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# **PROBLEMS OF WORLD AGRICULTURE**

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## **The evolution of the agricultural protectionism and its measures**

**Abstrakt.** The aim of the article was to present the premises and evolution of protectionism in agricultural trade and to show the changes in significance of tariff and non-tariff barriers of intervention for the trade in agricultural products. The abolition of customs duties entails an increase in the number and the role of non-tariff barriers in trade policy applied by individual countries. The factors determining the degree of intensity in the use of protective instruments include the level of GDP per capita. In the agri-food sector, an intensified protectionism can be observed along with an increased degree of economic development. In spite of the fact that richer countries declare their support for free trade, they take intense actions to protect their domestic production from the competitive imports and are unwilling to abandon this policy, which can be observed e.g. in prolonged negotiations on further liberalisation of world agricultural trade in the WTO forum.

**Key words:** protectionism, agricultural trade, tariff barriers, non-tariff barriers

### **Introduction**

The world trade is far from the idea of complete freedom and most countries apply various types of trade barriers to protect less effective sectors of their economies. In spite of the declared support for free trade, which contributes to an improved efficiency of production and consumer utility as well as an increased benefit from exports development, they are unwilling to open their markets to foreign products. This policy is particularly noticeable in the agricultural sector, where the level of customs duty protection is higher than in the branches of industrial production. The aim of the article is to present the premises and evolution of protectionism in agricultural trade and to show the changes in significance of tariff and non-tariff barriers to the trade in agricultural products.

### **Premises of agricultural protectionism**

The need for intervention in agricultural trade is justified by recounting numerous arguments. The most significant and convincing premises of protectionism in the agricultural sector include [Houck 1986; Sumner 1995; Koo & Kennedy 2005]<sup>2</sup>:

- provision of revenue; until the moment of introduction of a general system of income taxation in developed countries and initiation of world agricultural trade liberalisation processes in the WTO forum the customs tariffs imposed on imported commodities,

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<sup>2</sup> Furthermore, the need for protectionist interventionism in agriculture arises from the specific qualities of agricultural production and commerce. For more information on the subject see numerous works [Gospodarka... 1987; Adamowicz 1988; Wzyńska-Ludian 1996; Ciechowski 1997; Czyżewski & Henisz-Matuszczak 2004].

and sometimes also on exported products, were the chief source of income for the budget of the countries actively involved in the world trade;

- provision of domestic food security; seeing the danger of excessive dependence on food supplied from abroad, above all the argument appears in pursuit of rationalisation of the applied anti-import strategy<sup>3</sup>,
- protection of health of plants, animals and humans; prevention of spreading of animal diseases or contamination of plant material is an excuse for temporary and selective protectionism in agricultural trade using chiefly sanitary and fitosanitary measures of trade policy,
- protection of national security; this premise is particularly important for the countries which are big importers of food and which may lose the capacity to generate an appropriate supply of food necessary for the internal market due to conflicts with the foreign suppliers, military conflicts or disturbed distribution channels; in order to avoid this situation appropriate intervention steps are taken and domestic producers are encouraged to generate enough agricultural products, at least to balance the demand, even if they are not effective and the agricultural sector is not internationally competitive;
- protection of new domestic industry, which has a growth potential; by providing a temporary protection to branches of the food industry which are at an initial stage of economic development they are given an opportunity to gain production experience and to make profit corresponding to the scale of production and sales;
- improving the international purchase process; the argument applies to countries with a high share in the trade in specific groups of products and thus having a potential to influence the level of world prices;
- neutralisation of the effect of protection tools applied by trade partners discriminating against domestic producers; this form of intervention consists in using the instruments of commercial retortion against selected trade partners;
- increasing the efficiency of domestic programmes of support to the agricultural sector; e.g. supporting market prices and keeping them at a higher level than those in international markets requires the use of import control measures; if there is a surplus of products supplied at guaranteed prices over the country's demand, tools of export promotion also need to be implemented;
- reducing the costs of adjustment of the domestic agricultural sector to the changing conditions of competition; this premise of agricultural protectionism is usually put forward to justify keeping the current trade barriers rather than creating new ones; it may refer both to the application of means of anti-import and pro-export policies; increased imports, which result in a drop of domestic prices and limited sales of domestic products, force the producers to make a choice whether to leave the industry, accept a lower rate of profit or increase the production efficiency; in this situation it is necessary to retain strict means of import control so that producers can avoid considerable costs of economic adjustments; this action is of particular importance in sectors characterised by a relatively low mobility of factors of production; on the other hand, food exporting countries apply interventionism in trade to protect domestic

