

**THE UPCOMING ROUND OF AGRICULTURAL TRADE
NEGOTIATIONS:
POSSIBLE US OBJECTIVES AND CONSTRAINTS**

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Foreword

Professor David Blandford visited Massey University as a 1999 Venture Trust International Fellow. He has a distinguished career as an agricultural economist, specialising in agricultural trade and policy. After spending the 1980s at Cornell University (USA), he was appointed Head of Division in the Directorate for Food, Agriculture and Fisheries at the OECD in Paris in 1988. In late 1998, Professor Blandford took up his current position as Head of Department of Agricultural Economics and Rural Sociology at the Pennsylvania State University.

This Discussion Paper is an extended version of a public seminar he presented at Massey University. A new Round of international trade negotiations, to include trade in agricultural products, is due to commence in the next couple of months. Despite the successes of the previous Uruguay Round of trade negotiations, many and sometimes substantial barriers to agricultural and food products trade still exist. Considerable thought is currently being applied to the agenda for the new negotiating Round, and the approaches that might be taken. Will countries be satisfied with the previous approach of reforms to market access, export subsidies and domestic support being further pursued? Will some of the so-called 'new trade issues', such as the activities of state-owned enterprises and marketing boards, or trade in genetically-modified foods be subject to negotiation? Will developing countries have an agenda different from that of the industrialized economies? And will the USA be as forceful an exponent for freer agricultural trade as was the case in the Uruguay Round? This Discussion Paper addresses several of these issues, and focuses on roles that the USA might be expected to play.

Allan N Rae
Director

Introduction

The Ministerial meeting of the World Trade Organization (WTO) that takes place in Seattle from November 30 to December 3 will launch a new round of trade negotiations on agriculture. During the last round of negotiations – the Uruguay Round – the United States had clear objectives for agriculture – to bring the sector under effective international trade disciplines, increase access for U.S. agricultural exports to foreign markets, and limit competition from subsidized exports. There was broad support for these aims among domestic agricultural interests, and at least tacit support for the negotiations among the population as a whole.

The situation this time is less clear. Despite a period of sustained economic expansion without parallel in U.S. history, low inflation, high prices in equity markets, and the virtual elimination of involuntary unemployment, support for trade liberalization is fragile. In some segments of society – among environmental lobby groups and organized labour, for example – there is outright opposition to further trade liberalization. In the agricultural sector, depressed prices and greater international competition have led to a weakening of support for liberal trade. This, coupled with the uncertainty that is inevitably associated with upcoming presidential and congressional elections in November 2000, makes it difficult to determine the likely U.S. position in the negotiations.

In fact, there are a whole series of views on these negotiations in the United States – their desirability, what we should seek to achieve, and what would be a good or bad outcome. Current and future administrations will probably have different views on these issues to those of the Congress, various interest groups – such as farmers, agribusiness, and environmentalists – will have differing perspectives, and subgroups within these will also. The attitude of U.S. sugar farmers is likely to differ from that of soybean farmers, the attitude of dairy farmers in one region of the country may differ from dairy farmers in another. In the final analysis, it will be the domestic political climate during the negotiations that will determine the U.S. negotiating stance. If this is conducive to freer trade, U.S. negotiators will probably seek significant changes in trade policies; if the mood is more protectionist, they will be far less ambitious.

In this paper, I shall attempt to identify what the United States *might* seek to achieve in the negotiations, and the factors that will help or hinder the pursuit of a trade liberalizing approach. My focus will be primarily on domestic constraints, although I shall also comment on some of the key factors that will influence the attitudes of other major players in the negotiations.

The Uruguay Round Agreement on Agriculture (URAA) – What did it give us?

The Uruguay Round negotiations under the General Agreement on Tariffs and Trade (GATT) were launched in Punta del Este, Uruguay in September 1986. They ended more than seven years later with the signing of the Final Act in Marrakesh, Morocco in April 1994. The Uruguay Round, the eighth in a series of tariff-cutting rounds stretching back to 1947, was particularly significant since it was the first time that a serious attempt was made to address agricultural trade barriers. In the final analysis, only limited progress was actually achieved in reducing barriers to agricultural trade under the URAA. Indeed, it could be argued that the results were only loosely consistent with the principle of non-discrimination that forms the cornerstone of the GATT. However, the Agreement does provide a basis for the future reduction of barriers to agricultural trade.

