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LINKAGES BETWEEN BILATERAL AND MULTILATERAL
NEGOTIATIONS IN AGRICULTURE

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Introduction

At first blush, it might appear that the linkages between the negotiations on agriculture being conducted in the contexts of a bilateral Canadian - American Free Trade Area (CAFTA) and the Uruguay Round of multilateral trade negotiations (MTNs) would be rather tenuous. This for several reasons. First, the primary agricultural trade interest of both countries is focussed on the big-ticket items of grains and oilseeds and these are traded almost entirely off-shore. Second, the agricultural commercial diplomacy of both countries is directed primarily at Europe and Japan rather than at each other. Third, insofar as agricultural trade negotiations have become concerned with reducing and eliminating the trade distorting subsidies provided to farmers by national agricultural policies, both countries have to use the offer to dismantle their farm programs where it will provide most negotiating leverage, which is in Geneva rather than in the bilateral trade negotiations (BTNs). These are three important reasons why early limits might be encountered to the oft-expressed hope and expectation that the BTNs will provide constructive arrangements in agriculture that can serve as "models" for the MTNs.

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However, closer examination shows that there are indeed numerous and important interfaces between the two sets of negotiations in terms both of broad common interests and in the finer detail of the ways in which particular issues might be handled.

First and foremost, it is decisively important to both the U.S. and Canada that the agricultural BTNs send the right signals to other countries. This means that the two countries must demonstrate clearly and unequivocally that they can agree to liberalize continental trade in farm and food products, not only by removing frontier measures but also, and more importantly, by changing those elements of national agricultural policies and programs that harm the legitimate trade interests of the negotiating partner. Furthermore, providing the right "demonstration effect" requires that continental agricultural trade liberalization be on the widest possible scale with few exceptions.

Second, both countries have much to gain if they can adopt a common stance in the MTNs. In particular, the reality of the distribution of influence means the results for Canada of the MTNs will be augmented if Canada can support negotiating approaches favoured by the U.S. By the same token, the negotiating proposals of the U.S. would be strengthened if they were supported by an important member of the Cairns Group. Thus, the BTNs provide the opportunity for seeking and evolving mutually supportive MTN negotiating positions.

Thirdly, the BTNs are throwing up all the same issues that will have to be confronted in Geneva. At a minimum, having to address them early means that both countries negotiators will enter the agricultural component of the MTNs exceptionally well prepared. More importantly, the

BTNs provides a testing ground for alternative approaches and prototype solutions to specific issues, some of which may be subsequently adopted multilaterally. It is to these that we now turn.

Access and Subsidization

Providing improved and assured access to import markets for efficient suppliers and ending the subsidization of high cost production and of exports are, of course, the very essence of both sets of negotiations. It is common to address access and subsidization separately, but they are, in truth, usually but two sides of the same coin.

Access: In the preparatory work for the MTNs centred in GATT's Committee on Trade in Agriculture (CTA), discussions on market access appear to have focussed on improving the operational effectiveness of Article XI by such means as permitting the use of quantitative import restrictions only where national output is effectively constrained and by extending the use of quantitative minimum access commitments (GATT 1985). Additionally, it could be anticipated that exporters' access to import markets would be improved by use of the traditional requests and offers technique.

This two-element approach to access in GATT — strengthening GATT's rules and disciplines and the reciprocal exchange of specific concessions — was never very promising for it does not address in a direct and radical manner the need to change the national farm programs that impair access by subsidizing import displacement. However, this whole approach has been replaced in the MTNs (or placed in limbo) by the U.S. proposal of 6 July 1987 under which both national agricultural subsidies and

accompanying import barriers would be phased out over a 10 year period (USTR and USDA 1987).

In the BTNs it would appear that the goal of improving access to the U.S. and Canadian markets is being pursued essentially on a requests and offer basis (except that the possibility is envisioned that all tariffs on agricultural products might be eliminated over an agreed period). Accordingly, it would seem that, at this stage, the BTNs have little to offer the MTNs on the issue of access. The U.S.' GATT proposal addresses the fundamental cause of the access problem and in a direct way, while the BTNs are using an unpromising technique to pursue limited objectives.

