



***The World's Largest Open Access Agricultural & Applied Economics Digital Library***

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from AgEcon Search may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*

# THE AUSTRALIAN JOURNAL OF AGRICULTURAL ECONOMICS

---

VOL. 24

DECEMBER 1980

NO. 3

---

## AUSTRALIAN AGRICULTURE AND WORLD COMMODITY TRADING ARRANGEMENTS

STUART HARRIS\*

*Australian National University, Canberra, 2601*

A long period of international discussion and negotiation about new global trading arrangements ended in 1979. Despite changed economic and institutional circumstances, and growing deficiencies in the existing arrangements for agricultural trade, these negotiations have done little to improve the efficiency with which the world's agricultural resources are used. Rather, they have tended to institutionalise the *status quo*. This is likely further to disadvantage efficient producers and to lead to a growing bilateralism in trading relationships, with consequent increased politicisation and potential for conflicts and instability.

### *Introduction*

The circumstances in which international trade now takes place differ in a number of ways from those that existed for much of the post-war period, and gaps in the institutional arrangements established immediately post-war to provide a framework for international trade and payments have become increasingly critical. Although 1979 saw the end of a sustained period of intense international discussion in the field of international trade designed to reshape the relevant international institutional arrangements to meet the changing circumstances, the international community failed to address these issues effectively, and this has substantial implications for the future of international trade in agricultural commodities.

The world economy of the 1950s and 1960s was characterised by generally low inflation rates and high growth rates, under generally fixed but periodically changing exchange rates. For various reasons, including problems with the system of fixed exchange rates and, in particular, the emerging disequilibrium in the United States balance of payments in the 1960s, major changes in an increasingly sensitive and interrelated world economic system occurred in the late 1960s. Subsequent high inflation rates, the shift to largely flexible exchange rate mechanisms and problems of economic recession compounded by energy supply problems,

\* A revised version of a paper originally presented to the Annual Conference of the Australian Agricultural Economics Society, Adelaide, February 1980. Thanks are due to a number of colleagues in the Department of Trade and Resources for guiding me through the intricacies of the subject, and to an anonymous reviewer for comments on the earlier version. In both cases a ready tolerance of views differing at times with their own is appreciated.

have increased apparent uncertainty and clearly changed the nature of the uncertainty facing international traders.

In the early post-war years, world agricultural supplies were recovering from wartime effects on production capacity and, together with the Korean crisis, issues of food and agricultural raw materials remained in the forefront of international attention. Subsequently, however, when fears of scarcity passed, political interest in the main consuming countries in agricultural trade and in conditions in agricultural markets diminished.

This political interest has now returned with increased concerns about inflation and domestic price stability, and about the political importance to consumers of stable food, and to a lesser extent of raw material, prices. Worries about unemployment, however, and about food and raw materials supply security have at the same time increased resistance to economic change, reduced the acceptability of adjustment and encouraged greater autarchy in food and raw material supply.

Over the same period, the United States global influence has been declining. Some causes were external to the U.S.A., such as the growing relative economic power of the European Economic Community (EEC) and Japan. Some, however, were internal. In the U.S.A., international trade, including agricultural trade, has become more political, in part because it has grown as a proportion of national income and in part for reasons of greater political consciousness of international events. This has limited US capacity to give the weight it gave in the past to its international interests and is reinforced by the more explicit concern of the U.S.A. with its own immediate international economic interests; a reflection, in part, of its short-term economic problems.

Two other important developments include, first, the growing importance of state trading in world agricultural markets. As well as expanded U.S.S.R. and Chinese interests in agricultural trade, and extensive involvement of government trading organisations in traditional agricultural markets in industrialised countries, markets for agricultural commodities have grown in developing countries where government agencies are commonly concerned with agricultural production and food supplies. Second, the growing collective political influence of the developing countries has wide implications: for food supply security; for their competitive position in agricultural trade; for attempts to achieve international market stability; and for attempts at institutional reform; in addition to their growing importance as markets.

#### *Changes in the Rules*

Given such developments internationally, pressures for reform in the GATT and other post-war institutions built up in the 1960s and early 1970s. Despite the inadequacies of the international rules for agriculture, these were not a major stimulus to the search for change in GATT. The pressures arose rather from problems of access to supplies of mainly non-agricultural raw materials, following the use of export embargoes during the commodities boom; from increased use of disguised subsidies to, mainly, non-agricultural products; and from concerns over inadequacies in procedures for emergency action against sudden surges of

principally industrial imports, especially from the newly industrialising developing countries.

Agricultural exporters faced a conflict between their attempts to achieve general adherence to the 'rules of the game' and recognition that adherence was improbable and that, meanwhile, the situation was worsening. Attempts in the Kennedy Round of GATT trade negotiations to deal with agricultural trade issues failed for various reasons. Although in these negotiations, perhaps for the first time, a conscious attempt to bargain across industry sectors was made, the 'special' nature of agriculture was accepted as permitting agriculture to be treated separately, adding further complexity to an already difficult process. Initially, the bargaining was largely at the bilateral level between the U.S.A. and the EEC. Approaches such as the attempted negotiation of the '*montant de soutien*' or 'margin of support' in agricultural policies were too complex and perhaps inadequately pursued; and, most importantly, little desire to negotiate on domestic agricultural protection existed in the EEC, Japan or the U.S.A.

