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Prospects for the Uruguay Round in Agriculture

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The Uruguay round of Multilateral Trade Negotiations (MTN) is scheduled to conclude in December, 1990. Whether it will be regarded as a successful round of talks depends in part on the negotiations in agriculture, which have proven as difficult as many predicted. This paper considers three rather different aspects of the agricultural negotiations. First, what is the "core" of agreement most likely to emerge in agriculture, especially between the major antagonists: the U.S. and European Community? Second, how will the domestic politics of the 1990 Farm Bill interact with the negotiating process? Third, in what ways will the results of the Uruguay Round condition subsequent rounds of MTNs under the General Agreement on Tariffs and Trade?

In brief, I will argue firstly that a "framework agreement" in agriculture will emerge, which closely resembles the conception put forward in the most recent proposals of the U.S. and Cairns Group.

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Whether this framework results in substantive reductions in levels of protection depends at its core on the willingness of the U.S. to reduce and eventually to eliminate export subsidies in return for substantial reductions in the level of export restitutions paid by the EC. While difficult, some are currently optimistic about the chances, even for tariffication and "rebalancing". Secondly, the 1990 Farm Bill will produce incremental movements in the direction of "decoupling", cloaked in the language of "flexibility", regardless of the outcome of the Uruguay Round. These modest reforms will reinforce the U.S. position in GATT. However, more substantive movements in the direction of "tariffication" are likely to be opposed by the domestic sugar, dairy and peanut lobbies, in spite of some evidence that they might gain from a conversion of quotas to tariffs. In addition, Congress will be likely to demand authorization of a "war chest" of retaliatory measures in case the GATT talks proceed unsatisfactorily. Thirdly, the Uruguay Round has ushered in a new complex of nontariff trade barriers (NTB's) that are likely to grow in importance in future trade negotiations. These new NTB's involve the use of health, safety and environmental regulations as effective barriers to trade: what I call "ecoprotectionism". Several recent cases, including the hormones dispute between the U.S. and EC, and a more recent U.S.--Canada dispute over landing requirements for Pacific Coast salmon and herring, provide glimpses of this growing threat to liberal international trade.

Framework Agreement and What Else Besides?

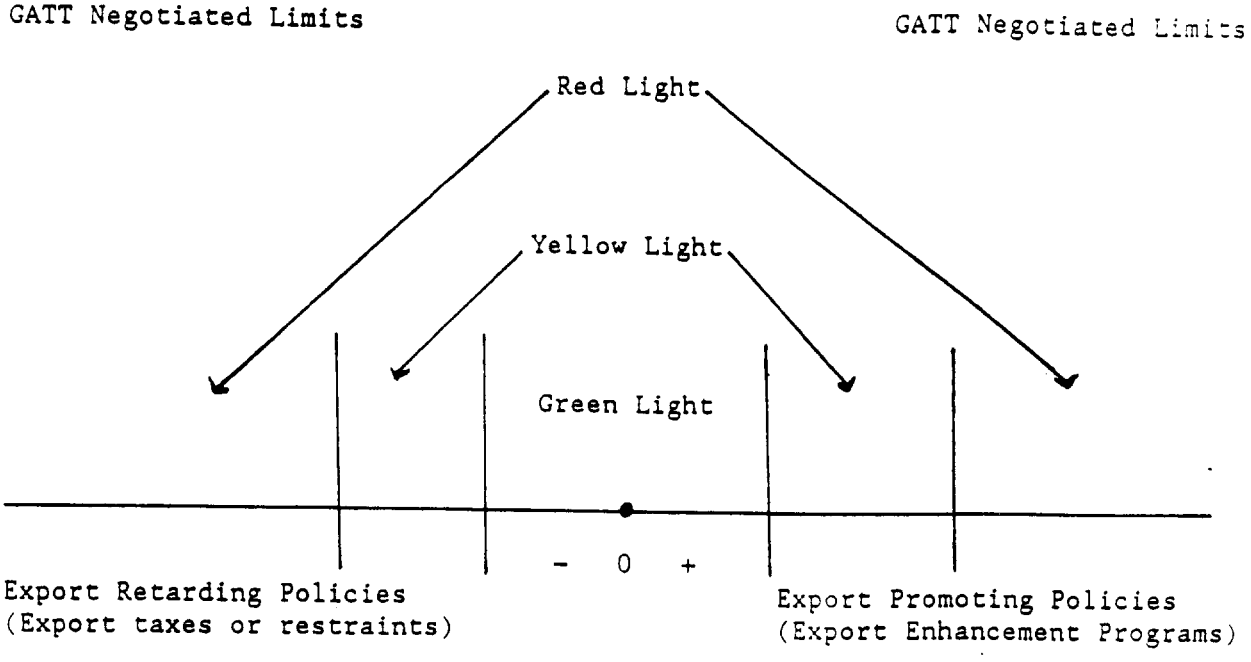
In the latter part of 1989, the U.S. put forward its final proposal for agriculture in GATT. In brief, the U.S. proposal calls for the elimination of export subsidies over a five year period, the phase out of

trade-distorting domestic programs, and the conversion of nontariff barriers, such as quotas, to tariffs, known as "tariffication".

It may be useful to summarize in graphical form the conception underlying the U.S. proposal (see Runge, 1990, 1988). In general, trade-distorting measures may be thought of in terms of their effect on (a) exports, (b) imports and (c) output. Tariff equivalents describe distortions on the import side, and subsidies on the export side. Output distortions resulting from internal policies are derived with respect to their effect on production in domestic markets. In each case, policies may either promote or retard exports, imports, or output.

