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# Liberalizing Agricultural Trade: Will It Ever Be a Reality?

Alex F. McCalla

The World Trade Organization (WTO) Agreement on Agriculture was signed in June 1994. It accomplished two things: it brought agricultural trade under the rules of WTO, and it set schedules for reducing barriers to trade under the three pillars of liberalization—market access, export assistance, and domestic support. Nine years later there has been precious little liberalization. The new Doha Round has ambitious objectives for agricultural trade liberalization. However, given recent behavior by rich developed countries, it seems unlikely that developing countries will get increased access to Northern markets or reduced competition from subsidized exports, despite their now representing a majority of WTO members.

*Key words:* agricultural trade, barriers, distortions, improved access, liberalization, policy, protection, WTO

## Introduction

Nine years ago, the American Agricultural Economics Association Fellows Lecture had the title of “Agricultural Trade Liberalization: The Ever-Elusive Grail” (McCalla 1993). The lecture was presented prior to the ending of the Uruguay Round of General Agreement on Tariffs and Trade (GATT) negotiations (1986–1994). The round was already in its third year of delay beyond the 1990 target date of completion. The delay was caused by an acrimonious standoff on agricultural trade between the United States and the European Union (EU). The Cairns Group<sup>1</sup> of agricultural exporters was an aggressive ally of the United States, pushing to bring agriculture under the rules of GATT and to start the process of liberalizing agricultural trade. The Fellows Lecture was pessimistic because it was expected that another last-minute postponement of an agriculture agreement would occur (as had happened in the previous two rounds—Kennedy and Tokyo), in order for agreement to be reached on other issues under negotiation.

An agreement was finally reached on December 15, 1993, the last day of United States “Fast Track” Authorization, and the treaty was signed in Marrakech, Morocco, in June of 1994. The treaty created the World Trade Organization (WTO) and formalized the Uruguay Round Agreement on Agriculture (URAA). Ex post, friends chided the author mercilessly on how badly he had missed the boat in terms of his pessimism. But was

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<sup>1</sup>Original Cairns Group members were: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, The Philippines, Thailand, and Uruguay (14). Current members are: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, The Philippines, South Africa, Thailand, and Uruguay (18).

**Table 1. Selected World Merchandise Exports by Product Value (2001) and Shares (1990 and 2001)**

Exports	Product Value (US\$ billions)	Product Share (%)	
	2001	1990	2001
All Products	5,984	100.0	100.0
Agricultural Products	547	12.2	9.1
Textiles	147	3.1	2.5
Clothing	195	3.2	3.3
Total Agriculture, Textiles, and Clothing:	889	18.5	14.9

Source: World Trade Organization, "International Trade Statistics, 2002," IV: "Trade by Sector."

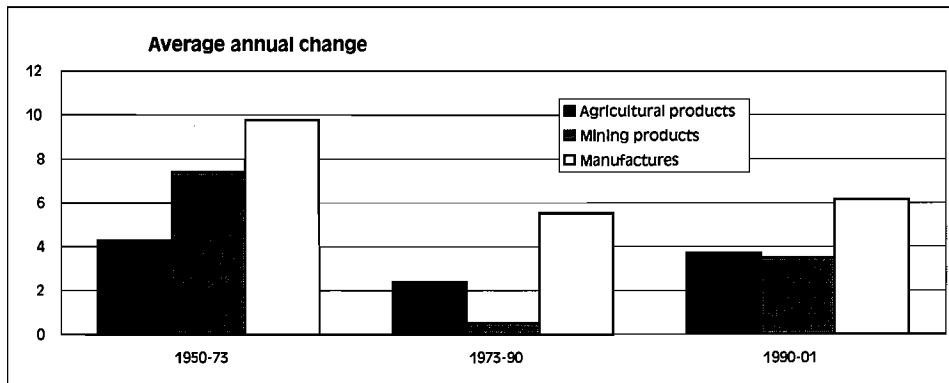
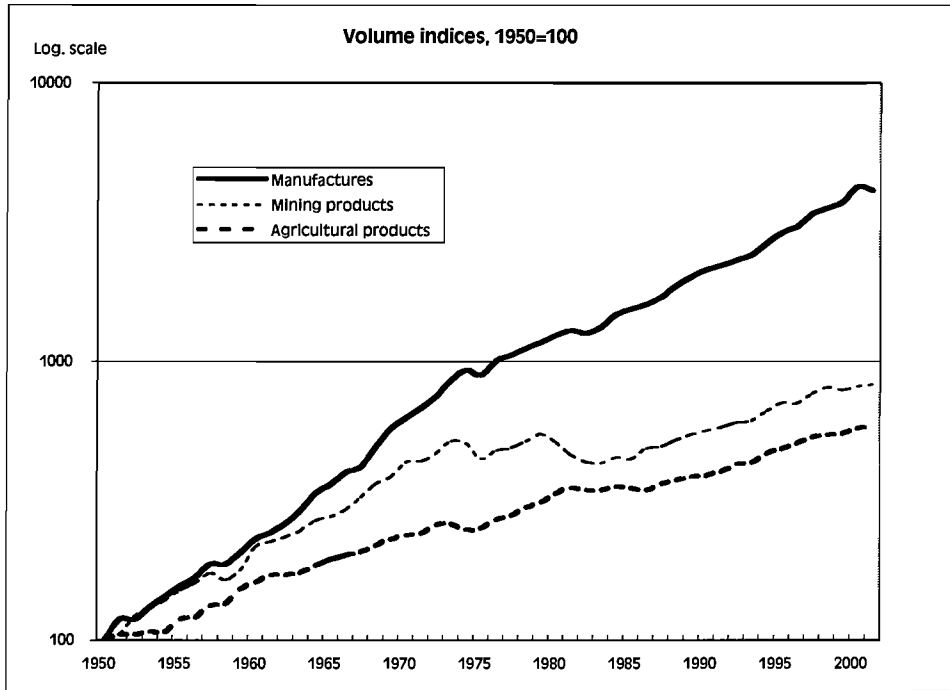
pessimism a mistake? Nine years later, despite the Agreement, there has been precious little agricultural trade liberalization. The new Round of Negotiations, the Doha Round, is proceeding slowly, still trying to recover from the disaster in Seattle in November of 1999. And the major force for liberalization in the last round—the United States—has just passed a decidedly illiberal, expensive, and trade-distorting Farm Bill which, in most people's judgment, has made the United States an impotent hypocrite, never to be listened to again.