Agricultural trade has long been thought of as in some way 'special' (Corbet 1973; Josling 1974; and Johnson 1974); for some, this required it to be handled as consisting of substantially different issues, with largely distinct rules. Its 'special' nature was seen by others rather as involving greater complexity and thus needing more time and effort — with often an implicit understanding that the international community would deal with agricultural trade effectively once it had satisfactorily liberalised industrial tariffs.

The reality was more complex. First, in establishing the international trading rules and arrangements, the problems of agricultural trade were accepted initially as more fundamental than were those for industrial products. The GATT rules that were developed for agriculture were never very effective: the original rules permitted significant exceptions for agriculture; substantial waivers were subsequently granted on agriculture; and some issues of importance, notably state trading, were not effectively dealt with.<sup>1</sup> Extensively, the rules have been ignored or, as with 'voluntary restraints on exports', circumvented; in the case of the Common Agricultural Policy (CAP), ingenious attempts have been made to demonstrate the consistency of the variable import levy with the rules, although its consistency with the spirit of GATT remains harder to demonstrate. The establishment of the EEC itself was, in principle, consistent with GATT rules on customs unions, but these rules are questionable as a means of improving the international division of labour; the subsequent widespread establishment of, in effect, preferential arrangements seems clearly in conflict with the original aims of the GATT.

The GATT was not a total failure for Australian agriculture, although grounds existed for judging the GATT to be imbalanced and for questioning a policy based primarily upon continuing attempts to achieve reductions in agricultural protection in Western Europe, U.S.A. and Japan. A substantial trade, particularly in processed products, had taken place under tariffs or arrangements consistent with or moderated by the GATT rules. Within GATT, pressure could also be maintained against agricultural protection in the developed importing countries — without

<sup>1</sup> This is discussed more extensively in Harris (1980a).

the continuing confrontations in the GATT, agricultural protection might have gone further, faster.<sup>2</sup> Essentially, however, the GATT rules for agriculture could not significantly influence or constrain the developing structural imbalances in the developed country agricultural sectors which were important causes of the problems of international trade in agricultural commodities. Short-term crises of commodity over-supply or instability, which were to be handled within international commodity arrangements, also fell outside the GATT's ambit.

The GATT, however, was not merely designed to improve the efficiency of international resource use. Its establishment had, as a prime objective, the prevention and resolution of international conflict and, in a sense, major international conflicts on agricultural trade issues were few; partly, however, this was because the view was commonly held that ultimately 'justice' would prevail. Eventually this seemed less and less likely and, partly as a consequence, acrimony in international discussions on agriculture increased; the sourness of continuing confrontations has been an increasingly important factor in broader international relationships. Particular resentments have arisen over discriminatory uses of quantitative restrictions, arbitrary adjustments of variable import levies, the preferential treatment of competitor supplies, and substantially subsidised disposals of surpluses on third markets.

Second, progress on industrial trade liberalisation, judged by reductions in tariffs, was misleading. Certainly, world trade has continued to expand faster than total economic growth, although the difference has been narrowing, but the experience among different components of trade has varied. While there is a sense in which agriculture is 'special', many other internationally traded products — ships, motor vehicles, steel, textiles, clothing, footwear, electronics, white goods, coal — are increasingly argued to have some of agriculture's special characteristics, such as the regional employment base, the immobility of capital and labour, the importance of small producers, or the strategic significance of the product; and the response by importing countries has been comparable, involving much greater use of various explicit or implicit ('voluntary' restraints, regional subsidies) nontariff measures to protect domestic producers of the 'special' products.

Moreover, domestic and international policies in agriculture have always been fundamentally interlinked. The difficulties developing in manufactured goods trade arise at least in part because of the greater conflict developing between domestic and international policies. This therefore makes anachronistic the traditional trade policy approaches based on a distinction between domestic and international factors, as delineated at the frontier. Developments in agricultural protection can, to some extent, now be seen as precursors of similar practices on a range of items on which political pressures are accepted as limiting the capacity for adjustment to import competition.

<sup>2</sup> Curzon (1965) noted that '... while in practice the sanctions that can be taken (in the GATT) are limited and can only further restrict international trade, the moral suasion of an international forum, so evidence suggests, has led to the diminishing application of quantitative restrictions'.

*The Search for Change*

Given the changes in the world economic system referred to earlier, and the gaps evident in the existing institutional arrangements, it was widely held that these arrangements needed to be reviewed, amended and improved. Yet there were substantial differences in the ultimate objectives of the various developed countries.<sup>3</sup> Some considered the agricultural policies of agricultural importers as largely unchangeable and accepted, therefore, that the most that could be achieved would be to limit growth in protection, and to remove the worst features of the protective methods used; others felt the need to continue to press for fundamental reforms involving substantial reductions in agricultural protection in these countries.