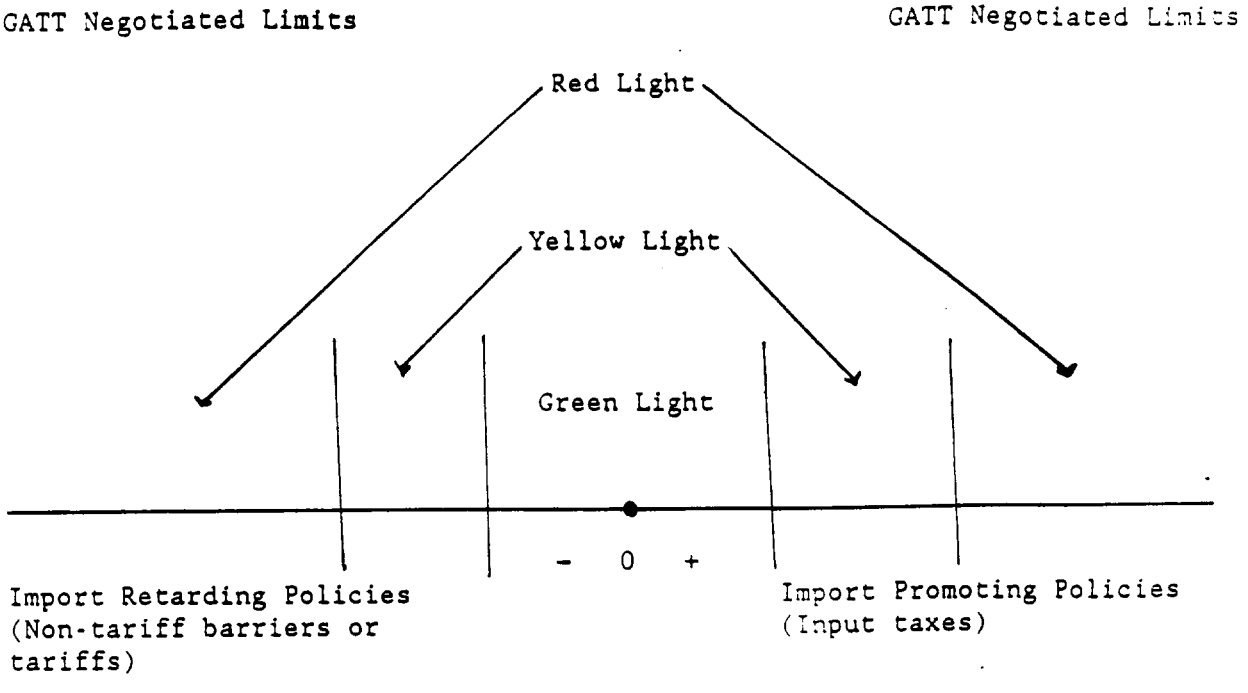
With respect to exports, a policy has a distorting trade effect if either buyers or sellers in the domestic market face different conditions from those who participate in the cross-border market. Such a definition encompasses not only policies that affect the difference between export and domestic prices, such as export taxes and subsidies, but also non-price protective barriers such as voluntary export restraints. As shown in Figure 1, such policies may distort trade either by artificially promoting exports (as in the case of the U.S. Export Enhancement Program) or by artificially retarding them (as in the case of Argentine export taxes or various countries' voluntary export restraints). Over the remainder of the Uruguay Round, the attempt will be to define and to set GATT-negotiated limits, for each country, on those policies that are definitely slated for elimination, preferably as soon as possible ("Red Light" policies); those that may remain in place in the short-run, but are to be modified and reformed during a transition phase ("Yellow Light" policies); and those that are sufficiently non-distorting to remain in place indefinitely ("Green Light" policies).