Major elements of the Agreement

The Agreement is quite complicated, and there are a number of special provisions and exceptions (Josling et al.). However, the major elements are:

1. Market access – non-tariff barriers were converted into tariffs and bound (set at fixed rates); the bound tariffs are being reduced over the life of the Agreement (1995-2000) for a total reduction of 36 percent on average (and a minimum of 15 percent per tariff line); countries agreed to provide a minimum level of access for imports (i.e. volume of imports subject to tariffs below the bound rates) equivalent to 3 percent of domestic consumption, rising to 5 percent over the life of the agreement (there are safeguards – additional duties can be imposed if there are sudden surges of imports or drops in import prices).
2. Export subsidies – outlays on export subsidies are being reduced by 36 percent and the volume of subsidized exports by 21 percent.
3. Domestic support – expenditures estimated under the aggregate measure of support (AMS) are to be reduced by 20 percent, with the exception of “green box” measures, i.e. those judged to be minimally trade distorting (there were other exceptions relating to “blue box” measures that are discussed further below).

The base period used in calculating the minimum access level and other components is 1986-88, with the exception of the export subsidy commitments for which it is 1986-90.

Tariffication and market access

One of the major achievements of the Agreement was tariffication – the conversion of non-tariff barriers into tariff barriers. The pervasive use of non-tariff barriers and the lack of transparency that such barriers create was a major cause of distortion in international agricultural markets in the years leading up to the Uruguay Round. However, the bound tariffs agreed in the URAA are often very high. Indeed there were allegations of “dirty tariffication”, i.e. that tariffs had been set at levels in excess of the tariff equivalent of the trade barriers that they replaced. The years 1986-88 used as a base period for the calculations were ones in which world prices were relatively low; this contributed to the establishment of high tariffs. Furthermore in many cases, the bound tariffs were above the rates actually applied, meaning that the agreed tariff reduction was a nominal rather than an effective reduction. This meant that countries could actually increase the applied tariff if they so chose, and still stay within their URAA commitments. The fact that the Agreement called for an *average* reduction of 36 percent meant that countries could choose to reduce tariffs by a larger percentage on less sensitive commodities, while maintain the maximum level of protection on sensitive commodities. At the end of the implementation period, average bound tariffs on agricultural products will be 40 percent ad valorem, compared to an average for industrial tariffs of 4 percent (Wainio et al).

An examination of the tariff schedules from the URAA reveals that they are often very complicated. There is a mixture of specific and ad valorem tariffs, some combine ad valorem rates with minimum specific rates, some tariffs vary by season, some are so tightly defined with respect to product characteristics and packaging that they are clearly designed to apply to certain suppliers, and in some cases tariffs vary for the same product on the basis of its end use in the importing country. Many of the tariff schedules are long and complex - the U.S. tariff schedule for dairy products, for example, is fourteen pages long. One of the traditional arguments in favour of tariffs is that they provide transparency – an exporter knows in advance what duty will be applied. To some extent this is true, but the exporter may need the help of a lawyer to help in deciphering the tariff schedules before attempting to enter overseas markets.

The introduction of a quantitative trade control element through the market access provision was a mixed blessing. TRQs provide the opportunity for exporting countries to gain entry to markets from which they would otherwise be excluded given the high tariff bindings, particularly when the applied tariffs are also high. The Agreement did not specify the level of in-quota tariffs that could be applied, and these vary considerably across countries and commodities. Most significantly, the TRQs have created a complicated system of regulated trade that has stimulated rent-seeking behavior by exporters and importers. The URAA did not specify how the TRQs were to be allocated nor how they were to be administered. As with the bound tariffs, countries were able to design their TRQs to minimize the impact of trade on sensitive commodities. They were able to allocate quotas in ways that

provide access to certain countries on a preferential basis. In many cases, the volume of imports has been less than that allowed under TRQs. It is not clear if this is due to a lack of consumer demand for the imported product, relatively high in-quota tariffs, inefficiencies created by the licensing system, or just plain discrimination. My own personal experience during the negotiations suggests that some negotiators recognized that the TRQ system could turn into a monster, whereas others did not foresee the problems that would result from its creation.

Export subsidies

The use of export subsidies, in particular by the European Union and the United States was a major source of trade conflict in the years leading up to the Uruguay Round negotiations. The limitations placed on the use of subsidies were, therefore, a major achievement of the Round.

