International Trade Policy: The WTO Agenda for Agriculture

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Agricultural Policy Discussion Paper No. 14
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October 1998

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Introduction

We are on the brink of yet another series of multilateral trade negotiations. Agriculture is likely once again to be both a central topic for discussion and a major cause of contention. This paper attempts to look forward to the talks on agriculture. In the first section of the paper, the case is made for embarking on what many consider a risky venture, the further liberalization of agricultural markets. Then the climate in which the talks will take place is compared to that of the Uruguay Round in 1986. A third section of the paper outlines the broad strategy that is likely to be adopted by countries in the negotiations, and this is followed by a section that explores the ways in which the negotiations could be conducted. A final section raises the issue of timing and procedures.[1]

There is good reason to believe that the next round of trade talks could take the world a significant step toward global free trade. Although most such optimistic statements are premised on the full recovery of the Asian economies, the signs are in general more favorable than in the years before the Uruguay Round. The multilateral trade system is in much better shape than in the mid 1980s, when serious disagreements existed as to whether even to hold a new round of trade negotiations. For one thing the existence of the WTO gives the trade system the legitimacy that was lacking in the GATT, together with a stronger dispute settlement process and a policy coordination function.[2] The agricultural negotiations will both benefit from the participation of a wider group of countries. Not only are there more members of the WTO now than there were GATT contracting parties in 1986, but many more developing countries have open economies and feel themselves to have a major interest in the talks. The WTO is much more truly global in scope and covers a much greater proportion of world trade than did the GATT. It is in a much better position to chart the course for multilateral trade policy now than was the GATT in 1986.

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[1] For a fuller treatment of these issues see Josling (1998).

[2] The popularity of the dispute settlement process is indicated by the fact that the WTO has recently begun to consider the 100th dispute. Over half of cases have been initiated in the past three years, and about 60 percent of them concern some aspect of food and agricultural trade.

Coupled with the objectives of the regional trade arrangements for achieving free trade, the WTO can at last define the goal to which all the previous negotiations were hesitantly moving. This goal could be as ambitious as to define the date at which free trade would be the norm. The pieces are fitting into place for a major push toward a liberal world trading system where tariffs are no longer a significant barrier to the movement of goods among countries. This time it may be difficult to omit agriculture from those plans.

I The Status of Agricultural Trade Liberalization

The successful completion of the Uruguay Round of trade negotiations marked an historic turning point in the reform of the agricultural trade system. The Uruguay Round Agreement on Agriculture (URAA) puts in place a set of rules which will go some way toward improving the conditions under which agricultural goods are traded. Bound tariffs have replaced non-tariff import measures, export subsidies have been curbed and domestic programs have been codified on the basis of their potential to distort trade. The Agreement did little, however, to liberalize trade in agricultural products and improve market access. The larger part of export subsidies can still exist, and are in effect legitimized. The domestic farm policies of the major industrial countries have been required to make only relatively minor changes to bring them into conformity with the Agreement. The process of "tariffication" has produced a number of tariffs bound at such high levels that it is difficult to see any profitable trade developing in their shadow. Where tariff rate quotas were negotiated to prise open these markets a little, the prospect of quota rents has led governments to agree to a network of bilateral deals which guarantee continued state involvement in trade for years to come. This has in turn exacerbated the problem of competition between state trading enterprises and the private trade. Thus the time is ripe for initiating another set of multilateral talks to complete the job started by the Uruguay Round.

The Uruguay Round has not been the only forum for negotiation on agricultural trade in the past few years. Regional trade institutions have also begun to grapple with the issues of agricultural trade liberalization. Though there has in the past been a natural tendency to avoid the politically sensitive sectors such as agriculture when negotiating regional trade pacts, free-trade areas and customs unions have recently become more adventurous in dealing with agricultural protection. In the Americas, the North American Free Trade Area (NAFTA) agreement included agriculture as a central element, setting the scene for a relatively free market in farm products between the US and Mexico at the end of the transition period. Agriculture has been featured in the MERCOSUR agreement, opening up trade in particular between Argentina and Brazil, and is included somewhat cautiously in the new "Europe Agreements" between the European Union and the countries of Central and Eastern Europe and the Euro-Med Agreements with the countries of North Africa. Other trade groupings in Europe and the Americas also include agriculture, such as the Baltic Free Trade Area and the Central European Free Trade Area in Europe as well as the Andean Pact, the Central American Common Market and CARICOM in the Americas. Plans for broad supra-regional trade structures, such as the Asia Pacific Economic Cooperation agreement (APEC) and the Free-Trade Area for the Americas (FTAA) have also explicitly faced up to the issue of the inclusion of agricultural trade. Set against the scenario of unfulfilled promise of liberalization at the multilateral level, these regional initiatives have begun to look like useful building blocks for the future of the agricultural trade system.

These agricultural trade policy developments have taken place against the backdrop of some remarkable changes in domestic agricultural policy. In developing and middle-income countries these agricultural policy reforms have been part of a package of economic policy changes induced by a combination of external pressures and long-term paradigmatic change. The remarkable fact is that politicians over the last decade did not shy away from the inclusion of agricultural markets in the overall reform of economic policy. In most cases, difficult decisions had to be made in the face of opposition from rural constituencies, and governments have often shown considerable fortitude in pursuing economic policy reform in agriculture. Domestic reforms then allowed countries to bring agriculture in to the trade policy reforms, generally involving the removal of non-tariff barriers and the setting of low fixed tariffs against imports.

