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Conclusion

For the first time in many decades, domestic, multilateral, and regional aspects of agricultural policy are moving in the same direction. Prospects are good for regional trade agreements and multilateral negotiations that complement rather than threaten domestic efforts to liberalize agriculture. Many regional agreements seek to develop sound, competitive agricultural sectors with low external levels of protection. The multilateral system should encourage this movement and make sure that the regional agreements comply with an ever-strengthening set of international rules.

Domestic policy reform has facilitated regional and multilateral trade liberalization and market integration in agriculture. In turn, regional and multilateral trade agreements have important direct effects on domestic farm policy. Most regional trade agreements do not imply that countries would abandon national agricultural policies altogether. Instead, those policies will 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 type of green box of national policies that are deemed internally acceptable (i.e., in that region). There will also be pressure to harmonize internal regulations and standards to reduce within-bloc transactions costs and potential for conflict. Because these regional agreements are consistent with multilateral trends, it is less likely that antagonistic trade blocs will develop. The dynamism of the regional process can help the cumbersome global negotiating machinery. And the uniformity of global rules can keep the regional agreements consistent with each other. But for this benign outcome to materialize, the momentum of the past few years must not be lost.

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Ten Propositions on the Next Steps in Trade Reform

1. Further agricultural trade reform is not inevitable. To make progress, countries will have to define an objective, articulate a rationale, formulate an agenda, and muster domestic support. This book has explored the possible paths that reform could take. The rationale for moving ahead with further reform can be summarized in the form of the following 10 propositions. Each one is a plausible basis for some action in agriculture. Together, they make a strong case for giving agricultural trade reform and liberalization a high priority in the future development of the trade system. Trade barriers in agricultural products are high—tariffs are above 40 percent on average. This is some three times the tariff on manufactured products. These tariffs seriously distort the allocation of resources, with the burden placed on consumers. Some tariffs are much higher than the average and have little rationale other than to stop trade from taking place. Some countries have bound tariffs at levels higher than actually used, as a fallback if world prices should dip or as bargaining chips for future negotiations. Where free trade areas exist, there are often high tariffs on third-country imports that threaten to increase the cost of internal production and divert trade. For all these reasons, a major effort to reduce tariffs is warranted at this time. The Uruguay Round has made it technically much easier to reduce tariffs. The extent of the problem is visible, and the solutions are more familiar. Agriculture is in a position similar to that of manufactured trade at the time of the Kennedy Round. Just as the Kennedy Round effectively removed tariffs as the major form of protection for manufactured goods, the next set of negotiations could do the same for agriculture.

2. The use of export subsidies in agricultural markets poses serious problems for countries trying to develop competitive agricultural sectors. The new rules of the URRA offer a solution to this problem. Although some of these trade-distorting policies are being removed, removing them altogether is a bold but realistic objective that would give an added political dimension to the talks. Similarly, the Uruguay Round has tackled the issue of which types of domestic subsidies are acceptable, so the negotiations in the next round can try to reduce such subsidies without revisiting the matters of principle. The next round (and regional trade talks) will have to deal with state trading, in particular with state trading enterprises that appear to give some countries a competitive edge and can occasionally offer those countries a way to evade WTO responsibilities. To solve the export subsidy issue and regulate more effectively the activities of

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state traders would be a major step toward a transparent agricultural market.

3. The strong growth of the Asian market, confidently predicted until recently, was a major motivation to tackle agricultural protection sooner rather than later. The financial and structural problems of 1997 do nothing to reduce the importance of trade reform in the region. It is even more important in light of recent events that this region develop on the basis of open trade over modest and declining trade barriers rather than the high protection and managed markets that characterized Japanese development in the 1960s. China, India, and Indonesia can avoid the pitfalls of Japanese, Taiwanese, and South Korean policy by locking into a program of trade liberalization that includes agriculture. To do this, they need continued pressure from outside to keep their own markets open. They also need to be given the opportunity to sell their agricultural goods in Western markets. Currency depreciation will help in this regard, by making it easier for those countries to remove protection and develop export markets. There is a relatively narrow window of opportunity to influence the development of agricultural policy in the countries of this region before their nonagricultural sectors begin to recover and agricultural protectionism resurfaces. Both APEC and the WTO have a role to play in this.

