projected Farm-level Payment Coverage Ratios

Year	Corn	Wheat	Rice	Upland Cotton
	Percent			
1992	73.0	76.7	72.4	72.9
1995 ¹	70.3	74.7	71.3	68.8
2000 ¹	66.3	71.4	69.5	62.9
¹ Projected ratios assume the same ARPs as in 1992				
Source: Westcott, p.7.				

In the European Community the MacSharry proposal, followed by the Reforms of 1992, would subsidise farmers on a hectareage basis instead of paying them the same amount through the output price. Josling (1993a) has demonstrated rather convincingly that such a switch in subsidy technique produces significant reform despite the fact that the 1992 Reform as passed by the Council of Ministers changed significantly the MacSharry proposal as regards commodity prices. He argues that the switch to hectareage subsidy in effect, decouples payment from yield, and that "The farmer allocating variable inputs would only increase yield if profitable at the new market price. The market price would become the marginal revenue as far as yield-increasing inputs are concerned. This partial decoupling, if indeed it is confirmed in practice, would constitute a major advance in the operation of the CAP. Recognition, through inclusion in the green box, would seem appropriate."

Another brief and excellent document from the Economic Research Service, USDA (Madell 1993) corroborates Josling's analysis. Unlike previous reforms in the CAP's 30-year history, the 1992 package of reforms will alter EC production, consumption and trade of most major commodities, and will significantly change the policy tools used to support farmers. In particular the new supply control measures are designed to limit production and EC budget outlays.

Both the United States deficiency payment and related program provisions, and the EC Reform proposals are complicated by complex administrative procedures on set-aside and there is room for analysis and argument as to nature and process. There is little doubt, however, so long as there is linkage between acreage set-aside and payment in compensation for the set-aside, this is evidence that the price level generated by border protection is still too high. "Slippage" is inevitable in set-aside, (e.g., increased productivity and fertility on acreage that is not set aside) and other attempts to soften the impact of decoupling.

If "pure decoupling" were possible, farmers would lose their logical, historical "right," to payment. Politically they would have to justify any payment on another argument such as a welfare criterion. This has always been farmers' greatest fear in the United States. It was once argued that farmers didn't want to be paid for *not growing* commodities, i.e., set-aside. I never believed that then, and I am not as pessimistic as I once was, about the lowering of political and social obstacles to a further extension of direct income support to compensate farmers for the loss of price support. My personal experience in the United States is that taxpayers are concerned as much or more, *with who gets payments* - a distributional question - as they are with *what payments are for* - a question about which they are likely to be more susceptible to governmental corrective action.

To be sure, payments for decoupling, outlays for export enhancement, and other expenditures for subsidising production of agricultural commodities which don't find reasonable commercial markets all-should be increasingly researched along the lines of the OECD work. This is a process in which we can all be involved. My own observation is that the rural environment and related social and physical infrastructure is in greater disrepair and in need of help - than is the commercial farm plant in most countries. Moreover, we already have excellent research results on agriculture farm and business efficiency.

4.2 Sanitary and Phytosanitary, Environmental, Health, Safety and Non-tariff Barriers

To the extent that agricultural questions were negotiable, the commercial issues such as market access and export subsidies dominated GATT discussions in the past. A major development in the Uruguay Round was the negotiation of domestic farm support programs to make them more compatible with stable world markets. There arose, also, yet another area for negotiation which I shall designate generally as *non-tariff barriers* (NTBs) the discussion of which will be limited to sanitary, phytosanitary, environmental, health and safety standards for the sake of brevity.

In addition to my early work on this subject (Hillman 1978), the literature has increased dramatically in recent years. Shane and von Witzke (1993) have edited papers from a meeting of the International Agricultural Trade Research Consortium (IATRC) the theme of which was the relationship between the environment, public goods, government policies and international trade. Finger and Laird (1987) report that in 1984 developed countries applied non-tariff barriers of 44 percent of agricultural products from other developed countries and to 33 percent of imports from developing countries. Bredahl and Forsythe (1988), Petrey and Johnson (1992) and others have called attention to phytosanitary and zoosanitary regulations as important sources of technical barriers to trade. Cramer (1991) pinpoints the animal growth hormone question as a problem for international food safety standards. Haley (1993) in a study on nitrate demonstrates an increasing overlap in environmental and agricultural policies. And Runge (1992) has provided us with a benchmark paper on the environmental effects of trade and agricultural policies.