In the industrial countries agricultural policy reform has come only reluctantly and with a great deal of domestic opposition. The farm policies in these countries had become so entrenched that they seemed almost to be immune from external pressures. However the reform of the EU's Common Agricultural Policy (CAP) in 1992 and the 1996 Farm Bill in the United States represent very significant changes in direction for farm policy and usher in a new era of relations between governments and the agricultural sector. Even in Japan the basic law which governs the role of the government in agricultural markets is being modified in the direction of privatization, though the task of bringing down domestic prices has hardly begun. The industrial giants seem at last to be following the lead of the middle income countries in regard to adapting their agricultural policies to the new global realities, but still have some way to go.

II The Case for Further Reform of Agricultural Trade

Why do we need further negotiations on agricultural trade so soon after the Uruguay Round? If agricultural policy reform is progressing satisfactorily, as countries modify their domestic farm programs to meet budget constraints and new notions of the limits to government activities, why contemplate further trade negotiations at this time and risk potential international conflicts? Why not leave well alone for a few years and revisit the issue of agricultural trade when domestic policies have finally changed? It is indeed tempting to allow these domestic forces to work towards a liberal trade regime for agricultural goods, and to postpone any further multilateral efforts to improve trade rules. Unfortunately such a strategy is unlikely to yield the desired outcome of a reformed trade regime. Domestic and international policy reform are mutually reinforcing, and are in fact two parts of the same process. Domestic reform was needed to get the changes in the trade system which were embodied in the Uruguay Round. The new trade rules in turn provide the constraints which channel domestic policy change in the right direction. If additional trade reform is not pursued in the next few years, the gains from domestic reform could well be lost. These linkages between the domestic and international reform processes are spelled out in some detail in this study. In essence they constitute the core of the case for further reform of the trade system for agricultural goods.

Five reasons can be distinguished to pursue agricultural trade reform, each of which would make a plausible justification. Together they make the case for further trade reform compelling. **First**, the Uruguay Round has exposed for the first time the extent of agricultural protection. The picture which has emerged is that of high tariff peaks towering above the more modest tariffs of non-agricultural goods. Such uneven protection carries a high cost both to the countries with the trade barriers and to the trade system as a whole. **Secondly,** a further attempt at improving the international rules for trade could help considerably in the formulation of domestic agricultural policy in many developing countries, particularly in Asia. The dynamics of protection are such that countries often need the restraint and guidance of international agreements to assist with domestic policy choice. A **third** reason for more reform at the moment is to lock in and underpin the painful changes in agricultural policy which have been taking place in the advanced industrial countries and in a number of middle income economies. The reforms are a constructive response to the poor performance and high cost of those policies, but also need to be undertaken within the guidelines of international trade rules. A **fourth** reason for advancing further agricultural trade reform at the moment is to continue the process of reducing trade conflicts which have bedeviled trade relations among developed countries and between developed and developing countries for many years. Improving trade relations has a potentially large benefit at a time when the focus of the international system should be to foster non-aggressive solutions to global issues. A **fifth** reason for pursuing further reforms at this time is that agriculture has a significant role to play in the future development of the international trade system. It is a vital part of the political accord which is needed for continued global economic integration and growth. To omit it would be to weaken significantly that accord.[3]

III The Climate for Further Reform of Agricultural Trade

A Structural Changes in Agriculture

Structural changes in the agricultural and food markets of the world will have a major impact on the next round of trade talks. One of these is the process of intra-industry reorganization which transforms isolated national markets into parts of an integrated global system. This is both driven by firms seeking lower production costs and broader markets over which to spread costs and also a consequence of the relaxation of investment and trade regulations. In other words, the food and agricultural sector is not escaping the pressures of globalization that have swept so many parts of the economy. It is true that agricultural products are rarely assembled from out-sourced materials, as happens with cars and computers. Farmers don't often move their activities offshore to take advantage of lower-wage labor, though it is not unknown.[4] But through various more subtle changes a similar quiet revolution is underway.

The most notable indication of this change is that the growth in trade in high value added products is much greater than that in homogeneous bulk products. In 1985 trade in high value added products was barely one half of total agricultural trade. By the year 2000 it is estimated that this share will be around three-quarters of agricultural trade. Part of this is due to the effects of rising incomes, as consumers shift away from unprocessed foods. But much of the growth in high value added goods is due to increasing product differentiation as producers and

[3] These five reasons are not, of course, unrelated to each other. The high tariffs give exporting countries an excuse to continue protection in their own domestic agriculture, which in turn leads to aggressive export policies. This contributes to the tensions of the trade system and undermines the confidence of trading countries in the ability of the system to provide foodstuffs on a reliable basis. Removing both the high protection levels and the need for export subsidies improves the credibility of the trade system and hence is an important part of the multilateral bargain among countries.