So why should the topic be visited again, one might ask? Agricultural trade, as detailed below, is a small (<10%) and diminishing part of world trade. The major exporters are rich countries that can afford to pamper their declining numbers of larger and larger farmers. Further agricultural trade liberalization has always been a stumbling block for a more liberal order. So why not say forget it, let the rich boys play in their subsidized playhouses while we get on with the other 90%?

This would be a bad idea for three reasons. First, the rest of trade—mostly manufactures and processed products—is already substantially liberalized. The impact on global growth, which was very substantial over the past 50 years for the Organization for Economic Cooperation and Development (OECD), and other middle-income countries, has already occurred. Even though agriculture is a small part of trade, it is so distorted that liberalizing it would bring results almost as large as further reducing manufacturing tariffs (Stiglitz; Hertel and Martin). If one throws in textiles and clothing, an additional piece of the trade, equally distorted, the potential exists for real gains from liberalization.

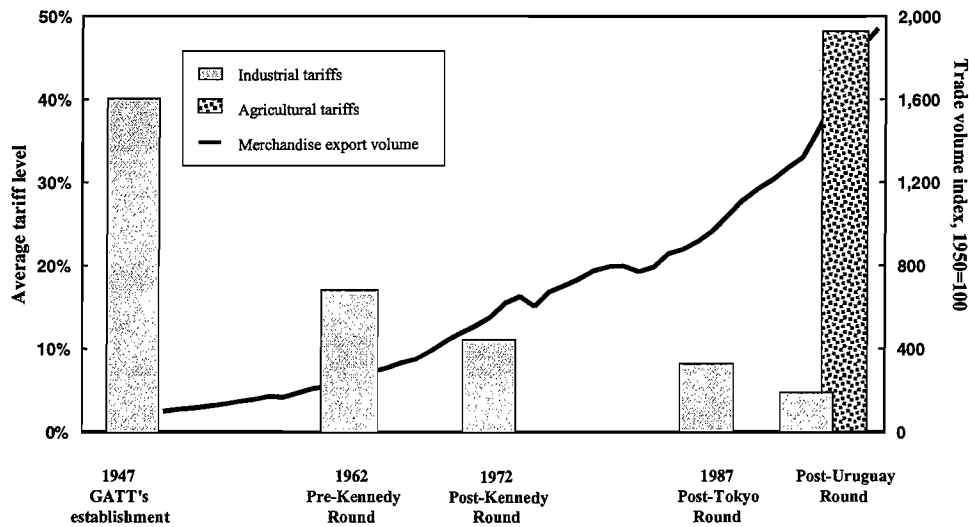
Table 1 shows the relative importance of agriculture, textiles, and clothing trade in 1990 and 2001. In 1990, these exports represented nearly 19% of trade, but declined to 15% in 2001. In 1960, agricultural trade alone accounted for 25% of world merchandise trade. Therefore, reason number one for revisiting this topic is that the potential gains from liberalization of agricultural (and textile) trade are substantial compared to further liberalization of manufactures. Figure 1 shows clearly how growth in manufacturing trade has been substantially faster than agricultural trade over the period 1950–2000. The general consensus is that the reduction of industrial tariffs, from an average of 40% in 1947 (GATT's founding) to a level averaging less than 5% in 2000, has contributed to the rapid rise in the volume of manufactures trade.

Figure 2, reproduced from a 2002 OECD report, confirms this growth. It also shows that agricultural tariffs post-Uruguay Round approach 50%, far exceeding what industrial



Source: World Trade Organization, "International Trade Statistics, 2002," II: "Selected Long-Term Trends."