Subsidization: In the same way, the U.S. negotiating proposal comes at the problem of subsidization more directly than the approaches being followed in either the MTNs or the BTNs prior to 6 July.

In the CTA the issue of subsidization was being addressed primarily through strengthening the legal precision and the application of Article XVI of the Agreement and the Tokyo Round subsidies code, while in the BTNs the approach to subsidization has been shaped largely by Canada's anxiety to obtain a clarification of what was a countervailable subsidy.

The U.S. GATT proposal that agricultural subsidization be phased out, that import barriers be removed, and that this objective be pursued using producer subsidy equivalents (PSEs) as a basis for the establishment and verification of quantified and legally binding obligations effectively deals with access and subsidization simultaneously, and in a manner which goes far beyond anything conceivably accomplishable by requests and offers, re-writing articles XI and XVI and the subsidies code, and defining what constitutes a countervailable subsidy. And whereas

discussions on subsidization in the CTA had concentrated largely on export subsidies and discussions in the BTNs on domestic subsidies to exported products, the U.S. proposal embraces export and domestic subsidies simultaneously. Furthermore, it addresses two aspects of subsidization which are important in the U.S.-Canada bilateral relationship which they have had difficulty in coming to grips with in the BTNs; these are the issues of subsidized import substitution in national markets and subsidized export competition in third country markets.

While the BTNs seem to have little to offer the MTNs on agricultural trade on the two pivotal issues of access and subsidization there are still three ways in which the two sets of negotiations on these issues could be related.

First, the obvious question to ask is "could a formula approach to reducing protection and liberalizing trade such as that suggested by the U.S. in Geneva be used to shape the bilateral relationship on agriculture?" The answer is 'no' if the time-frame is truncated by the need to have a bilateral trade agreement in place by the first days of 1988. However, some elements of a bilateral agreement on agriculture may be worked out and phased in over time. In this case, provided Canadian authorities shared the bold objective expressed in the U.S. MTN proposal on agriculture, and if they were persuaded that an approach based on PSEs was feasible and desirable, it could be stated in the CAFTA agreement that the two countries would progressively fold their bilateral accord on agricultural trade into the framework of a multilateral agreement should such an agreement be concluded in the Uruguay Round. This would give a political boost to the use of PSEs in the MTNs.

Second, there is obviously a coincidence between the need to define in the MTNs which national agricultural programs constitute trade distorting subsidies (and which should, therefore, be included in PSE calculations) and the Canadian desire to obtain agreement in the BTNs on what is a trade-distorting (and therefore countervailable) subsidy. Progress in either negotiations will advance the work in the other. Further, as is explained below, two particular issues that are central in the BTNs will inevitably become crucial in the MTNs; these are to identify (and reflect in PSEs) the trade effects of stabilization and supply management programs. The early experience of dealing with the trade impacts of these programs in the BTNs can only be helpful to their treatment in the MTNs.

Third, despite its many attractions, it is no secret that elements in both Canada and the U.S. — particularly in their Departments of Agriculture — have substantive reservations about the use of PSEs as a basis for trade negotiations (deGorter and McClatchy 1984, McClatchy 1987, USDA 1987). Furthermore, even proponents of the technique readily acknowledge that it has important limitations (Tangermann, Josling and Pearson 1987). The difficulties with using the PSE as a basis for trade and policy obligations include the following. There is no agreement on the programs that should be included in the calculation of PSEs. The PSE is generally a poor proxy for the trade distortions caused by national agricultural programs. The diverse trade effects of alternative forms of policy instruments are not well measured; in particular, supply management techniques, shared risk programs and decoupled income supports are not satisfactorily handled. A country's PSEs — and presumably therefore

its policy obligations -- can be changed by other countries behaviour, particularly through changes in exchange rates and in the instrumentation and parameters of large countries' farm programs. Large country effects are generally neglected. Cross commodity effects have not been fully established. The effect on PSEs of policy-inflated input prices have not always been clarified. It is not clear whether the effects on trade that flow from consumption distortions should be included, and in what manner. The choice of world reference prices and base periods against which to measure national PSEs is a practical matter of great consequence. The flexibility available to countries on the choice of commodities and instruments to include in the fulfillment of their bound obligations to reduce PSE levels is a negotiable variable also.