[4] Many farmers and farm businesses in California saw the opportunity for the production of fruits and vegetables in Mexico for sale to the US market, even in advance of NAFTA. Moreover there is a large scale movement of feeder cattle across the US-Canada and US-Mexico borders which has many similarities to inward processing and other trans-border transactions.

food retailers attempt to convince consumers of the merits of particular geographical locations, recipes and brand names. Goods which were once considered "non-tradable" have found a place in foreign markets for ethnic and exotic foods. Product differentiation, segmentation of the market and quality attribution along with the growth of "non-traditional" trade is the key behind the growth of agricultural exports from many countries in Central and South America as they free up foreign exchange markets and begin enthusiastically to trade. It is also behind much of the rise in US agricultural exports, including to the old, saturated markets of Europe. Europe itself is enjoying a minor export boom in the same types of commodities, breaking out of the trap which for years had made it focus on a few undifferentiated products such as wheat, sugar, skimmed milk powder and butter which could only be sold with heavy subsidies.

This shift in the type of trade raises new issues which need to be resolved. These include the areas of intellectual property rights on seeds and genetic material, geographical origin protection, labeling of organic produce and of goods containing genetically-modified organisms (GMOs), as well as issues of animal and plant health and human safety. Another round of trade negotiations might well be justified on these grounds alone, regardless of the "old" issues of market access and export subsidies. The probability is high of significant tensions in this area if rules are not clear and widely accepted. Indeed the widespread use of crops which incorporate biotechnology may very soon collide with the equally widespread fears of consumers, often encouraged by those with other agendas, about their safety. Unless public authorities regain the confidence of the public, trade rules which aim to facilitate trade can themselves lose credibility in the public eye.

There is no indication that this process of shifting up the value-added chain is likely to slow down in the near future. The emerging science and practice of biotechnology holds enough tantalizing promise to excite the most jaded imagination. Indeed for many the key to feeding the world at a reasonable cost is to make full use of the new knowledge and skills in this area. The biotechnology industry is itself undergoing structural change, as large corporations search for the profitable products that will pass the scrutiny of regulators and not be rejected by the public. So far the most important of these products have been cost-reducing, appealing to producers, rather than taste-enhancing. Consumers see little direct benefit for themselves. Rather, the effect will be to enhance the market share of those countries which allow or encourage such techniques. Hence one can well imagine trade conflicts involving discrimination among suppliers of similar goods depending on the method of production. But biotechnology also makes possible the "design" of foodstuffs with features that could improve their marketability. This development could lead to an increase in trade rather than trade friction, as producers attempt to meet new consumer tastes.

All these changes are in the direction of a more sophisticated agricultural industry aware that the future depends on satisfying a variety of consumer tastes and competing for the consumer dollar with other goods and services. More actors become involved in the political process, and the center of gravity shifts perceptibly away from the primary producer. Policy becomes less "commodity" focussed and the emphasis switches to adding value to the raw material and marketing the final product. These changes are crucial to the future of agricultural trade policy reform. In a situation where the "market" is an administered price supported by public purchasing agencies, free trade poses a real threat. In a world where farmers produce for the market, improvement in access to overseas markets compensates in part for more domestic competition. A freer agricultural market no longer means a collapse of prices and mass rural depression. Today it is more likely to spark rural entrepreneurship and healthy market development based on response to the changing food habits of middle-class consumers.

B New Issues and Challenges for Trade Rules

Just as the agricultural sector has been undergoing significant structural change, the challenges faced by the trade system have been mounting. These challenges include the entry of China, Russia, the Ukraine and other countries into the WTO, and the issue of state trading which has reared its head in a number of agricultural disputes. Both of these has a strong agricultural component. The prospective new WTO members are major players, actual or potential, in agricultural markets. Under what terms they join will influence the nature of those markets. State trading is more widespread in agricultural markets than in other sectors, and more controversial.

The application of China for re-entry into the WTO (it withdrew from GATT membership in 1950) poses very significant problems and enormous possibilities for agricultural trade, as for many other aspects of the international trade system. The problems are caused in particular by China's internal political and economic structure, where state-owned firms still produce much of the output, and the ability to trade internationally is still tightly controlled. The opportunities are the result of the huge market potential as a result of strong economic growth. China could become a major player in agricultural markets: the issue is under what conditions and rules will such trade take place.

Russia has also requested to join the WTO, along with the Ukraine and several other parts of the former Soviet Union. The problems that will emerge when these negotiations get underway will have some of the same features. Other countries will be concerned with the role of the state and the extent to which exports can be subsidized or imports restricted by non-transparent state action. However, these countries have made major political reforms which make them "open" and less likely to cause fundamental conflict with WTO rules. One might anticipate somewhat more speedy negotiations than have been the case with China. By the time the next round of agricultural talks are coming to a conclusion, one might expect Russia and some other FSU countries to be members of the WTO.

State trading poses another set of issues for the members of the WTO as they prepare for the new round of negotiations on agriculture. The tariffication of non-tariff barriers has highlighted the difference between import systems based on private trade, where tariffs directly influence trade decisions, and parastatal import arrangements, where the decisions are made on other grounds.[5] On the export side, the specification of export subsidies has made more apparent the difference between private trading and government sponsored export monopolies. This has surfaced in recent months in particular with regard to the Canadian Wheat Board, a state controlled single-desk selling agency for much of Canada's grain, which is thought to have some commercial advantage over private traders in world markets. The entry of China, Russia and the Ukraine to the WTO brings with it the fear that these countries have state control of imports (and in some cases exports) which will frustrate attempts to reform the trade rules. The issue of state trading will therefore be high on the agenda at the multilateral level. There will clearly be an attempt to regulate the use of market power in trade by parastatals. The question is what can one do and how can one do it?