**Figure 1. World merchandise trade by major product group, 1950–2000**



Source: Organization for Economic Cooperation and Development (OECD), "Agricultural Policies in OECD Countries: A Positive Reform Agenda" (November 6, 2002).

**Figure 2. Tariffs and the growth of international trade**

tariffs were in 1947. Thus the scope for gains from liberalization are high because agricultural tariffs are very high, even though volume is smaller and declining.

The OECD has recently summarized the results of several model runs which compute global welfare gains from agricultural trade liberalization, concluding:

First, the potential gains from agricultural trade reform are large. Second, agriculture accounts for a substantial share of the total potential gains from economy-wide trade reforms. Third, most countries are likely to benefit.... Fourth, developing countries would be major beneficiaries... (OECD 2002, p. 16).

The second reason for continued focus on agricultural trade liberalization, as noted above by OECD, is that the major beneficiaries of liberalization would be poor developing countries, the very countries OECD and others target with poverty assistance aid. If developing countries are to grow out of poverty, markets for the primary products and their derivatives are absolutely critical. Access to rich country markets for rural products, the majority of output in poor countries, is essential to their development (McCalla 2001). Certainly, post 9/11, the focus on reducing poverty and eliminating the terrorism incubator of hopelessness and deprivation is higher on the global agenda. Poor countries are still predominately agricultural, and agricultural trade is an effective avenue to growth and poverty reduction.

The third reason for sustaining interest in this topic is that the monetary stakes are large. To quote the President of the World Bank, James D. Wolfensohn:

Rich countries must also take action to cut agricultural subsidies—subsidies that rob poor countries of markets for their products. Farm support goes mainly to a relatively small number of agribusinesses, many of them large corporations, and yet those subsidies of \$350 billion a year are *six* times what rich countries provide in foreign aid to a developing

world of close to 5 billion people.... Yes, there are powerful political lobbies aligned against action. But the fundamental truth here is that agricultural subsidies constitute a heavy burden on the citizens of developing countries and a barrier to primary commodity producers in the developing world (Wolfensohn).

Table 2 documents Wolfensohn's case with selected statistics since 1985. For all OECD countries in 2001, support to agriculture was US\$311 billion, while Official Development Assistance (ODA) was US\$50.6 billion, or 16.3%. Component numbers for Japan, the European Union, and the United States are reported. For OECD countries collectively, ODA was 10.7% of farm support in the middle 1980s, and has hovered between 16% and 18% in the 1990s and early 2000s. Table 2 also shows that the United States has consistently had the worst performance when compared to Japan and the EU, with ODA being 10% ( $\pm 2\%$ ) of spending on farm supports. Think of the potential benefits of \$300 billion a year in aid, compared to the current \$50 billion.

The above discussion seems to suggest that agricultural trade liberalization may be a topic of even greater importance now than it was nine years ago. Therefore, let us proceed with the analysis. The paper is organized as follows. First, it reviews very briefly the history of agricultural trade liberalization and its particularly torturous history in GATT and WTO. Second, it reminds us of what was agreed to in Marrakech on two fronts—bringing agriculture under the normal rules of trade, and reducing agricultural trade distortions. Third, it evaluates what progress has been made on liberalization since 1994. Fourth, the paper looks at the current positions of the major players, because trade liberalization has always proceeded better when it has had hegemonic leadership. This will lead to an exploration of the potentially severe negative consequences of the U.S. Farm Security and Rural Investment (FSRI) Act of 2002. Finally, the paper closes by revisiting the question posed in the title: Will agricultural trade liberalization ever be a reality?

### **A Little Bit of History**

The paper begins with a wee bit of history. If readers want more, they can look at some of the author's earlier work (McCalla 1969, 1993). The last vestiges of mercantilism were wiped away by the repeal of the Corn Laws and the Navigation Acts in the 1840s and by 1860, the United Kingdom was pushing toward freer trade. This ushered in the so-called "Golden Era of Free Trade" (1870–1914). Agricultural protection was initially reduced, but as grain prices fell in the 1870s, because of rapid increases in grain imports from the newly settled areas, many European countries began increasing agricultural protection again. Thus, while general trade was being liberalized, agricultural trade liberalization lagged or even retrogressed. In the post-World War I period, a rapid fall in agricultural prices made agriculture the leading sector in increasing protection. We all know what happened in the 1930s.