This litany of problems that attends the proposal to use PSEs in the agricultural MTNs suggests that experimentation with the technique in the bilateral trade arrangement might be helpful. Equally, the use of alternatives to PSEs might be explored.

There are plenty of candidates. Ostensibly simpler measures are the "nominal rate of protection", the "nominal rate of assistance" (equivalent to the "price adjustment gap" favoured by Australia (Miller 1986, Haszler and Pearson 1987)), "producer incentive equivalents" (i.e. only those components of PSEs that have a net influence on output (Rausser and Wright, 1987)), and the "aggregate value of support", (i.e. the product of the unit value of support and the volume of production entitled to receive support (McClatchy 1987, Hathaway 1987)).

Going the other way, there are quantitative indicators that attempt to measure directly (rather than to infer) the distortions in world

markets actually produced by national farm programs. These include the "rate of (price) distortion" (deGorter and McClatchy 1984), the "trade (volume) distortion effect" (McClatchy 1987), and conceptually at least, the output of partial and general equilibrium world trade models (e.g. Tyers and Anderson 1986, Parish et. al. 1987, Trella, Whalley and Wigle 1986). The latter models also provide information on income distribution and economic welfare effects.

The exploration of alternatives to the OECD's PSEs which might be initiated bilaterally should be constrained by the observation that it probably doesn't matter much which measuring device is used if there is a genuine and effective multilateral agreement to reduce protection to zero. On the other hand, if there is agreement only on some less ambitious target, then the measurement technique chosen may matter a great deal.

As noted, a key issue in using all these measures to fix, and to monitor progress towards, domestic support policy changes and more liberal trade arrangements is the question of which policy measures should be included in the measure-based obligation to reduce and remove assistance. One of the matters that is central to the BTNs and will become so in the MTNs is whether agricultural "stabilization" programs are trade distorting, and therefore countervailable in CAFTA and included in PSE-based MTN obligations. Most Canadian's would argue that programs of the type operated under the federal Agricultural Stabilization Act (including the tripartite variant), the Agricultural Products Board Act, and the Western Grains Stabilization Act have so small an effect on production and consumption as to be for all practical purposes trade-

neutral. They would therefore contend that payments under these programs should not be treated as countervailable subsidies in CAFTA or abandoned in the reform of agricultural policies under a GATT accord.

In testing this contention, first in the BTNs and subsequently in the MTNs, it will be imperative to be absolutely clear on the characteristics of these beneficial "stabilization" programs that differentiates them from trade-distorting "support" programs. First they are animated by the desire to enhance allocative efficiency by correcting for a pervasive failure of agricultural commodity markets -- dysfunctional instability-- and not by the wish to increase agricultural factor returns. Second, they provide low-slung economic safety nets to producers, and the levels of those safety nets are market-determined. Third, payments are sporadic and retrospective. Fourth, producers contribute a significant proportion of the monies required by stabilization funds, and over time these funds are expected to be actuarially sound. Finally, stabilization arrangements with these features are generally available to agricultural producers, albeit details can be tailored to the production and market characteristics of individual commodities. In short, the conception is not fundamentally different from that envisioned by the present U.S. Administration as being the modest stabilization role to be fulfilled by loan rates for the basic crops at the end of the term of the 1985 Food Security Act (Glaser 1986). If they could be devised, more general farm income insurance programs would be even more acceptable internationally since such schemes would be explicitly "decoupled" from commodity markets and production decisions.

A second Canadian contention made in the BTNs and likely to be

pressed in the MTNs is that national supply management programs that produce huge income transfers (as shown by large PSEs) may, nonetheless, not distort trade and may indeed contribute to international market stability. U.S. authorities will likely find merit in this argument since the U.S. will want negotiating credits in the MTNs for the set-aside, storage and diversion programs it operates for grains.

Technical Barriers

Agricultural technical regulations, standards and certification procedures as they apply, inter alia, to human, animal and plant health, product safety and deceptive practices are important impediments to trade in farm and food products. They are known to be on the agenda of the BTNs, and both the Uruguay Round Ministerial declaration and the U.S. negotiating proposal call for a reduction in the adverse effects on trade of phytosanitary regulations.