Yet, mainly because of the strongly expressed U.S. interest, hopes were held widely by exporters of temperate agricultural products that a basis could be established for: first, achieving a sustainable basis for trade expansion and reduction of agricultural protection; second, establishing greater commodity market stability involving, particularly, constraints on protection policies which sought domestic price stability at the cost of international instability, and on domestic stockholding policies and the disposal of excess stocks on world markets; third, developing procedures for managing international trade in agricultural commodities and handling both shorter term problems and longer term issues such as trade with state trading nations; and fourth, resolving commodity trade and food security problems of the developing countries.

Hopes of this nature arose despite the limited success of the Kennedy Round and despite acknowledgment by its previous Director-General that GATT could not manage the problems of agriculture which should perhaps be dealt with elsewhere, such as in UNCTAD (Wyndham-White 1977). Moreover, the hope for some movement on the agricultural scene was particularly important for the Tokyo Round of Multilateral Trade Negotiations (MTN), which was not just another trade negotiation but encompassed as well a rewriting of the post-war trade rules.<sup>4</sup>

The MTN was also seen by most participants, though not all, as drawing together the major elements in the discussions and negotiations on agricultural marketing arrangements and institutions taking place in a wide variety of forums. As well as in the GATT and individual commodity councils, such negotiations and discussions were taking place in FAO, OECD and bodies such as the World Food Council, and also in UNCTAD, where agricultural commodities, including temperate agricultural commodities or their substitutes, were of major significance in the Integrated Programme for Commodities (IPC). The IPC is an important component of the New International Economic Order (NIEO). The shorter term problems of commodities, such as market instability and disruption, were being addressed largely in forums outside GATT.

<sup>3</sup> See OECD (1972). A more detailed exposition of Australia's policy is given in Harris (1980b).

<sup>4</sup> The MTN was in part an international trade negotiation in the tradition of the GATT series of negotiations which began with Annecy, 1949, and Torquay, 1956, but it was not formally a GATT negotiating conference.

The attempts to negotiate international commodity arrangements, though intense and sustained, have not frequently been attended with great success in stabilising markets. In general, such arrangements have had only a limited capacity to cope with major international market shifts, even where they were able to remain effective during periods of more stable market conditions. International commodity arrangements, in their various forms, have probably contributed even less to trade liberalisation. This is due partly to the fact that, between importers and exporters, agreement on stabilisation is the only symmetrical negotiation possibility; liberalisation is consequently difficult to negotiate due to the limited scope for direct mutual bargaining between importers and exporters of the same commodity. The success of the attempt made in the Kennedy Round to negotiate a total package, with concessions on market access and prices within commodity arrangements to be balanced by concessions on other products given elsewhere, was limited and short-lived.

The limited contribution of such arrangements to increased efficiency of agricultural resource use through trade liberalisation also affects their effectiveness in reducing market instability. As the Haberler Report emphasised, instability in many international agricultural commodity markets is a consequence of stability sought and achieved by developed importing countries in their domestic agricultural markets: instability is exported by allowing all domestic demand and supply changes to be reflected in trade on residual markets.<sup>5</sup> This is further accentuated by bilateral trading arrangements such as were common in the past for sugar; to the extent that the future witnesses the extension of such bilateral links, particularly with state trading countries, as in the case of the U.S./Soviet grains arrangements and the developing U.S., Canadian and Australian ties with China, the residual free market will continue to be a marginal and highly unstable market.

#### *The MTN Outcome*

Australia's trade policies, like those of other small powers, must reflect trends in the international situation and policy attitudes in other major trading countries. A major constraint for Australia and other interested countries was that, in developing their policies towards the MTN and towards institutional reform generally, they were dependent upon decisions by, or at least upon difficult-to-discriminate attitudes of, the U.S.A. and the EEC. This problem increased once the negotiations began since, like the earlier Kennedy Round, they were largely bilateral negotiations between the U.S.A. and the EEC, with Japan an important but secondary participant. Australia, therefore, could make only a limited contribution to the general objective of a more effective international trading system for world agriculture.

In addition, however, to its general objectives in the international trade rules field, Australia had two specific commodity objectives in the MTN. The first was to improve market access and conditions for agricultural commodities. The second was to protect existing markets where, as with beef, other countries, and notably the U.S.A., were

<sup>5</sup> See GATT (1958, especially pp. 37-9); this aspect is also discussed in United Nations (1964). See also Harris et al. (1978, pp. 28-49); and Lloyd (1978), for general discussions of the stability issue.

negotiating to enlarge their market access at Australia's expense. Australia consequently sought reduced tariff or other trade barriers on a range of agricultural export items — particularly wool, meats, dairy products and fruits — in the U.S.A., Japan and the EEC. In return, Australia offered concessions in its tariffs, mainly on industrial products.

The negotiations with the U.S.A. on agriculture resulted in a 60 per cent duty reduction on wool, phased over three years; a reduced duty on beef; some small quota increases for Australian cheese and chocolate crumb; duty reductions on wheat gluten and other minor agricultural products; and a bound minimum level of beef quotas (Department of Trade and Resources 1979a).