IV The Structure of the Agricultural Trade Agenda

The agenda itself will be decided by countries within the next year or so, initially by informal contact among the major actors. To this end an informal body known as the Analysis and Information Exchange Group has been set up within the WTO Agriculture Committee to aid such discussions in advance of formal meetings. At present this body has focussed on such issues as the administration of TRQs and other issues emerging from the implementation of the Uruguay Round agreement. Some attention has also been given to the issue of state trading. But the agenda for the next round has not as yet been specified or agreed.

This leaves the way open for speculation as to what approach might be used and to suggestions as to what strategies might succeed. One possible formulation would be to adopt the **agenda of the Uruguay Round** negotiations and adapt it to focus on **completion** of that agenda rather than

[5] The introduction of TRQs has also increased the scope for state trading, as the lucrative quota rents can be distributed to parastatal organizations.

seeking agreement on a new one. Thus the agenda for the continuation of the reform process would encompass the familiar four elements of the URAA and SPS Agreements, namely market access, export competition, domestic support, and clear rules for sanitary and phytosanitary measures. The initial task would be to devise an approach to each of these four items which would give a balanced package on which to negotiate. A satisfactory result would therefore yield additional market access provisions, further reductions in (or even elimination of) export subsidies, and more discipline in the area of trade-distorting domestic subsidies. It would also clarify certain aspects of the SPS Agreement without undermining the improvements gained in the Uruguay Round.

Other issues fall conveniently within this framework. The question of the allocation of TRQs is clearly one of market access, and can be addressed under that agenda item. Countries will wish to confront the issue of state trading in agriculture, but that topic can be separated into the components of market access (state trading importers) and export competition (state trading exporters). The use of export restraints may also be challenged, in part as a reaction to the concern over food security in importing countries. But this also can be subsumed under the heading of export competition. The new challenges to the rules regarding health and safety practices which have arisen recently can of course be discussed under the rubric of reviewing the SPS Agreement. Thus by expanding somewhat the definition of the four major agenda items one can incorporate the "new" as well as the "old" issues.

Market access remains the keystone of any trade negotiation. This will be the first set of agricultural negotiations where the level of agricultural protection (at the border) is visible and quantified. Tariffication, as was intended, has made the conditions of market access in agricultural trade significantly more transparent. What is now visible is the high level of protection for long hidden by non-tariff barriers. This level of protection in agricultural markets is exposed as very high relative to the trade barriers in manufactures. The question for the next round is what process can one initiate that would lead to a removal of this discrepancy in a reasonable time period. How does one get from tariffs of 100-200 or even 300 per cent to the levels of 5 - 15 per cent found in most other areas of trade, or to zero if tariff-free trade is agreed for manufactured goods? This looks to be a tall order: it implies a continued period of significant tariff cuts extending well into the next millennium. The next Round of talks will not be a success unless a substantial step is taken to reduce these high levels of agricultural tariffs.

The act of tariffication has exposed the difference between state trading importers and others. Many countries still channel imports of basic agricultural products through a parastatal import agency (see Josling, 1997). Under these circumstances the benefits of a tariff-only system are considerably diluted. If the agency decides to keep strict control of imports to support domestic producer prices then the introduction of a tariff in place of a quota will not change the behavior of the agency. Whether or not the tariff is paid, the decision as to how much to import will still be ruled by the amount that can be sold on the domestic market at the desired price. In other words the act of tariffication exposed the issue of state trading as a possible way to circumvent the impact of tariffication. This issue needs to be addressed directly in the next Round.

The Uruguay Round Agreement instituted tariff rate quotas (TRQs) in those situations where tariffs had replaced non-tariff barriers. For specified access quantities the tariff charged would be some fraction of that agreed as the bound tariff in the schedules. The quantity would increase over time, generally from three percent to five percent of consumption.[6] The notion was to provide at least a modicum of market opening where previously the door had been shut. But, however laudable the aim, the existence of a TRQ still does not guarantee that level of imports. STEs, for instance, can still restrict trade below that level. As a consequence, additional disciplines may be necessary to ensure access as agreed by the Schedules. Moreover, the TRQ system must not be allowed to become embedded in the trade rules: it was designed as a temporary palliative, and consideration should be given to its eventual replacement.

If the high level of protection sets agriculture apart, the widespread use of **export subsidies** is perhaps the most disruptive element in the operation of world markets. The practice of subsidizing exports of agricultural products has been constrained by the Uruguay Round, but most of the subsidies are allowed to continue in a reduced form. Countries which import agricultural products have been the gainers in economic terms from the subsidies, but even among these countries the disturbance of the domestic market has often caused problems. In the next round of negotiations, it will be more difficult than ever to persuade countries who export agricultural goods with little or no subsidy to allow countries such as the EU and the US to continue their market-distorting practices. A further push to rein in these subsidies is therefore likely to be high on the agenda of the Cairns Group. Similarly, the use of export credits has continued despite efforts to negotiate within the OECD some restraints on the benefits that some exporters get from such schemes.

