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Agricultural Trade Policy: Completing the Reform

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Introduction

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 put in place a set of rules that will move toward improving the conditions under which agricultural goods are traded. Bound tariffs have replaced nontariff 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 were required to make only 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 pry open these markets a little, the prospect of quota rents has led governments to agree to a network of bilateral deals that guarantee state involvement in trade for years to come. This in turn has exacerbated the problem of competition between state

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trading enterprises and private trade. The time is ripe for initiating another set of multilateral talks to complete the job begun 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 been a natural tendency to avoid politically sensitive sectors such as agriculture when negotiating regional trade pacts, free trade areas and customs unions recently have become more adventurous in dealing with agricultural protection. In the Americas, agriculture was a central element of the North American Free Trade Area (NAFTA), setting the scene for a relatively free market in farm products between the United States and Mexico at the end of the transition period. Agriculture has been featured in the Mercosur agreement, opening up trade 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: the Baltic Free Trade Area, the Central European Free Trade Area in Europe, the Andean Pact, the Central American Common Market, and the Caribbean Common Market (Caricom). Plans for broad supraregional trade structures, such as the Asia Pacific Economic Cooperation (APEC) agreement and the Free Trade Area for the Americas (FTAA), also have explicitly included 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 global developments in agricultural trade policy 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 structural adjustment. The remarkable fact is that politicians over the last decade did not shy away from including agricultural markets in overall reform of economic policy. In most cases, difficult decisions had to be made in the face of opposition from rural constituencies. Domestic reforms then allowed countries to bring agriculture to the table in trade policy reforms, generally involving the removal of nontariff barriers and the setting of low fixed tariffs against imports.

In industrialized countries, agricultural policy reform has happened reluctantly and with a great deal of domestic opposition. The farm policies in these countries were so entrenched that they seemed immune from external pressures. However, the reform of the European Union's Common Agricultural Policy (CAP) in 1992 and the United States' 1996

Farm Bill represent very significant changes in direction for farm policy and usher in a new era of relations between government and the agricultural sector. Even in Japan the basic law that stipulates 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 at last are following the lead of middle-income countries in regard to adapting their agricultural policies to new global realities, but still have some way to go.

The Case for Further Reform of Agricultural Trade

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? Why not leave well-enough 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 toward 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 a reformed trade regime. Domestic and international policy reform are mutually reinforcing and are two parts of the same process. Domestic reform was needed to get the changes in the trade system that were embodied in the Uruguay Round. The new trade rules in turn provide the constraints that 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 be lost. These links between domestic and international reform processes are spelled out in some detail in this chapter. They constitute the core of the case for further reform of the trade system for agricultural goods.

There are five reasons to pursue agricultural trade reform, each of which would make a plausible justification. Together, these five make the case for further trade reform compelling. First, the Uruguay Round exposed for the first time the extent of agricultural protection. The picture that has emerged is one of high tariff peaks towering above the more modest tariffs on non-agricultural goods. Such uneven protection carries a high cost to the countries with the trade barriers and to the trade system as a whole. Second, a further attempt at improving international trade rules could help many developing countries, particularly in Asia, formulate domestic agricultural policy. 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 is to lock in and underpin the painful changes in agricultural policy that 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 these policies must be reformed within the guidelines of international trade rules. A fourth reason for advancing further agricultural trade reform is to reduce trade conflicts that have bedeviled relationships 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 on fostering nonaggressive solutions to global issues. The final reason for pursuing further reforms at this time is that agriculture has a significant role in the future development of our international trade system. It is a vital part of the political accord that is needed for continued global economic integration and growth.[1]

The Current State of Agricultural Trade Reform

The progress made in agricultural trade reform can be judged by contrasting the current situation with that which prevailed prior to the Uruguay Round. World markets for the major temperate zone agricultural products had been in disarray for two decades before that, as the surpluses of the 1960s gave way to shortages in the 1970s, with the vagaries of weather exacerbated by destabilizing trade policies.[2] The 1980s began with a brief "shortage" of grains, caused largely by a surge in demand but again made worse by the reaction of the major countries, and then a long slump in prices of major commodities.[3] By the middle of the decade, soaring budget costs from farm programs were conflicting with pressures for fiscal restraint. The United States and Europe recognized that the situation was becoming untenable.

The reaction to this crisis was a combination of actions in a number of institutional settings. International organizations had already studied the problems and discussed remedies. Two preparatory exercises were

1. These five reasons are not unrelated. High tariffs give exporting countries an excuse to continue protection of their own domestic agriculture, which in turn leads to aggressive export policies. This creates tension in 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.

2. The classic analysis of the problems of agricultural trade over this period is D. Gale Johnson (1973).

3. The behavior of commodity markets over this period is discussed fully in Hathaway (1987). See also chapter 6 of Josling, Tangermann, and Warley (1996).

significant: the mandate to the Organization for Economic Cooperation and Development (OECD) to investigate the link between domestic policies and agricultural trade (the 1982 Trade Mandate) and a decision in the same year to establish a Committee on Trade in Agriculture (CTA) within the GATT. Agricultural trade was firmly incorporated into the stated goals for the new Uruguay Round of trade negotiations, the OECD released a Ministerial Declaration in May 1987 supporting the development of more "market-oriented" agricultural policies, and in July 1987 the Venice Summit agreed to give the issue high priority.

The Uruguay Round as a New Point of Departure

The Uruguay Round Agreement on Agriculture established a set of completely new and more operational rules for agriculture.[4] In particular, it resulted in a legally effective binding of tariff rates for agricultural goods and imposed constraints on the most trade-distorting types of agricultural policies used throughout the world. This radically changed the way that agriculture was treated in the GATT. Previously, governments had considerable scope to design and pursue their agricultural policies as they saw fit for domestic interests and to treat agriculture as a special case under trade rules. As a result, the GATT did not effectively constrain most of the government actions in agriculture that impacted trade.[5] Since the Uruguay Round, governments have to observe binding commitments that they have accepted under international law. These bindings cover nearly all border measures, both on imports and exports, and they apply to the total of trade-distorting domestic support, to the extent that this support has a noticeable effect on international trade.

