

SUSTAINABLE AGRICULTURAL DEVELOPMENT: THE ROLE OF INTERNATIONAL COOPERATION

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Edited by
G.H. Peters, Agricultural Economics Unit, Queen Elizabeth House,
University of Oxford, England
and
B.F. Stanton, Cornell University, USA
Assisted by
G.J. Tyler
University of Oxford

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QUEEN ELIZABETH HOUSE
UNIVERSITY OF OXFORD

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AART DE ZEEUW*

*Implications of the GATT negotiations:
The Process of Reaching an Agreement on Agriculture*

INTRODUCTION

We find ourselves, in August 1991, near to the conclusion of the Uruguay Round where negotiations on agriculture are key issues. I think that the place of this conference is well chosen, since Japan is a country where agricultural reform is imperative. The country has to face new challenges as a result of the internationalization of the economy and the agricultural sector and the growing tension between agriculture and the environment. But not only Japan is involved; almost all developed and many developing countries are facing similar problems.

THE PRESENT SITUATION

So far the good intentions of the industrialized countries under the OECD umbrella to reduce agricultural support have come to nothing. The 24 OECD countries have seen a 12 per cent rise in the total costs of agricultural support to \$300 billion in 1990. The consumer carries a large share of this burden in the form of high food prices. But the taxpayer too had to contribute more in 1990 than in the previous year. The rise was mainly due to an increase in production and a fall in world market prices, though the countries concerned have also neglected to take the necessary steps to put their agricultural affairs in order. A fundamental change in agricultural policy is clearly inevitable.

The solution to the agricultural problem must be found multilaterally, so that the different countries can share the costs involved. So far this opportunity has not been taken up, and more opportunities have been lost. An example is the Ministerial Conference which took place within the framework of the Uruguay Round in Brussels in December 1990. The chance of a successful conclusion to the Uruguay Round has not been entirely lost but speed is certainly needed if the talks are not to turn into a complete failure. The conclusion of the G7 meeting in London to agree before the end of the year gives some hope.

* Adviser to the Minister of Agriculture, Nature Management and Fisheries, Ministry of Food and Agriculture, The Netherlands.

The solution to the agricultural problem, to which agricultural economists have contributed their share, is on the table. What has been lacking so far is the political courage to strike out along a new path in agricultural policy: that of a more market-oriented policy, where supply and demand forces play a more prominent role, both in the internal and in the external market. Let us hope that politicians are not going to hide behind social and environmental issues to try to delay the reform policies that are so urgently needed. In my opinion there is a real danger that this will happen. Agriculture, like the rest of the economy, will have to be integrated more closely into the international trading system. It will have to play the rules of the game; that is, face up to more external competition and a reduction in government support on the internal market – in other words, to begin a recoupling of markets and a decoupling and reduction of support to the agricultural sector, which means that farm support moves from subsidized prices to direct payments if necessary.

That is the way agricultural policies will have to go to keep the international trading system, which has worked so well in the industrial sector, on its feet. Many countries, including Japan, have benefited from it, especially after the Second World War. Major trading partners such as the USA and many other exporting developed and developing countries have asked for the agricultural sector to be included in this trading system. Europe and Japan will have to concede. They should stop trying to make the agricultural sector an exception, arguing food security and the preservation of the environment. Trade liberalization for agricultural products can go very well with food security and a sound environmental policy. There are other policy instruments apart from border protection to realize these objectives.

THE COURSE OF THE NEGOTIATIONS

Japan, the EC and South Korea were the main countries, during the 1990 Ministerial Conference in December in Brussels, who were not prepared to take a compromise proposal put forward by the Swedish Minister Mr Hellström as a basis for further discussions. The proposal included a binding commitment on a 30 per cent reduction in support and protection over the period 1990–5. The commitments were to cover three areas: internal support, border protection and export subsidies.

The EC had always taken the stand that it was prepared to commit itself on a reduction in support and protection in a general sense, without specific commitments on export subsidies and border protection. The general support, laid down in the AMS (the aggregate measurement of support) would be reduced by 30 per cent over a ten-year period, 1986–1995. The EC argued that this would indirectly lead to a reduction in border protection and export subsidies.