Plans for better managing of the international economy, post-World War II, began with the Bretton Woods Conference of 1944, which created the International Monetary Fund and the World Bank, and ended in 1948 with the establishment of the General Agreement on Tariffs and Trade (GATT). GATT emerged after attempts to create the International Trade Organization (ITO) in Havana failed in 1947. The ITO never made it, in part, because the United States was unwilling to put agricultural trade quotas on

**Table 2. Farm Subsidies vs. Official Development Assistance, Selected Years 1985/86–2001**

<b>PANEL A. Support to Agriculture: Total Support Estimates (TSEs) (US\$ billions)<sup>a</sup></b>						
Description	1986–88	1994	1995	1999	2000	2001
OECD–All	302.1	335.0	336.0	356.6	321.1	311.0
European Union (UE)	109.6	131.1	145.0	129.8	102.4	105.6
Japan	58.1	90.0	92.0	67.0	68.2	59.1
USA	68.5	77.0	75.0	99.0	92.1	95.3
<b>PANEL B. Net Official Development Assistance (ODA): Development Assistance Committee (DAC), OECD Countries (US\$ billions)<sup>b</sup></b>						
Description	1985/86	1994	1995	1999	2000	2001
OECD/DAC	32.3	59.1	58.9	56.4	53.7	50.6
EU and Members	14.6	30.4	31.4	26.8	25.3	29.4
Japan	4.7	13.2	14.5	15.3	13.5	9.8
USA	9.4	9.9	7.3	9.1	9.9	11.4
<b>PANEL C. Official Development Assistance (ODA) as a Percentage of Total Support Estimate (TSE) (%)</b>						
Description	1986–88	1994	1995	1999	2000	2001
OECD/DAC	10.7	17.6	17.5	15.8	16.7	16.3
EU and Members	13.3	23.2	21.6	20.6	24.7	27.8
Japan	8.1	14.7	15.8	22.8	19.8	16.6
USA	13.7	12.8	9.7	9.2	10.8	12.0

<sup>a</sup> Source: Organization of Economic Cooperation and Development (OECD), *Agricultural Policies in OECD Countries: Monitoring and Evaluation, 2002* (and earlier issues).

<sup>b</sup> Sources: OECD, "2002 Development Cooperation Report," Statistical Annex, Tables 2 and 4; and The World Bank, "World Development Indicators, 2002" (also 2001).

the table. Therefore, GATT, from the beginning, had exceptions for agricultural quantitative restrictions and internal and export subsidies, at the insistence of the United States.

Agricultural trade was so contentious it was left off the agenda of the first four rounds of GATT negotiations (1947, 1949, 1951, and 1956). It was on the agenda for the fifth (the Dillon Round, 1960–61) which was limited to the trade implications of the emerging European Economic Community (EEC), but little beyond binding oilseed tariffs was accomplished for agriculture. In both of the next two rounds—Kennedy, 1964–67, and Tokyo, 1973–79—the United States insisted that progress in agriculture was a prerequisite to concessions in other areas. And in both rounds, agriculture negotiations deadlocked and agriculture was eventually pulled from the table so something could be accomplished in other areas.

### What Was Accomplished in the Uruguay Round?

Based on the frustrating stalemates of the earlier Kennedy and Tokyo Rounds, when the Uruguay Round began in 1986, the United States, plus the newly established Cairns Group of agricultural exporters (McCalla 1993, p. 1105), insisted on progress in

agriculture toward “*substantial progressive reduction in agricultural support and protection...*” As we know, the conclusion of the round, scheduled for December 1990, was delayed three years before an agricultural agreement was hammered out. It became the Uruguay Round Agreement on Agriculture (URAA), and was embedded into the new World Trade Organization (WTO).

The URAA consisted of two parts. The first brought agriculture under the rules of the old GATT, and the new WTO. Agricultural trade, through the many exceptions in GATT, was heavily burdened by quantitative restrictions (QRs)—quotas, variable levies, prohibitions, licensing requirements, and state trading, to name a few. Export subsidies were widely used and sanitary and phyto-sanitary regulations were weak. Part One of the URAA required that all quantitative restrictions be converted to tariffs and be bound (binding is a commitment not to increase rates in the future), and it banned future QRs. Export subsidies were to be reduced and eventually eliminated. Domestic support for agriculture was permitted, provided it wasn’t trade distorting, i.e., was “decoupled.” And a new protocol for Sanitary and Phyto-Sanitary (SPS) standards, based on real science, was adopted. In one Agreement, it seemed the rogue outlier—agriculture—had been caught, reformed, and integrated into the mainstream of civilized trade behavior. A major accomplishment indeed, if true.

However, simply bringing agriculture under the rules would not bring liberalization unless tariffs, once established, were significantly reduced, export subsidies were actually cut, and domestic support truly decoupled. Thus, the second part of the URAA was something equally new, attempting to actually liberalize agricultural trade. However, the targets set for the so-called three pillars of the agreement—market access, domestic support, and export assistance—were not very onerous, and countries have been very innovative in how they have implemented their commitments. What was agreed is well known:

- *Market Access.* All non-tariff barriers were to be converted to tariffs and reduced by an average of 36% over six years, with each tariff line being reduced by a minimum of 15%. If a country refused to convert a quota, a minimum access requirement of 4%, rising to 8%, over six years was required. Otherwise, a minimum access of 3%, rising to 5%, was required for all products. The implementation mechanism became the tariff-rate quota (TRQ), which specifies a lower tariff for the access amount and a much higher tariff for amounts beyond the minimum.
- *Domestic Support.* Domestic distorting interventions of all sorts were to be included in a calculated aggregate measure of support (AMS) and reduced 20% over a six-year period (1995–2001). Certain types of generic and non-distorting assistance were permitted (so-called Green Box); direct payments, if decoupled, were tolerated (Blue Box), but all others were to be reduced and, hopefully, eliminated (Amber Box).
- *Export Assistance.* Export subsidy expenditures were to be reduced by 36% over six years, and the volume of subsidized exports was to be reduced 21%. Food aid was exempt, and export credits and state trading were not addressed.