The main gain would seem to be the binding of the minimum beef quota level, though its value is difficult to assess. As well as a GATT binding of 1.2 billion lb, the assumption underlying the agreement of a minimum of 1.3 billion lb under the then foreshadowed U.S. counter-cyclical meat import legislation (HR2727) was not realised when the legislation was passed. If imports fell to the 1.25 billion lb now provided for in the legislation, the agreement's balance would be disturbed. Given expected U.S. import needs, such levels are unlikely. In one sense, this suggests a limited value for the concession in a context in which the new legislation could well add to the instability of the trade.<sup>6</sup> Moreover, a binding can always be withdrawn — and even the lower bound level probably would not be adhered to, given sufficient domestic pressure. The minimum quota assurance is perhaps not a major concession by the U.S.A., therefore; nevertheless, it provides an under-pinning for meat exporters which is not negligible.

Concessions have also been achieved on beef import quotas and 'a number of other rural-based products' in Japan (Department of Trade and Resources 1979b). The beef concession, principally of a 'best endeavours' nature, is again helpful. Past experience of such 'best endeavours' clauses in the agricultural trade field, however, has not been happy.

Limited concessions were obtained on beef, cheese and a few other primary commodities in an agreement with the EEC (Department of Trade and Resources 1979c). A 5 kt country quality-beef quota and an increased levy-free global quota for frozen manufacturing beef into the EEC were the most important results: already, however, the 1980 global quota seems likely to be 50 kt rather than the 60 kt Australia expected. Thus the gains, while symbolically important given the history of trading relations between Australia and the EEC, are not major. While the concessions Australia gave in return also were not large, the EEC's failure to adhere even to the limited concessions, and its subsequent increase in protection to sheep meats, has returned the acrimony to the bilateral Australia/EEC relationships that the negotiations sought to overcome.

Australia's second objective was to obtain special multilateral arrangements for meats, dairy products and grains; negotiations on the latter were not formally within the MTN, but the results of separate grains negotiations taking place in the UNCTAD were to be 'integrated' with the MTN. Among the difficulties in achieving international co-operation

<sup>6</sup> A discussion of the legislation and its likely effects is in Weeks (1979, pp. 297-305).

between producers and consumers of agricultural commodities are differences in specific objectives seen among the exporters. Such differences are important. For grains, for example, stability seems to have been Canada's main objective. The U.S.A. has tended traditionally to put enlarged access ahead of stability (which it had provided domestically), and to seek to spread stockholding costs (Warley 1977), though, in the wheat negotiations, support through international prices for its domestic prices became the major objective. For Australia, market stability is a significant objective, particularly in the sense of protection against collapse and disorder in its main markets.

U.S. leadership was especially crucial for grains. Although the international measures it sought reflected its own domestic political imperatives, its desire for a mechanism by which others share stockholding costs internationally offered some basis — though inevitably loose — for a degree of price stability in the grains trade and for greater world food security.

In the case of meats, Australia's main objectives were to keep open and expand existing market outlets. With government livestock policies in importing countries influential in determining production levels, these objectives were judged as being sought best by heading off government policies in importing countries which, by stimulating production domestically, often unwittingly created major marketing problems. It would be difficult to visualise multilateral arrangements for meats that extended much beyond effective consultation mechanisms but, even if this were possible, this would have required a substantial degree of support from the U.S.A. and the EEC without which the scope for independent action by countries such as Australia is very limited.<sup>7</sup>

The 'in principle' objectives for dairy products were policy changes which would give greater market access. In practice, however, the main focus was orderly management of existing trade to enable exporters to hold markets at price levels not undermined by competitive subsidies from producers, such as the EEC, with large surpluses.

In the event, achievement in each of these areas was very limited. The failure to achieve agreement on grains was due in part to the unwillingness on the part of the developing countries to pay the stockholding costs and higher prices for wheat proposed — presumably judging the food aid component offered in return as insufficient offset.<sup>8</sup> In general, the agreements on meats and dairy products — the International Arrangement Regarding Bovine Meat and the International Arrangement on Dairy Products — while generally weak in themselves, have some significance as a basis for institutionalising discussion of trading issues and for consulting on problems as they arise through the International Meat Council and the International Dairy Products Council. Because there is less to prevent disputes arising in the first place than would exist with clearer international rules or guidelines, these formalised consultation procedures possibly become more important.

The new dairy arrangement provides for minimum prices for the

<sup>7</sup> See Harris (1980b) for an example of an earlier attempt at independent action by Australia with respect to meats.

<sup>8</sup> The sheer complexity of the International Wheat Agreement negotiations, particularly when linked with that of the MTN, and the lack of adequate technical back-up for developing countries has been argued as a major cause by some. See, for example, Cohn (1980, p. 136).

major dairy products traded and has broader product coverage and larger membership than the previous international dairy arrangements. Such arrangements remain vulnerable while the cause of the problem — surpluses of dairy products, especially in the EEC — remains, but they do provide a consultative mechanism for handling emerging problems in a context in which some agreement exists about general objectives. On the other hand, the bilateral U.S./EEC dairy agreement has legitimised existing EEC policies to a degree and, by removing the threat of U.S. countervailing duties, enabled the EEC to regain access to the U.S. market for cheeses.

Although not within the MTN, concurrent negotiations on sugar were affected by the same general considerations. Sugar's treatment in the International Sugar Agreement fits more clearly the traditional mould of commodity arrangements, but again within a negotiating framework largely shaped to meet U.S. domestic policy objectives. Because, however, it offers a price stability which the Australian industry values highly, the Agreement also meets some of the industry's needs. Although the U.S.A., very belatedly, ratified the agreement, its success remains limited by, amongst other things, the EEC's unwillingness to co-operate, given its own high-cost sugar production and related large surpluses.