It is hard to overestimate the impact of this fundamental change on the scope of the trade rules. An important sector in world trade, which had escaped most GATT disciplines since the inception of the General Agreement, was now brought under control. It should be emphasized, however, that the level of protection was not significantly reduced by the signing of the agreement.

An important factor determining the effectiveness of the agreement is that it establishes general rules for agricultural trade and forces all participating countries to undertake specific commitments, expressed in their schedules. The real power of the agreement lies in the binding nature of these country-specific commitments, because they relieve the process of implementing the agreement from finding appropriate interpretations of general rules for each individual policy of each individual country. In

4. A fuller discussion of the results of the Uruguay Round Agreement on Agriculture can be found in Josling (1998).

5. The role of domestic policies and the anomalies in the treatment of agriculture in the GATT are documented in Hathaway (1987).

fact, all waivers and special exemptions for agriculture in the trade rules are to be removed. New types of commitments have been made that did not exist before in the GATT. Whereas GATT schedules in the past contained only tariff bindings, their agricultural components also now contain bindings regarding export subsidies and total support. This legal innovation is an important aspect of the agricultural negotiations, made necessary by the complexity of dealing with domestic farm policies at the international level.

Along with the provisions on domestic and trade policies in the agreement, participants also concluded an Agreement on Sanitary and Phytosanitary Measures (the SPS Agreement). The goal was to improve on the present operation of Article XX by making it easier to distinguish between genuine health and safety issues and disguised protection. The right of countries to set their own safety and health standards is reaffirmed, but with the proviso that such standards should be based on "sound scientific evidence" and that international standards be used where possible.

Although the SPS Agreement and the Agreement on Agriculture are separate, they are closely linked. In particular, commitments to reduce economic barriers to trade may encourage countries to use technical standards to protect domestic farmers. In addition to guarding against such inappropriate use of SPS standards, there are also many technical issues relating to such standards that needed to be better regulated at the international level. It was important to make sure that these standards can help protect human, animal, and plant life but not cause economic waste through undue restrictions in international trade. The SPS Agreement is an important step in this direction, and may prove as important in its area as the Agreement on Agriculture has been in the realm of economic measures. It is therefore appropriate to think of the new SPS rules as the fourth pillar of the Uruguay Round achievements in the area of agriculture, complementing the new rules and commitments in the three areas of market access, export competition, and domestic support.

Where a country chooses not to rely on harmonization or equivalence but rather insists on its own domestic standards, it must comply with a number of requirements. A country must make sure that its measures do not discriminate between countries where identical or similar conditions prevail, and it must not apply them as a disguised restriction on international trade. These requirements are fundamentally those that already existed under GATT Article XX, but now they are more demanding. However, there is now also the requirement that the measures be consistent with scientific evidence and that they be based on an appropriate risk assessment. These additional requirements are completely new in the GATT, and governments will have to develop suitable procedures for fulfilling them.

The test of scientific justification is a general rule that will be crucial to the implementation of the SPS Agreement. Unfortunately, it is not without ambiguity. Scientists may disagree about the implications of particular practice (e.g., can a hormone fed to livestock affect the health of consumers?). There may also be disagreements about the appropriate definition of the level of risk from which protection should be provided. The SPS Agreement allows countries to define their own levels of acceptable risk, as long as it is internally consistent. There will still be room for interpretation in each individual case. Much will depend on the speed, vigor, and effectiveness of settling disputes that may arise out of different interpretations of the relevant agreement provisions. Accordingly, a new WTO Committee on Sanitary and Phytosanitary Measures was established under the SPS Agreement.

Despite these historic agreements, the agricultural negotiations fell short in some areas and remains unfinished in others. The principal deficiency is the modest degree of reduction in border protection. The failure to deal with high levels of protection for sensitive products poses a challenge for future negotiations. The inability to outlaw export subsidies, even over an extended transition period, has left a fundamental weakness in the world market that will need to be corrected. Domestic support was codified, but despite the reduction in overall support levels, agreed agricultural production will still receive substantial subsidies. In the absence of substantially tighter rules agreed to in the Uruguay Round, the high level of protection in industrial countries probably will persist well into the next century

The Committee on Agriculture was entrusted with monitoring the Agreement on Agriculture. This Committee has met several times a year since the agreement took effect and made its first report to the Singapore Ministerial in December 1996. The experience of the Committee forms the backdrop for the consideration of changes in the agreement which, in addition to the agenda items discussed below, might be suggested for the next round of negotiations.[6]

The most urgent area to address is the administration of the Tariff-Rate Quotas (TRQs), which were intended to open previously closed markets. The TRQs for agricultural trade are hardly the jewel in the crown of the Uruguay Round Agreement. Their negotiation created a slew of bilaterals, which promises to keep agricultural trade an intergovernmental affair for years to come. Moreover, they created a new wave of governmental interference with agricultural trade through licensing procedures and provided a playground for rent-seeking traders, who will in turn have an incentive to lobby for continued high above-quota

6. The Committee also has been involved in the discussion of the agenda for the next round, through a device called Analysis and Information Exchange. A subgroup of the Committee meets at the time of the full Committee meetings and discusses "nonpapers" on particular topics.

tariffs. The question is how to prevent TRQs from interfering with the competitive development of trade.

In addition to the overt export subsidies identified in the Uruguay Round, agricultural exports are often assisted by export credits and credit guarantees. These are clearly forms of export subsidy, given to export firms by governments trying to expand trade. The practice was criticized in the Uruguay Round, and as part of the agreement an understanding was reached that governments should "work toward the development of internationally agreed disciplines." Discussions on the subject of export credits in general are continuing in the OECD, and it is possible that agricultural export credits eventually will be brought into conformity with those in other areas of trade.[7] The question of export credits is still a thorn in the side of several of the small exporting countries. This issue is being discussed in the OECD. It should be simple in the new round to take the terms of an OECD pact and incorporate them into the WTO structure.

The Uruguay Round allowed Japan and South Korea to delay tariffication for an initial period, even though they had to give access for more imports than they would have done under tariffication. Though this political deal was necessary to get an agreement, the pressure will be on these countries to step into line and remove the "exception" to tariffication. Japan is preparing for eventual liberalization of rice imports. The Food Control Law, which had mandated state purchase and sale of rice since 1942, has recently been changed, and the amount of rice privately traded is increasing. Imported rice is finding its way into the Japanese food system despite predictions that consumers would reject it.[8] South Korea, partly as a result of joining the OECD, has shown a willingness to modify its own domestic practices in the light of outside pressure.