There is an obvious way to go about this task. The stages are, first, the articulation of a coherent set of principles that should guide the use of national regulations; second, the elimination of inherited trade-hindering regulations that no longer serve any useful technical purpose; and, third, the negotiated harmonization of separate national regulations and standards. This was precisely the process initiated in the Agreement on Technical Barriers to Trade negotiated in the Tokyo Round (GATT 1979).

The kind of principles that were spelled out in the 1979 Agreement are presumably equally applicable in the BTNs. They include commitments not to deliberately use technical regulations as concealed protection; to use transparent procedures in setting and enforcing regulations and

standards; to adopt existing international regulations and standards wherever feasible; and to accept equivalence in national inspection and certification procedures. Beyond that, it is necessary for national representatives to sit down together to identify and inventory all technical barriers to trade, to agree to remove those that are no longer required and, finally, to go as far as possible in harmonizing those regulations, standards and procedures that most seriously hinder trade.

Happily, this approach is being followed in the BTNs, and bilateral success will encourage similar endeavours in the MTNs.

The preliminary indications are that significant progress is being made in the BTNs in the area of animal and plant health regulations. This is very significant having regard to the fact that the two largest bilateral product flows are animals and red meats and fruits and vegetables. However, it is said that more difficulties are being encountered bilaterally in regulatory areas associated with food additives and residues and environment-related matters, and this may bode ill for the MTNs.

A bellwether test of the ability to make progress in the area of regulating trade barriers will be provided by the US request that Canada remove the technical barriers to trade in fruits and vegetables that have strong protective effects but no basis in health and safety concerns. These include restrictions on consignment selling, packaging, can sizes and bilingual labelling.

The US negotiating proposal for the MTNs states that ".... rules and procedures governing technical barriers to trade should be expanded to apply more explicitly to processes and production methods." This is

an expression of concern that the use of national food processing regulations in general, and on the design, equipage and operation of meat packing plants in particular should be subject to international disciplines.

State Trading

State trading agencies are proliferating on both the selling and the buying sides of markets for farm and food products (McCalla 1981). Their behaviour in the international trading system is not effectively channeled in market-oriented directions by Articles XI, XVI and XVII of the GATT, and the effects of their behaviour on commodity markets is poorly understood. Hathaway earlier pointed out that there cannot be truly open markets for agricultural products until the behaviour of such agencies is made more transparent and constrained by operationally effective international rules and disciplines (Hathaway 1983).

This matter has come up in the BTNs insofar as the US has expressed concerns over the licensing system operated by the Canadian Wheat Board for imports into Canada of wheat, oats and barley and their products (other than oats and barley for feed purposes) and the competitive practices of the Board in selling grains in third markets. Both topics - import restrictions operated by state trading agencies and the transparency of the behaviour of importing and exporting state and parastatal agencies -- will also be addressed in the MTNs.

It is not, however, apparent how the two sets of negotiations will interact. This is because there appears to be a disjuncture between the issues and the location of their discussion. Grain import licensing by

the CWB is clearly an issue for the BTNs, and is simply a component of the wider task of improving access to continental markets. The transparency of the CWB's behaviour (particularly with respect to pricing) in selling into the third markets is a subject that is neither easily nor properly confronted in bilateral negotiations — though US authorities are attempting to do so — and is best left to a wider accord in the MTNs.

Adherence to Agreements

An important problem perplexing negotiators in the BTNs is that of committing subordinate levels of government to observe agreements entered into by national authorities.

In Canada, jurisdiction over agriculture is divided between national and provincial governments. Moreover, the provinces have been extending the reach of their agricultural programs, particularly in the area of price and income support and stabilization. Many technical regulations and standards are set and policed by provincial governments. Also, Canada's trade in wines and other alcoholic beverages is much influenced by the procurement, margin and domestic content practices and regulations of provincial liquor monopolies. (US states generally have much less influence on agriculture and thereby on agricultural trade, but instances are readily found, particularly in the field of technical regulations). Given this situation, an important issue in the BTNs is how the government of Canada can provide assurances to the US that provincial authorities will not subvert and will observe specific provisions of a trade agreement.