At the eleventh hour the EC also proved to be willing to commit itself, after all, in the area of export subsidies, but not enough for the other big trading partners. This concession could not salvage the negotiations as the EC and other countries were not willing to make an important step in the area of

border protection. The USA, the Cairns group and most of the non-exporting developing countries were very much in favour of the tariffication of all border measures. The EC only wanted to take a step in this direction under certain conditions. One such condition was that the EC be allowed to neutralize the effect of fluctuations in the exchange rate of the dollar. The EC also wanted to be able to reduce the effect on internal prices of major world market price fluctuations.

A third condition was the right to raise import duties in the future for products, notably cereal substitutes, which are now entering the EC free of import levies. These conditions, and especially the last one, were not acceptable to the USA and the Cairns group. Japan, South Korea and some European countries share the EC's reluctance to accept tariffication. These countries do not want real competition in their markets with basic products from third countries. They plead food security and the specific provisions in the General Agreement under Article XI, allowing quantitative import restrictions on the condition that the country concerned shall curb domestic production effectively.

Fewer differences existed in the area of internal support. This has to be lowered in a way comparable to that of border measures and export subsidies in so far as those support measures are trade-distorting. An agreement on a list of acceptable internal policy measures which would not be submitted to reduction was already at hand. The real cause behind the breakdown of the negotiations was the unwillingness of countries, like Japan, the EC and other European countries to commit themselves under GATT to reform their agricultural policy drastically. They were not prepared to accept the re-instrumentalization of agricultural policy as the USA and the Cairns countries had asked them to do. What these countries wanted to achieve was the full integration of the agricultural sector into the GATT trading system so that the agricultural sector would be governed by the same trade rules as other sectors. This means that, as the only instrument for border protection, import duties are to be applied and reduced and that export subsidies are to be banned. This might be compensated for by more direct income support payments.

THE FUTURE

The question now is whether, since Brussels, these positions have changed and whether as a consequence the chances for a successful conclusion to the Uruguay Round have increased. The position of the EC is of vital importance here. Since Brussels the EC has not really changed its view, but it is noteworthy that since the breakdown of talks the European Commission has, through its agricultural commissioner, Mr MacSharry, come up with new ideas for the future of the Common Agricultural Policy (CAP). The Commission now admits that the CAP has failed and is in urgent need of reform. Although the member-states agree on the necessity of reform, a consensus on the direction this reform is to take is still nowhere in sight. The outcome of the internal discussions on the coming CAP reform, therefore, is still uncertain. But it is by no means unlikely that the two processes, the Uruguay Round trade nego-

tiations on the one hand, and the internal CAP reform discussions on the other, will influence one another.

The failed summit in Brussels and the discussions following MacSharry's proposals will mean that the other negotiating partners will have to face the facts once more: the agricultural reform policy is a very delicate business and is still an uphill struggle, not only within the EC but also in other European countries and undoubtedly also in Japan and South Korea.

I hope this will lead to a GATT agreement as a first step to a real market-oriented agricultural policy where trade barriers are reduced to a minimum and agricultural support is substantially reduced. A solution in the long term should, I think, include the following elements:

- Border protection to be replaced by fixed import duties. These are then substantially and progressively reduced according to a schedule to be established. This will bring about a genuine coupling of the internal and external markets which makes it possible to compete with other countries on the internal market.

- Export subsidies to be governed by more stringent GATT rules and to be phased out at a rate equal to that applied to import duties.

- Internal subsidies, in so far as they are product or market-related, to be phased out at a rate equal to that of border protection.

- Finally, strict rules are necessary to prevent veterinary and phytosanitary measures from becoming unnecessary trade barriers.

Is it possible for countries such as Japan, South Korea and many European countries to cope with the competition from third countries which will then arise? I think, generally speaking, that the answer is yes, provided the following conditions are met:

- First, these countries must retain the possibility to maintain certain levels of import duties to compensate for the differences in climate and agricultural structure compared to that of North and South America, Australia and New Zealand.

- Second, safeguard measures are established to provide temporary extra protection in the form of escape clauses which come into force in times of a significant surge in imports and/or in the case of a significant decline in world market prices.

- Third, temporary income support payments are to be handed out to producers in regions where agricultural restructuring is needed.

- Finally, there must be a possibility to give extra support to permanently disfavoured areas; and stringent environmental measures are to be taken into account.