One of the components of the Uruguay round of GATT negotiations was to achieve greater harmonisation of these technical standards. Under Article XX(b) of the GATT, countries are allowed to have their own technical standards in order to 'protect human, animal or plant life or health.'

Three international scientific organisations are designated under the proposed GATT agreement to help provide technical expertise in S&P disputes (Castaneda and others, 1991).

The Codex Alimentarius Commission is responsible for issues such as food additives, pesticide residues, contaminants, animal drugs, packaging, and food standards. Representatives of government regulatory agencies, the international scientific community, and industry from 138 countries serve on the Commission. The Commission was formed in 1963 as a subsidiary of the Food and Agriculture Organisation of the United Nations and the World Health Organisation.

The International Office of Epizootics is responsible for animal health issues. This international veterinary organisation, formed in 1924, has members from about 130 countries and maintains a global animal disease reporting network.

The International Plant Protection Convention is responsible for issues involving plant pests and plant health. The Convention, formed in the 1950s, has members from about 90 countries and, like Codex, is a subsidiary of the Food and Agriculture Organisation of the United Nations.

Until recent experience proved otherwise, it was believed by most, including myself, that scientific consensus could provide guidance toward indicating which regulations are based truly on environmental, health, or safety grounds and which are motivated by protectionism that is not sanctioned under the GATT. However, recent policy decisions and other administrative rulings are not encouraging with respect to nations coming to terms with harmonisation of food safety standards solely on the basis of scientific consensus.

In July 1991 the Codex Alimentarius Commission voted not to establish maximum residue levels for four growth-promoting hormones that are widely used in livestock production. What makes the action significant is that the Commission's own scientific advisory committee, as well as its

Committee on Residues of Veterinary Drugs in Foods, has determined that the four hormones are safe under specified conditions of use and had established recommendations for maximum residue limits.

The hormone and like cases illustrate the difficulty of the role of science in harmonising standards and regulatory procedures as instruments in reducing agricultural protection. Exacerbating this difficulty is that as laboratory instrumentation of food and other materials become more sophisticated, technicians can detect smaller and smaller amounts of residue or harmful substances, and product approval is held up for longer periods. All of which raises fears among consumers, whether justified or not, and the suspect-list of retail food or farm commodities grows longer. A good example of this is the "zero tolerance" guidelines which were issued recently (1993) by the USDA in response to residues found in some US packing plants.

One can agree with Josling (1993a) that increased technical instrumentation followed by heightened consumer concerns leaves governments with an uncomfortable dilemma when it comes to food standards. Pressure from consumer groups, reinforced by environmental lobbyists, tends to lead toward more regulation and the banning of substances which often have minimal health risks. Such tighter regulation, however, goes against the trend towards less government intervention in business and consumer affairs. Inevitably exporters will see such regulation as a form of protectionism. The EC-US beef trade conflict of recent years is a good example of this dilemma.

Adding to the complication of harmonisation of standards are the differences that exist between nations as to taxes and subsidies on domestic food producers and on suppliers of agricultural inputs. In the United States this involves state taxes and subsidies as well. In my state of Arizona, subsidies on irrigation water were withdrawn by the federal government only to be replaced recently by state and local subsidies. These actions are instrumental in the encouragement or discouragement of input

or food product use, thus adding to trade discrimination.

The uncertainty which arises from such situations is a "paradise" for regulators of commerce and for an administrative bureaucracy. But it is difficult to ascertain the scope and authority of those decisions where the consequences are protectionist. There is no uniformity among countries as to the ways in which administrative directives are issued. Elected or appointed officials often have the power to formulate rules which make interpretation of legislation easier. These rules will carry the same authority as statutes. In many cases new administrations routinely issue their own revisions or supplements to the regulations. This in itself creates problems in the administrative procedure, if only because of difficulties commodity traders and others have in obtaining a copy of the latest regulation.

In the case of quantitative restrictions, such as quotas, licensing and exchange controls, the discretionary component of administration is generally small, so discriminatory or arbitrary practices are readily identifiable. In other regulatory authorities abuses are more difficult to discover. *The point is that the administration of the regulations, rather than the regulations themselves, will determine the extent of protection that results.*

However high-minded and able the administrators who conduct day-to-day policy may be, there is a danger that because they are not subject to direct public criticism and public accountability, they fall prey to the influence of domestic special interest groups. It is not that the executive agencies are more susceptible than legislatures, but that this susceptibility is not limited to the elected representatives of special interests; in the realm of bureaucratic politics it escapes the publicity and constitutional checks that control it in legislative politics. As a result, in the major OECD governments agricultural interests have become entrenched. The introduction of marketing schemes, export policies and regulatory activities can often be directly attributed to pressure from organised groups of producers.