4. The recent agricultural reforms in the Americas and Europe are likely to be more secure and easier to complete if trade liberalization is ongoing. Further CAP reform already is widely discussed in the expectation of further WTO trade negotiations. The US Farm Bill gives more scope for continuing such trade reform by taking a further step away from government support of commodity markets. Latin American countries are less likely to revert to intervention in agricultural markets if others are committed to a liberal path. And countries in Central and Eastern Europe will find it easier to join a European Union that is removing export subsidies and lowering the high levels of support. Even better would be to join a European Union that had no production quotas and had low consumer prices. Moreover, trade relations with Russia and the Ukraine will be much easier to develop over the next decade if agricultural income is no longer supported in Europe through the imperfect medium of commodity prices. Finally, those countries that have yet to reform their agricultural policies, such as Switzerland and Norway, will find it easier to liberalize if reforms are encouraged and rewarded at the international level. Thus, the next WTO round will have a major impact on the pace and development of agricultural policy reform in the Americas and Europe.

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5. Trade in processed and high-value-added goods is becoming an increasingly important part of agricultural trade. Such trade creates additional demands on the trade system in such areas as health and safety standards and quality controls. New production techniques in agriculture based on advances in genetics and biotechnology hold out hope for the spread of scientific farming more rapidly to the developing world, but this requires both an agreed on system of intellectual property rights and the confidence of the public in the safety of the products. Trade disputes are already accumulating in this area. Trade rules can never substitute for domestic regulations that have the confidence of consumers and food processors. In many countries, the domestic regulatory processes are being revised. The WTO will soon have to decide whether the new SPS Agreement is working satisfactorily. If it needs revision, this will be a major task for the negotiators. But both agricultural producers and food consumers will benefit from a resolution of the many technical issues in this area.

6. Trade reform in agriculture is needed particularly urgently to cope with the entry of new members into the WTO. China, Russia, and other potential members will be admitted as soon as practical on the basis of adhering to the rules of the multilateral trade system. These countries are likely to become an even more important part of the agricultural trade system in the next few years, and the terms under which they accede to the WTO will be important to the development of markets. Because state enterprises have a large role in these countries, clear rules for their operation will be needed. Moreover, there will have to be agreement on the extent to which conditions of competition within these countries are subject to international scrutiny.

7. Developing countries should be a full partner in the continuation of agricultural trade reform. As major producers and traders of agricultural products, they need to feel that they are beneficiaries of this reform. In addition, these countries must also participate more actively in the market opening by bringing down the high ceiling bindings and giving up the remaining nontariff trade barriers. For their part, the developed countries need to continue the process of domestic policy reform to allow market access. This means further use of direct income support, compensation for price drops, and insurance schemes. Developed countries would also need to resist policies that cause market disruption and threaten food security. Preferential schemes for commodity exports also need to be consolidated within regular trade agreements and differential treatment rules must be revised to encourage full participation in trade liberalization as soon as possible. The next round should focus as much on the integration of developing countries into the trade system as on the more traditional conflicts among industrial countries.

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8. Regional agreements have so far contributed toward trade liberalization in agricultural goods. However, in the European Union those agreements have diverted trade from lower-cost suppliers. Continued expansion and deepening of such regional agreements will be constructive if they remain open by ensuring that barriers to the products of nonmembers are also reduced. These regional agreements will put additional pressure on countries for domestic policy reform, both to be consistent with improved regional access and to avoid increasing program costs caused by intraregional arbitrage.

9. The next set of multilateral discussions on agriculture, due to start by the end of 1999, already has a full agenda arising from URAA implementation. In addition, the Uruguay Round mandated further talks to continue the reforms. Talks will therefore go ahead as part of the built-in agenda of the WTO. As such, the agricultural component will form part of a minipackage of further trade reform, including some services and other sectors. But progress would be made easier if industrial tariffs were also negotiated and textile quotas were relaxed more quickly.[1]

10. The potential conflicts between regional and multilateral trade agreements need to be resolved. In the case of agriculture, the next WTO round should integrate global and regional liberalization processes. This could be done by establishing targets for multilateral agricultural trade liberalization that are consistent with those already announced within the regional and supraregional groups. Negotiations could even be facilitated by the adoption of collective positions by regional blocs, though the proliferation of different actors in the negotiations should be avoided. The multilateral talks could incorporate these supraregional negotiations to achieve the global targets and focus on the relationship among such groups and between those groups and outside countries.