The main thing to be decided on is not by how much support and protection are to be reduced over the years to come but what trade political instruments may be implemented in the agricultural sector in the coming years. The central question is whether import duties will become the main instrument for border protection and genuine tariffication will be introduced.

Genuine tariffication means that the complete isolation of internal markets from the world market will no longer be a possibility. If this road is not taken, international agricultural policies will be determined even more by government regulation. To keep prices artificially high, independent of what happens in the world market, will inexorably lead to production control. Such a policy is inextricably bound up with quantitative import and export control measures.

I hope that the latter scenario will not be followed. I am convinced that the agricultural sector will benefit greatly from a reduction of government intervention in the market. Experience has shown that sectors which are not protected by guaranteed minimum prices show a much more favourable income development in the long run than protected sectors. Countries where an agricultural policy of guaranteed and often high minimum prices has been pursued can hardly maintain their competitive edge. The lack of built-in incentives due to a lack of outside competition leads to agricultural structures to which adjustments cannot easily be made. I think, therefore, that it is also in the interest of these countries to expand their market access opportunities and to allow imports from third countries. This will force producers to look for more efficient production methods, such as expansion in scale. Right now it is difficult for these countries, including Japan, to compete on account of their labour and land productivity, which is far too low. In my opinion the government should provide financial support as a temporary measure so that the necessary structural reforms can be made. The Japanese rice culture and the Canadian dairy sector are examples of areas where such reforms are needed. A similar situation will occur in the USA for such protected commodities as dairy products, sugar, cotton and peanuts. The dairy and cereal sectors in the European Community will not escape the adaptation process either.

These reforms will, in the end, offer more promising prospects for the agricultural sector, not least through the creation of new markets in the non-food sector as a result of competitive prices. There is the potential for producing renewable energy resources or building materials. The coming months will have to provide clarity over the way agricultural policies will develop. The internal discussions in the European Community will no doubt add considerable weight. It is of course tempting for Japan and other countries to wait for the outcome of these discussions before taking a definitive stand in the Uruguay Round trade negotiations. This, however, would be a very risky undertaking, as it is by no means clear what the outcome of the internal EC discussions is going to be. The wrong outcome could put the whole Uruguay Round at risk and with it the international trading system which is so vital to both the developed and developing countries, not least for a country such as Japan. An early Japanese stand in the negotiations which would point the direction their future agricultural policy is going to take may provide an important stimulus not to let the Uruguay Round negotiations on agriculture fail.

CONCLUSIONS

During the whole five-year span of the Uruguay Round there has been a willingness at the highest possible political levels to integrate all agricultural commodities in the existing liberal trade system of the GATT. The course of the negotiations has made it crystal clear that this is only possible if the developed world is willing to bring about fundamental changes in current agricultural policy. Until now policy has been based mainly on guaranteed prices for the producer, independent of market forces. It is generally accepted that this must be replaced by a much more market-oriented policy, where market forces are allowed their free play. The negotiations have shown that the most realistic way to realize this goal is:

- to accept the tariffication of all border measures and a subsequent substantial reduction of tariffs over time (five to ten years): along with a safeguard clause to prevent prices from falling too far below a reference price, and a minimum access commitment during the transitional period. For certain basic products a temporary exception could be negotiated, using a strengthened Article XI (the possibility of quantitative import restrictions in the case of production control). Rebalancing of import restrictions can only be negotiated on the basis of Article XXVIII, and would require compensation.
- to accept for the transitional period (five to ten years) that existing export support cannot be more than the difference between internal and external market prices and cannot be more than the import tariff at the border. After the transitional period a new decision will be necessary on the question of the continuation of export support.
- to accept a list of national support measures, not falling under the reduction commitment, to make it possible to execute support programmes to restructure agriculture; to compensate for environmental measures and so on. This list cannot include product- or market-related support.
- to accept that developing countries with a backward agriculture need more time to introduce the new rules and that certain importing developing countries need extra help in case trade liberalization results in higher international market prices for some basic commodities.
- to accept stringent rules in the area of veterinary and phytosanitary regulations, to prevent them being used as non-tariff barriers.