The question of single-desk selling agencies for agricultural products is also one of export competition. Different marketing practices among exporters are inevitable, and not in themselves

[6] The TRQs are in fact a combination of three elements: the quantity of "current" access (so that tariffication did not actually reduce trade flows); the quantity of trade flowing under pre-existing bilaterals, such as preferential schemes and voluntary export restraints; and the minimum access

undesirable. But international guidance is needed as to which practices of parastatal export agencies are consistent with agreed conditions of competition and which distort that competition. Now that the more clear-cut kinds of export subsidy have been identified and included in the country schedules of allowable subsidies, the next task is to clarify the definition as regards the actions of state trading exporters so as to ensure that such actions if deemed to be hidden subsidies would be counted against the schedule for that country.

The practice of export taxes and export restraints through quantitative controls also needs to be addressed in the New Round, and can conveniently be included under the heading of export competition. Within the GATT export controls are generally disallowed, though export taxes are deemed innocuous. Article XI of GATT 1947 prohibits quantitative export restrictions but makes an explicit exception for "export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party". As exporters do not usually complain about restrictions imposed on their competitors, most export restrictions go unchallenged. But there is a clear conflict between the ability of exporters to withhold supplies to relieve domestic shortages and the reliability of the world market as a source of supplies for importers. In periods of general tight supply the effect of export restrictions would be to exacerbate the shortage. Moreover, it is inconsistent to ask producers in exporting countries to absorb the risks of low prices without subsidy but then deny those producers the rewards of satisfying a market in times of high prices.

In the next Round, importers are likely to lead a movement to constrain the ability of exporters to restrict supplies. After all restraints on exports are no less inconsistent with an open trade system than restraints on imports. Export taxes should be included under the same qualifications as quantitative restrictions. The argument has already surfaced in connection with the Food Security Declaration appended to the Uruguay Round Agreement (the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net Food-Importing Developing Countries). It seems inconsistent to leave in place the possibility of export taxes and quantitative restrictions that have an immediate and harmful impact on developing country food importers.

It is one of the ironies of the Uruguay Round that, although the biggest conceptual breakthrough was the acceptance by countries that **domestic policies** were a legitimate concern of trade talks, the actual disciplines imposed on those policies through the reduction of the Aggregate Measure

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determined with respect to consumption. In many cases these different elements were consolidated in the schedules.

of Support (AMS) were rather weak. The key question for the next Round is therefore whether to strengthen or abandon the attempt to constrain domestic policies. The fact that the AMS constraints have not been binding for the large majority of countries does not mean that the constraints on domestic support have been ineffective. The process of re-instrumentation of domestic support programs, away from those that most impede trade, has begun. The AMS constraint on domestic policy puts useful pressure on countries to continue this process.

The attraction to countries of adopting "green box" policies is both to guard against challenge from trading partners and to avoid being counted toward the AMS. This suggests that the AMS constraint should in fact be tightened to avoid the temptation of backsliding and to promote further reforms. This tightening would make the "green box" much more effective. Exemption from the AMS and avoidance of challenge between them make a powerful case for making domestic policies conform with the green box criteria. The questions for this agenda item are whether to change the definition of the "green box" to avoid some slippage into potentially trade distorting programs such as crop insurance and environmental payments, whether to change the scope of the AMS constraint to make it commodity specific, and whether to continue to allow acreage-control payments to be sheltered in the "blue box".

V Modalities for Negotiations

Agreement on an agenda is a first priority, but the approach taken to meet the objectives under each item are likely to set the tone for the negotiations. These modalities will soon come to dominate the discussion of the agenda, in particular if the four-part nature of the talks remains as in the Uruguay Round. The real content will be reflected in the modalities. What follows is some initial suggestions on the methods which might be used to operationalize the agenda.

A Improving Market Access

Several techniques can be used for implementing the improvement in market access that should be at the cornerstone of the new Round. Bold initiatives are probably better than modest proposals, though they have to have some underlying rationale to be credible. The longer term objective should be to minimize the gap which now exists between average agricultural tariffs and those in other sectors. The following modalities could be considered as ways of meeting this objective.

One approach to the issue of improving market access is to stress the continuity of the process, assuming that it is simpler to extend an existing agreement than to devise a new market-opening formula. Indeed, one could repeat the percentage reductions agreed in the Round.[7] One could even use the same base which was established in the Uruguay Round for the next set of tariff cuts (Tangermann, 1997). A further 36 percent cut in the average level of tariffs from the same base would imply a 72 percent cut over the two "reform" periods, a rather significant reduction over a dozen years.

The advantage of this approach is that the continuity of the process would be emphasized. In addition, the effect on trade would accelerate over time: the same percentage cut would have greater impact the higher the base tariff used. The use of the same base simplifies negotiations, as a reopening of the issue of the base would itself cause controversy. But perhaps the strongest reason for supporting such an approach is that it simplifies and clarifies the question of "credit" for unilateral moves taken during negotiations. Countries would no longer need to delay unilateral reductions in border protection for fear of "paying twice": the unilateral policy change would count towards the reduction as it will have occurred after the base period.