Developments in Domestic Agricultural Policy

In the past, the main constraints on international trade policy reform have been the domestic farm support policies of the industrial countries. In fact, trade policies and trade rules have been determined in large part by the need to reinforce and validate those policies. Some domestic policies, such as the Common Agricultural Policy (CAP) of the European Union were heavily dependent on trade instruments such as variable levies and export subsidies. Others, such as the cereal programs of the

7. Present contentions involve the allowable interest rates and the length of credit terms that will be acceptable for the sale of agricultural goods.

8. It has been estimated that the minimum quantities agreed in place of tariffication were in fact greater than the small volume of rice imports that would have gone into Japan under the very high tariffs that would have been agreed. This reinforces the likelihood that tariffication will be agreed for Japanese rice in the next few years.

United States, relied on trade measures like the Export Enhancement Program (EEP) to keep domestic markets in balance and to control domestic spending. The notorious Section 22 of the US farm legislation mandated import controls to support domestic prices and necessitated a waiver from GATT rules. Until these domestic policies changed, there was little hope for major reform of the trade system.

However, domestic policies in the developed countries were in the process of changing, if more for domestic than external pressures. The same issues were faced in country after country. Advances in technology and structural change in agriculture increased yields, but domestic market growth was slow. The choices were to control supply, an unpopular solution with farmers; to store the surpluses against the next period of shortage; to export with generous subsidies, thus distorting other countries' markets; or to lower farm support prices. This last option could be made more palatable by paying compensation to those who were disadvantaged. Until the mid-1980s most countries tried a combination of supply control and surplus disposal, with some attempts to constrain price increases. The situation began to change after 1985 as countries both modified their domestic policies and then incorporated new trade rules into the Uruguay Round agreement, which reinforced the domestic policy changes. The European Union resisted until 1992, when the MacSharry reform allowed the CAP to survive the new trade regime. The United States followed up with the FAIR Act in 1996, which effectively decoupled payments to grain and oilseed farmers and removed the main requirements for supply control.

The effects of these policy changes are beginning to show up in the aggregate statistics that monitor the development of farm policies. The OECD calculations mentioned earlier split the Producer Subsidy Equivalent (PSE) into what is given through market price support (MPS) and what comes from direct payments and other support (not commodity-related). From 1986 to 1988 market price support made up 79 percent of the total subsidy equivalent for all the OECD countries taken together. By 1996 the MPS had dropped to 60 percent of the PSE. The change is primarily due to the MacSharry reforms in the European Union. The share of market price support in the total subsidy equivalent in the European Union dropped from 98 percent to 51 percent. In contrast, Japan still relies predominantly on market price support: the ratio of MPS to PSE is still 85 percent, the same value as in the 1986-88 period. Therefore, the next round can take as given the start of serious domestic policy reform in industrial countries (with the partial exception of Japan) in the direction of less trade-distorting policies, and hence push ahead with further necessary changes in the trade rules.

The combination of reform in developed and middle-income countries represents a new paradigm for domestic policy toward the agricultural sector that is much more trade-friendly and efficient. This paradigm shift is away from the manipulation of the commodity price level as the main way to assist the agricultural sector toward direct payments to farm families on the basis of present or past activities. Early signs of this shift in developed countries were the adoption of commodity-based deficiency payments in place of price supports, so that consumer demand could respond to market prices. Over time these deficiency payments became "decoupled" from present production and reduced the incentive to overproduce. Some decoupled payments have been aimed at various environmentally-friendly farming practices. Income insurance and crop insurance schemes also have been introduced to act as a stabilizing device for rural areas. Developing countries have avoided the costs of such programs and moved to remove impediments that hindered agricultural production.

The shift occurred because the old paradigm was inappropriate in an open world economy and a less regulated domestic market. Commodity price intervention rewarded farmers for their output, regardless of the state of the market. Farm output and structures responded to the policy signals rather than to consumer demand, and agriculture became dependent upon further government assistance to dispose of surpluses. Moreover, environmental groups pointed out that farming systems geared to high price policies were creating problems for the water supply, worker safety, public health, and the preservation of plant and animal species. Targeting payments to the farmer is more direct, involves less distortion in production incentives, can be tied to environmental standards, and allows the consumer to choose more freely among competing products.

The change was resisted at first by farmers, who would prefer to be paid "through the market," no matter how much that market was distorted by border protection and export subsidies. Moreover, the world market was often seen, with good reason, as unreliable and unstable. What convinced governments to change was a growing awareness that the policies were not achieving their objectives: farmers who needed the most help were not the ones who had the most product to sell. Also, there was a recognition that these policies in different countries effectively offset each other, so that a coordinated removal of such policies would have less impact on farmers than a unilateral change by one country. It was also a reaction to the growing political visibility of environmental groups and to the need for farmers to be more responsive to "green" concerns. Coupled with these specific reasons was the more general change in the role of governments in the marketplace. As the notion that governments could or should control prices began to be replaced by the idea that market forces should be the main determinant, the end of commodity price-support was in sight.

This change was accompanied by a shift in the political influence of agriculture. In part, this is because of the general unpopularity of programs that support special interests at the expense of the consumer or taxpayer. But in the case of agriculture it may also be connected with the move away from commodity-based support systems. If the government supports the price of a commodity by restricting imports, subsidizing exports, buying up surpluses, or taxing substitute products, then it needs to work through the processing sector or the wholesaler to implement that policy. Sugar policies are operated through sugar beet factories and cane refineries. Dairy policy is implemented through the dairies and creameries that take delivery of farmers' milk. Grain policies involve storing and shipping cereals through merchants and middlemen. Oilseeds policies involve oils and meals from the crushing activities as well as just seeds and beans. When the basis of farm payments is the output of commodities, the farmer and the processor share that interest. When the farmer gets paid on the basis of historical acreage and regional yield, the processor has less interest in the profitability of the domestic producer and is more willing to look for the cheapest source of supply, possibly by importing the raw material.