The setting of scientific standards and strengthening of settlement procedures for disputes over technical principles will come easier than administrative objectivity and agreement among bureaucratic decision-makers. Thus, when science and bureaucracy cannot cope, political decision, based largely on economic criteria, will be necessary.³ The GATT negotiating procedure could make an important contribution to harmonisation of environmental, health and food safety if it could improve on dispute settlement procedures. But experience shows that scientific criteria alone are not enough even for GATT to set its own standards. Thus, I again invoke the assistance of economists - particularly political economists, other scientists, competent civil servants and statesmanlike politicians, to recognize the seriousness of these issues; to conduct the necessary research for better enlightenment,⁴ and to move toward an international accommodation.

³ In fact, when science is given a mandate to produce public policy recommendations, it actually changes the character of the science by exposing the personnel to a set of legal and economic pressures. This is met by an almost schizophrenic attitude towards economic issues among the participants in standard setting organisations. On one hand, almost every participant attested to the necessity of making decisions that were economically sound. On the other hand, these same participants sometimes denied that economic considerations were taken into account in the development of standards (Salter 1988, p. 168).

⁴ The very great flexibility and uncertainty surrounding technical barriers has meant that the economics profession has not come to grips with them in an analytical fashion. The only conclusions in the literature are that 'low-level' technical tracks are favoured by politically unimportant groups, whereas politically powerful groups use 'high-level' political tracks to argue protectionist causes (Finger). The technical (or rules) track is also favoured by politicians because it spares them having to make a decision (and hence lose some votes). The (public choice based) literature on the political economy of protection, has almost totally disregarded the role of bureaucrats yet they remain the principal decision-makers for technical questions.

I have been only modestly successful in persuading my agricultural economist colleagues to attack the non-tariff technical barriers issue. My assessment is that they see the subject matter area as (1) too expensive to research, because large amounts of primary data must be discovered, tabulated, etc., and (2) the research process itself is not easily quantifiable, cannot be easily "modeled" and thus produces few graduate theses in universities. Fortunately, Lincoln University (New Zealand) has established a Chair on International Trade Policy, with a special emphasis on non-tariff trade barriers.

5. The United States Position

United States commercial and agricultural trade policies have moved from 19th century protectionism, reinforced by an isolation-protectionistic position in the 1920s, to one that is more liberalised in the 1990s. Its position is not yet "ideal," nor its role what it should be, commensurate with its military strength and potential political leadership. Yet, it can be safely said that its role in the GATT beginning with the Reciprocal Trade Act (RTA) of 1934 has been a bulwark against domestic United States isolationism and backward-looking trade policy. Moreover, beginning with the 1985 Farm Bill and its heterogeneous successor of 1990, the United States is slowly feeling its way forward toward a position many feel it should occupy in the world. Much remains to be done.

Section 22 of the 1933 Agricultural Adjustment Act (AAA) was the fulcrum of the United States attitude toward agricultural trade for a long time. The crux of this Act is that it legalised agricultural import quotas subject to certain constraints. That is still the case. Section 22 mandated the President of the United States to restrict the importation of commodities by the imposition of fees or quotas if such importation would render ineffective, or materially interfere with, the policies of the Department of Agriculture in relation to agricultural commodities. The scope and permissible action of the original legislation was expanded by the Trade Agreements Extension Act of 1951, under which no trade agreement or other international agreement can be applied in a manner inconsistent with requirements found in Section 22. The Trade Expansion Act of 1962 and the Trade Act of 1974 also make that exception. In 1986, the United States, as part of its negotiating position in the Uruguay Round of multilateral trade negotiations, expressed a willingness to negotiate the repeal of Section 22, but certain domestic farm interests have continued to vigorously resist this change.

An additional disposition toward protection and trade distortion was contained in Section 32 of the 1933 AAA. Section 32 was aimed at the disposal

of surpluses, domestically and abroad. Further, there was constant agitation in some agricultural quarters to legislate a marketing scheme with a discriminatory two-price system for farm products, domestic and foreign. Thus began a period of about 40 years (1933-73) of predominantly inward-looking, protectionistic agricultural policies, which became increasingly at odds with the United States position in the post-World-War II ambience and with its position in the post-war trade negotiations.