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<sup>3</sup> As it clearly results from the research by Swinnen [1994], subsidizing of agriculture decreases with increased degree of food self-sufficiency.

consumers from high prices and a dynamic increase in foreign demand for domestic products; this type of protectionism is usually realised with export taxes and/or quantitative limitations.

## **The genesis and evolution of agricultural protectionism**

The beginnings of agricultural protectionism date back to the mercantilism era (the turn of the 16<sup>th</sup> century) when great geographical discoveries and economic progress stimulated the development of industry and foreign trade. At that time the international trade comprised mass consumption products, industrial and agricultural raw materials, which were mainly cereals. The aim of the economic policy of rapidly developing European colonial countries was to achieve a positive balance of trade and an economic self-sufficiency. The goal was to be reached by supporting the domestic industry, with a subordination of the policy targeted at the agricultural sector whose task was to supply cheap raw materials and food products. The prices of food products, which were kept at a relatively low level, were supposed to contribute to lower production costs of industrial and handicraft products and to strengthen their competitiveness in exports. At that time the protectionism could be observed in high customs duties and bans limiting the imports of competitive products from abroad and exports of products necessary in the home market, especially raw materials and food products [Wyzińska-Ludian 1996]. Strictly mercantilist policies were favoured primarily in France. Prussia followed an intermediate line, while England pursued a high price policy with export premiums to support domestic prices [Heidhues 1979].

One of the major reasons of traditional agricultural protectionism was to guarantee food security and in the beginning the policy of trade in agricultural products depended on the changing volume of crops. Between the 16<sup>th</sup> and the 19<sup>th</sup> century, when the rate of population growth was higher than the rate of productivity growth in agriculture, most European countries began to face the problem of unequal food balance. Thus, a food crises would induce export controls, introduction of export monopoly or state-controlled trade. On the other hand, in the years of high crops and low price level import tariffs and other limitations were applied [Heidhues 1979; Adamowicz 1988].

Towards the end of the 18<sup>th</sup> century in the consequence of development disproportions caused by industrial protectionism, the concept of economic liberalism and free trade became popular, which consisted in elimination of the applied trade restriction measures. However, in practice the liberal policy was frequently limited for economic and political reasons. After the Napoleonic wars, in consequence of an extended agricultural crisis in a large part of Europe which was accompanied by a low price level of agricultural products, England and France saw a decade of strict protectionism. In 1818 only Prussia, which was an exporter of agricultural products, made a customs reform aimed at trade liberalisation. In the other European countries a transition to the free trade policy proceeded in stages. An important step in that direction was the abolishment of Corn Laws in Holland in the mid-1840s, in Denmark and finally in the United Kingdom in 1846. France started the free trade era under the rule of Napoleon III and Germany did it in 1853, when the Zollverein (German Customs Union) was established. Russia and other East European countries decided to follow and reduce protection measures. Only the United States retained an explicit protection policy at the time [Heidhues 1979; Adamowicz 1988].

The great food crisis of 1846-1847 brought a historic break in the centuries-old pattern of scarce food supply and intermittent hunger crises. Industrialisation and growth of agricultural productivity permitted a more secure food base than before and brought a gradual nutritional improvement whereas an increased demand for food and its supply created more favourable conditions for the development of agricultural trade. At the time a higher number of bi- and multilateral trade agreements could also be observed, which guaranteed the application of the most favoured nation clause in mutual trade [Heidhues 1979]. The first such agreement was the trade agreement between England and France of 1860, which resulted in reduced customs tariffs on raw materials and industrial products. Also France, the later Germany, Italy and the United Kingdom became involved in negotiations of trade agreements, which applied the most favoured nation clause with the principle of reciprocity [Kindleberger 1975; Swinnen 2010].