Figure 1



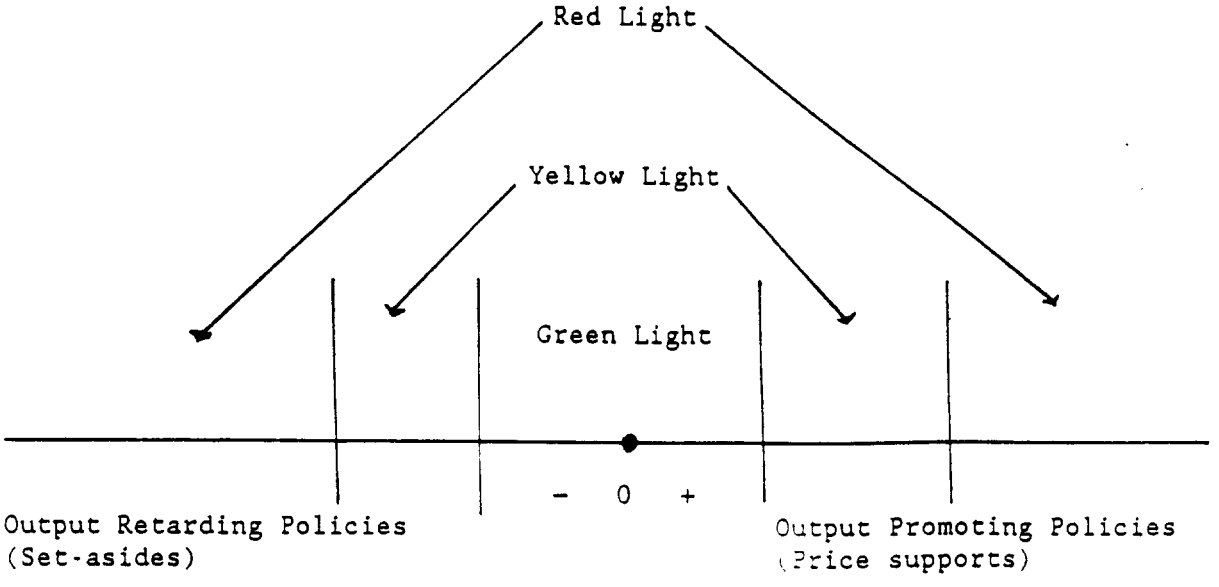
Export Distorting Policies

Figure 2



Import Distorting Policies

Figure 3



Output Distorting Policies

Similarly with respect to imports, a policy has a distorting trade effect if either buyers or sellers in the domestic market face different conditions from those who participate in the cross-border market. As shown in Figure 2, policies that retard imports, such as quotas, explicit tariffs, or health, safety and other sanitary or phytosanitary restrictions, are one side of such distortions. On the other side (less frequently mentioned) are policies that artificially promote imports. An example might be environmental regulations on fruit and vegetable production which prohibit the use of certain cost-saving chemicals in the U.S., leading to incentives to import foreign fruit and vegetables which employ such practices. Because it is quickly realized by domestic growers that such regulations have this effect, calls for import protection through health and safety standards applied equally to foreign produce are quickly heard, converting the regulations from import-promoting to import-retarding policies (see Runge and Nolan, 1990). In principle, either type of distortion can be expressed as a tariff equivalent, with import promoting policies defined as a negative tariff. Once again, the issue is which policies are determined to be definitely out-of-bounds ("Red Light"), which are undesirable and to be phased out over time ("Yellow Light") and which are acceptable ("Green Light").

Finally, are those policies that have an effect on domestic production. As shown in Figure 3, such policies may be negative, such as U.S. and European set-aside programs that pay farmers not to produce; or they may be positive, such as price supports tied to specific crop yields and acres of production. The goal of U.S. domestic agricultural policy in the Bush administration is generally to eliminate policies that are most

distortive of production decisions ("Red Light" policies), including large set-asides and high price supports, and to phase out ("Yellow Light" policies) those that have tended to distort production over time, such as crop-specific acreage bases. What remains ("Green Light" policies) will be programs in which farmers are relatively free to plant whatever crops are most in market demand, with support paid not to specific crops, but on the basis of some type of income criteria.

Overall, progress in the present GATT negotiations can be defined in terms of this framework. Such progress depends on an agreement to eliminate a specific set of "Red Light" policies in each realm (exports, imports, and output) with a well-defined timetable, and to designate a set of "Yellow Light" policies for discussion in subsequent years. It seems inevitable that successful negotiations will ultimately involve agreements to end specific policies, and that such political decisions cannot be finessed by an agreement simply to achieve an aggregate level of support or level of tariff or subsidy. This is the route sometimes suggested by advocates of a single aggregate measure, such as the Producer Subsidy Equivalent (PSE). As Hertel (1989a, b) has recently shown, a given reduction in the aggregate level of support can be achieved with a myriad of different options, many of which have extremely different effects on exports, imports and output. His analysis shows that aggregate measures, because they abstract from this complexity, "underidentify" the problem, and thus do not provide sufficient discipline to achieve long lasting reform. The PSE measure, whatever its virtues as an analytical device, cannot be a substitute for the hard political choices that accompany a negotiation.

How likely is progress, given the proposals of the major negotiating countries? The Cairns Group of fourteen agricultural exporters in November, 1989, put forward a close cousin of the U.S. scheme. The major difference was the attention paid to developing country interests (reflecting the composition of the Cairns Group) allowing greater flexibility to these countries in implementing reforms. In the context of the framework described above, what is red or yellow light is defined with more leeway for developing countries.

The EC proposal has been interpreted in the U.S. as continuing the European tradition of conceding little and demanding much in return. However, close observers of the Brussels scene see more room for compromise than meets the eye. In particular, the EC proposes to give ground on the possibility of tariffication. In a recent paper Stefan Tangermann (1990) argues that due in part to the unfavorable ruling on the EC oilseed regime rendered by a GATT panel in December, 1989, the Community is prepared to make concessions which, in essence, reduce border protection through tariffication in combination with "rebalancing". What makes U.S. negotiators suspicious is that the newfound EC commitment to tariffication is vague and is even contradicted in their proposal, while the commitment to "rebalancing" is hard and fast.

"Rebalancing" means that increases in protection at the border for oilseeds (currently excepted under the "zero duty binding") would be traded for reduced levels of protection for grains. All of this should be measured, according to the EC proposal, in "support measurement units". While conceding some room for tariffication, if tied to rebalancing, the EC also demands that U.S. deficiency payments be converted to tariffs, and

that EC internal supply management be retained. While cynics might see little hope that the Community is ready to compromise, Tangermann is remarkably upbeat.

> The significance of this latest move of the EC can hardly be overestimated. In essence it means that the EC is now willing to consider fundamental changes to the way in which it operates its agricultural market regimes. In particular, the variable levy system as such is no longer sacrosanct. The EC has thus left its long held negotiating corner and moved a very considerable step towards the center of the negotiating positions of the different parties (p. 5).

Before getting caught up in this enthusiasm, it is chastening to note (as does Tangermann) that the proposal also states that "Basing protection exclusively on customs tariffs and envisaging, after a transitional period, the reduction of these tariffs to zero or a very low level, would lead to trade in agricultural products on a totally free and chaotic basis."

What the EC means is thus ambiguous, but can be interpreted as support for <u>some</u> tariffication, less than total. Tangermann goes on to propose a modified tariff at time (t), MT (t), of form:

$$MT\ (t) = FC\ (t) + \alpha\ DIF\ (t)$$

where FC (t) is the "fixed" component of the tariff in year (t) and DIF (t) is the "floating" or differential component, which moves with world market prices, as the variable levy does now. The parameter α ($0 \leq \alpha \leq 1$) determines the "weight" given to the floating component, which would become the focus of negotiation, and might be set at 0.7 at the beginning of an adjustment period and perhaps 0.3 toward the end, moving closer to a fixed tariff ($\alpha = 0$) over time. Such a framework could provide a mechanism for fixed versus floating export subsidies as well, which could then be

walked down according to a schedule, consistent with red and yellow light designations.