If contracting parties are willing to accept this agenda as the basis for an agreement, I am sure that the Uruguay Round will not fail. A failure will certainly lead to alternative regional agreements between, for example, the USA and South America, Japan and other countries in the Pacific regions and Eastern Europe and Western Europe. Regional agreements need not be bad if they can be integrated into a world-wide agreement on trade. If not, many developing countries, in particular, will fail to obtain real opportunities for export to the more wealthy regions. It is for that reason, in my view, that regional agreements, instead of a world-wide agreement, are not acceptable. Furthermore, regional trade agreements will not solve the real agricultural trade problems. In fact, to bring supply and demand into balance requires a

real international effort to open up markets world-wide through multilateral negotiations.

DISCUSSION OPENING – LOUIS P. MAHÉ*

Mr de Zeeuw opened his paper with a brief description of the critical situation of international relations associated with agriculture, moving on to present an interpretation of the events which led to failure of the Brussels negotiations in December 1990. He then outlined the main directions for reform in agricultural marketing policies which he regards as necessary for future negotiations to be successful.

I do not profoundly disagree with his views, particularly those concerning the need for reforming agricultural policies in industrialized countries and subjecting them to the discipline of GATT. My remarks and questions concern, first, the costs of current policies and, second, the logic underlying the positions adopted by those taking part in the international game which the current negotiations represent.

In his review of the current situation our speaker reminded us of the extent to which agriculture is supported in OECD countries, and drew attention to the fact that reform intentions have come to nothing. The measure of support cost used is the PSE – Producer Subsidy Equivalent, plus the other budget expenses in favour of the sector. However, as everyone knows, the PSE represents a transfer rather than an economic cost in terms of welfare. Even if a part of the collective waste due to lobbying is added to the classical deadweight loss represented by the welfare triangles, the total is certainly less than the 300 billion dollars mentioned, although it would remain high. My comment is not intended as an academic debating point, it simply represents the limits of the contribution which we, as agricultural economists, have made to the debate.

Mr de Zeeuw stated that agricultural economists have done their share of the work in revealing the extent of the problems posed by protectionism, and stated that it is now the politicians' turn to show courage. It cannot be denied that important analytical work has been done, but I feel that I can put all my colleagues' minds at ease! There is still much for us to do and unemployment is not just around the corner. Do we really know, at the world level, what the losses in GNP and in employment caused by national policies really are? Further, can we estimate the long-run effects on the remuneration of productive resources? We do know much about the transfers involved, and they are obviously of importance in themselves, but that is not the end of the story. There is still need for more analysis both to inform politicians (and perhaps make them more courageous) and to communicate results in a form understandable to the general public.

Against the background of more adequate information we should also question the logic of our institutions. As agricultural economists we need to examine the national and international institutional conditions which act as a brake on

*Ecole Nationale Supérieure Agronomique, Rennes, France.

reform. This is the subject now explored in the 'new political economy' which focuses on the complexity of the institutional processes through which decisions are made. Though supported by an underlying democratic system, our processes are influenced by lobbying and affected by the behaviour of bureaucracies. For example, at the national level, we must find a parry to producers' lobbies. Since their members have similar interests, they are the strongest spontaneously organized groups, and thus the most efficient in influencing politicians clearly sensitive to the votes of their electorates. The interests of taxpayers and above all of consumers, who are too scattered to organize themselves spontaneously, in matters of agricultural policy need to find an institutionalized means of expression. This is difficult because of the high costs of organization and of free-rider behaviour. In addition, ministries specializing in the administration of agriculture have an excessive role in formulating policies; they display systematic bias in favour of short-term sectoral interests, and frequently freeze reform. This is a real challenge in our societies and Mr de Zeeuw is correct in arguing that there is real risk of the true nature of the agricultural debate being eclipsed by weak arguments about social, regional, environmental and food security issues. I would like to strengthen his remarks about the latter. It is unacceptable, from an intellectual as well as a political point of view, that advanced countries in Europe, and above all Japan, should refer to the food security argument at all. The monetary resources are available to obtain food supplies without difficulty – even by imports!

At the international level we must channel external forces so that they support the processes of internal reform, and we must avoid stopping the current negotiations needlessly. It is clumsy, and probably counterproductive, to adopt the view that some countries must 'give in'. It is risky to view international negotiations as a game between countries in which there are winners and losers. This only provides nationalistic arguments to lobbies which are only too willing to denounce external pressures, and does not help public understanding of the issues involved.