The continuation of the same schedule of cuts, however, poses some problems. First, should the cuts in tariff include a provision, as in the Uruguay Round, which would allow countries to lower tariffs of some line items by only 15 percent while cutting less sensitive (and often less significant) commodity tariffs by more than 36 percent to maintain the (unweighted) average. Perhaps constraints should be placed on this averaging, by (a) agreeing to a line-item minimum for the whole reform period of (say) 50 percent, which would imply larger reductions for those products that escaped last time; or (b) insisting on a balance in the trade volume between those with higher and lower than average cuts (i.e. trade weighted tariff reductions).

As an alternative to a further round of differentiated tariff reductions, subject to an average, countries could agree on a rule of "no exceptions" to the agreed cut. This then becomes an "across-the-board" tariff reduction. One could perhaps aim at a 50 per cent cut in all tariffs over a five year period. This has the advantage of simplicity and transparency. It could be combined with the technique of using the same base period, or it could apply to the bound tariffs as of an agreed date, say the year 2000. In the past, such across the board cuts have often been riddled with exceptions. This would need to be kept under control. An across the board cut would, however, still leave some tariffs at a very high level.

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[7] This is also consistent with the "no pause" approach to the overall agricultural talks mentioned by President Clinton discussed below. However, one could combine "no pause" and other modalities for tariff reduction.

As an alternative to such uniform cuts, agricultural tariffs could be reduced on a formula basis, with higher tariffs being reduced at a greater rate. The 'Swiss Formula' which was used for tariff reductions in industrial goods in the Tokyo Round would be an appropriate technique to use. This could be a faster and fairer way to get liberalization than the across the board cuts. Much of the 'water' would be squeezed out of the high tariffs (and the element of 'dirty tariffication' removed) by such an approach.[8] The main advantage of using a formula approach is that it would reduce the distribution of tariff levels among products. The process of tariff reduction in the Round may indeed have increased the variance of tariff levels.[9] But formula reductions appear to put more burden on those countries with dispersed tariff rates, and they might be expected to argue for more uniform cuts.

To remove some more of the "water" a different approach could be considered. One could for instance eliminate the present gap between bound and actual rates. Bindings could be reduced to no more than the maximum applied tariff in an agreed historical period (say 1993 to 1998, if the negotiations were conducted in 1999).[10] This would lock in agricultural trade reform in a more effective way than at present. It would not, of course, remove the element of protection introduced through 'dirty tariffication', and there could still be 'water' in the tariffs as currently applied. It would only remove the discretionary element of protection that countries were able to build into the Uruguay Round tariff bindings for their own flexibility. This would, however, increase considerably the credibility of the liberalization process. It would among other things put a limit to the spread of 'price band' systems of variable protection that several Latin American countries have adopted to stabilize domestic prices.

A somewhat different approach to the issue of tariff reduction has had some success in other areas of trade, such as information technology. This approach is to negotiate "zero-for-zero" agreements which would eliminate tariffs completely on particular goods.[11] Clearly there are advantages as well as disadvantages in such an approach. Political sensitivities restraining liberalization in some products such as dairy and sugar would not hold up a move to competitive markets in others such as oilseeds and pigmeat. Trade would therefore be expanded in the latter markets as protection was reduced. However, the benefit of this trade from the point of view of both the importing country and the world as a whole would be offset by the costs of trade

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[8] The 'water' in a tariff is the unused protection when no imports can sell at the tariff inclusive price. The 'dirty' element in the agricultural tariffs refers to the use of price gaps between domestic and world markets which overstated the existing protection at the time of tariffication, leading to larger than necessary tariffs. Tariff bindings were also often set well above the actual tariff in operation, giving an element of discretion to governments. Thus a reduction in the high rates of tariff removes the water, cleans up the tariff and removes the discretionary element of ceiling bindings.

[9] This was the case, for example, in the EU, Japan and the USA. See Tangermann (1995). As an alternative approach to the problem of tariff dispersion, a maximum level of tariff could be agreed to which all higher tariffs would have to be reduced over an agreed period. This could be combined with an across the board cut to give both a general reduction as well as a consolidation of rates.

[10] There would of course be a danger of announcing such a scheme in advance. Countries might choose to raise tariffs to their bound levels to avoid the cut.

[11] This approach is discussed more fully in Miner et al (1996).

diverted as zero-tariff items replaced the lower-cost but higher-priced goods still subject to tariffs.[12] The zero-for-zero approach rests in part on the notion that the isolation of the markets that are presently highly protected will force them eventually to come into line. Unfortunately, it is equally likely that one might "let off the hook" the sensitive commodities unless the sector-by-sector reductions were in a framework which ensured no long-term exclusions.

An alternative way to tackle the problem of the high levels of tariffs resulting from tariffication is to expand the guaranteed market access which forms a part of the provisions of the Agreement on Agriculture. Removing the TRQs may not be an attractive option for the exporting countries. Expanding them, however, is one simple way of reducing their importance, at the same time lessening the impact of the high 'above-quota' tariffs. Doubling the minimum access quantities, for instance, would make many of the high bound over-quota tariffs irrelevant.