There is a parallel problem in the MTNs. A large proportion of the contracting parties to the GATT are federal states. But the major problem is posed by the European Economic Community. The Community enters into trade agreements but the member states have a large influence over the observance and implementation of their provisions. Specifically in agriculture, the member states' national expenditures are about as large as Community expenditures on the Common Agricultural Policy (CAP), and the drift of the times seems to be toward "renationalizing the CAP." Furthermore, member states still have great influence over agriculture and food-related technical regulations which, as has been noted, can constitute effective barriers to trade.

This is obviously a problem common to the BTNs and MTNs, but how it is to be resolved and the nature of the interaction of the two sets of negotiations are not known to this author.

Institutional Arrangements

Another area of commonality between the BTNs and MTNs is the need to create institutions through which the process of liberalizing international trade in agriculture and reforming national agricultural policies can be managed. "Management" involves mechanisms for notification, consultation, harmonization, fact-finding, monitoring, confrontation, interpretation and dispute settlement on matters large and small.

Exploration of this topic is beyond the scope of this paper, but it seems appropriate to draw attention to two aspects of it that are of particular importance. First, the process of liberalizing agricultural trade by changing national agricultural policies and programs clearly

requires the creation of an on-going mechanism for monitoring fulfillment of negotiated obligations. Beyond that however, there is need for a mechanism by which countries can exercise a droit de regard over the purposes, parameters and instrumentation of their trade partners' agricultural policies and assess their compatibility with both legal obligations and consensual standards. Such a mechanism would foster the incorporation of other countries' interests into national decision making about agriculture and enhance the complementarity between national and international actions. Some kind of joint consultative committee on agriculture might emerge from the BTNs; in the MTNs the purpose might be served by strengthening and continuing the Committee on Trade in Agriculture. Secondly, there is an excellent chance that the BTNs might result in important innovations in the area of dispute settlement which might contain useful examples for the MTNs, albeit that the bilateral arrangements are likely to be far more ambitious than anything accomplishable in the GATT. Thus the BTNs may lead to a binational body with powers of binding arbitration on trade disputes. Developments in this direction could point the way towards badly-needed improvements in GATT's dispute settlement mechanisms and procedures (USDA 1985). Similarly, it is believed that Canada has proposed in the BTNs that important improvements in the application of the contingent protection provisions of national trade laws would be to set higher standards of proof of causality and injury, to require a higher de minimis level, and to accept the principle that countervailing duties should equal only the net differences in national subsidy levels. These are also developments that would strengthen the operation of the GATT system if embraced in the

MTNs, not least in trade in agriculture.

A Common Vision

It is apparent that the process of liberalizing continental and international trade in agriculture entails dismantling those components of domestic agricultural policies and accompanying trade arrangements which distort trade by changing national production and consumption (and thereby net import requirements and net export availabilities) and the competitive relationship between domestic and foreign producers. Canada and the US are committed to this course in both sets of negotiations, albeit that the US appears willing to go further and faster than Canada.

The corollary of abandoning the trade distorting program elements in agricultural policies will be the emergence of a residual set of programs that are nationally beneficial and yet internationally acceptable because they do not distort (though they may in the long term affect) production, consumption and trade. The final suggestion to be made here is that it would be internationally and domestically useful to jointly identify an acceptable agricultural program set for countries with modern agrifood sectors. In bilateral negotiating terms, this exercise would help meet the Canadian need for clarification of what constitutes a countervailable subsidy. In terms of the MTNs, it would help establish what should be included in calculated PSEs and PSE-based obligations. Also, it would go some way towards the intention expressed in the Punta del Este declaration to consider "basic principles to govern world trade in agriculture" (GATT 1986).

Candidate components of such a policy set include the provision of

public goods (research, extension, education, market intelligence, grading and inspection services, health and safety standards, physical infrastructure, etc.); development programs (commercial diplomacy, market development, development cooperation, resource and rural development, etc.); programs that correct for market failures (producers' marketing organizations, market-neutral stabilization programs, resource conservation, etc.); and such other programs as adjustment assistance and decoupled rural social income payments.

The specification of such an internationally acceptable national agricultural program set would also help governments domestically in dealing with their farmer constituents in the course of moving public agrifood policies in more market- and trade-oriented directions. And, in the final analysis, this is the central common task that links the bilateral and multilateral agricultural negotiations.

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