The supremacy of the free trade idea continued until the outbreak of global economic crisis in 1873, which caused a price fall, a deterioration of conditions of agricultural development and a more intensive competition in global markets of agricultural products. It was preceded by a sudden growth in production of wheat and livestock in Australia, Argentina, Canada and above all in the United States, where land was abundant and cheap and technological innovations dramatically decreased production costs. With decreasing ocean transport rates and improvements in refrigeration this resulted in an increased inflow of low-cost grain and meat to the European market. In consequence, the international prices of those products, especially cereals, began to drop, thus resulting in an agricultural crisis [McCalla 1969; Swinnen 2010].

The governments of European countries reacted to those changes in different ways. The United Kingdom, Belgium, Denmark, Holland, Finland and Switzerland retained the free trade policy. The United Kingdom together with its colonies (Canada, Australia, India, etc.) also pursued a division of labour and due to its dominance at the seas it was able to ensure continuous food supply. The other countries applied the principle of comparative advantage, changed the directions of specialisation of production and shifted their own agriculture to animal production. Therefore, they were interested in keeping low input prices [McCalla 1969; Heidhues 1979; Adamowicz 1988]. At the same time France and Germany began to implement the policy of protectionism. Germany, which had been a cereals importer until then, introduced protective customs tariffs and then raised them in 1885 and 1887. France began to use a small tariff for wheat as early as 1865, but in 1880 it raised them and extended the range of customs protection to other products. Simultaneously both of the countries operated a system of export subsidies for their crop exports. Sweden, Austria-Hungary, Italy, Spain and Portugal also applied a similar system of intervention for agricultural trade. Animal products were protected to a lesser extent than cereals, with the use of measures defined today as non-tariff trade barriers, chiefly veterinary and sanitary regulations. The United States introduced a highly protective customs policy in 1890<sup>4</sup>. It is possible to state that in spite of more or less advanced agricultural protectionism the international division of labour in agriculture just before World War I developed according to the principle of comparative advantages and the economic image of the world corresponded to the Thünen structure. Major industrial European countries made the core, which was surrounded by a group of smaller countries oriented to intense animal and

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<sup>4</sup> This so called McKinley tariff blazed a trail to the application of high duties in the US agricultural imports for more than 40 years [Hillman 1991].

vegetable production. East European countries with extensive agricultural production made the next ring and the outer ring was formed by overseas producers, except the United States, whose exports declined radically due to the rapid increase in domestic demand [Heidhues 1979; Adamowicz 1988].

After 1900, in consequence of increased costs of production in cereals exporting countries and higher demand for food, especially livestock and horticultural products, growing along with the industrial development, the prices of agricultural products began to rise, entailing farmers' improved income and a weaker wave of protectionism [Swinnen 2010]. On the basis of Liepmann's [1938] estimates, Tracy [1964] concludes that before World War I the average level of customs tariffs in the import of food products fluctuated between 20% and 30% (Table 1).

Table 1. Average import tariff levels for foodstuffs in selected European countries in 1913, 1927 and 1931, %

Country	Year		
	1913	1927	1931
France	29	19	53
Germany	22	27	83
Italy	22	25	66
Belgium	26	12	24
Switzerland	15	22	42
Austria <sup>b</sup>	29	17	60
Sweden <sup>c</sup>	24	22	39
Finland	49	58	102

a – the figures represents the unweighted averages of duties on thirty eight important foodstuffs, expressed as a percentage of the export prices of leading European exporting countries, b – in 1913 for Austria-Hungary, c – fruits and vegetables not included

Source: [Hillman 1978] and [Tracy 1964] based on [Liepmann 1938].

World War I brought about disturbances in agricultural production and its distribution system and in consequence also changes in the policy of foreign trade in agricultural products, which had not been reported since the Napoleonic Wars. In fact, all the European food importing countries faced the problem of feeding the population and ensuring food security became much more important in the food policy than before the war. Insufficient amounts of food as compared with the demand and high prices made governments introduce strong regulation of domestic agricultural markets, both during the war and shortly afterwards. The most frequently applied instruments of protection were maximum prices, mandatory deliveries from farmers and export restrictions. It is worth noting that the introduction of the first two instruments of protectionism resulted in the development of black market of agricultural products and favoured keeping high prices of these. Therefore, in spite of the wartime problems farmers' economic situation during World War I was better than producers in the non-agricultural branches of economy. Due to the persistent high prices of food, the policy of protectionism and strict regulations concerning food production and consumption was also continued after the war. In many European countries the domestic prices of agricultural products were fixed, with maximum grain prices set below international prices. The volume of agricultural exports and imports was subject to

strict regulations, but at the same time the investments made immediately after the war stimulated higher yields and larger numbers of livestock Swinnen [2010].