The decoupling of support from output has had a profound impact on the range of trade policy choices in the sector. It essentially means that a country can recast its trade policy for agricultural goods to make it consistent with that for nonagricultural goods. Shifting from price supports to income insurance schemes, for instance, may relax import regulations. One substitutes financial instruments for physical commodity market intervention, generally at lower cost. Similarly, production constraints previously needed to limit government payments on export subsidies would no longer be needed if the compensation payments to farmers were not influenced by market price. The decline of commodity programs liberates trade policy, just as the separation of price from income liberates social and environmental policy. These trends in domestic policies have manifested themselves in different ways in different regions of the world.

Regionalism and Agriculture

The growth of regionalism has significant implications for agriculture. In the past many regional trade agreements have left agriculture out of the free trade provisions, in deference to the political sensitivity of the sector and the potential conflict with domestic policy objectives. The situation is rapidly changing. NAFTA, Mercosur, the Andean Pact, Caricom and the Closer Economic Relations (CER) agreement between Australia and New Zealand all include agriculture in their free trade provisions. The countries of Central Europe have included agriculture fully in the Baltic Free Trade Area (BFTA) and in a more limited way in the Central European Free Trade Area (CEFTA). The Europe Agreements, which aim for free trade between the Central and Eastern European countries and the European Union, also include agriculture, albeit with some quantitative limits. Asia has not progressed as far: the countries of the Association of Southeast Asian Nations (ASEAN) are unwilling to incorporate agriculture as an integral part of their free trade area (AFTA), though some commodities are included. To the extent that these agreements do include agriculture, this gives them a new significance in the process of liberalizing agricultural trade and necessitates some coordination with the multilateral process.

The fact that the new brand of regional trade agreement includes agricultural trade within the bloc is clearly a mixed blessing. It carries with it the danger that high cost production will be sheltered and supported in these trade blocs, as Europe's regime of free trade within the European Union has done. But this arose because of the high level of support and protection at the external border. Today's new regional blocs seem to have learned the lesson. In other blocs, trade creation seems to have been the dominant effect, helped in large part by the domestic policy reforms that have gone hand in hand with the regional trade pacts. Freer regional trade in agricultural products therefore seems to be consistent with, and hence a step toward, global trade liberalization. The only major qualification is that each member of a regional trade agreement should reduce tariffs on third-country agricultural trade to avoid increasing regional preferences and generating trade diversion. This could either be done jointly through agreement with other members on external protection, in the case of a customs union, or independently through unilateral liberalization in the case of a free trade area. Multilateral negotiations are the best way to keep down the level of protection against non-partner imports so as to avoid trade diversion. If both internal and external protection is progressively removed, then the regional and the multilateral paths move toward the same goal.

Other more dynamic considerations come into play when considering the significance of regional blocs for agricultural trade liberalization. One such dynamic force is the policy pressures that free regional trade may set in motion. These pressures can result in freer trade throughout the world as a whole.

The Climate for Further Reform of Agricultural Trade

Global Agricultural Market Developments

The situation in agricultural markets and the context in which trade policy will be formed in the next round of trade negotiations will be very different from that which prevailed in 1986 at the start of the Uruguay Round. At that time, world markets were in acute disarray because of domestic farm policies that were out of control. World prices were at their lowest levels in years and farm program costs were at an all-time high. US agricultural exports had fallen dramatically from their peak in the early 1980s, and the European Union was picking up market share with aggressive subsidies. In effect, the United States and the European Union were in a trade war. Even agricultural ministers, often the last to admit the scale of the problem, became convinced that something should be done to improve the workings of the market before it collapsed altogether under the weight of unwanted surpluses. The mood was to do something about agricultural trade. The issue even made it on the agenda of the Economic Summit in Tokyo in 1986, when President Reagan lectured his fellow leaders on the disarray in world agricultural markets.

Now, leading up to the next round, the world market looks very different. Commodity prices are firm relative to the depressed levels of the mid-1980s. For most of the major commodities there have been adequate market outlets over the past five years, much of that due to strong growth in Asia. In 1995 and 1996, cereal markets reacted to a perceived shortage of supply and sent prices to their highest levels in five years. Though down from those peaks, firm prices are expected to continue as long as export demand from Asia does not slip too far from its current level. US exports of farm goods reached record levels in 1996, exceeding even those of the export boom in the early 1980s. Export subsidies are down below the allowable levels because of high prices and strong demand. Trade disputes between the United States and the European Union and between the United States and Japan continue, but the issues are health and safety standards, not market shares.

This poses a dilemma for agricultural trade reform. Does this relative calm in world markets make it more or less likely that reform will continue? Can further steps be taken only if there is a crisis in agricultural markets or another explosion of spending on farm programs? It is possible that the crisis of the mid-1980s was necessary to stimulate countries to undertake reform. The more benign state of agricultural markets may therefore translate into reduced incentives to continue the reform process. Such complacency would be unfortunate: the reform process is needed now as much as ever. A period of calm in world markets may be the best time to push ahead with the reform.

There have been several important developments in economic policy that make the current climate for agricultural trade policy reform very different from that of the early 1980s. The most important of these is the wave of economic reform that has swept over almost all countries since the mid-1980s. By 1986 a few countries (such as Chile and New Zealand) were moving toward more liberal policies; most countries were still debating deregulation, privatization, structural adjustment, and macroeconomic reform. The Berlin Wall still separated Germany and the Iron Curtain divided Europe. Centrally planned economies (CPEs) ran their own trade policy based on complete state control. In such circumstances few had much hope that the call in the Uruguay Round for more market orientation in agriculture would have received more than lip service by most countries.

The context for the multilateral talks that will begin in 1999 is very different. Most countries have embarked on a reform program, either of their own making or at the suggestion of lending and financing agencies. Reform of international trade policies is a key part of economic reform in all countries. Most of the former CPEs have abandoned the attempt to control trade. No one queries any more the objective to introduce market disciplines to agriculture. Governments regularly call for the development of competitive agriculture sectors able to sell into world markets or to hold their own against imports from abroad. Government assistance is often still needed for economies that cannot achieve international competitiveness, but this assistance is constrained by budget pressures and is usually temporary. To be sure, imports of farm products are still taxed, often quite highly, but the justification often revolves around issues of unfair competition from dumped products and the need for time to adjust rather than the determination to keep out all competitors for the local product. In other words, the assumption adopted by most governments today is that agriculture must live by the same rules as other sectors. If competitive, it will flourish; if not, it must adjust or wither. Under these conditions, trade talks can take on a much more constructive tone. There always will be tension between importers trying to regulate the pace of market opening and exporters trying to push them to go faster. But that is very different from the emotional confrontations in earlier decades between those that considered domestic agriculture beyond the reach of international trade talks and those that wanted to expose such ideas to ridicule.