One possible approach is to continue the process of expanding minimum access as a proportion of consumption. An increase in TRQs, say, of one per cent of the level of domestic consumption in each year over a five year period would remove much of their restrictive effect. In most markets the quotas would become non-binding before the five-year period was over. In effect, tariffication would have taken place at the level of the reduced tariff applicable to the TRQ.[13] The main political objection to this could be that the "within quota" tariffs were generally left to the discretion of the importing country to fix at levels which they judged would attract the guaranteed access quantity. This implies that some form of re-negotiation might have to take place on the level of these tariffs.[14]

The question of the allocation of TRQs has received some attention. Not only has the allocation been very different in different countries, but in some cases the method chosen seems to have been calculated to counter the market opening (see Hathaway and Ingco, 1997). It may not be possible to agree on a single method of allocation, but a set of acceptable methods could be agreed. These could range from such economically efficient methods as auctioning to the exporting firms to the administratively simpler allocation on the basis of historical trade patterns.

The issue of state trading enterprises which have special or exclusive rights in import markets can be thought of as an extension of the problem of market access. Under WTO articles, state

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[12] The EU knows well the problem of "unbalanced" protection as a result of easy access to oilseeds negotiated in the Dillon Round.

[13] It would also be possible to devise a way to give countries the option of TRQ increases or tariff decreases, as both lead to the same desirable end.

trading importers are not supposed to grant more protection than that given by the bound tariff (Article II:4, GATT 47). This was difficult to enforce when non-tariff barriers were allowed in agricultural markets. The state trading enterprise could be deemed to be administering such a non-tariff barrier. But with tariffication the situation is much clearer. The task of comparing the mark-up of the state trader with a fixed tariff is relatively straightforward, in particular in the light of the improved monitoring and reporting which has resulted from the establishment of a Committee at the WTO to oversee the implementation of state trading rules.

Countries could however go further than just ensuring that state trading importers do not give more protection than the bound tariff. It would be possible for instance to link the administration of the TRQs with the import operations of state traders, perhaps converting the TRQ into an obligation to import rather than an opportunity. This could reduce the suspicion that STEs might be responsible for the under-fill of the quotas. At the other extreme one could mandate that all (or a share) of the TRQ be marketed through private channels, thus providing some competition for the STE and allowing price and markup comparisons to be made. Ultimately, one could directly address the issue of competitive conditions in the importers market, by ensuring a degree of contestability in such markets, but that is likely to wait until basic trade rules for national competition policies have been agreed.

B Removing Export Subsidies

A somewhat similar range of modalities are available for dealing with the issue of export competition. Again, there could be distinct advantages in keeping to the base used in the UR and emphasizing continuity. Countries could then move unilaterally to reduce export subsidies and still get "credit" in negotiating terms.

The simplest way to continue the process of reducing the incidence of export subsidies would be to extend the schedule of reductions agreed in the Uruguay Round. As with the market access improvement, this could be done using the same base. This would imply constraining the expenditure on such subsidies by another 36 percent, thus removing 72 percent of the subsidy expenditure that was used in the base period. Continuing the quantity restriction would imply that 40 percent of the volume of subsidized exports would have been removed from the market over the two periods of reform. But since the remaining 60 percent would have to be subsidized

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[14] This of course also offers a possibility to start such tariffs for within-quota trade at a reasonable level in relation to other goods. All "within quota" tariffs could be bound at (say) 20 percent, and not reduced until they became the operative tariff for the bulk of agricultural trade.

with only 29 percent of the expenditure, the disruption that could be caused by such subsidies would be significantly reduced.

One issue that is bound to come up is that of the "unused" export subsidy allowance. Under the present rules, subsidies not used in a particular year can be held over.The rules can therefore be easily tightened by removing this facility. Why countries should be able to carry-over dumping rights from years when they are not necessary is not clear. Further accumulation of export subsidy rights should not be encouraged. Otherissues which need to be raised are the definition of export subsidies, and in particular the issue of pool pricing.

The continuation of the process of reduction would be constructive, but may not be very ambitious. Elimination of export subsidies altogether would clearly have significant advantages. The pre-requisites for dispensing with export subsidies are a renewed confidence in world markets, with firmer and more stable price levels for the major products, and reduced dependence on intervention buying in domestic policies. The former condition depends on the success of the Agreement in increasing trade and reducing protection. As for domestic programs, it is possible that practice and sentiment in both the US and theEU may have moved away from the use of market support policies to other instruments by the turn of the century. If that were the case it could be politically easier to get effective curbs on the use of export subsidies by the time of the New Round. A new set of negotiations could, say, set the target to phase out export subsidies over a five year period, by 2005.

In the Uruguay Round the issue of export credits was found to be a form of export subsidy, but it did not prove possible to agree on constraints. TheOECD countries have negotiated a code for non-agricultural export credits which puts limits on credit terms and the length of credit extension. It has not been possible to include agriculture in this agreement. This leaves this topic as one to be dealt with in the next Round. It should be possible to agree on the allowable terms for such credit, and hence be able to calculate the magnitude of thesubsidy which is involved if softer credit terms are offered. The best way to deal with the subsidy equivalent of such concessionary credit is to charge it against the export subsidy constraints in the schedules.

The quantification of export subsidies and their reduction has left more visible the distinction between those countries where exports are privately sold from those where aparastatal controls such exports. There is widespread concern in those countries where trade is by private firms that the state trading enterprises can obtain cheap credit from their governments, offer better terms to buyers, and generally compete unfairly with the private trade. To the extent that these practices could be labeled as export subsidies, the issue is one of monitoring and transparency. But some commonly used devices such as price pooling (giving the producer an average price over several destinations or time periods) are also seen as giving the producer an unfair advantage. It might therefore be a matter for negotiation as to whether any constraints need be placed upon STEs with regard to their producer pricing policies.