Overall, therefore, limited increases in market security have emerged from the concessions negotiated by Australia under the MTN, particularly with the U.S.A. and Japan. They have added to market security and stability for meat, wool, cereals and some dairy products, but by buttressing existing outlets rather than enlarging markets through trade liberalisation.

Broader institutional changes have been even more limited. Efforts to achieve some broad consultative or 'framework' arrangements on agriculture in the GATT did not achieve agreement in the MTN context, but the Director-General of GATT is examining ways of developing 'active co-operation' on agriculture within 'an appropriate consultative framework', and some formal machinery seems likely (GATT 1979). Gains from improved consultation could be sizeable; Corbet (1979) suggested, on the basis of the original understanding, that such a framework may be the main achievement of the Tokyo Round — but this early optimism now seems misplaced. The costs might in any case have been high, not merely because they may legitimise existing policies or because of further proliferation of agricultural consultation forums, but also because the separate GATT treatment of agriculture is continued. Moreover, if, as precedent suggests, trade interests are under-represented compared with protected producer interests in the consultations, it could delay rather than facilitate action on marketing problems as they emerge.

It was observed earlier that, at the global level, the objectives of the changes to the international rules within the GATT and outside were fourfold, to achieve a basis for: trade expansion, greater trade stability, improved procedures for managing international trade, and resolving developing country problems including food security.

The result on each count was disappointing and potentially serious for the long term. One reason for the limited progress was the EEC's lack of interest in trade liberalisation in agriculture. The U.S.A. was also not prepared to press for basic policy changes, but looked for concessions on agriculture acceptable to its farm bloc. Agriculture was again largely

treated as 'special' and serious negotiations likely to expand trade were hardly attempted (Baldwin 1979). That the MTN was initially — and, to a degree, remained — largely a bilateral negotiation between the U.S.A. and the EEC was perhaps unavoidable. A successful outcome to such bilateral negotiations was necessary, but not sufficient, for the overall success of the MTN. Again, as in the Kennedy Round, there were pressures for other countries to accept the negotiated U.S./EEC package once achieved.<sup>9</sup> The major difference between the MTN and the Kennedy Round that made this process more significant for the MTN was that, on this occasion, changes in the international trading rules themselves were involved. The renegotiation of the rules of the GATT on this initially largely bilateral basis had special disadvantages, therefore, since it was explicitly a renegotiation to meet the specific needs of the interests of the two major trading areas in which concessions on rule changes became a part of the bargaining package.

For Australia, issues such as the use of voluntary restraints 'outside' the GATT rules and the role of state trading were important. However, in the agricultural field, the main concern was about nontariff barriers, particularly quantitative restrictions and subsidies.

A number of GATT codes of conduct have been developed, dealing with standards and certification procedures; public procurement policies; customs valuation procedures; balance of payments measures; and subsidies and countervailing duties. (One, on safeguards relating to emergency import situations, has not yet been agreed to and discussions did not proceed far on one proposed on export controls.) The importance of the codes will, to a degree, depend upon the way they are interpreted in practice — each is worded very generally, and interpretation of early cases by panels being established for dispute settlement will be important.

Nevertheless, for Australia the direct gains in terms of the international trading rules have been minimal — and it is possible to argue that, indirectly, progress has been negative. For the most important code, that on subsidies, the differential treatment of agriculture remained — that significant changes were made for industrial subsidies did not result in similar changes being made for agricultural subsidies. There has been some elaboration, not necessarily helpful to traditional exporters, of the ways in which export subsidies on primary products may be judged to have given the exporting country more than an equitable share of world export trade<sup>10</sup>, but they seem likely in fact to remain as permissive as before for subsidies on exports to third country markets.<sup>11</sup>

The attempt by the EEC in particular to legitimise selective import safeguards is potentially serious for Australia. The most favoured nation (m.f.n.) clause, which provides that any concession provided by a country applies to all GATT members, is fundamental to the non-

<sup>9</sup> A similar pressure was also used to achieve acceptance of the final package within the U.S.A. See Destler and Graham (1980).

<sup>10</sup> GATT, Agreement Concerning the Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement (known for short as the Code on Subsidies and Countervailing Duties). The emphasis on the past three-year period as a basis for comparison of market loss puts a more mechanical emphasis on the judgment.

<sup>11</sup> Australia has not accepted the code in any case because of the conflicts with its export incentive objectives (Anthony 1979).

discriminatory approach to international trade of the post-war years. The changes sought, by which emergency protection measures could be taken by affected importing countries on a selective or discriminatory basis, would therefore be a crucial change of principle: first, the non-discrimination principle of the GATT offers some protection to small economies such as Australia against the arbitrary exercise of the economic strength of large powers; and second, the effects of such discriminatory action are likely to be experienced particularly by Asian and other developing country producers, major prospective growth areas for Australia's agriculture. Because of opposition, which Australia helped to stimulate, from developing countries, 'negotiations are continuing' on the question of whether, and how, the rules governing safeguard action against disruptive imports should be altered (GATT 1979), though the EEC has argued that existing GATT rules authorised selective action (Anon. 1979, p. 84). Similarly, the application of codes only to those that sign them is a departure from the nondiscrimination principle, with particular significance for trade with the U.S.A. which may be affected by the application of U.S. domestic countervailing duty laws.