Suggestions for a Plan of Action

These ten propositions lead to a number of actions that need to be, at least conceptually, coordinated. These actions would involve declarations, decisions, and negotiations at various levels. At the country level, it might be helpful if the United States, Canada, the European Union, and Japan (i.e., the Quad) were to signal their long-run expectations in the area of agricultural trade. They obviously could not agree initially on modalities, but, if they could agree on a set of principles, this would give a framework

1. The Uruguay Round required the textiles and clothing sector to "rejoin" the regular WTO rules by the end of 2004.

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for other countries to consider when formulating their positions. The ideal signal from the Quad, presumably supported by countries such as New Zealand and Australia, would be to agree to a four-part statement of principles, along the lines of the following:

We agree

(i) *That competition in agricultural markets should be free of manipulation by subsidies, subsidized credit, and abuse of public or private market power. To this end, the use of 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.*

(ii) *That access to markets for imports be improved until entry is no more restricted for agricultural and food goods than for nonagricultural goods. To that end, tariffs would be lowered, nontariff import barriers would be removed, those countries using public importing agencies would accept the responsibility to maintain access to domestic markets, and preferential access would be phased out over time for selected groups of countries and for regional trade partners by applying the principle of reciprocity and reducing the nonpreferential (MFN) tariff rate if appropriate.*

(iii) *That domestic farm programs should use instruments that do not distort trade. Programs should be developed that are decoupled from commodity production and are targeted at particular categories of farmers, types of farming practice, or regions.*

(iv) *That national regulations governing food safety, animal and plant health, and the safety of farmworkers be formulated in a way that minimizes the chance that they will be used to protect economic interests and 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 at devising acceptable multilateral standards and encouraging the spread of mutual recognition and equivalency agreements. Labeling to give consumers information about products would in many cases be the least trade-disruptive solution.*

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 was clearly 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 now would send the wrong signal to Europe and other industrial countries, miss

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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 to the issue of the use of parastatal export and import agencies, and more secure access to the growing Asian market, including China, on terms that would preclude them from following the Japanese down the path toward high protection. Creating a more open food system also means allowing expanded competition from imports of food and agricultural goods from others. On balance, US agriculture would be stronger, and US consumers would have greater choice. US consumers would be assured of stricter quality controls and farmers of protection against imported diseases through a transparent process that was independent of economic self-interest.

- The Canadian government could make a similar argument in its own domestic debate. Reform is in the interests of Canada and the Canadian farmer. The removal of export subsidies would be the main goal for Canada. Without programs such as the EEP and the European Union's export subsidies, the need for strict controls on export marketing would be less, and the argument over the principle of single-desk selling might be replaced by the practical issue of the most efficient way of selling Canadian food exports. Reductions in the 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, as well as within APEC and the WTO, and creativity in this areas is an attribute that Canada can bring to the table.

- Successive Japanese governments have reluctantly accepted the principle of freer trade in agricultural goods (in the APEC context), but they will need to tread carefully to be able to bring the public along. In 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 (a few crops are supported at such a high price that all others become unprofitable by comparison). Compensation payments should be offered to those that are most affected by lowering prices for rice, sugar, wheat, and beef. Japanese agriculture could emerge as a stronger industry, based perhaps on the Dutch experience, as one that provides high-value, quality products rather than relatively homogeneous commodities available much more cheaply from other countries. Continued deregulation of the agricul-

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tural and food distribution chain also promises to help Japan to remain competitive and recover the dynamism in an economy that has flagged in the past few years.

- The European Commission needs to sell the continuation of agricultural trade reform as a natural counterpart to the enlargement of the 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 interest of the union is best served by freer trade in global markets. With so much actual and potential trade diversion (high-priced intra-EU 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 that offer expanded access to Asia and the Americas for European agricultural raw materials and foodstuffs. The European Union also has to convince its members that postcolonial, commodity-based trade preferences are less help to the recipients than freer trade and the investments that would follow such a move.

Besides the positions of the Quad members, 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 clear that it is going to stay in business and act as the agricultural conscience of the WTO against the temptation to cut a deal on other areas and leave this sensitive sector alone. The Cairns Group has another important function: to represent the interests of smaller agricultural exporters, particularly among the developing countries. As more countries liberalize their import regimes, the issues that brought the Cairns Group together—concerns that world markets were distorted by export subsidies and a lack of market access for agricultural goods—are likely to become even more relevant to them. Their own open markets are vulnerable to dumped produce from other countries, and 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 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 APEC, have already indicated targets of

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liberal trade and investment. But they can go further to incorporate measures that need to go hand in hand with liberalization. A particularly crucial group in this process is APEC, which could announce that its own plans for free trade and investment by 2010/2020 need to be accompanied by measures to assist rural development, to 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 possible date would 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 open to all those 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 indeed 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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