Relatively high world prices for many commodities in the late 1990s have helped many countries to meet their export subsidy commitments under the URAA without too much difficulty. As world prices moved closer to domestic prices in subsidizing countries, the subsidy per unit for many products declined. However, there has been some political activity on the subsidy front. One area of controversy has been whether a country can “bank” its unused subsidies and carry them over from year to year. Hungary obtained a waiver from its export subsidy commitment on the grounds that it had made a mistake in calculating its base period subsidy outlays. Complaints have been lodged with the WTO against Canada and the European Union on their use of subsidies on dairy products. There have been discussions on bringing export credits and credit guarantees under some sort of discipline, but little progress has been made in this area. Under the URAA bona fide food aid transactions and export promotion activities were exempted from restrictions, but there are rumblings of discontent in some countries about the use of these measures by other countries.

Domestic support

Recognition by policymakers that domestic policies were the underlying cause of many of the distortions in international agricultural trade, was a major contribution to progress under the Uruguay Round negotiations. It was a considerable achievement that the URAA imposes disciplines on some type of domestic policy measures. Those policies that are judged to have the greatest impact on trade – the so-called “amber box” policies are the ones targeted in the URAA. The amount of support provided by these policies is subject to an agreed reduction. Some trade distorting policies were given a temporary exemption – the so-called “blue-box” policies – although how temporary this exemption will prove to be remains to be seen. The policy measures involved were the direct payments used by the European Union and the United States (prior to new farm legislation in 1996). Policies that were judged to have a minimal impact on trade – the so-called “green box” policies were exempted, as were certain other policies. In 1995, of the total of US\$286 in

domestic support notified to the WTO, 45 percent was placed in the green box category, 40 percent was amber, and 12 percent was blue (Nelson et al.).

Many countries are attempting to shift their support towards the green box category – at least in name if not in substance. There is an increasing tendency in Europe and Japan to argue that a variety of payments have environmental objectives and are therefore exempt. The United States, after first reducing significantly the support that is directly coupled to production by eliminating deficiency payments in the 1996 Farm Act (blue box), is now tending to regress under the pressure of low farm prices. There has been a return to the use of various measures that are included under the blue or amber box categories of support.

Other contributions of the Round

The three pillars of the URAA – tariffication and market access, export subsidies, and domestic support – were not the only contributions of the Uruguay Round Agreement. A relatively weak dispute settlement procedure, relying heavily on consensus, has been replaced by one that relies on adjudication. This has resulted in the filing of a substantial number of agriculturally related complaints. Two of these that have generated substantial publicity and public interest in the United States are the banana case, in which the United States and several Latin American countries challenged the European Union's practice of providing preferential access to its markets for bananas grown in former colonies and its dependencies. The second is the complaint brought by the United States against the European Union's ban on imports of beef produced using growth-promoting hormones. In both cases, the European Union has been judged to be in violation of its obligations. As a result of arbitration through the WTO in the beef hormone case, the United States is imposing prohibitive tariffs on imports valued at \$116.8 million from the Union. It has proposed the imposition of prohibitive tariffs on an additional range of imports in response to the refusal of the Union to change its policies on banana imports.

The beef hormone case relates to two further outcomes of the Uruguay Round – the Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement), and the Agreement on Technical Barriers to Trade (the TBT Agreement). The SPS Agreement requires that the application of barriers to trade to protect human, animal or plant life or health should be based on an assessment of the risks posed and on scientific evidence. The TBT Agreement seeks to ensure that imported products are accorded the same treatment in terms of technical requirements relating to packaging, marking and labeling, testing and certification procedures, and other requirements. Both of these agreements attempt to bring greater transparency into the rules and regulations that affect trade. The hormone case, which was brought under the SPS Agreement, the growing controversy over trade in genetically modified organisms, not to mention other concerns relating to the environment and to animal welfare, suggests that there is likely to be increasing activity at the WTO relating to these two agreements (Blandford and Fulponi).

What would the United States like to see from the upcoming round?

A characteristically guarded assessment by the OECD Secretariat summed up the results of the URAA as follows: “While the Agreement incorporates a number of highly significant and beneficial systemic changes to the trading system for agricultural products, actual impacts on trade and policy over the implementation period, particularly in the early years, may prove to be modest.” (OECD, 1995 p. 58). That assessment seems to have been accurate. The Agreement has generated few changes in domestic agricultural policies. Such changes as have occurred – such as those in the United States – or are planned – such as those in the European Union are driven less by trade concerns than by budgetary or foreign policy concerns.