Tangermann argues that the EC's loss on the GATT oilseeds panel strengthens the internal case in the Community for converting to tariffication in the oilseeds sector as an alternative to current price supports. If so, this opens the possibility of a similar concession on the part of the U.S. in its sugar quota regime, which was found unacceptable in an earlier 1989 GATT panel. In sum, the EC and U.S. have incentives to go down the tariffication road together, designating the current EC oilseeds and U.S. sugar policies as "Red Light" and working toward "modified tariffication" in tandem.

A final negotiating player is Japan, which continues to let the EC do much of its bidding, while gladly calling for the elimination of export subsidies, since its agricultural sector exports little. The center of gravity of the Japanese proposal is "food security", which is used to justify the continuation of border measures, exceedingly high internal price supports, and a variety of nontariff barriers.

Given the continued divergence of views, what is likely to emerge by the end of 1990?

My conjecture is that a framework agreement will be agreed to, so long as it commits the negotiating parties to little actual reform. To agree to designate policies as "red light", even to agree to modified tariffication, need not involve more than a commitment in principle. This is not the same thing as agricultural policy reform, which is ultimately a domestic political issue. The EC can continue its own policies while agreeing in principle to sort them out over time. Similarly, Japan can use "food

security" as a blanket exemption for its own most egregious distortions, while agreeing in principle that, in some future period, reform will be necessary along the lines of the framework proposed. This agreement to a framework may seem a hollow victory, but I regard it as a useful first step. I would not be surprised to see various contracting parties go somewhat further, by each offering a sacrifice of some aspect of their own policies as an example of a "Red Light" distortion, primarily because they would like to be rid of it for internal political reasons. This is the case in the soybeans-for-sugar trade concessions mentioned above.

Assuming such a framework can be reached, and that token sacrifices might also be made, is there any real prospect of substantive reforms? I would not bet on it, but if it occurs, the core of such agreement must be a decision on the part of the U.S. to reduce and eventually eliminate the Export Enhancement Program (EEP) and to reduce domestic levels of support, in return for major European reductions in export restitutions, as well as changes in the variable levy. On the U.S. side, the EEP has been something of a dog in financial terms, despite the enthusiasm shown for it by beneficiaries such as wheat growers. Coughlin and Carraro (1988) noted that the cost of EEP subsidies for wheat averaged $4.08 per bushel, compared with an average market price at the Gulf of $3.16, implying that it would have been cheaper to destroy the wheat on the farm and pay farmers the difference than to ship it halfway around the world at subsidy.

It would be nice to sacrifice EEP, and to reduce domestic supports, purely for domestic budgetary reasons. However, what will Europe sacrifice? Here, the key is again the "rebalancing" question. European sacrifices of export restitutions in grains are possible, <u>if</u> oilseeds can

be given a measure of protection, perhaps through modified tariffication. It is doubtful that such protection will be too high, lest the EC livestock industry protest the loss of cheap U.S. feed. However, will the U.S. soybean industry concede the need to "close the CAP" further, losing the zero duty binding, in return for gains in the maize and wheat markets? In the Middle West, the answer may be yes, but the South's soybean growers have fewer options. In sum, a core agreement between the U.S. and EC will be difficult to achieve unless domestic interests provide the requisite political support.

The Impact of the 1990 Farm Bill Debate

These domestic interests are now circling the wagons for the 1990 Farm Bill debate. Many commodity groups, and their elected representatives in Congress, seem unable to decide if GATT is an ineffectual group of diplomatic Dr. Jekylls, or a threat to farmers capable of becoming a monstrous Mr. Hyde. The Congress bravely asserts that it does not believe in monsters, yet keeps peeking out from under its bed covers, just to make sure. On the one hand, one hears that "GATT is dead", and that the U.S. must not continue to pay lipservice to an outmoded and toothless institution. This point of view is held not only by xenophobes and "America Firsters", but also by such respected economists as Lester Thurow, who is neither (see Litan and Suchman, 1990). On the other hand, one hears that "We will not allow the Farm Bill to be written in Geneva". Apart from the fact that the U.S. negotiators (much less their foreign counterparts) would be unlikely voluntarily to come within miles of farm legislation, this worry suggests the fear that GATT may have teeth after all.