All of the commitments listed above were for developed countries; commitments for developing countries involved lesser targets and a longer implementation period. Implementation of the targets was left to the individual countries, with some general



guidelines, which, it has turned out, permitted creative interpretation. In sum, countries could behave very differently and still comply with “the rules of the game.”

So the bottom line on accomplishments of the Uruguay Round can be characterized as significant progress in bringing agriculture under the discipline of WTO rules, but very little actual reduction in protection that would force countries to mend their protectionist ways and liberalize trade.

### **“Progress” Since Marrakech**

A quick review of what has happened since Marrakech is useful.

#### *Market Access*

As noted, countries had considerable latitude in how they converted QRs to tariffs, with the predictable result that small quotas or prohibitions frequently were converted to very high tariffs. Tariff peaks of 100% or 200% or even over 300% were not uncommon. Lawrence MacDonald of the World Bank presents several examples of tariff peaks: EU beef (195%), EU butter (161%), EU wheat (106%), Japan sugar (106%), Japan wine (84%), USA ground nuts (121%), and USA preserved fruit and nuts (114%). Canadian butter tariffs are reputed to be among the highest at over 350%. Developing countries which had few QRs and often no tariffs (they regulated by licenses or state trading) could basically choose any tariff level to bind. Many chose high binding, which then allowed them to vary effective tariffs below the binding, just like the recently outlawed variable levy. Others bound their tariffs low in keeping with the spirit of liberalization (Valdes and McCalla).

The following conclusion is reported in an excellent International Agricultural Trade Research Consortium (IATRC) commissioned paper:

Duties on farm products remain very high, despite UR commitments to reduce agricultural tariffs. The global average of maximum permitted post-UR tariffs is 62%. By the end of 1999, 1,371 Tariff Rate Quotas (TRQs) ... had been notified to the WTO covering a wide variety of both bulk and processed products (IATRC 2001b, p. iii).

The bottom line is that protection rates in agriculture remain high, and through creative uses of high bindings and variable actual tariffs, as well as TRQs, countries can still effectively manage the volume of trade, i.e., a virtual quantitative restriction which supposedly was outlawed. Finally, it should be noted that when all else fails, charges of dumping can be made, followed by the application of countervailing duties. This has become a more common practice. Agricultural protectionism is alive and well.

#### *Domestic Support*

The requirements to reduce domestic support were not onerous in the first place. In addition, the creation of the “Blue Box” for decoupled direct payments, not subject to reduction requirements, was a huge loophole for both the United States and the EU. As a result, the creative classification of policy and policy payments allowed most countries to meet their AMS reduction requirements easily. In fact, with falling prices after 1997, most countries could increase support, as did the United States in its 2002 Farm Bill, and still claim to be within WTO imposed limits.

Domestic support is concentrated in a few countries (IATRC 2001a). In the EU, the MacSherry reforms of the early 1990s shifted support from artificially high market prices to direct “decoupled” payments (Blue Box). EU support prices will be further lowered over time under Agenda 2000. The U.S. Freedom to Farm Act (FAIR) of 1996 decoupled direct payments and was supposed to phase out direct payments over the life of the Bill (by 2002). Of course, that never happened, as falling grain and oilseed prices triggered escalating bail-out payments in 1998–2001, which were in excess of US\$50 billion higher than levels prevailing in the middle 1990s. To make matters worse, the 2002 Farm Bill increased support authorization by more than US\$70 billion by making temporary relief payments regular.

There are indeed very few examples of rich developed countries actually reducing domestic support. One of these would be the Canadian abolition of export grain transportation subsidies. Other Cairns Group developed country exporters like Australia and New Zealand abided by the spirit of Marrakech and further reduced their domestic support to very low levels.

But the bottom line, overall, is that for the big spenders—the United States, the European Union, and Japan—the Uruguay Round Agreement on Agriculture has not been a constraint to doing what they want to do.

### *Export Assistance*

The story on export assistance is similar. According to the IATRC:

Export subsidies are still widespread. Between 1995 and 1998, WTO members spent over US\$27 billion subsidizing exports. Global expenditures on export subsidies by WTO members have been greatest for dairy products—accounting for 34% of the total 1995–1998. Officially supported export credits [not limited by the Agreement] can also act as subsidies if the terms of the loans are more favorable than those available privately. The use of export credits increased from \$5.5 billion in 1995 to \$7.9 billion in 1998 (IATRC 2001b, p. iii).

Export subsidies are most heavily used by the EU. Their recently proposed reforms would further reduce internal prices and reduce the needed magnitude of export subsidies. It appears that in the EU the export subsidy limit was binding on a few commodities (Anania), but, in general, the Agricultural Agreement has not been very effective in moving toward the stated objectives of eliminating export subsidies.