Globally, the political outcome of the MTN was important. Failure to achieve an acceptable package would have been politically serious for U.S./EEC relations and in encouraging more protectionism and less openness in the international trading system generally. If, however, the final package had come to be viewed as hollow, or had been economically or politically unsustainable, as was the International Grains Arrangement within the Kennedy Round package, then it would have failed even though meeting the immediate political requirements. For example, had the MTN outcome ultimately been unsatisfactory to U.S. farmers, virtually the only large outward-looking group in the U.S.A., this could have turned them inward-looking, so reducing U.S. international trade leadership even further and stimulating protectionist attitudes harmful to Australian exports.

#### *Implications for the Future*

It is possible to view the overall MTN outcome in different ways. Graham (1979), previously with the U.S. Special Trade Representative's Office, referred to the 'dying' post-war trade system on which the new set of trade rules emerging from the MTN 'performed the *coup de grace*'. Olivier Long, Director-General of GATT, referred to the agreements (on codes of conduct, on meats and dairy products, and presumably that on the multilateral agricultural framework) as contributing to a more predictable and open world trading system. He acknowledged, however, the limited progress on quantitative restrictions and on agriculture (Long 1979).

That this revision of the world trading system made little progress on agricultural trade was due to a number of factors. In part, it was due to the great complexity of the exercise. Yet scope for similar multilateral negotiations with concessions on non-agricultural imports being offered in exchange for access or other commitments on agriculture will be even more limited in future, because of the even greater complexity that would be involved. The MTN was probably the last major trade negotiating

conference of its kind, given the now low general levels of industrial tariffs and the greater incidence of nontariff barriers which make across-the-board measures difficult.

The 'special' characteristics of agricultural trade will almost certainly ensure that domestic agricultural policies continue to shape agricultural trade policies and that limited scope exists for reducing the protective elements of existing policies. Indeed, given the existence of agricultural support policies, the existence of quantitative restrictions in one form or another, and of export subsidies, seems unavoidable. More generally, the objective of replacing government involvement with more market influence in allocating the world's agricultural resources seems to have been replaced by one seeking to avoid the worst forms of government involvement. Whether or not the original GATT objectives are capable of achievement for industrial products — and even that appears in doubt — it now seems accepted that those principles are not feasible in ordering agricultural trade. This falls far short of hopes held, from hindsight unrealistically, in the run-up to the MTN, for moves to a more efficient international division of labour in agriculture.

In one sense, the problems in agricultural marketing arrangements to which these changes give rise stem mainly from a frustration of expectations of improvement. Hopes were held that once the CAP was in place and other EEC institutions were providing 'cement' for the Community, and given the CAP's internal problems, a maturer economic community would look to a positive review of its agricultural policies.

The MTN outcome, however, suggests that the EEC in particular, but not completely alone, will remain inward-looking. Revisions, predominantly from within, are being forced on an increasingly 'patched up' CAP, but these are unlikely to give much weight to international concerns, and the EEC will provide little positive leadership in the international trading field. All this could increase agriculture's difficulties, particularly for countries such as Australia, given less liberal U.S. trade policies and the U.S. need to share its leadership role increasingly with the inward-looking EEC and a passive and frequently negative Japan.

It is possible to interpret these developments as a reduced willingness by the industrialised countries in particular to tolerate the derogations from sovereignty accepted when the post-war institutions were established — and as a more inward-looking and a reduced willingness to look for the collective benefits of a liberal trading system. This is true, but is too simple an explanation.

Even in the special circumstances then existing, there was little willingness to make derogations from sovereignty in the immediate post-war years in the agricultural sector; and, under normal circumstances, nations will only accept, in negotiations or under international pressure, changes warranted or possible in the light of domestic political or economic circumstances. Moreover, the growing trade interrelationships between countries make the separation of domestic and international policies more difficult and the required derogations from sovereignty greater.

We can accept that the original motivations for the GATT and other 'rules of the game' were not purely economic — but included the avoidance and resolution of conflicts. Similarly, economic efficiency is not now likely to be the major factor. In one sense, two further motiva-

tions have become more explicit: 'stability' defined in the sense of not too great a shift in the *status quo* (Garland 1978); and 'equity', in the sense of fairness in the achievement of market shares — what the U.S. MTN negotiator referred to as '... fairer rules for freer trade' (Strauss 1978).

The MTN results, and the change from specific rules of the game, with some kind of absolute values implied, to codes of conduct expressed in very general terms, and systems of dispute settlement, may reflect the inevitability of real life. Moreover, as the attempt at a code of conduct on subsidies should have indicated, the definition of a subsidy is so complex that we may have to accept that in practice there is no logical way to define precisely what is a subsidy and what is not.

