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TRADE LIBERALIZATION: A CANADIAN VIEW OF GATT AND THE MULTILATERAL TRADE NEGOTIATIONS

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By way of background, I will begin with some reflections on the wording of the recent Punta-del-Este Ministerial Declaration. Then I will identify and briefly discuss six issues that I think should concern us.

Background

The final text to emerge from the Punta-del-Este deliberations, when viewed in the light of earlier drafts and individual country positions, probably provides some clues on which issues will arise and how agriculture is to be handled in this round.

The following features of the "Punta" declaration are interesting. The underlining is all mine:

- (a) There is no reference to any "special characteristics" of agriculture. However, agriculture is still to be treated separately, with "Agriculture" being one of several negotiating groups to be set up under the umbrella of the Group for Negotiations on Goods (GNG).
- (b) The agriculture negotiating group will have primary but not exclusive responsibility for agriculture.
- (c) The "General Principles" call for "balanced concessions within sectors" and "avoiding unwarranted cross-sectoral demands."
- (d) There is no agreed "fast track" for the agriculture negotiations, but the "General Principles" explicitly allow for the possibility of an early agreement and its implementation.
- (e) All measures directly or indirectly affecting agricultural trade are to be subject to negotiations (no singling out of "export subsidies").
- (f) There is reference to a "phased reduction" of the "negative effects" of subsidies (not necessarily of the subsidies themselves). No specific time frame is mentioned, but the discussion is stronger than the "possible phased reduction" referred to in an earlier draft.

Some Issues

The following issues are not in order of perceived importance.

Implications of Seeking to Balance Concessions Within Agriculture

Will this really be possible? It seems to raise problems for countries with either little to gain (such as Japan) or with little to give (such as Australia, New Zealand, and some developing countries) in the agricultural area. Hathaway has suggested that it will pose problems for the United States, too. In the past, concessions in other sectors were traded off for gains in agriculture. It appears that this time the "bargaining chips" must come from

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within the agricultural sector. Will the big players, the United States and the European Community (EC), be willing to give the "Australians" a free ride in the agricultural negotiations and at the same time exempt Japan from making agricultural concessions beyond those commensurate with the limited gains they could expect? It seems unlikely, and I expect that some formal or informal mechanism to account for cross-sectoral tradeoffs will probably evolve.

Political Will and Negotiating Credibility

These are really two closely related issues. The first question about whether the political will really exists, despite the rhetoric, to make the necessary changes, has been raised by Johnson. I think is a legitimate one for many countries, including Canada. Given that significant changes in trade-related measures (such as barriers and export subsidies) will of necessity imply changes in some domestic programs, we must ask the questions: are the politicians ready to bite the political bullet? There is no need for me to remind you that many groups within U.S. agriculture such as dairy, sugar, corn, and soybean interests benefit from the policy status quo, including current EC measures. These groups could lose from reduced protection in either or both countries. Maybe the real political battle will not be between countries but between the agriculture ministers and farm lobbies of all major countries in the "green corner" and all countries' finance ministers and central agencies "in the red" (sic).

Perhaps even more important is the credibility question, and I think it applies to the United States and the EC in particular. Will their negotiators really have a mandate to commit their countries? How seriously should they be taken? Johnson refers to "Congress's disdain for international agreements" and suggests that unless the famous Section 22 of the Agricultural Adjustment Act is repealed "Congress will force violations of any trade agreement." Certainly, I think, other countries question the extent to which the United States is willing to be bound by international agreements. This weakens the General Agreement on Tariffs and Trade (GATT).

What seems to be needed is a change in attitude away from the notion that domestic agricultural policy puts constraints on what can be agreed in the GATT (and that changes in domestic policy are valid reasons for requesting or forcing waivers and exceptions under the GATT) toward an acceptance that GATT rules put constraints on the shaping of domestic policies. I am pessimistic about whether such an attitude change is yet taking place in the political power structures of the major players.

The Relative Timing and Emphasis to Be Put on Negotiating Rules versus Specific Concessions

As I understand it, Canada and several others would like an initial phase of the negotiations to focus on strengthening the rules, with specific concessions to follow. The United States, I believe, is favoring getting straight into concessions, on the grounds that attempts to change the rules would result in only very slow marginal adjustments. The EC may want to spend the first year on further analysis, which some would see as a stalling tactic, while others may perceive a genuine need for European politicians and their electorates to be more convinced of the broader economic benefits of reduced agricultural protectionism (on the basis of comprehensive economic analysis) before being willing to make significant moves to free up agricultural trade.

In the past, the emphasis has been on specific concessions (in particular tariff reductions). Rules have been treated as somewhat subservient to concessions in that exceptions/derogations/waivers were readily adopted if acceptable specific concessions could be found which contravened the rules. For the future, a relevant question may be "which of the two allows more scope for circumvention?"

The dominance of a few major players has allowed a focus on bilateral balancing of concessions in past rounds. I believe that, in future, with more players and less dominance, this won't work as well. A multilateral balancing of concessions would theoretically raise the potential payoff from GATT negotiations to most or all players. However, the practical difficulties of developing a satisfactory mechanism for keeping track of all the multilateral benefits to arise from a given concession (incorporating all the intercommodity and intercountry linkages which exist), and of developing a procedure for truly multilateral negotiation of concessions, are daunting. This is the main reason why I think increasing emphasis may have to be placed on negotiating (exceptionless) rules in this and future rounds.

Is the Existing GATT Structure and Mechanism Too Constraining?

It would appear that, following the proposals of the Committee for Trade in Agriculture (CTA), the approach in the Uruguay Round will be to follow already-established procedures and to work from existing GATT articles. Given the hopes and recognition of the need for substantial progress in agriculture this time around, should the starting point be closer to square one?