Restrictions on exports in times of high prices distort the trade system as much as subsidies that operate when prices are weak. Such restrictions can be through taxes or quantitative restrictions. In the case of quantitative restrictions, these are currently allowed in cases of supply shortage in the producing country. This may need to be revisited. It seems inconsistent to argue that exporters can withhold produce from the market in times of shortage and then to expect importers to open up their markets to trade. Export taxes are not presently controlled under the WTO. But they have a similar effect to that of export quotas, and are equally difficult to justify in an open global food system.

C Re-instrumentation of Domestic Support

The constraints on domestic support through the Aggregate Measure of Support (AMS) are acknowledged to be the least effective of the Uruguay Round bindings. But this does not mean either that they will not be useful in the future or that a continued reduction would not be appropriate. A continuation from the same base would be a relatively modest move, and yet even that would have resulted in 40 percent of the "coupled" domestic support being removed or converted into less trade-distorting types of program. But it would be even more effective to "catch up" with the reductions in import barriers and export subsidies. Thus one could envisage an agreed reduction of (say) 52 percent in the expenditure on price-related policies.

The 'blue box' containing the US and EU direct payments which were granted exemption from challenges under the Blair House Agreement was a creature of its time, necessary to get agreement to go ahead with the broader Uruguay Round package. It is, however, still a somewhat awkward bilateral deal not appreciated in other parts of the world. Such an anomaly can surely be removed in the next round. The policies of the US and the EU themselves are changing for internal reasons. The new US Farm Bill goes further than ever before to make the payments to farmers decoupled from output and therefore compatible with the green-box. The EU is considering a similar move as a continuation of the reform started in 1992, as a way of making the CAP consistent with enlargement. The task for the New Round will be made much easier if the EU and US have both modified their payments such that they meet the conditions laid down in the green box. The "blue-box" can essentially be emptied and locked.

The green box presently contains a number of policy instruments which, while probably less trade distorting than price or income supports still encourage an expansion of output. Sometimes they are related to otherwise sensible programs such as crop insurance, but incidentally increase the incentive to produce by reducing risk. Other programs may be indirectly linked with production even though the main reason for payment is not output. This might be true of certain environmental payments, which could lead to an increase in output. To re-open the definition of the green box might however allow countries to argue that it be expanded, to include food security policies and barely-decoupled support schemes. It would be better to confirm the criteria for the green box before opening it up to be a repository for an assortment of production-related payments.

More effective still could be a decision to make the AMS specific to individual commodities. This was the original intention in the Uruguay Round: it was at the Blair House negotiations between the US and the EU that the notion of aggregating the AMS over all commodities was introduced – essentially to weaken its impact. The AMS could thus be made more binding at a stroke by defining commodity specific amounts of "coupled" price support expenditure which could then be reduced over time.

VI Timing and Procedure

There are a few fixed points which give an indication as to the timing of the agricultural talks. The URAA itself mandated negotiations on agriculture to be started before the end of the transition period, i.e. in 1999. But starting the talks does not mean that they will move fast or far without further incentives or deadlines. It would be useful to get the talks off to a fast start, as soon as negotiating authority is received by the major actors, but there will always be elections or market developments which make it a bad time for some country or other to agree to liberalization. One of the few deadlines is 2003, when the Peace Clause expires. Thereafter the general WTO rules governing subsidies and dumping will apply to agriculture. This will presumably give a useful boost to negotiations if they are not complete by that date. The promise to renew the Peace Clause may also be a useful incentive for countries otherwise reluctant to continue reforms.

Adding to the factors which might delay completion of the round is the increased number of countries which will be taking part. Moreover, China and Russia could also be members either near the start of negotiations or before they conclude. This will bring in two or more important agricultural traders who will have considerable influence on world market conditions, but it may make reaching a solution more difficult.

Does this mean that there will be little incentive to finish the negotiations once they have started? The US in particular is concerned that the incentives to delay are removed. A recent suggestion by President Clinton urged countries to continue the reduction schedule agreed in the Uruguay Round without any pause, while negotiations are proceeding. This is consistent with the approach discussed above of using the same base and percentage targets. The "no pause" policy however is likely to create political problems for those countries who might wish to slow down the reform process: it would seem to be necessary to prejudge the outcome. But there would also be no incentive for those who are seeking more radical reforms to speed negotiations up. Such an agreement would also need a time constraint as well as an initial agreement in principle on the objective. It is not clear how one could achieve all these preconditions.

Perhaps the main determinant of the timing of the agricultural talks is the decision as to whether they should be a part of a large, multi-sector negotiation or whether they will be self-contained. Most commentators argue that a negotiation that only included agriculture would be difficult to conclude. Countries that felt that they stood to lose would have no offsetting gains in other areas. However, no agreement has yet been reached on the scope for the next round, and so it is uncertain what "package" will be possible. Adding another complication, the timing of Chinese accession to the WTO could also influence the agricultural talks, as mentioned above. Though the content of the talks on agriculture is relatively independent of these other developments, the timing could be determined outside the agricultural arena.

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Agricultural Policy Discussion Paper No. 14
ISSN 0112-0603
September 1998 Price: $15.00