### *Troubling New Developments*

Overall, the results confirming actual liberalization are limited, and some of the outcomes seem, in fact, to go in the opposite direction. There are two examples worthy of mention. The first is the issue of decoupling. It is now increasingly understood that there are no truly decoupled policies (OECD 2000). Even payments based on historical area planted, or historic animal inventories, have impacts on wealth positions of farmers and clearly reduce incentives to leave agriculture. While some changes in policy, such as the EU reform in Agenda 2000, may reduce direct linkages between payments and incentives to expand production, it is not clear the EU reform represents a major change in production incentives. A recent U.S. Department of Agriculture (USDA) study

simulates impacts of a permanent program of decoupled payments, and finds “decoupled Production Flexibility Contracts (PFCs) would have a negligible impact on agricultural investment and production in the long run...” (USDA, p. iii). Thus, the evidence is still mixed on the quantitative impacts of “decoupled” payments, but it is clear they are not trade neutral.

The second unexpected outcome has come from the invention and expanding use of the tariff-rate quota (TRQ). One of the “breakthroughs” touted in the URAA was the establishment of commitments by countries with closed markets to provide “minimum access.” The accepted instrument to implement this requirement was a two-tiered tariff system, where a low “in-quota” rate was applied to the quantity needed to meet minimum access requirements, while a higher (very high) Most-Favored-Nation (MFN) tariff would apply to “out-of-quota” imports. While the initial focus of the debate was on rice imports into Japan, Korea, and Taiwan, use of the TRQs has multiplied as nations have discovered that with the second-tier tariff high enough, it works as well as a quota. Further, if the transactions costs of accessing the low tariff are high enough, even the minimum required level can be prevented from being imported.

Abbott reports that as of 2000, the WTO had been notified of TRQ adoption by 37 countries for 1,371 goods. Of the 37 members using TRQs, 17 are developing countries who applied 305 TRQs. The remaining 1,066 TRQs are applied by 20 developed and transition (Eastern European) countries (note, included in that 20, the 15 members of EU are counted as one country). Thus, the first point is that this is an instrument seized upon more by rich countries; Norway alone reported 232 quotas, and 11 countries use more than 50 quotas, with all but one being developed countries.

Second, countries have adopted a wide variety of administrative means to allocate within-quota access. The most recent analysis from WTO suggests the average fill rate (percentage of the “in-quota” amount, actually imported) is less than two-thirds and is declining—i.e., it was 66% in 1995 and only 44% in 2000 (WTO 2001). So the second conclusion is that this device, by increasing transactions costs, allows countries to be more protective than they committed to under the URAA.

Third, countries joining WTO after the URAA was signed, frequently opt to use TRQs as a preferred means of protection. For example, China is using TRQs extensively. Analysis by Anderson, Huang, and Ianchovichina shows a mixed outcome. For several commodities—rice, vegetables, fruits, and meats—China is adopting “in-quota” tariffs designed to switch China from taxing these products to protecting them. On the other hand, for some other commodities—wheat, coarse grains, oilseeds, sugar, and milk—the “in-quota” tariff adopted significantly reduces historic nominal protection on these goods. However, the 2007 “out-of-quota” tariff proposed for all of the noted commodities is above previous levels of nominal protection, except for oilseeds and milk. Thus, the China story is mixed, but the general trend seems to be moving away from taxing agriculture toward modest protection at least at the in-quota tariff rate.

Despite the apparent proliferation of tariff-rate quotas, they still cover only a small fraction of trade. As claimed by Abbott, the 4,993 tariff lines covered (1,371 goods, some with multiple tariff lines) constitute only 23% of the tariff lines of the countries that have adopted them, and “only 6% of tariff lines for all agricultural goods for all WTO members” (Abbott, p. 118). Nevertheless, they are a distinctly illiberal device which has grown out of a legitimate attempt to improve market access. They have been used mainly by developed countries (Abbott and Morse).

*The Last Word*

Overall progress since Marrakech in achieving “substantial progressive reduction in agricultural support and protection” is limited, if, in fact, there is any at all. Further, the developed countries are persistent in continuing existing measures and embracing new ones (e.g., TRQs). Developing countries have adopted a mixed bag of tariff levels (Valdes and McCalla).

**Current Positions of the Major Players**

One of the other provisions of the Uruguay Round Agreement on Agriculture was that negotiations were to reopen after six years (in 2000) to evaluate progress toward actual liberalization and to push forward with further significant cuts in protection. Despite the debacle in Seattle in November of 1999, technical agricultural negotiations, as a continuation of the Uruguay Round, began in 2000 and were proceeding slowly even before the Doha Ministerial Declaration in November 2001. The Doha Declaration formally focused agricultural negotiators on having comprehensive draft commitments by the end of 2003 and a final agreement by January 1, 2005.

So who will be the major players this time around? Since the WTO was formally created in 1995, membership has increased steadily and now approaches 150 members, the majority of whom are developing countries. They have substantial interests in agricultural trade liberalization. Of course, the Cairns Group is still very active and more strident than ever, with most of its guns focused on its old ally, the United States. But whether the Cairns Group can snatch the leadership role is open to question.