In the second part of his paper, Mr de Zeeuw turned to a description of the negotiating process, stressing the extreme opposition between, to simplify, the United States and the Cairns group on the one hand, and the EC, Japan and other European countries on the other. In my view this opposition cannot be considered as one between loyal supporters of international trade, which appears to be the way in which the Cairns group views the position, and the others, who are less keen to allow the full integration of agriculture into the world trade nexus. In fact, the reluctance of countries to reform agricultural policies under the GATT system is a much more widespread attitude, and indeed one which the United States has itself adopted for some time using the waiver and Article XI. Much depends on internal interests rather than on purely doctrinal conceptions favouring liberalization. It is true that Japan does not take the same view of international exchange in food as it does in the cases of cars and electronic goods. However, there are interests at work on the other side. The United States and the Cairns group are in favour of freer trade since they might benefit as exporters. In particular the United States is mainly interested in effects on grain and oil-producing crops, and little mention is made of milk products, sugar and other commodities. Indeed, it appears

unlikely that the United States could have sustained the extreme zero-option position because of internal political considerations. That may well have motivated their search for some compromise. Similar remarks can apply to other parties, notably Canada.

While the reform protagonists may discern some potential gains, the countries which have applied a brake to liberalization are in a very different position; they are traditionally importers (the Community has involuntarily become an exporter) and can expect few benefits to their agriculture. Of course they could gain overall, but again any doctrinal faith in free trade is submerged by political realities. GATT could sometimes be regarded as an intruder upsetting the status quo. However, the position in the Community has itself changed since December 1990. Driven by other internal pressure, notably budgetary cost, the Commission has begun a significant reform process – in my view it is a true revolution – which changes the whole shape of the continued negotiation. Indeed the proposals almost exceed the expectations of the USA and the Cairns group! Notice, however, that they are mainly directed towards larger-scale arable farming and have less impact on animal products and on sugar. This does not displease the United States, though it may disappoint Australia and New Zealand. The reform suggested by Mr MacSharry would lead to the near elimination of export refunds on cereals, and direct support towards payments decoupled from production. While Mr de Zeeuw seems to be rather pessimistic about the chances of this reform being successful and having an influence on trade negotiations, the link appears to be inevitable. Even if it is only partially adopted, the position of the Community can no longer be that of November 1990, even though the latter is still the official one. The probable extension of the Uruguay Round negotiation into 1992 will reinforce the link between it and CAP reform.

This evolution of the CAP appears to me to be directed along the lines of liberalization which Mr de Zeeuw favours, and seems compatible with his minimum conditions for GATT progress. Other negotiators should react by facilitating the Community reform process and not put a brake on it by making extreme demands such as the total decoupling of supports, insistence on complete internal transmission of world price movements, or disallowing some limited action affecting imports of animal feedstuffs. The process of reform could be slow, but that is itself necessary to avoid too sudden exposure of European (or Japanese) agriculture to external competition. I have criticized the CAP often enough not to be classed as one of its supporters and therefore feel that I can safely applaud the latest proposals as being along the right lines. They may not meet some strict conditions, but imperfect instruments which lead in a worthwhile direction have much in their favour. I also believe that they should be supported within Europe; there are critics (the United Kingdom and the Netherlands) who often appear to call for reform but nevertheless oppose the MacSharry scheme because of effects which it might have on larger farmers. That appears to be a case of conflict between principles and a position dictated by internal political interest.

Mr de Zeeuw does not make any forecast about the likely progress of the negotiations. He clearly indicates his views about the desirable outcome of at least partial liberalization, but in general he remains cautious about the chances

of success. My own view is that the nature of the international game does not provide a favourable setting for the advance of multilateralism. The advantages of freer agricultural trade are not obvious, they are scattered among all citizens, who are badly represented internally in most countries, and hence in the negotiations. Free trade is very much a 'public good' which is not easy to secure in the context of multilateral bargaining. The most-favoured-nation clause reinforces this problem by dissipating the benefits of concessions made by any one country to all participants, thus increasing the risk of free-rider behaviour. In such circumstances, closer interactions between countries through bilateral or regional agreements become very tempting.

Despite the initial gap between negotiating positions, and the differences in the political and economic conditions in the countries affected, the combination of internal and external factors now at work could produce an agreement. However, there are so many obstacles to be overcome that we can only expect it to be one of limited significance, though perhaps one which will begin to subject agricultural policies to some international discipline.