Rather than exercise a bold and liberal posture from its overwhelming economic status in the early 1950s, the United States permitted the protectionistic views of farmers and farm organisations to prevail in the negotiation of waivers and exceptions to GATT Article XI on the general elimination of quantitative restrictions. Adding to this and other protective devices was the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), the principal aspect of which was an expanded surplus disposal program, some of it through export subsidies. Again a strong overall economic and political position of the United States was undermined and dissipated by rather narrow, vested interests. It should be remembered that high price supports linked to production controls and a position as the world's residual supplier of grains and cotton made the programs marginally operable for a quarter century after World War II.

The tumultuous conditions of the 1970s changed all that, the programs became even more costly in the 1980s, consumers and taxpayers became more unhappy, and politicians felt compelled to act to reverse what they perceived to be a perpetual welfare system for rich farmers and agribusiness. Politicians felt compelled, but the principal action they could come up with was the target-price-deficiency-payment program alteration and the incipient decoupling activity of the 1985 Farm Bill, reinforced and abetted by the multifaceted 1990 Bill. These were still not sufficient to satisfy some interests both at home and abroad, but it was enough to pressure the EC to action and to give hope for more trade liberalisation and environmental and food safety action in future legislation.

I will discuss the most significant actions the United States can do to lead out in the world struggle for a liberalised trade policy, and corrective actions on trade-distorting domestic agricultural policy. *First*, I am in total accord with the Australian position with respect to regional economic groupings. The recent emphasis given discriminatory regional economic groupings has created undesirable cross-currents in international trade policy. These expanded groupings, of a preferential and discriminatory character, are being developed in Europe and in North and South America, and there are signs of a similar trend emerging in Asia. Countries pursuing these arrangements appear to miscalculate the reaction from others affected.

Europeans seem to be more acquiescent with the idea of regional trading blocs and cartels, but not the United States. Regional trading blocs, for whatever reason, are the current analytical fad among political economists, even agricultural economists who have had several special professional meetings on the North American bloc of Canada-Mexico and the United States (NAFTA) and on other blocs.⁵ The general idea of blocs, or cartels, have been around, however, since the end of *laissez faire* capitalism before World War I. One of the best descriptions of the rise and evolution of attempts to restrict competition by mutual agreement, trading blocs included, is given by my old professor, the late John B. Condliffe (1950).

The United States, therefore, should commit itself first and foremost to a determined effort to the supremacy of the multilateral trading system. The effectiveness of GATT depends ultimately on the multilateral trade system being the overriding objective of US trade policy. Moreover, as I have already said, now that the Uruguay Round has been completed the United States should lead in establishing and supporting a Multilateral Trade Organisation.

Second, the United States must continue to address its own domestic farm commodity programs with the end objective being that the agricultural econ-

omy will operate in a way that serves not only the interest of farmers, but also the broader interest of society including adequate food supplies, food safety, quality water and other environmental amenities.⁶ By doing so it can be a model to the European Community, Japan, and others.

Future US policies will be under pressure to lower commodity subsidisation. Data show that between 85 to 90 percent of deficiency payments go to about 8 to 10 percent of the producers. The sugar program is even more illustrative of a concentration of benefits. There is still an effective farm lobby in the United States. Nevertheless, according to one farm state congressman, John Bolhner, Congress will have less money to spend on agriculture, and government farm programs will be significantly reduced by the year 2000. He noted that agriculture will lose political clout as the number of legislators representing agricultural districts declines (Knight-Ridder 1993).

Budget pressures, however, will exert inexorable pressure for change. The best politico-economic judgment is that subsidies will be reduced not through a reduction of target prices but through an erosion in acreage and yields. Modification of the flex provisions in new legislation will probably link guaranteed price to fewer and fewer acres. Program yields are already frozen, thus as yields rise, less and less of the farmer's production is covered by a guaranteed price. In 1993 less than three-fourths of farm participants' production is covered by government programs.

⁵ For example: International Agricultural Trade Research Consortium (IATRC), 'North American Free Trade Agreement,' subject title of a section of its Annual Meeting, New Orleans, Louisiana, 12-14 December 1991. Also, David M. Gould, 'Free Trade Agreements and the Credibility Trade Reforms' in *Economic Review*, Federal Reserve Bank of Dallas, First Quarter 1992, pp 17-27. On agriculture see "Agriculture in a North American Free Trade Agreement; Analysis of Liberalizing Trade Between the United States and Mexico," FAER N0246, ERS USDA September 1992.