Improved situation of the agricultural sector, which had been observed since the beginning of the 1920s, was reflected by a temporary abandonment of measures of protection against the competitive imports. In 1920 and 1921, the increased exports of wheat and other agricultural products from the United States, Canada and Australia combined with an increasing food self-sufficiency of the European countries resulted in a drop of agricultural prices in the European markets and the global market. In spite of that, the United Kingdom, Holland and Denmark continued the free trade policy, whereas in 1924 and 1925 France, Germany, Belgium, Austria and Italy saw the return of protectionism and increased customs tariffs in order to support the income of domestic agricultural producers. Lower world prices of agricultural products resulted in strong protectionist reactions in the United States. Under the Emergency Tariff Act of 1921 import duties were imposed on forty agricultural products, which were permanently introduced to the American customs tariff under the Tariff Act of 1922 [McCalla 1969; Heidhues 1979].

The wave of protectionism began to grow after 1929 with the economic crisis of the late 1920s and early 1930s. It was accompanied by lower consumer demand, which resulted in considerably reduced prices of agricultural products. On the one hand, the governments of individual countries were expected to take action to protect farmers' income and on the other hand workers employed in the industrial sector demanded that low prices of food should be maintained. The state authorities responded to the demands in different ways. However, in most countries the agricultural sector again was given more protection than other sectors. The chief instrument of protection in agriculture since the economic crisis of the 1930s was customs duties, which were imposed mainly on the imports of livestock and cereals<sup>5</sup>. It is also necessary to stress that it was easier to implement them for feed grains (barley, oats) than for bread grains (wheat, rye), which was opposed by the industry and workers. For example, the proposal to raise customs tariffs on import of cereals, which was announced by the Belgian government in 1935, resulted in a general strike and in consequence the fall of the government. The plan to raise customs tariffs was abandoned Swinnen [2010].

In the early 1930s the United Kingdom, the bastion of free trade, also joined the protectionist trend. In 1931 the British government declared the Horticultural Products (Emergency Customs Duties) Act, which gave customs protection to fruit, vegetable and flower producers. In 1932, the Import Duties Act was passed, which placed a 10 per cent ad valorem duty on all commodities except those from the British Commonwealth, its colonies and dominions. It is also necessary to add that in 1932 the Ottawa Agreements were signed, which established the system of trade preferences between those countries. Also the Agricultural Marketing Acts of 1931 and 1933 enabled British agricultural producers to control the volume of domestic supply and imports. On the other hand, the Wheat Act of 1932 as well as the Agricultural Act and the Livestock Industry Act of 1937 enabled implementation of the price support system and further strong import restrictions [McCalla 1969].

When customs tariffs, which on average reached 50-60% of export prices (Table 1), proved to be an insufficient measure of protection in the agricultural sector, non-tariff tools

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<sup>5</sup> It is worth noting that in 1930 and 1931 France decided to abandon the most favoured nation clause, which had been in use since 1860.

of intervention began to be used on a wider scale. Quantitative restrictions and a state trading monopoly were implemented. In several countries, e.g. in Holland, Belgium and Denmark, regulations of a compulsory use of domestic grain were introduced, which required a minimum amount of domestic cereals to be used in the milling industry. The United Kingdom ordered deficiency payments and Belgium per hectare subsidies, i.e. measures that did not increase grain prices [Heidhues 1979; Swinnen 2010]. According to Schiller's estimates in 1929 and 1930 about 5% of traded agricultural commodities was subject to non-tariff regulations, whereas in 1935 the percentage was 55% on average and no significant changes were observed until World War II [Heidhues 1979].