The MTN results, however, lead explicitly to processes of market management for the major commodities. The rules for these processes remain unclear — nor is it clear who does the managing. It is true that governments have always been substantially involved in agricultural trade, and the issue now is not whether governments are involved but what kind of management of agricultural trade is involved and designed to achieve what end. Yet, while the increase in market management that these developments imply is occurring, the international system is offering fewer rules by which to guide it. More *ad hoc* discussions and consultations designed to resolve issues as they arise are likely, therefore, and these will be dominated by a few large economic groupings. Trade, including agricultural trade, therefore, will probably become even more politicised in the future.

The failure of multilateralism is likely to stimulate further global trends to bilateralism with a range of adverse implications. Such a growth in bilateral linkages would tie trade more closely to bilateral relationships between Australia and its trading partners, with trade becoming part of general bargaining across a range of matters in a total bilateral relationship; this will inevitably make trade more sensitive to bilateral political links.<sup>12</sup> Increased bilateralism also makes it easier for large nations to use their economic and political power for economic gain. Such problems will be less, however, the more the international community can be persuaded to develop effective general guidelines for international agricultural trade.

Partly offsetting and partly reinforcing this — and with equally adverse effects for the openness of the world economy — is the likely further development of trading blocs. The EEC, with its preferential trading arrangements with Lomé Convention countries, and the interests of the ASEAN countries in economic integration, are illustrations. Moreover, part of the valid interest for Australia in any Pacific Community development is to find a counterweight to a North Atlantic economic management regime.<sup>13</sup>

In such circumstances, Australia will inevitably have to use more effectively what bargaining strength it has within a system in which economic power has become a more important determinant. Agricultural trade will again be a crucial and expanding element in Australia's general international economic relations, whether with the U.S.A., with Japan, or with countries in Asia and the Middle East. It will, however, be

<sup>12</sup> This is discussed at greater length in Harris (1980c).

<sup>13</sup> A general discussion of such proposals is given in Patrick and Drysdale (1979).

increasingly constrained by political influences. Such tendencies, while inevitable, are adverse for the international system and for Australia. Moreover, many issues cannot be successfully dealt with bilaterally or at all. The search for multilateral co-operative solutions to commodity trade problems, therefore, remains crucial.

While no country will take only a longer term internationalist view in its trade policies, Australia's trade, and especially its trade in agricultural commodities, has much to gain from an effective and open international trading system. The contributions that Australia could make to such a system would include a more outward-looking approach in its industry protection policies; a greater enthusiasm for participation in the new codes of conduct, however unsatisfactory they may be; continued resistance to those tempted to see short-term benefits to Australia of a selective safeguards regime; and a more constructive response to developing country problems.

Developing country issues may seem, at first, largely irrelevant to the problems of temperate agricultural trade. Nevertheless, largely but not wholly by default<sup>14</sup>, UNCTAD seems likely to be the centre of multilateral attention for much of commodity trade, other than for U.S./EEC trade, which will be substantially dealt with bilaterally or in OECD. Yet, so far, temperate agriculture has not rated a high priority in UNCTAD and more political — or ideological — positions tend to be taken in UNCTAD by developed as well as developing countries. In contrast, markets in developing countries have been among those expanding most rapidly, and Australia's trading policies need to reflect this.<sup>15</sup>

For agricultural trade, the underlying strength and flexibility of the main Australian rural industries will enable them generally to take advantage rapidly of future market openings. The industrialised countries of Europe are likely to be less important as markets for Australia than attention given to them often suggests. Markets in countries outside those with traditional agricultural support arrangements seem likely to become increasingly important for Australian agriculture — even though protective measures to encourage increased self-sufficiency seem likely to be experienced there as well. New market opportunities in Asia and the Middle East particularly, and consolidation in many existing markets, while themselves influenced importantly by developments in international trading arrangements, should enable shorter term problems to be met and should facilitate necessary longer term market adjustments.<sup>16</sup> The trend to more diversification of markets despite the increase in bilateral trading influences remains feasible — but these markets will themselves grow in economic importance only if their own trade can expand in an open trading system.

The potential dangers of these developments are at two levels. The scope for economic and other conflicts appears large. So are the distorting effects on the efficient use of agricultural resources — whether through the immediate effects of subsidised disposal of surpluses of

<sup>14</sup> UNCTAD does, of course, have formal UN responsibility for organising negotiations on intergovernmental commodity arrangements and the International Wheat Agreement renegotiations were under UNCTAD auspices.

<sup>15</sup> A similar point has been made in the Canadian context by Warley (1979).

<sup>16</sup> Longer term market prospects were discussed in Hussey (1979). See also the comments of Watson (1980).

dairy products, flour and sugar on to Australia's Asian or other markets, or through less tangible exercises of economic power. Pressures on the industrialised countries have therefore to be maintained, and international efforts continued to persuade taxpayers and consumers in industrial countries of the high, though largely hidden, costs of agricultural protection, and to achieve from policymakers some more outward looking policies. Proposals to maintain momentum in the GATT by such things as establishing a high-level study process on the extent of protection (Baldwin 1979), or by setting up a five- to ten-year work program (Corbet 1979), therefore seem sensible if unambitious.