⁶ I am grateful to John Lee, former Administrator ERS, USDA for mutual conversations on these ideas.

As already pointed out, a great concern in the United States is not just about the size of the total subsidy figure for the agricultural sector but, in addition, its distribution and for what the payment is made. Of the 2.1 million farms as defined by the Census, only 600,000 produce most of the country's farm output. What happens to the other 1.5 million? For the most part they don't depend on farm income for a living, don't identify themselves with farmers, and, more importantly, don't figure in the success of commodity programs. Fact is, the small subsidy which this group receives from farm programs, when added to off-farm income place most farm families in a favourable average household income category for the United States.

A *third* major issue for United States agricultural and trade policy involves adjustment costs and whether losers should be compensated when commodity policies change. The interface to this question is: should the "savings" from commodity programs be used for rural development, environmental, health and food safety programs? Of course the answer to these questions has international dimensions, but the next United States agricultural legislation is bound to address them directly which, in turn, should prove interesting to observing nations.

Prior to 1985 environmental and related groups were not a part of the negotiating strategy on agricultural policy in the United States. Since then they have become more analytical, some would say more "realistic" in their demands, and have even formed some coalitions with farm groups to achieve limited objectives. But there is still much dissatisfaction with the current status of farm legislation with respect to the environment and other such concerns. There is more and more talk of attempting to measure those costs which are placed on farmers by society's laws, and internalising the costs in order to ascertain their magnitude. An important but difficult job for economists will be to find reliable measures of the social costs of producing a certain level of farm output. A similar methodological dilemma has plagued those who want to

measure the costs of regulatory non-tariff barriers in international commerce.

If new US farm legislation requires domestic farmers to internalise environmental costs and other countries don't follow suit, this would create a problem in comparative advantage. In this regard there has emerged amongst some agricultural commodity groups⁷ in the United States a strategy to offset the apparent cost of production advantages held by certain developing countries; namely, that of incorporating equivalent social and environmental costs in the production costs of foreign producers when making cost comparison for trade and policy analyses. For example, health, unemployment, retirement, environmental and other costs which are imposed on domestic producers should be offset with equivalent import taxes or fees to create a level playing field. The argument is that this procedure creates incentives for developed countries not to reduce social programs, while at the same time it creates incentives in developing countries to improve social conditions such as health. This offsetting social tax has been labelled Measurement of Aggregate Government Imposed Costs (MAGIC). In certain commodity circles, especially among Europeans, I find this type of strategy attracting increasing attention. It is not a new argument to economists, of course, but agricultural producer groups are ever on the lookout for new ways to protect their position.

A *fourth* observation relates to the politics of United States trade and agricultural policy. As already implied, the United States squandered a good opportunity immediately after World War II to take strong leadership in reducing agricultural protection. By not supporting the establishment of an ITO and, instead, by continuing protectionist policies inherent in its domestic price support legislation - effectuated by Section 22 - the United States drifted inward until it was forced to deal with the

⁷ The reference used here is that from the Hawaiian Sugar Planters Association.

realities of a "new situation" after the mid-1970s. Gone were the days of acting as the world's residual supplier and the indirect dumping of excess supplies on the international scene through Public Law 480, or Food for Peace, programs. The latter was distortive enough to agricultural markets in some developed countries but it was disastrous to many underdeveloped country growth programs.

Price supports, having been often set too high for domestic producers, generated surplus products and distorted resource use. Such was the case in the 1977 farm program after which came the attempts at correction in the early 1980s and the ill-fated Payment-in-Kind (PIK) program. Program costs soared, which may account for the United States insistence on the Zero-Option for starters in the Uruguay Round of GATT.

Throughout the post-World War II explosion of economic growth and trade, and despite enormous progress in lowering trade barriers, agricultural protection remained high. Often frustrated at making further progress in a multilateral forum such as the GATT, the United States has chosen to get tough in a bilateral context, e.g., with Japan over citrus and beef, and with Europe over soybeans. In doing so it sometimes has used its own laws, rather than international rules and procedures. This is a rejection of the principles of multilateral free trade, not a means toward it. Even bloc negotiations such as NAFTA are subject to such strong-arm tactics. Bilateral, do-it-yourself trade tactics are not compatible with GATT. A recognition on the part of the United States of a basic complementarity in world agricultural production and trade is a must for the 21st century.