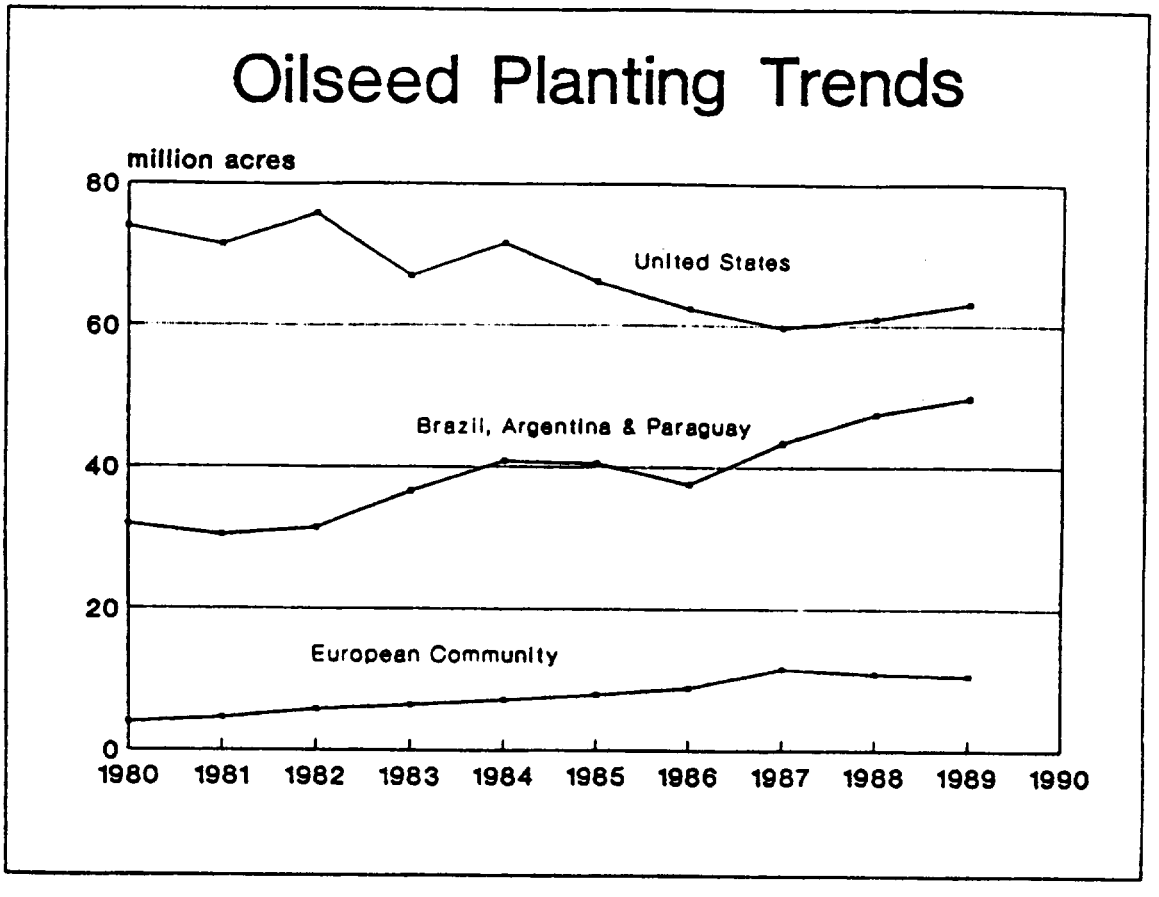
The domestic farm legislation passed in 1990 will contain changes

which support the U.S. position in GATT. This support will come in positive reforms that move modestly toward decoupling, and in negative threats of retaliation if GATT is not a "success". On the positive side, the move toward flexibility is now widely popular. "Flexibility" means that farmers will be given greater leeway to plant a range of crops without losing cropping "bases" on which government program payments are made. The Administration proposal advocates return to a Normal Crop Acreage or "whole farm" base, in which current bases for various crops would be merged into one single accounting unit. This approach has broad support, concentrated especially in commodity groups like the soybean, oats and barley growers, who argue persuasively that soybeans, oats and barley are "crowded out" due to high relative deficiency payments paid to corn and wheat.

Two recent reports illustrate the reasoning behind increased flexibility, which has trade, farm income and environmental components. The trade argument comes especially from the U.S. soybean sector, which after being the predominant world supplier from the 1950s through the 1970s, lost substantial market share in the 1980s, traceable in part to disincentives to grow soybeans at the farm level, and in part to EC subsidies. Figure 4 illustrates oilseed planting trends, while Figure 5 shows soybean and soybean meal exports. Abel, Daft and Earley (1990) summarize the domestic farm income distortions resulting from current programs.

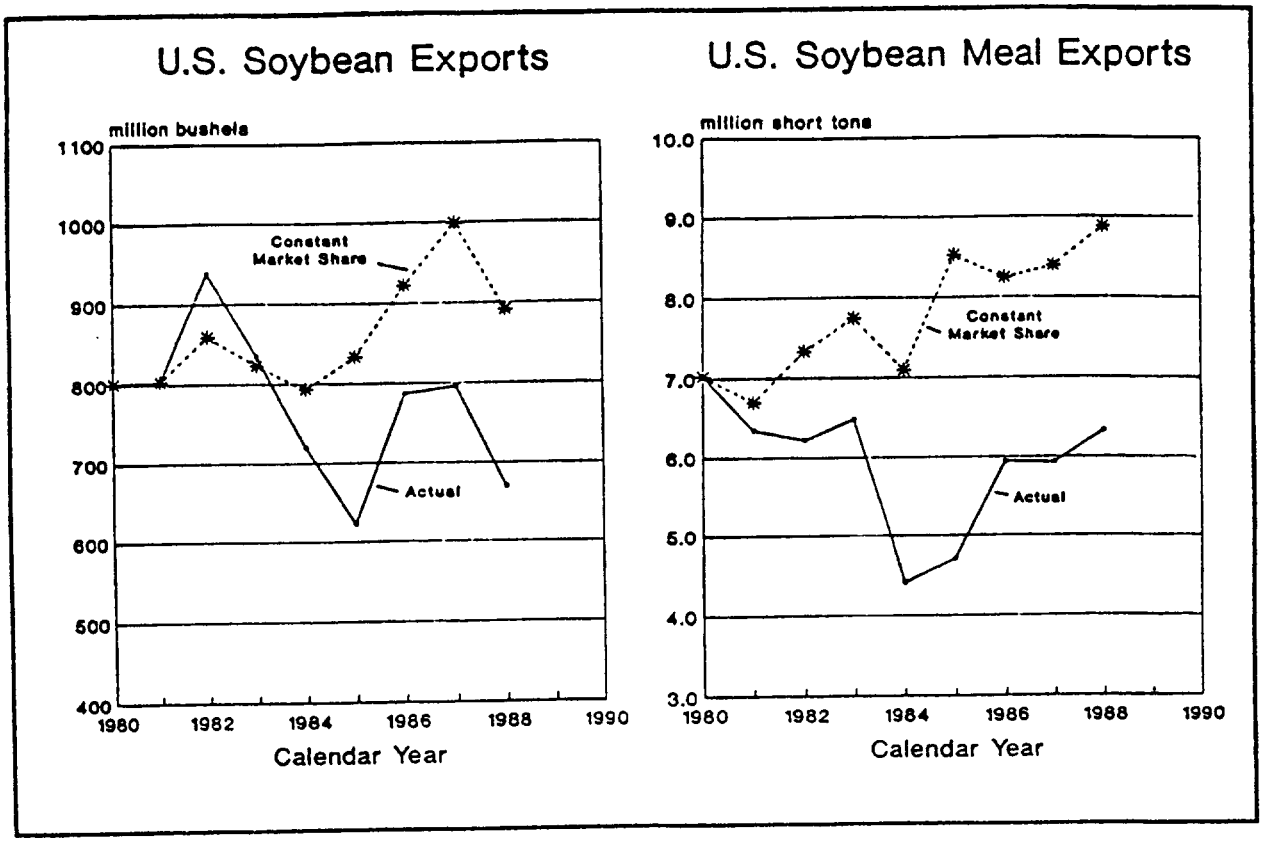
> During the 1986-89 period, target prices for corn, sorghum, rice, wheat, and cotton were comparatively high relative to various measures of production costs. At the other extreme, average target prices for barley and oats were relatively low and oilseeds did not have target prices. These distortions encouraged production of those crops that were most profitable