The conclusions of this paper that future international arrangements under which agricultural trade will take place, while no less complex than in the recent past, will probably be more politicised and therefore have greater potential for conflict, are not arguments against continuing with efforts to achieve a more open world trading system. They are arguments for a realistic appreciation of what is likely and what is possible. Australia's agriculture should manage in this more *ad hoc* system better than that of many countries. Nevertheless, Australia, and the world, would gain from an effective world trading system and a more open world economy, and efforts must be maintained to achieve that objective.

### References

Anon. (1979), 'The new shape of trade policy', *The Economist*, 10 November, 83-4.

Anthony, J. D. (1979), Statement by Deputy Prime Minister and Minister for Trade and Resources, Canberra, 17 December.

Baldwin, R. B. (1979), *Beyond the Tokyo Round Negotiations*, Thames Essay 22, Trade Policy Research Centre, London.

Cohn, T. (1980), 'The 1978-9 negotiations for an International Wheat Agreement: an opportunity lost?', *International Journal* 35 (Winter), 132-49.

Corbet, H. (1973), *Agriculture's Place in Commercial Diplomacy*, Ditchley Foundation, Oxford.

— (1979), 'Importance of being earnest about further GATT negotiations', *World Economy* 2(3), 319-34.

Curzon, G. (1965), *Multilateral Commercial Diplomacy*, Michael Joseph, London.

Department of Trade and Resources (1979a), *Multilateral Trade Negotiations: Australia-United States Bilateral Settlement*, Canberra.

— (1979b), *Multilateral Trade Negotiations: Australia-Japan Bilateral Settlement*, Canberra.

— (1979c), *Multilateral Trade Negotiations: Australia-European Economic Community Bilateral Settlement*, Canberra.

Destler, I. M. and Graham, R. (1980), 'United States Congress and the Tokyo Round: lessons of a success story', *World Economy* (forthcoming).

Garland, V. (1978), 'Danger of ignoring the trade interests of small powers', *World Economy* 1(4), 355-67.

GATT (1958), *Trends in International Trade: A Report by a Panel of Experts* (the Haberler Report), General Agreement on Tariffs and Trade, Geneva.

— (1979), *The Tokyo Round of Multilateral Trade Negotiations*, Report by the Director-General of GATT, Geneva.

Graham, T. R. (1979), 'Revolution in trade politics', *Foreign Policy* 36(Fall), 49-70.

Harris, S. (1980a), 'The commodities problem and the international economic order: what rules of what game?', in P. Oppenheimer (ed.), *Basic Issues in World Trade and Payments*, Routledge and Kegan Paul, London (forthcoming).

— (1980b), 'Australia's agricultural trade in its international trade policy context', in D. B. Williams (ed.) *Agriculture in the Australian Economy*, 2nd edn, Sydney University Press (forthcoming).

— (1980c), 'Changed international resource relationships: the economics/politics link renewed', *World Review* 19(1), 17-31.

\_\_\_\_\_, Salmon, M. and Smith, B. (1978), *Analysis of Commodity Markets for Policy Purposes*, Trade Policy Research Centre, London.

Hussey, D. (1979), 'Longer term export prospects for Australian agriculture', *Quarterly Review of the Rural Economy* 1(1), 53-8.

Johnson, D. G. (1974), 'Impact of farm-support policies on international trade', in H. Corbet and R. Jackson (eds), *In Search for a New World Economic Order*, Croom Helm/Trade Policy Research Centre, London.

Josling, T. (1974), 'Agricultural policies in developed countries: a review', *Journal of Agricultural Economics* 25(3), 229-63.

Lloyd, P. J. (1978), Agricultural and international trade policies, Paper to Conference on Australia and New Zealand in World Trade, Massey University, February.

Long, O. (1979), Trade in an interdependent world: a GATT view of North-South relations, Paper to Centre d'Etudes Practiques des Relations Internationales et Transnationals, Geneva, November.

OECD (1972), *Policy Perspectives for International Trade and Economic Relations* (Rey Report), Paris.

Patrick, H. and Drysdale, P. (1979), *Evaluation of a Proposed Asia-Pacific Regional Economic Organisation*, Australia-Japan Economic Relations Research Project, Research Paper No. 61, ANU, Canberra.

Strauss, R. (1978), Testimony to the U.S. Congress Ways and Means Committee, Subcommittee on Trade, Washington, July.

United Nations (1964), 'International commodity problems', in *Proceedings of the United Nations Conference on Trade and Development*, Vol. III (Commodity Trade), New York.

Warley, T. K. (1977), *Agriculture in an Interdependent World: US and Canadian Perspectives*, Canadian-American Committee, Washington and Montreal.

\_\_\_\_\_, (1979), Agriculture in the Multilateral Trade Negotiations: a Canadian's perspective, Paper given at the University of Minnesota, September.

Watson, A. S. (1980), The impact of international developments on the future of Australian agriculture, Paper presented to Sections 13/14, ANZAAS, Adelaide, May.

Weeks, P. (1979), 'The effect of the proposed U.S. meat import law on U.S. imports of meat', *Quarterly Review of the Rural Economy* 1(4), 297-305.

Wyndham-White, E. (1977), 'Negotiations in prospect', in C. F. Bergsten (ed.), *Towards a New World Trade Policy: The Maidenhead Papers*, Heath, Lexington, Mass.