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Executive Summary

Mutual Disarmament in World Agriculture A Declaration on Agricultural Trade

The situation in world agriculture is grave. Industrialized countries have drifted into a pattern of competitive subsidization of agriculture that wastes economic resources, imposes enormous economic costs on national treasuries, and causes unjustifiably regressive redistribution of income within and between countries. Depressed world prices and limited access to foreign markets discourage developing countries' agricultural sectors and reduce export earnings. Farmers themselves, promised security and stability through government action, are faced with increasing uncertainty about future policy actions of governments under severe market and budgetary pressure. It is not possible for either industrialized or developing countries to sustain their current agricultural and trade policies.

The Costs of the Crisis

The cost of the resulting subsidy war and the domestic price support programs for agriculture is huge and ultimately unsustainable. Taxpayers and consumers in the industrial countries currently spend as much as \$150 billion annually to support agriculture. But much of this expenditure does not, in the end increase farmers' net income. Price incentives encourage increased production, environmental damage and unnecessary exploitation of fragile soils and ecologies. High support prices are capitalized into land values, enriching current owners but raising the cost of entry for new farmers. Consumers are often faced with higher food prices, and have less to spend elsewhere in the economy.

The costs extend beyond national frontiers. The atmosphere of confrontation generated by escalating subsidies is more than a private dispute between the U.S. and the EC. The failure of Japan and other major importers to open their markets to more food imports is more than a minor irritant to several exporters. The gains associated with international specialization and trade are discarded by protectionism in agricultural markets.

Developing country importers appear to benefit from artificially depressed prices in the short run, but are discouraged from developing vibrant rural and agricultural sectors in the longer run. Developing country exporters lose foreign exchange earnings, and cannot purchase goods and services from their trading partners, sustain their development or service their debts.

Evidence of Progress

There are a number of indications that nations are recognizing the seriousness of these problems. Discussions of agricultural trade and policy are reaching the highest levels of government. Agricultural issues are at the center of the Uruguay Round of multilateral trade discussions, with agreement to discuss all measures that distort agricultural trade.

The major GATT participants have tabled their views on how trade objectives can be achieved. While the opening proposals differ in the extent and pace of trade liberalization they envisage, there is broad agreement on general direction. Common to virtually all proposals is the notion that legitimate farm income objectives can and should be satisfied by policies which do not create problems for commodity market balance and thereby other countries. These objectives could be satisfied by decoupling domestic farm income support from the incentive to produce; recoupling the domestic and international markets by allowing international market signals to guide national pricing and production decisions, through exerting stricter discipline on export subsidies, and relaxing import barriers.

Domestic agricultural policy reform and trade liberalization will not be an easy course to follow. The benefits of current programs have become embedded in cost structures. Ancillary industries and rural communities believe they have a stake in the status quo. Governments may not be able, or willing, to replace all farm income now transferred through commodity policies. And, although countries have recognized the necessity of policy reform, they have not, as yet, grasped the sweeping nature of reform required, the urgency with which it must begin, or the speed with which it must progress.

Necessary Steps for Policy Reform

However, for the first time since World War II, there appears to be both a general agreement and a broad commitment to a common agenda of policy reform. Three broad guidelines for agricultural policy reform and trade liberalization are required:

- Farm income support should be given in ways that do not distort and damage the operation of world

markets for agricultural products.

- Countries should be accountable at the international level for the external consequences of their domestic farm policies.
- Desired changes to individual national farm policy must be facilitated by collective action.

The *short run task* is to prevent any deterioration of the present situation and to continue the momentum for policy change begun in 1987. By the time of the mid-term GATT review in late 1988, there needs to be general agreement on:

- The timetable for reform steps.
- The extent of overall reductions in trade distorting subsidies to be achieved.
- And the way in which such subsidies will be measured to ensure compliance.

This should be followed in 1989 by focused efforts to affix precise substance to these commitments. At the national level, countries should devise ways of modifying their farm programs to be consistent with the more stringent trade rules and overall policy obligations agreed in the GATT. The staged movement toward less distorting policies and levels could include:

- Replacement of variable import levies and quotas by GATT-bound tariffs.
- Establishment of minimum access levels for imports.
- Binding of export subsidy levels.
- Introduction of support payment limits.

Internationally, countries should submit detailed plans for reducing the level of trade distortion caused by their farm assistance programs. These plans, once accepted, should be legally binding international obligations.

The longer term task, which may take until the turn of the century, is to implement these national changes. To keep this end in sight will require substantial political will. It is essential that governments begin to establish domestic political support for this process.

The Results

Multilateral agricultural and trade policy reform offers the real possibility of shifting unnecessary government and consumer expenditure away from producing costly surpluses and toward more desirable farm and rural products and services. In the longer term, farmers face a surer future competing with each other, rather than competing with each other's countries' treasuries. The concerted desubsidization of agricultural production and the liberalization of agricultural trade could do much to create the environment of goodwill needed by a fragile world economy and to reestablish trust among independent nations that share a common destiny.

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The full text of the Declaration is available from the National Center for Food and Agricultural Policy, 1616 P Street, NW, Washington, DC 20036.

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