Figure 4. Oilseed Planting Trends.



Source: Foreign Agricultural Service, USDA, "World Oilseed Situation and Market Highlights," various issues.

Figure 5. U.S. Soybean Exports and U.S. Soybean Meal Exports.



Source: The Case for Planting Flexibility: An Oilseed Perspective. Prepared by Abel, Daft & Early For the Oilseed Council of America, January 1990, pp. 6-7.

> when government payments are included and discouraged production of less profitable crops, namely those with low or no target prices. There is also a higher degree of certainty about revenue from target price crops and this was important to some producers and farm lenders during the mid-decade farm financial crisis (pp. 12-13).

The final justification for more flexible plantings is an environmental one (Runge, et al, 1990). By encouraging more crop rotation and green manures, less restrictive base acreage requirements would be likely to lower the repetitive cropping of highly erosive crops with high nutrient and pesticide demands.

In a comprehensive review of such a flexible program, the Congressional Budget Office (CBO, 1989) estimates that farm incomes would fall slightly (as would government program costs), but that in return, farmers would be allowed much greater freedom to pursue marketing opportunities. If program costs are to be cut anyway for broader budgetary reasons, "flexibility" affords an attractive way to do it, which is in effect an incremental step toward decoupling, and thus trade-liberalizing overall.

In contrast to flexibility, the idea of tariffication has not gone down well in Congress, for several reasons. Most obviously, it is an unknown alternative to the well-known quantitative import restrictions applied in the U.S. sugar, dairy, peanut and tobacco programs, which have served producers well. At the political level, the House and Senate agriculture committees fear that conversion of quotas to tariffs would shift sovereignty over agricultural prices to the trade subcommittees, such as that of the House Ways and Means Committee, where sympathy for consumers far outweighs that for farmers. From a regional perspective, the

commodities most affected by tariffication are concentrated in the South and upper Midwest, where enthusiasm for trade liberalization is less than on the coasts. Combining tariffication with Southern soybean interests' opposition to rebalancing adds up to a powerful Southern bloc likely to oppose a substantive compromise between the U.S. and EC that includes too much tariffication or rebalancing.

Ironically, there is reason to believe that at least some of these U.S. producers might actually be better off under tariffs than quotas, assuming that the fixed component of such tariffs was set at high levels to begin with and only reduced through formulae determined by multilateral agreement, which would proceed slowly. Beet sugar growers in the Red River Valley of the Dakotas and Minnesota, for example, are low cost producers who are increasingly undercut by sugar processors such as candy manufacturers who have made use of free trade zones or foreign subsidiaries to avoid using high-priced U.S. sugar. A tariff wall would more effectively insulate these growers, while producing tariff revenues and rewarding their low costs. The primary fear of beet growers is that admitting the feasibility of tariff protection will be a slippery slope toward freer trade which is worse than the slope down which they are now sliding. However, an agreement based on the formulas proposed by Tangermann (1990), cited above, might help to allay these fears.

These fears have a negative side which is also likely to enter the Farm Bill in the form of authorized retaliation if the GATT talks do not "succeed", the same approach that has characterized the use of EEP as a "bargaining chip". What counts as "success", like beauty, is in the eye of the beholder, and how Congress defines the trigger that sets off such

retaliation will be important. Opponents of GATT will want a hair-trigger, while supporters will want a soft one. It would appear that the U.S. Trade Representatives and U.S. Department of Agriculture will concede such triggers as part of the Farm Bill, on the theory that it keeps Congress busy doing something they like (posturing as tough traders), while apparently upping the ante for a successful GATT outcome. It is important to note that authorizing such retaliation is not the same as appropriating money to undertake it, and such funds are likely to be scarce in the current budget climate.

A final dimension in the 1990 Farm Bill debate is the rising influence of environmental interest groups. While there is little connection between these groups and trade talks on first inspection, I believe that the increasingly important role of health, safety and environmental concerns may well be of larger significance for world trade than any of the issues thus far discussed. The full impact of these trends will not be felt until after the Uruguay Round. But I contend that especially if import protection in traditional agricultural programs can be seriously addressed, a new form is likely to take its place, which is inherently much more difficult to isolate and thus to "tariffy". I call this market access issue the rise of "ecoprotectionism".