A cardinal sin of the United States is its penchant for acting alone, enacting its own trade laws and using them to break its way into the markets of others. In agricultural legislation this tendency goes all the way back to Section 32 of the 1933 AAA. A recent version of this type action is the 1988 Omnibus Trade and Competitiveness Act, which broadened an earlier version of section 301 legislation (of the Trade Act of 1974) and which

allows the United States, in effect, to designate specific countries as unfair traders, and to threaten them with higher tariffs unless they change their trading practices.

There is little dispute that the United States or any other country has recourse to enforce trading rights acquired under GATT and such trade treaties. For example, the recent famous oilseeds dispute with the European Community rests on trading rights established in the Kennedy Round. The United States is using unacceptable trade practices, however, when it threatens, unilaterally, to close its markets - disregarding its GATT commitments - in response to the trading practice of another country. Threats, unilateral pressures backed up by domestic lobbies should not replace the GATT and multilateral commitments. The weak country is always in danger of being bullied by the strong in the world of trade, hence multilateral agreement is their best protector. Moreover, the process by which agreement is reached is vitally important for everyone.

6. Conclusions

Solving international commercial policy problems was never easy. And it has not become any easier despite the positive lessons the world has gained from such events as the 1846 abolition of the English Corn Laws, and Reciprocal Trade Act-GATT successes of the 20th century. Nor have agricultural trade policy problems, a phenomenon of particular complexity in recent decades, been of simple solution, even though production agriculture is of diminishing relative consequence in modern industrialised countries. Finding economically positive and politically acceptable outcomes will be no easier now that the threat of large-scale war has diminished and a possible Pax Americana is at hand.

This is a realistic, not a gloomy assessment. My reasoning is not difficult to follow. Twentieth century market intervention in agriculture starting innocently, but boldly, enough with such programs as the United States AAA, eventually became in-

operable because the assumptions and conditions on which the programs were built no longer existed and were no longer valid. Thus, after several rounds of GATT and an eighth round - one of seven years duration that concentrated on agricultural policy issues - the industrialised countries are faced with a great necessity for political action.

Recognising that the problems are great, complex and of almost unmanageable proportions, I have made modest suggestions toward progress. First of all, it is not likely that precipitous action, such as was taken by New Zealand in 1984, will be taken in the large countries or blocs. Naturally, we hope that the world will not revert to the isolationist-protectionist and nationalist-backward-looking legislation that plagued all countries in the 1930s, and of which there was an abundance in the opposition to NAFTA in the United States. Instead, it is suggested that, having recognised the magnitude and seriousness of the problem, the large industrial economies should continue to press heavily for the revision of farm program after farm program until a better accommodation of liberalised trade is reached. A start has been made in the United States 1985 and 1990 farm bills and with the MacSharry Reform in the European Community, but much more remains to be done.

Governments have responsibilities to "undo" as well as to "do". Hence, the moves toward gradually decoupling of farmers' support payments from agricultural output and price levels should be a first order of business by governments everywhere. Moreover, in fiscal reform and deficit reduction actions on the part of the large industrial states of the West and Japan, emphasis should be placed on reforming agricultural policies, not only to reduce cost but also to eliminate discrimination.

As a corollary, non-tariff barriers should be a major order of business. More accurate analyses should be made by economists of nontraditional subjects such as the environment and food safety. It is rather obvious from recent experience and decisions that technical scientists will not provide an easy solution for NTB questions. Should the money now

spent on farm programs be directed to such causes as solving NTB questions and for rural development? How can this be accomplished? What are the problems as to magnitude of costs and distribution of benefits?

Despite all its past mistakes and lost opportunities with respect to trade policy and agricultural protection, the United States is moving slowly but surely toward trade liberalisation in its agricultural sector. This may not be fast enough for some, but desubsidisation, like going off narcotics, has great pains of withdrawal. The political price for withdrawing subsidies is high in some cases. The United States and the European Community through the GATT have begun a process of agricultural reform which should be pushed as rapidly as the political processes will withstand. Movement should be forward with such techniques as decoupling and NTB reduction. The GATT and a Multilateral Trade Organisation would provide a forum for organising negotiation and trade liberalisation. Economists could greatly increase their effectiveness as "persuaders" if they were to include more economic history, political thought and communication techniques in their bag of tools.

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