Reform of domestic policies has led to significant changes in trade policy that are contributing to the evolution of the entire trade system. One of the most far-reaching changes in the environment of agricultural trade in the past decade is the proliferation of regional trade agreements (RTAs). Whereas once it could have been assumed that such agreements avoided agricultural trade, this is no longer the case. The results have been every bit as profound as the WTO rules and interact with those rules in interesting ways, as discussed later in this chapter. The treatment of agriculture in a world of trading blocs is likely to become even more important in the future, partly because the blocs themselves may begin to negotiate agricultural rules. Such blocs may adopt uniform policies toward third countries even if they remain free trade areas rather than customs unions. But the most important link between RTAs and the multilateral process may be through the impact of freer regional trade on the reform of national domestic policies. Countries will be under additional pressure to modify these policies and ease tensions among regional trading partners. In other words, RTAs could stimulate and "lock in" the reform of domestic policies more rapidly than the multilateral process. This, in turn, improves the prospects for further multilateral reform.

The multilateral trade system is also in much better shape than in the mid-1980s, when serious disagreements existed about whether 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.[9] It is more global in scope and covers a 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. Coupled with the objectives of the regional trade arrangements for achieving free trade, the WTO can at last define the goal toward which all the previous negotiations were hesitantly moving. This goal could be as ambitious as defining 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.

Other structural changes in the agriculture and food markets of the world also 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 driven by firms seeking lower production costs and broader markets over which to spread costs and is a consequence of relaxed investment and trade regulations. In other words, the agriculture and food 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 outsourced materials, as happens with cars and computers. Most farmers cannot move offshore to take advantage of low wage labor, though it is not unknown.[10] But through various more subtle changes a similar quiet revolution is underway.

One obvious change is the growth in trade in high value-added products, which is much greater than that in homogeneous bulk products. In 1985, trade in high value-added products was barely half of total

9. 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 the cases have been initiated in the past three years, and about 60 percent of them concern some aspect of food and agricultural trade.

10. Many farmers and farm businesses in California saw the opportunity to produce fruits and vegetables in Mexico for sale to the United States, even in advance of NAFTA. Moreover, there is a large scale movement of feeder cattle across the US-Canada and US-Mexico borders that has many similarities to inward processing and other transborder transactions.

agricultural trade. By the year 2000 this share will be almost three-quarters of agricultural trade. Part of this is because of rising consumer incomes and a shift away from unprocessed foods. But much of the growth in high value-added goods is due to increasing product differentiation as producers and food retailers attempt to convince consumers of the merits of particular geographical locations, recipes, and brand names. Goods that were once considered "nontradable" 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 "nontraditional" 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. For years European countries have focused on a few undifferentiated products such as wheat, sugar, powdered skim milk, and butter, which were sold with heavy subsidies.

This shift in trade raises new issues that 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 is 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 bioengineered crops may soon collide with consumers' fears about product safety. Unless public authorities regain the confidence of the public, trade rules that aim to facilitate trade can themselves lose credibility.

This process of moving up the value-added chain is unlikely to slow down in the near future. 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 fully exploit this new science. The biotechnology industry is itself undergoing change as large corporations search for profitable products that will pass the scrutiny of regulators and the public. So far the most important of these products have reduced costs and appealed to producers, but have not enhanced the taste of food products. Consumers see little benefit to themselves. Instead, countries that allow such techniques will enhance their market share. One can well imagine trade conflicts involving discrimination among suppliers of similar goods based on the method of production. Conversely, producers can use biotechnology to "design" 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 point to a more sophisticated agricultural industry, aware that the future depends on satisfying a variety of consumer tastes and competing with other goods and services for the consumer dollar. More actors become involved in the political process, and the center of gravity shifts away from the primary producer. Policy becomes less commodity, focused and the emphasis shifts 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, improved 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.

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; the future of preferential commodity agreements such as those run by the European Union for its former colonies; state trading, which has reared its head in a number of agricultural disputes; and the emerging topic of trade in the products of biotechnology. Each of these has a strong agricultural component. The prospective WTO members are major players in agricultural markets. The terms under which they join will influence the nature of those markets. The preferential agreements are almost always related to agriculture, and how the countries that benefit from the current preferences can substitute other products for the traditional exports will be crucial to their transition. State trading is more widespread in agricultural markets than in other sectors, and more controversial. An increase in biotech products entering the market ensures that this challenge will increase over the next few years.

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. The problems are caused in particular by China's political and economic structure, where state-owned firms still produce much of the output, and the ability to trade internationally is 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 such trade will take place.

Russia, Ukraine, and other parts of the former Soviet Union (FSU) also have asked to join the WTO. Trade with these countries will face the same challenges as trade with China. 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, FSU countries have undergone major political reforms that make them open and less likely to conflict with WTO rules. One might anticipate speedier 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 some interesting issues for the members of the WTO as they prepare for the new round of negotiations on agriculture. The tariffication of nontariff 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.[11] The specification of export subsidies has highlighted difference between private trading and government-sponsored export monopolies. This has surfaced in recent months in particular with the Canadian Wheat Board, a state-controlled single-desk selling agency for much of Canada's grain. The Wheat Board may have some commercial advantage over private traders in world markets. The entry of China, Russia, and the Ukraine into 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. Therefore, the issue of state trading will be high on the agenda at the multilateral level. There will be an attempt to regulate the use of market power in trade by parastatals. The question remains: what should one regulate and how should it be done?