The countries which were major exporters of agricultural products also increased the scale of protection in the 1930s. The collapse of world wheat prices in 1929 and 1930 brought the large Canadian cereals grain pools to the verge of bankruptcy. In 1930 they were taken over by the Canadian government, which formed a voluntary Canadian Wheat Board in 1935 and established a compulsory state monopoly for wheat and feed grains in 1943 and 1949 respectively.

In 1930, the United States introduced high customs tariffs. Furthermore, in 1933 the agricultural policy was reformed (The Agricultural Adjustment Act). Its aim was to solve the problem of surplus and low prices of agricultural products by such measures as nonrefundable loans and direct payments, i.e. means other than import restrictions and/or export dumping programs. It is possible to say that in that way the United States made clear its willingness to place domestic agricultural objectives ahead of free trade principles. The Agricultural Adjustment Act of 1935 reinforced that approach as it gave the right to impose a multitude of import restrictions, including import fees and quotas on agricultural imports which threatened the effective operation of domestic support programmes. On the other hand, the tariff policy was extenuated under the Reciprocal Trade Agreements Act of 1934, which gave the US president more rights to negotiate reductions in reciprocal customs tariffs with trade partners [McCalla 1969]. As Hillman [1991] reports, the average level of customs tariffs in the US agricultural imports went down from 46.7% in 1934 to 12.6% in 1955, 5.8% in 1974 and 3.4% in 1990.

In the late 1930s, along with preparations for World War II the prices of agricultural products began to grow again. Although many protection measures were sustained until 1939, some of them became weaker in the second half of the 1930s as the agricultural income improved. During the war, the food production and consumption were strongly regulated. Similarly to the time of World War I, there were high prices of food products on the black market and in consequence farmers' income rose faster than in other branches of national economy. In spite of that, shortly after the war the system of regulations was retained in agricultural trade in order to ensure a sufficient supply of food at affordable prices. Only the next years brought gradual liberalisation of agricultural markets [Swinnen 2010].

Being the strongest economic power of the world, the United States took the initiative in shaping new order in the post-war international trade. For three decades following World War II the United States exerted influence on agricultural trade, which developed without major disturbances. The relative balance was disturbed only by the food crisis of the early 1970s [Adamowicz 1988]. The post-war trade system was to be based on the GATT institution (General Agreement on Tariffs and Trade) of 30 October 1947, which was replaced by the WTO (World Trade Organisation) on 1 January 1995. Its aim was to reduce tariffs and other trade barriers by means of reciprocal trade agreements on the basis of non-

discrimination and the absence of quantitative trade restrictions. This was supposed to ensure stable fundamentals for the development of world trade and economic growth and in consequence, to favour the growth of prosperity of individual countries and the full use of world resources [Współczesna... 2003]. The chief instrument of international trade liberalisation in the GATT/WTO forum is multilateral trade negotiations called rounds<sup>6</sup>, which are held every several years. However, until the Uruguay Round the agri-trade was in various ways excluded from the GATT/WTO resolutions. Hence, although from the establishment of the GATT to the end of the Uruguay Round the average level of customs tariffs in imports of industrial products dropped from nearly 40% to almost 5%, it was still nearly 50% in the imports of agricultural products in 1994 [Open... 1998; The Uruguay... 2000].

Table 2. Nominal Protection Coefficients (NPC) for the EU-27, USA and Canada in 1986-2009

Year	Country or group of countries		
	EU-27	USA	Canada
1986	1.70	1.15	1.43
1987	1.80	1.15	1.48
1988	1.63	1.09	1.32
1990	1.48	1.10	1.37
1995	1.36	1.05	1.12
2000	1.30	1.16	1.13
2005	1.22	1.06	1.13
2009	1.08	1.02	1.15

Source: [Producer... 2011].