Ecoprotectionism and Future Trade Negotiations

I conclude this review with a brief discussion of ecoprotectionism, by which I mean the use of health, safety and environmental regulations as effective barriers to trade (see Runge and Nolan, 1990).

Ecoprotectionism involves the internationalization of issues related to food, health and safety. This gives rise to problems created by

national income disparities and the different priorities of national governments. A recent U.S./Canada dispute over salmon and herring exports provides legal precedents for future international actions, which will involve GATT in a multi-tiered set of international standards that can help distinguish legitimate health and environmental regulations from disguised nontariff barriers.

On January 1, 1989, the European Community (EC) announced a ban on all beef imports from the United States containing hormones used to help increase cattle growth. Citing health risks, the EC action touched off a cycle of retaliation worth hundreds of millions of dollars that has affected the world trading system, and is still being negotiated. This apparently isolated example of health regulations acting as trade barriers is part of an emerging pattern of environmental and health issues with major consequences for the world economy.

In September, 1989, the European Commission took up discussions of further rules to restrict imports of cattle or dairy products produced with the bovine growth hormone BST (bovine somatotropin). BST is also at the center of domestic controversies over the safety of food supplies in the U.S. and Canada.

Senator Pete Wilson (R-CA), a candidate for governor of California, introduced federal legislation in December, 1989 that would ban companies from exporting pesticides that are illegal in the U.S. Responding to the Western Growers Association, Wilson stated that "export of dangerous pesticides creates a competitive inequity between foreign and American farmers and growers." A spokesperson for the growers argued that "we are under extreme pressure from foreign farmers," noting hundreds of growers who have gone out of business because of competition with Mexico and other

countries where "they can use whatever [chemicals] they want in most cases."

In October 1989 a dispute settlement panel formed under the U.S./Canada Free Trade Agreement (FTA) determined that Canadian restrictions on foreign salmon and herring fishing constituted an effective barrier to trade, despite the fact that Canada justified them as environmentally motivated conservation measures under Article XX of GATT.

These examples are part of an emerging pattern in which environmental and health risks are increasingly traded among nations along with goods and services. These risks are the opposite of services--they are environmental and health disservices traded across national borders. They arise directly from the transfer of technology, and will increasingly affect international investment flows, trade and development, and the relative competitiveness of national industries and agriculture.

This pattern of trade underscores the problem of formulating government policies in an interdependent world economy. While the United States and other signatories to the General Agreement on Tariffs and Trade pursue more open borders in the ongoing Uruguay Round of trade negotiations, the role of national health, safety and environmental regulations grows in importance for domestic electorates, especially in the wealthy countries of the North. Increasingly, different national regulatory priorities will pose problems for trade harmonization, blurring the distinction between domestic and foreign economic policy. Without additional attempts to come to terms with environmental issues through multilateral institutions such as GATT, differences in national regulatory approaches will bedevil both the environment and the trade system in the next decade and beyond.

The examples cited above demonstrate that environmental regulations are not purely domestic policy issues. Indeed, there has been longstanding recognition of the possibility for conflicts between national environmental policy and more liberal international trade. The GATT articles, adopted by the contracting parties in 1947, explicitly recognize the possibility that domestic health, safety and environmental policies might override general attempts to lower trade barriers (Jackson, 1969). GATT Article XI, headed "General Elimination of Quantitative Restrictions," states in paragraph (1):

> No prohibitions or restrictions other than duties, taxes or other changes, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

Yet Article XX, headed "General Exceptions," provides

> ...nothing in the Agreement shall be construed to prevent the adoption or enforcement by any contacting party of measures:
>
> ...(g) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption;

provided that such measures:

> ...are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade.

A similar set of exceptions was applied to health related measures under Article XX (b). GATT law emphasizes that any restrictions imposed on foreign practices for environmental or health reasons must also reflect a domestic commitment, so that the exception cannot be misused as a disguised form of protection.

Despite substantial attention to both technical standards and nontariff barriers in the Uruguay Round it is still unclear when and where such standards constitute an unnecessary obstacle to international trade. Although a GATT technical working group on sanitary and phytosanitary measures continues its work, if anything, the temptation to use environmental and health standards to deny access to home markets is stronger now than in the 1980s. As the European Community moves towards its goal of market integration in 1992, it will have strong incentives to create common regulations for internal purposes, but to impose restrictions vis-a-vis the rest of the world. A similar propensity may occur as a result of harmonization under the U.S./Canada free trade agreement. Even if national standards can be harmonized, moreover, there is every reason to expect subnational jurisdictions to utilize various health and environmental standards to protect certain markets.

Underlying the development of these trade tensions are fundamental differences in the views of developed and developing countries (the "North" and "South") concerning the appropriate level and extent of environmental regulation. Differences in the domestic policy response to these problems are well represented in the food systems of the North and South. Since so much recent attention has focused on food and agricultural chemical use in the North, and because the agricultural sector is of key importance in almost all developing economies of the South, it provides a useful case in point.

In the developed countries of North America and Western Europe, the "food problem" arises not from too little food and land in production, but generally too much. As predicted by Engels' Law, the incomes of developed countries have increased, and the share of this income spent on food has fallen in proportion to other goods and services. This characteristic makes food an "inferior good" in economics jargon. In contrast, environmental quality and health concerns have grown in importance with increasing income levels. They are what economists call "superior goods," in the sense that they play a larger role in the national budget as national incomes increase (see Runge, 1987).

The competitiveness implications of these trends are not lost on Northern producers. They have been quick to see the trade relevance of environmental and health standards. Growing consumer concerns with the health and environmental impacts of agriculture create a natural (and much larger) constituency for nontariff barriers to trade, justified in the name of health and safety. As between countries in the North, obvious differences in values also exist, although the regulatory gap is less yawning.