The public's slow acceptance of bioengineered agricultural products poses another new trade issue. As more and more crops are planted that incorporate some form of genetic modification, there is a greater likelihood of a major confrontation between trading partners. The question seems at the moment to revolve around a simple but fundamental choice: should a country take into account consumer sentiment (as opposed to hard scientific evidence) when setting import (and domestic) standards? The two sides of the argument are clear. From the point of view of trade policy, any rule-based system has to guard against pressure from those groups looking to manipulate consumer opinion for other purposes. The SPS Agreement put in place the principle that scientific evidence is required to justify a stricter standard than those in

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

international use. From the point of view of politicians, however, consumer confidence and voter sentiment are not unconnected. It may not be wise to appear to be bowing to a panel of trade policy experts in the face of adverse public opinion.

How might this clash between public perception and scientific evidence be resolved? The trade system needs to maintain credibility and support from politicians and the public. To attempt to go against public sentiment would risk this support. But national politicians should also explain to the public the benefits of a rule-based trade system where some degree of objectivity is a small price to pay to avoid the chaos of each country attempting to impose seemingly arbitrary regulations on others. They would, after all, have no trouble explaining the same concept if it were suggested that each city have its own trade rules. The issue could be resolved in the case of the products of biotechnology if one could ensure that each national regulatory body based its findings on a similar body of scientific evidence, if each has the confidence of consumers and the public, and if each is neither under the influence of self-interested local producers nor captured by political movements that have other agendas. This is only likely to happen if those bodies have their independence guaranteed by governments. In practice, such perfectly "objective" bodies are unlikely to exist.

In the absence of such regulatory paragons, perhaps the best defense against the use of national regulations as trade barriers is to make these agencies internationally responsible. These national bodies should coordinate their efforts in the dissemination of information reflecting scientific consensus. They should assist in the construction of international standards that they can recommend to governments to accept. They should work with the industry to develop labeling systems to inform consumers of the properties of particular foods. But national bodies also must directly address the concerns of consumers in their attempt to forge a science-based consensus. This is not to say that the adoption of a science-based approach would solve all the problems of consumer concerns. But the remaining problems would show up more as internal regulatory issues than as points of trade friction.

Next Steps in Agricultural Trade Policy Reform

The Regional Path to Freer Agricultural Trade

The growth of regional trade pacts, which started in the mid-1980s, has posed a number of problems for the global trade system. Some feared that the spread of regional trade pacts would threaten the multilateral system. Success in the Uruguay Round has eased those fears: the strengthened multilateral system represented by the WTO offers some defense against the warring continental blocs. Despite the risks associated with setting up regional preferences, the consensus is that as yet no great damage has been done. Most of the recent regional trade agreements, in particular those conceived under the rubric of "open regionalism," conform with the requirements of the WTO: they cover most traded commodities and do not involve an increase in tariffs against non-members. As most of them have been formed in conjunction with liberalization of external trade, they help promote efficiency rather than shelter inefficiency. However, concerns remain that the proliferation of such agreements can impede liberalization, and that such technical devices as "rules of origin" can be captured for protectionist purposes.

The major architectural innovation of the mid-1990s was trade agreements that span continents. These new supraregional agreements such as APEC and the FTAA are different from traditional regional trade blocs in that they have overlapping membership and join rather than isolate continents. Key elements are that a country may be a member of more than one agreement, and those agreements can include both countries and existing trade agreements as components.

This new trade structure, if it survives, surely will undergo further development. The New Transatlantic Agenda, currently concerned with issues such as mutual recognition of standards and testing, could become a precursor to a more formal agreement between the United States, Canada, and the European Union. The European Union and Asia no doubt will conclude agreements of their own to avoid the implications of the pivotal position of the United States, just as the European Union and Mercosur have been discussing such an agreement.[12] These supraregional agreements assuage the objections of trade economists, who object to narrow regional blocs: they are large enough to contain low-cost suppliers of most products; they can absorb new members easily; and so far each agreement has bent over backwards to be compliant with the WTO. In this sense, they each are examples of "open regionalism," loosely defined.

The new type of supraregional trade architecture is particularly interesting from the perspective of international trade in agricultural goods. A three-bloc world of Europe, the Americas, and Asia never would have dealt effectively with the issues of world trade in agricultural products. The blocs were bound to have taken very different views on such trade, and interbloc tensions would have prevailed. It is unlikely that a European bloc would yield to the American bloc any more by way of agricultural trade liberalization in direct interbloc dealings than could have been achieved in the WTO. Similarly, it was not clear that an Asian bloc

12. A free trade agreement between Mercosur and the European Union could be signed as early as 1999. The extent to which agricultural goods are included is an obvious sticking point in these talks and could prove fatal to the agreement.

that included Japan but not the United States and Canada would suddenly have become more willing to liberalize trade in farm products. Historical tensions would all have been preserved in the interface between the continental blocs.

By contrast, the supraregional processes that span the regional blocs will not be able to easily dodge the issue of agriculture. The problems of agricultural trade will be internalized by the nature of the processes. The United States, for example, could become a member of at least three trade pacts (the Americas, Asia Pacific, and Transatlantic), together covering all the major markets for its goods. The pressure to include agriculture will come from the lack of political support for any agreement that excluded a major sector of US exports. The way in which it is included will also tend to be liberalizing for agricultural trade on world markets, as other exporters would quickly have to conform in order not to lose out on the major markets of the world.

Is there an even more ambitious role for the supraregional trade pacts that could be exploited by the multilateral process? Set against the scenario of protracted negotiations on agricultural trade liberalization at the multilateral level, the regional initiatives may emerge as useful building blocks for the future of the trade system. By 2010, there should be no agricultural trade barriers left between the United States and Mexico, although Canada will have to catch up with that schedule by significantly reducing tariffs for some agricultural commodities on intra-NAFTA trade. The same could be true in Latin America, Central America, and the Caribbean, if current timetables for liberalization are followed. The optimistic plans to complete negotiations for a Free Trade Area of the Americas (FTAA) by 2005 include removing agricultural trade barriers, although there could be a long transition period before such trade is really free. If several of the countries of Central Europe become members of the European Union by 2002, and if the same "instant accession" arrangements are followed as were negotiated with the recent EFTA countries, then there could be an agricultural free-trade zone of perhaps 21 countries in Europe by that time.[13] Including the Euro-Med agreements with the countries of North Africa, and the Europe Agreements for the other Central and Eastern European Countries, the free or mostly free trade zone could eventually include over 30 countries.