More likely, the old vestiges of GATT, where negotiations began bilaterally between the largest players, will not disappear. Thus, the positions taken by the two largest traders, the United States and the European Union, will be crucial. It is worth noting that historically trade liberalization has always been led by a large and powerful champion—in international relations terms—a hegemonic leader. Britain forced freer trade on the world from 1850 to 1914. She tried to reassume leadership in the 1920s, but quickly retreated to beggar-my-neighbor policies in the 1930s. The United States missed an opportunity to assume the mantle when it passed the Smoot-Hawley Tariff in 1930. The absence of a powerful advocate for free international commerce contributed to the economic chaos of the 1930s.

In the post-World War II period, the United States emerged as a world economic power and, except in agriculture, became a global advocate of freer trade, offering concessions in return for others opening their markets. The reductions in manufacturing trade barriers over the last 50 years have been remarkable and have contributed significantly to global growth, as noted earlier.

Agriculture did not really get on the GATT agenda until the United States, emerging in the post-war period as a major agricultural exporter, attempted to exercise hegemonic leadership in the 1960s. But in fact, it wasn't until the Uruguay Round, when the United States took an “all-or-nothing stand,” that an agreement was finally reached. Since Marrakech, the United States has continued its rhetorical offensive in favor of agricultural trade liberalization, but domestic policy behavior increasingly moved in the other direction.

So who will be the real champion of agricultural trade liberalization in the Doha Round? Will the Cairns Group emerge in partnership with developing countries? It is unlikely to be the EU, and certainly won't be Japan. The EU is committed to implement Agenda 2000 through 2006, which phases down support prices over time. Recently, the EU Agriculture Commissioner, Franz Fischler, has outlined a more radical reform which would sever the link between subsidies and commodity production and switch to a single payment linked to past payments, not current production. France, the largest beneficiary from the Common Agriculture Policy (CAP), is, as is predictable, opposed. But clearly the signal is that the EU is moving toward a nearly completely decoupled farm policy. This is not driven, of course, by a philosophical commitment to free trade. The driving force for change is the prospective escalation in budgetary costs of the CAP if it is not changed before EU expansion into Eastern Europe. While not yet a reality, these developments likely portend less resistance from the EU to movements to liberalize trade.

And what about the United States? The U.S. Trade Representative continues to press, as he did at Doha, for further agricultural trade liberalization. In fact, the United States position came out July 24, 2002. It called for the elimination of export subsidies over five years, new rules on state trading and export credits, and the outlawing of export taxes. Tariffs, using the Swiss formula to reduce tariff peaks, should be cut so that no tariff line exceeds 25% after five years. TRQs are to be expanded by 20% and the Special Safeguard eliminated. On domestic support, a cap of 5% of total value of production is proposed (U.S. Office of Special Trade Representative). The rhetoric is not dissimilar to that of the United States during, and since, the Uruguay Round.

But getting anyone to believe the U.S. Trade Representative is made immeasurably more difficult by the recent passage of the 2002 Farm Bill, which made permanent the ad hoc payments that escalated from 1998 on as farm prices fell. Further, the Bill re-couples payments by basing payments on current (or most recent) production rather than historical bases, and it re-ties payment to commodity production. It commits to spending in excess of US\$170 billion on agricultural support over the next five years, reinstates previously abandoned programs for honey, mohair, and peanuts, and it potentially expands commodity coverage. No matter how it is viewed, the 2002 Farm Bill is illiberal in terms of trade, is expensive, and is potentially production expanding, i.e., is clearly *not* decoupled. It is perfect fodder for the Cairns Group and other developing countries to attack the United States, and it even makes the EU look better in terms of agricultural protection.

EU Agriculture Commissioner Fischler lost little time in sticking the needle in. He was quoted in the *New York Times* as declaring:

It would be fundamentally wrong to use the deplorable Farm Bill as a pretext for following the American lead in returning to *stone-age, trade-distorting agricultural policies* [emphasis added] (*New York Times*, July 10, 2002; online at [www.nytimes.com](http://www.nytimes.com)).

#### *Why Is the 2002 Farm Bill Such a Problem?*

The author has been in the business of studying agricultural policies and international trade for a long time. Never has he seen a firestorm of criticism such as that fomented by the U.S. Farm Security and Rural Investment Act of 2002. Ann Tutwiler, President of the International Policy Council on Agriculture, Food, and Trade, quotes a trade negotiator in Geneva as saying:

The U.S. Farm Bill has taken away U.S. leadership on trade reform and trade liberalization and it is the European Union that has the good story to tell.

Tutwiler goes on discussing the U.S. Farm Bill, stating it would:

... nearly double the assistance to United States agriculture over the next ten years. The signal this sends to the rest of the world is unmistakable: The United States is not serious about agricultural trade reforms and it is not serious about agricultural development in less developed countries (Tutwiler).