Given the tensions separating North and South, and the lesser differences between countries in the North, it would appear that a single set of standards is unlikely to be successful. The Subsidies Code adopted during the Tokyo Round is at least a necessary starting point, but some mechanism must be found to accommodate differences in national priorities linked to levels of economic development and cultural factors.

How might such standards be developed? Consider a 1989 case heard by a panel convened under the U.S./Canada Free Trade Agreement (McRae, et al., 1989). The case involved a panel established to hear testimony over

Canadian restrictions on exports of Pacific Coast unprocessed salmon and herring. Such restrictions date to 1908, but were found GATT-illegal in 1987 after the United States complained that they were unjustifiable restrictions on trade. In 1988, Canada accepted the GATT finding, but stated that it would continue a "landing" requirement for foreign boats that would allow inspection of their catch. The ostensible reason for the requirement was an environmental one: to allow the fish harvest to be counted and monitored so as to preserve the fishery from overexploitation.

According to the U.S., the requirement that its boats must land in Canada constituted an export restriction, because of the extra time and expense U.S. buyers must incur in landing and unloading, as well as due to dockage fees and product deterioration. The Canadians held that they were pursuing "conservation and management goals" for five varieties of salmon (some of which had previously not been covered by the landing requirement) as well as herring. The Canadians justified their action under Article XX of the GATT (the "General Exceptions" section noted above) by appealing to an environmental claim under Article XX(g): conservation of exhaustible natural resources.

The U.S. argued that although the new herring and salmon regulations "are carefully worded to avoid the appearance of creating direct export prohibitions or restrictions, their clear effect is to restrict exports" (McRae, et al., p. 13). Moreover, the Canadian landing requirement was argued not to be "primarily aimed" at the conservation of herring and salmon stocks, which had been the interpretation given to Article XX(g) by the 1987 GATT ruling. Thus, the U.S. held that the Canadian landing requirement was an environmental policy acting as a disguised restriction on international trade. Canada argued that the landing requirement was

"primarily aimed" at the conservation of the salmon and herring fisheries.

In a significant decision, the panel found that if the effect of such a measure is to impose "a materially greater commercial burden on exports than on domestic sales," it amounted to a restriction on trade, whether or not its trade effects could be quantitatively demonstrated. The Panel "was satisfied that the cost of complying with the landing requirement would be more than an insignificant expense for those buyers who would have otherwise shipped directly from the fishing ground to a landing site in the United States" (McRae et al., p. 25). With regard to the Article XX(g) exception, the Panel was conscious "of the need to allow governments appropriate latitude in implementing their conservation policies," and that the trade interests of one state should not be allowed to override the "legitimate environmental concerns of another" (p. 29). "If the measure would have been adopted for conservation reasons alone," the Panel found, "Article XX(g) permits a government the freedom to employ it." However, balancing this is the "primarily aimed at" test, which determines whether the measure is part of a genuine conservation or environmental policy, or is in fact a disguised barrier to trade.

This line of reasoning led the Panel to two conclusions. First, "since governments do not adopt conservation measures unless the benefits to conservation are worth the costs," the magnitude of costs to the parties--foreign and domestic--who actually bear them must be examined. Second, "how genuine the conservation purpose of a measure is, must be determined by whether the government would have been prepared to adopt that measure <u>if its own nationals had to bear the actual costs of the measure</u>" (McRae, p. 31, emphasis added). In this case, the Panel was unconvinced that the measure would have been imposed on all Canadian boats primarily

for conservation reasons. Specifically, the Panel found that Canada would not have adopted such a measure "if it had required an equivalent number of Canadian buyers to land and unload elsewhere than at their intended destination" (p. 32). Alternative methods of monitoring catch rates were available which posed far fewer restrictions on trade.

Generalizing from this case, it seems possible to envision the development of criteria based on (a) estimated costs of health, safety and environmental regulations; (b) evidence on who bears these costs; and (c) judgments of whether such measures would be imposed in the absence of any trade effects. Such criteria can serve as a basis for the development of standards determining which environmental and health measures constitute unnecessary obstacles to trade.

In view of differences in levels of economic development and national priorities, it is clear that such standards cannot be wholly uniform. Jeffrey James, in The Economics of New Technology in Developing Countries (1982), suggests that despite valid arguments for improved health and environmental regulations in the South, "it does not follow from this that countries of the Third World should adopt either the same number or the same level of standards as developed countries." James suggests what may be called intermediate standards, "in the same sense and for the same basic reason as that which underlies the widespread advocacy of inter-mediate technology in the Third World." This does not imply a "downgrading" of U.S. regulations, but an "upgrading" of LDC norms, together with recognition that the social costs of regulation are relative to national income.

Under GATT law, these distinctions are recognized as "Special and Differential Treatment" of lower income countries. While "S&D" often

creates serious longrun distortions, the terms under which it is granted, as James emphasizes, may actually reduce current regulatory differentials by raising norms in the South, thus improving Third World environmental policies. While this may not satisfy all competing producers in the North, it can contribute to reductions in overall trade tension while improving environmental quality in the South.

Conclusion

This paper has reviewed three somewhat disparate elements of the Uruguay Round negotiations in agriculture. I have argued that a framework agreement on general principles will be reached, against a background of agricultural policies in the U.S. in which Farm Bill decisions are made primarily for domestic reasons. Domestic U.S. interests are not likely to give GATT much leeway, and are threatened by many elements of the negotiation, notably "tariffication" and "rebalancing". Despite these fears, I expect an eventual compromise which will move us modestly in the direction of trade reform. However, there are growing threats to more liberal international trade arising from new sources that will demand attention. These include rising concern over health, safety and environmental quality, which can be turned easily into restrictions on market access.

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