Significant progress in the reduction of tariff barriers to trade in agricultural products was made only as a result of implementation of the GATT/WTO Uruguay Round Agreement on Agriculture, which planned such measures as tariffication and binding customs tariffs on all agricultural products and their reduction by 36% on average (at least by 15% in individual tariff lines), reducing the government support for the agricultural sector by 20% as well as a reduction of the value of export subsidies by 36% and the quantity of exports subsidised by 21%<sup>7</sup>. It is worth noting that after implementation of the resolutions of the GATT/WTO Uruguay Round no noticeable decreasing tendencies in the use of export subsidies could be observed. It is possible to see that after 1995, the value of the Nominal Protection Coefficient (NPC)<sup>8</sup> for agricultural producers in the countries with the biggest share in the global agricultural market decreased to a lesser extent than during the Uruguay Round (1986-1994) (Table 2). After the initial increase in 1986-1987, the nominal protection coefficient, i.e. the difference between the prices received by producers and world prices, decreased until 1995 by 44 percentage points in the EU-27, by 10

<sup>6</sup> Until now there have been nine rounds of negotiations held under the auspices of the GATT/WTO: in Geneva (1947), Annecy (1949), Torquay (1950-1951) and Geneva (1955-1956), the Dillon Round (1960-1961), the Kennedy Round (1963-1967), the Tokyo Round (1973-1979), the Uruguay Round (1986-1994) and the Doha Round (since 2001).

<sup>7</sup> The quoted values apply to developed countries.

<sup>8</sup> The coefficient refers to the ratio between the average price received by agricultural producers (at farm gate), including payments based on output, and the border price (at the state border) [Kulawik 2004].

percentage points in the United States and by 31 percentage points in Canada. After 1995, the nominal protection coefficient in the countries of North America did not change significantly, while in the countries of the EU-27 decreased but only by 28 percentage points.

The decreasing significance of tariff barriers to international trade was parallel to the increasing significance of non-tariff barriers. Until World War I the application of such tools of trade policy was strongly limited and almost exclusively it consisted in introductions of embargo or import prohibition in trade relations with selected countries. The dynamic growth of interest in non-tariff barriers took place in the 1920s and 1930s, when more and more frequently such instruments began to be used as quotas, import and export licensing systems, export subsidies, exchange controls, voluntary agreements, state trading, bilateral arrangements or more restrictive regulations on health, safety and sanitation [Hillman 1997]. It was related with the acceleration of technological progress and the dynamic character of international transfer of technologies as well as the increased volume and degree of products diversification. Those factors entailed the need to set new trade, health and safety standards as well as measures of exchange control [Hillman 1991]. During that period simultaneous intensification of tariff protection could be observed. Radical changes in this respect began to take place after the establishment of the GATT/WTO in 1947, and especially after the end of the Uruguay Round. The most frequently applied tools of non-tariff protection in agricultural trade became quantitative limitations, different types of non-tariff charges and health and sanitary regulations [Hillman 1991]. As results from the empirical research by Ndayisenga and Kinsey [1994], quantity control measures make nearly 45% of non-tariff barriers used in agricultural trade, technical regulations and standards make over 30% and tariff and paratariff measures amount to nearly 20%. Anti-dumping and countervailing measures and monopolistic measures have a share of nearly 2%.

The Agreement on Agriculture which crowned the GATT/WTO Uruguay Round, began the process of world agricultural trade liberalisation, which was to be further discussed during future negotiations. Due to considerable discrepancies between concessionary offers of the chief participants of the Doha Round which has been in progress since 2001, no consensus has been reached so far. It is necessary to note that in the post-war period regional integrative groups and trade agreements related to them became an alternative to the multilateral world trade liberalisation. In the late 1970s there were about 16 regional integrative groups, which were different in character and range of activity [Heidhues 1979], whereas in 2011 there were 82 regional integrative groups and the number of concluded trade agreements reached almost 300 [Regional ... 2011].

## **Concluding remarks**

As it results from the presentation of the evolution of agricultural protection, the foreign trade policy in the agricultural sector is the derivative of domestic situation, disproportions and development difficulties. In the beginning, there were ad hoc interventional actions in foreign trade, which protected producers' income from lower prices and prevented food shortages or surpluses bringing destabilisation of the market. That type of protectionism in agricultural trade was applied until the 1930s. In the interwar period programmes of constant and joint control of agriculture and agricultural trade were

developed. It is possible to say that with time the state's influence on trade became an integral component of the agricultural policy and a widely understood interventionism in agriculture. Since that time, both on foreign and domestic markets, protectionist measures have assisted agricultural production; they have been applied selectively and flexibly. The abandonment of customs duties increases the significance of non-tariff measures of protection in agricultural trade.

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