A lead article in the *New York Times* by Elizabeth Becker begins as follows:

Less than one month after President Bush signed the new farm bill, agriculture has leaped from the back waters of diplomacy to near the top of the list of international complaints against the United States (*New York Times*, June 15, 2002; online at [www.nytimes.com](http://www.nytimes.com)).

Laura Tyson, Business School Dean and former chair of the U.S. Council of Economic Advisers, titles her June 2002 *Business Week* article “The Farm Bill is a \$200 Billion Disaster.” In the article, she argues:

This about-face has dealt a severe blow to American credibility around the world. Less than six months ago at trade talks in Qatar, Washington promised that phasing out agricultural subsidies and improving access for agricultural exports from developing countries to the United States and Europe would be priorities for a new round of multilateral trade negotiations.... The new farm bill threatens to kill the negotiations before they have even begun (Tyson).

Paul Krugman has had a field day with the Farm Bill. Even Dave Berry, the urbane humor columnist for the *Miami Herald*, lampooned the Bill under the title “The Farm Security Act: Making America Safe for Mohair” (*Sacramento Bee*, June 23, 2002; online at [sacbee.com](http://sacbee.com)).<sup>2</sup>

Fifteen World Food Prize Winners have blasted the Farm Bill indirectly, as have various spokespersons for the World Bank. Many academic colleagues, like Sumner; Mussel, Mayer, and Martin; and Pinstrip-Andersen, have pointed out that the United States has lost its high ground as a leader for liberalization. Likewise, cartoonists have seized the opportunity to critique through humor—three illustrations can be seen on the author’s website.<sup>3</sup> But the true coup d’ grace was that Gary Trudeau devoted a full week of *Doonesbury* cartoons to lambasting the Farm Bill. The author’s favorite—Mother Goose and Grimm—also got into the act with a subsidized ant farm.<sup>4</sup>

But, you ask, why does it matter? Liberalizing trade, especially agricultural trade, is not easy and it surely creates losers as well as winners. The stakes are large and the path is difficult. It requires political courage. It requires a leader, or champion, who can both lead by example and be able to put real negotiating chips on the table. The United States played that role in the Uruguay Round and progress was made. The United States followed up with the FAIR Act in 1996, which further decoupled support and over time

<sup>2</sup> The Berry article can also be accessed online at the author’s website, <http://agtrade.ucdavis.edu>.

<sup>3</sup> See footnote 2, above.

<sup>4</sup> Refer to the author’s website (see footnote 2).

intended to phase out income transfers to agriculture. The United States had the high ground and was leading, not only in terms of rhetoric, but with real policy action. The subsequent behavior of both Democrats and Republicans eroded these successes.

The 1996 Farm Bill was passed in a period of high and rising prices. In such a setting, it seemed easy to say, "Let the market take care of agriculture." Farmers, of course, were smarter. They went along in the short term because high prices and high direct payments were a nice package. Farmers knew if things "went to hell in a hand basket," Congress and the Administration would bail them out, as they have consistently done for the past 70 years. Farmers believe in rational political expectations, to the hilt.

When prices started to crash in 1998 and continued down for the next three years, a Democratic Administration and a Republican Congress, sitting on a building budgetary surplus, fell all over themselves to pass out more goodies. After three years of steadily increasing handouts to farmers, and a prolonged agricultural recession, Congress decided to make the largesse permanent for at least five years, and the President agreed. The 2002 Farm Bill therefore regularizes payment increases in a transparent way instead of the annual uncertainty that prevailed before. Nevertheless, the signing of the 2002 Farm Bill made the United States' continued leadership toward freer agricultural trade something of a mockery.

### **So Will We Ever Get There?**

So what happens next? Will we ever get to a market-oriented agricultural policy and freely functioning international agricultural markets? To answer this question, the author first went back and reread his article from 1993. It was shocking to find that what was said then was exactly what needed to be said now, nine years later. It appears the prognosis was generally good. Quoting at length from the 1993 lecture:

So agriculture in all likelihood will remain a highly protected sector in rich countries. Its economic importance, already small, will be further diminished by these inward-looking policies. But politicians seem unwilling to risk incurring the wrath of a vocal, well organized, and relatively wealthy minority when those who would benefit from liberalization won't come running to the politicians' defense. Politicians must see it as a negative sum game.

So in the end, whether an agricultural agreement comes out of GATT [substitute Doha] or not, it probably won't make a lot of difference to developed countries who subsidize their agriculture. That outcome could, I suppose, put it high on the agenda of the next Round of GATT [substitute WTO] negotiations, if and when they occur. In that event, we will have another wave of books, articles, and conferences [and, I suppose, Fellows addresses] which, if nothing else, will create employment for future generations of agricultural trade economists (McCalla 1993, p. 1111).

It was these just-quoted statements that led to charges of the author being overly pessimistic in 1993. A more liberal day must surely come. But it hasn't arrived yet, and what was said nine years ago is just as valid today. There is an old adage: if the horse you are riding keeps winning, don't get off. Maybe the author will be around in 2012 to give another "Older Fellows" address on the same topic. It will probably be a repetition of the same story yet again, just a different date.

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