In the Asia Pacific region the APEC (Asia Pacific Economic Cooperation) process calls for "coordinated unilateral" trade liberalization, extended to non-APEC members through the "most-favored nation" rule of the WTO, by 2010 for developed countries and 2020 for developing

13. In practice there are likely to be transition periods for the new members to allow all parties to adjust to the opening up of agricultural trade barriers within Europe. Moreover, the entry of new countries could be drawn out over much of the decade, as each applicant is deemed to have fulfilled the conditions.

countries. By that time APEC itself could have expanded to include several more Latin American countries and may even have spread to South Asia. Agriculture is included deliberately in this process, and some sectors (oilseeds and fisheries) are singled out for early action. But it is not clear how much liberalization will be accomplished in agriculture through the APEC mechanism. To meet this target, some countries will have to change their levels of agricultural protection rather rapidly.

APEC poses a challenge to Europe. Europe is unlikely ever to be content with less favored access to US markets than that afforded the Asian countries; nor does Europe want its goods to be at a disadvantage in Asian markets relative to goods from the United States. If Europe did not participate directly in the APEC-inspired liberalization process, a transatlantic trade agreement would seem a likely outcome of progress in APEC. An Asia-European Union trade agreement also would seem inevitable (in fact, a series of meetings has already started, but not with an explicit free trade agenda), unless the European Union were to find a way to join the APEC process. Between them these agreements must incorporate the goal of freeing agricultural trade among the United States, Asia, and the European Union, however improbable this may seem now.

There is the possibility that the pace of liberalization of agricultural trade may be increased by these regional agreements and processes. A liberal trade system may come about quicker as a result of the incorporation of agriculture in the timetable of the regional agreements and supraregional blocs than if it were to rely solely on the traditional negotiation of reductions in high tariffs within the WTO. Most current intercontinental agricultural trade flows will be internalized within these supraregional pacts. Moreover, the pacts themselves are likely to use similar ways to deal with agricultural trade issues, so as to avoid the proliferation of different trade rules for countries such as the United States that are participants in more than one pact. Hopefully, the regional pacts will not divert attention from the multilateral talks. This in turn may necessitate an agreement about the timing of the initiatives, to avoid the real constraints faced by small and medium-sized countries when they must negotiate in several different places at the same time.

The Way Forward in Multilateral Talks

The Uruguay Round agreed on the next steps for the multilateral process of trade liberalization in agriculture. The Agreement on Agriculture (in Article 20) called for talks to be initiated no later than 1999 (the last year of the implementation of the scheduled reductions in protection for developed countries) on the continuation of the process of reform of the trade system for farm products. The agreement confirms "the long-term objective of substantial, progressive reductions in support and protection resulting in fundamental reform." The WTO ministers' meeting in Singapore in December 1996 confirmed the timetable and recognized the need to firm up the agenda and begin analyzing alternatives. The agenda itself will be decided by countries within the next year, initially through 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.

The round will have to decide on the next step toward the greater market orientation promised at Punta del Este. This is the most challenging step. The reforms of the Uruguay Round were more successful in changing rules than in reducing protection and liberalizing trade. Protection in many markets is still very high and allowable export subsidies still threaten the stability of markets. If it is to lead to a freer agricultural marketplace, the strategy for continuing the reform process will need to encompass additional market access provisions, further reductions in (or even elimination of) export subsidies, and more discipline in the area of trade-distorting domestic subsidies. In addition, countries will need to confront the issue of state trading in agriculture. The use of export restraints also may be challenged, partially as a reaction to concerns over food security in importing countries.

The biggest task of the next round is to advance the process of reform by taking the next step toward a world market undistorted by high import barriers and government subsidies. This task was begun in the Uruguay Round, and the mechanisms are largely in place. Removing the first few percentage points of a tariff or subsidy is easy. But there will be anguish when reductions begin to cut into the profits of those that feel themselves to be competitive. Even though the ultimate test of competitiveness is survival in the marketplace, that test will be resisted by those whose livelihoods are at stake. The range of protection levels exposed by the process of tariffication makes clear that the process of trade liberalization has far to go. By itself, the next round will not achieve the competitive environment that will make best use of the world's agricultural resources. However, unless it can make a significant move in that direction, it will have failed to continue what the Uruguay Round started.

A Common Framework for Reform

For the first time in many decades, the forces that push domestic, multilateral, and regional aspects of agricultural policy are moving in the same direction. This means that the location of policy change is of less importance than the direction and type of change. This gives hope for constructive movement at the regional and multilateral levels toward a competitive agricultural trade system that complements rather than threatens domestic policies. The goal for the individual regions is to develop sound, competitive regional agricultural sectors under low external levels of protection. The goal for the multilateral system is to encourage this movement and to make sure that it happens within a strengthening set of rules at the international level.

The impact that domestic policy reform has on regional and multilateral trade policy is to facilitate the process of trade liberalization and market integration in agriculture. In turn, the terms of regional and multilateral trade agreements will have important direct effects on the conduct of domestic farm policy. There is no necessary implication in most regional trade agreements that countries would abandon national agricultural policies altogether, but they will tend to be modified over time to make them innocuous to partner countries. Freer trade in agricultural goods will require, for instance, a move away from subsidies that distort competition within the region. This suggests that each regional agreement will develop a "green box" of national policies that are internally acceptable. There will also be pressure to harmonize internal regulations and standards to reduce intrabloc transactions costs and potential for conflict. The fact that these are consistent with multilateral trends makes the dangers of developing mutually antagonistic trade blocs less immediate. The dynamism of the regional process can help the cumbersome global negotiating machinery. The uniformity of global rules can keep the regional pacts consistent with each other. For this benign outcome to materialize, the momentum of the past few years must not be lost.

Suggestions for a Plan of Action

The arguments in this chapter lead to a number of actions that need to be coordinated. These actions involve declarations, decisions, and negotiations at various levels. At the country level, it would be helpful if the United States, Canada, the European Union, and Japan (the Quad) were to signal their own long-run expectations for agricultural trade. They obviously could not agree initially on modalities, but if they could agree on a set of principles, this would give other countries a framework for formulating their own positions. An appropriate signal from the Quad could be to agree to a four-part statement of principles, along the lines of the following.