Most proposals to come out of the CTA seem to refer to possible changes in just two key articles; Article XI (notable for permitting quantitative import restrictions if they exist to support a supply-management policy) and Article XVI (which exonerates agricultural subsidization as long as it does not lead to an "unfair share of the world market"). No doubt, delegates who have been involved in past rounds will remember the time and effort involved in reaching agreement on the existing articles and be very reluctant to give up hard-won ground.

As they stand, Article XI is seen as essentially dealing with access and Article XVI with subsidies, and there appears to be some feeling that their further negotiation can be separated and made the responsibility of two different negotiating subgroups. Is this logical? For example, it is not feasible for a country to use substantial export subsidies without import controls, yet one of these instruments falls under "subsidies" and the other under "access." Similarly, the whole area of administered pricing seems to be treated to date as an "access" issue, yet the transfer of income from consumers to farmers via regulated prices is probably in many senses a "subsidy" affecting production and trade (and little different from a transfer from taxpayers via government expenditures).

Perhaps the time is ripe to consider the creation of some new, specifically agricultural articles, incorporating imaginative new rules extending to areas not previously touched by the GATT.

Negotiations on Levels of Subsidies, Subsidy-Equivalents, or Trade-Volume Effects

There is considerable interest at this stage in negotiating commitments to reduce levels of government intervention as measured by some broad economic indicator. The producer subsidy equivalent (PSE) concept, which has gained prominence through its use in the OECD's "Agricultural Trade Mandate" study, is most frequently referred to, but other alternatives are conceivable. The idea is attractive for several reasons:

- (a) The relative simplicity of reducing negotiations to one dimension (a practical means of achieving multilateral balancing of concessions?)
- (b) The flexibility it would give to governments to choose the precise ways of reducing their levels of assistance or interference;
- (c) A means to draw even the commodities with the most politically powerful lobbies into the scope of the negotiations.

A major subissue is what precise measure to choose. I will briefly discuss three possibilities:

- (a) Levels of subsidies in the narrow sense of government expenditures or net fiscal cost. This can be dismissed quickly on the grounds that much producer support (approximately 50 percent in the OECD countries in 1979-81), and trade distortion, derives from relatively "costless" (in a fiscal sense) transfers from consumers (see also Johnson);
- (b) Levels of income subsidization, - for example, PSE's

Negotiating reductions in PSE levels appears to be favored by many in the United States. The Australians are talking about something very similar, what they call the "price adjustment gap." Conceivably, the concepts of "nominal rate of protection" and "effective rate of protection" could also be candidates.

Our big objection to all these indicators is that they are measures of income support and not of volume or trade distortion (see McClatchy and deGorter). In our view, it is the latter which should be the interest and focus in trade negotiations. We recognise that if the overall level of world farm income assistance were reduced, the level of trade distortion would fall (as demonstrated recently by the OECD), but also that in particular cases the level of PSE is not a reliable indicator of even the direction, let alone the magnitude, of the associated output volume effect and trade distortion. Many examples of current policies involving relatively high PSE's and relatively low trade effects exist. Given the reasonable arguments that high-target prices, when accompanied by appropriate levels of land set-aside requirements, may do nothing to increase U.S. output or reduce world prices, I am somewhat surprised at American advocacy of this as a negotiating tool. With many European countries favoring moving toward supply management options, I doubt that the idea will appeal to them either. Note that the Punta Declaration does refer to a reduction of the negative effects of subsidies (not necessarily the subsidies themselves) and the Danish vice-chairman concluded, after a recent debate in the United Nations on trade and agricultural subsidies, that "the major tasks of the new GATT round will be to seek agreement on the impacts of subsidies, other farm support policies and trade barriers on the present distortions in agricultural trade" (my underlining).

- (c) Levels of Trade Volume Impacts

A "modified" or "adapted" PSE is of course conceivable, where programs and policies would be rated in terms of their simple-subsidy-equivalency in a production- or trade-distorting sense, rather than in the income-enhancing sense of Josling's original or pure PSE concept. This would overcome our major objection, and perhaps deserves the most attention as a prospect for use in the GATT. Some serious problems and issues, both of a theoretical and practical nature, would still seem to remain, however.

In summary, I think this particular issue is one where International Agricultural Trade Research Consortium (IATRC) members, as a group or as individuals, could have a useful input into the developing GATT process.

The Extent of Use of Quantitative Economic Analysis in the Uruguay Round

This is the issue which perhaps most directly affects us as IATRC members. I refer to the use of such analysis to assist in the choice of individual countries' negotiating positions (and potentially also in the choice of negotiation subjects), both initial positions and responses to others' initiatives.

My impression (though I lack first-hand experience) is that the analysis underlying agricultural negotiating positions in past rounds was generally very limited and unsophisticated (and possibly appropriately so, given the focus principally on tariff reductions). This time I do think there is a much greater potential for the use of deeper analysis, for both supply-side and demand-side reasons, such as:

- (a) The broader scope ("all measures affecting trade") and larger number of players make the net results of any potentially negotiable package of simultaneous changes much less transparent;
- (b) The increased awareness (perhaps even incidence) of cross-commodity effects necessitating multicommodity analysis;
- (c) the increased feasibility due to the technology (for example, microcomputers) and accumulated modeling experience we now have.

Just what type of analysis will be required depends, I think, on the resolution of some of the foregoing issues; for example, whether the rules being negotiated continue to be predominantly what Anjaria and others would call "measure-based" or whether they become increasingly "effect-based," such as may happen if negotiations on PSE reductions and, perhaps, "acceptable levels" of PSE's proceed.

Looking further ahead, after this GATT round, I think it is inevitable that there will be more call than heretofore in all countries for analyses of likely trade impacts of unilateral domestic policy changes, before such decisions are taken.

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