- Competition in agricultural markets should be free of manipulation by subsidies, cheap credit, and abuse of public or private market power. To this end, export subsidies should be phased out, export credit terms should be made compatible with the OECD code, export taxes and quantitative restrictions should be subject to strict limits under the WTO, and public and private exporting agencies should be encouraged to compete to best serve the interests of farmers and consumers.

- Access to markets for imports should be improved until entry is no more restricted for agricultural and food goods than for nonagricultural goods. This involves significantly lowering tariffs, removing any remaining nontariff import barriers, accepting responsibility by those countries using public importing agencies to maintain access to domestic markets, and phasing out preferential access over time for selected groups of countries and for regional trade partners, by applying the principle of reciprocity and through a reduction in the non-preferential (most favored nation) rate where appropriate.
- Domestic farm programs should evolve to use fewer trade-distorting instruments. This means that programs should be developed that are decoupled from commodity production and are well-targeted at particular categories of farmers, types of farming practice, or regions that merit support.
- National regulations governing food safety, animal and plant health, and the safety of farm workers should be established in a way that minimizes the chance that countries could use them to protect economic interests or restrict market access. This involves developing credible regulatory agencies that are separate from those with responsibility for farm support programs. It also requires further efforts for devising acceptable multilateral standards and encouraging the spread of mutual recognition and equivalency agreements. Complete product labels that include the origin and attributes of that product would be the solution least disruptive to trade.

The countries of the Quad would also need to sell these principles to their skeptical domestic constituents. This could be done in the following way:

The US administration could emphasize that it is in the interests of the US agricultural and food industry to engage in another set of talks on agricultural trade reform. To delay doing so would send the wrong signal to Europe and other industrial countries, miss an important window for liberalization of Asian markets, and risk reversal of the liberalization trends in Latin America. The major "prizes" to be won are an end to export subsidies, a resolution about the use of parastatal export and import agencies, and secure access to the large Asian markets, including China. Creating a more open food system also means allowing expanded competition from imports of food and agricultural goods from others. On balance, US agriculture will be stronger and US consumers will have greater choice. In the United States, consumers would be assured of stricter quality controls and farmers would be assured of protection against imported diseases through a transparent process that is independent of economic self-interest.

The Canadian government could make a similar argument in its own domestic debate. The removal of export subsidies would be the main goal for Canada. Without programs such as the Export Enhancement Program and the European Union's export restitutions, there would be less need for strict controls on export marketing and the issue of single-desk selling might evolve into the practical question of the most efficient way of selling Canadian food exports. Reducing high tariffs on supply-managed commodities would present problems for some provinces, but it is in the interests of Canada as a whole to free up the internal (as well as the external) market for these products. The government is likely to have the support of the food processing industry in this endeavor. Canada would benefit from freer trade in agricultural goods within the Americas, within APEC, and within the WTO.

Successive Japanese governments reluctantly have accepted the principle of freer trade in agricultural goods in the APEC context but will need to tread carefully to convince the public. While garnering support from domestic interests, the government should focus on the benefits that an importing country derives from a well-functioning trade system that is not disrupted by export embargoes and supply restrictions. Japan still needs to correct its own serious domestic agricultural problem, where a few crops are supported at such a high price that all others become unprofitable by comparison. Compensation payments should be offered by lowering prices for rice, sugar, wheat, and beef. Japanese agriculture could emerge as a stronger industry, based perhaps on the Dutch experience: an industry that provides high value and quality products rather than relatively homogeneous commodities available much cheaper from other countries. Continued deregulation of the agricultural and food distribution chain also promises to help Japan remain competitive and recover the dynamism in an economy that has flagged in the past few years.

The European Commission needs to sell agricultural trade reform as a natural counterpart to the enlargement of the European Union and a necessary step toward closer economic (and political) union. As an agricultural exporter and home to many of the world's major food firms, the Union is best served by freer trade in global markets. With so much actual and potential trade diversion (high priced intra-European Union agricultural trade), the reduction of the European Union's protection is sound internal market policy as well. Decoupled farm support solves many of the problems of enlargement, in particular if compensation payments are paid in part from national treasuries. Adjustment to a competitive agricultural environment would be easier under multilateral reforms offering expanded access to Asia and the Americas for European agricultural raw materials and foodstuffs. The European Union also has to convince all its members that post-colonial, commodity-based trade preferences are less help to the recipient countries than freer trade and the investments that would follow such a move.

Outside of the Quad, other groups will have to take positions of leadership if agricultural trade reform is to continue. One such group is the Cairns Group, which has already made it clear that it is going to stay in business and act as the agricultural conscience of the WTO. The Cairns Group has another important function: to represent the interests of smaller agricultural exporters, particularly those in developing countries. As more countries liberalize their import regimes, the issues that brought the Cairns Group together—concern that world markets were distorted by export subsidies and lack of market access for agricultural goods—are likely to become even more relevant to them. Their own open markets are vulnerable to being swamped by dumped produce from other countries, yet their exports still face significant trade barriers. An enhanced Cairns Group representing the "newly liberalized" countries searching for an equitable trade system would have even more clout.

The same general principles outlined above for the Quad could be adopted by various regional groups, with the additional proviso that their internal liberalization should go hand in hand with reductions in external protection. Such regional groups should concentrate on developing agricultural sectors within their regions that are competitive with low-cost producers in other parts of the world. Similarly, regional standards should be formulated in a way that is consistent with other regions. The supraregional negotiating processes, such as the FTAA and the APEC, have already indicated targets of liberal trade and investment. But they can go further to incorporate measures that must go hand in hand with liberalization. A particularly crucial group in this process is the APEC, which could announce that its own plans for free trade and investment need to be accompanied by measures to assist rural development, open trade and investment in foodstuffs, and offer assurances of food security.

The WTO should stamp its own mark on the agricultural agenda by adopting a firm target for multilateral liberalization in the sector. This target should be consistent with the regional pacts and the supraregional processes. One target date could be 2020, the target year for all of the APEC countries to embrace free trade and investment. An APEC resolution that ensured that this agricultural free trade zone was to be open to all other parts of the world prepared to make similar offers of unlimited access would set the tone for all intermediate steps, whether in the WTO or in the regional trade pacts. It would be the task of the WTO to ensure that this agreement was extended to all countries without discrimination. The process of agricultural trade reform started in the Uruguay Round would then be complete.

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