The United States took an aggressive stance towards agricultural trade liberalization in the Uruguay Round. A 1987 U.S. proposal called for the elimination of agricultural subsidies affecting trade, and the phasing out of export subsidies and import barriers – all within a ten year period (Josling et al). This served to set the goals for the Round at a higher level than many other countries were considering at the time, although it is fortunate for the United States that the domestic political difficulties that would have been created by actually having to eliminate its domestic subsidies never had to be faced. Now that bound tariffs are in place, the implications of reducing those tariffs for the parts of U.S. agriculture that are likely to face the strongest competition from imports is abundantly clear to the interest groups involved. Furthermore, the mood in the Congress has not been strongly in favour of freer trade in recent years.

The negotiating process

The way things have worked in the United States in recent years is as follows:

1. The President indicates the administration’s objectives for the trade negotiations to Congress.
2. The President requests that the Congress grant the authority to enter into negotiations – the legislation includes a “fast-track procedure” by which the Congress must approve or reject the resulting agreement without amendment. This provision has existed since the Trade Act of 1974 under which the Tokyo Round of trade negotiations were conducted, because of the difficulty for the administration in concluding an agreement with other countries if this could subsequently be modified by the Congress.
3. The administration enters into the negotiations – the Special Trade Representative’s Office takes the lead role – and attempts

to conclude an agreement within the time frame specified in the legislation. If this is not done, the President has to request an extension of the negotiating authority – the Omnibus Trade and Competitiveness Act of 1988 under which the Uruguay Round negotiations were conducted – expired on June 1, 1993. As it transpired, the administration had to request an extension of the fast-track negotiating authority in order to conclude the negotiations. This can be very hazardous, particularly if the outline of a final agreement is known and those who would lose from it have the opportunity to mobilize opposition in the Congress.

4. The final agreement is delivered to the Congress, which votes on the legislation required for its implementation.

This procedure may sound as though Congress is largely sidelined during the negotiations, but that is not the case. The President must notify and consult with Congress prior to entering into a trade agreement. Congress exercises oversight of the negotiating process and is closely involved in drafting the enabling legislation. The administration has to take care to make sure that it has the votes to pass the necessary legislation. Consequently, the negotiations do not proceed in isolation from the Congress.

The recent experience with the administration's efforts to renew the fast-track authority has not been encouraging. In 1998, the administration requested renewal in order to enter into trade negotiations with Latin American countries, most notably with Chile. Several members of Congress have been very vocal in their opposition to the renewal of the authority. Some believe that the negotiations cede too much power to international entities, like the WTO. Some are sensitive to resistance to further trade liberalization by various interest groups. Several labour unions are opposed on the grounds that trade liberalization threatens the jobs and standard of living of Americans because other countries have less strict employment rules and lower wage rates than in the United States. Some environmental groups have expressed their opposition on the grounds that freer trade threatens the environment. The effectiveness of the administration in seeking congressional approval has been undermined by the President's personal and political problems.

It is unclear how vigorous or successful the current administration will be in pressing for the renewal of the fast-track authority to conduct a new round of negotiations under the WTO. We are rapidly approaching the final year of the current administration. Campaigning for the presidential and congressional elections in 2000 is well underway. It may be difficult for the administration to secure the votes necessary to approve the necessary legislation as the political campaign proceeds. Farmers' confidence in the benefits of freer trade has been shaken by the collapse of prices in the wake of economic problems in Asia and in

other emerging markets. It is likely that we shall have to wait for a new administration to press for the authority to conduct the negotiations.

The administration (U.S. Department of Agriculture, U.S. Trade Representative) is conducting a series of “listening sessions” around the United States to obtain public input into the agenda for the upcoming round of negotiations. The U.S. Trade Representative, Ambassador Barshefsky, observed “Through these listening sessions, USTR and USDA will learn first-hand which issues are most important to farmers, ranchers, and the entire agriculture industry, and what trade policies would be most effective in helping to increase U.S. agricultural exports. USTR and USDA negotiators will continuously review the recommendations from these sessions in developing our negotiating objectives for the next round of agricultural negotiations” (Press release, May 5, 1999).

U.S. objectives in the upcoming round

The current administration has signaled its principal objectives for the round. These may be modified somewhat, particularly under a new administration. However, they are probably fairly representative of what U.S. negotiators are likely to be seeking. They may be summarized as follows:

1. Substantial reductions in bound and applied tariffs.
2. Substantial modification to the TRQ system – either by increasing the market access percentage, or by cutting the over-quota tariffs. Some combination of these, if of a sufficient size could render the TRQs essentially redundant.
3. A further substantial reduction, if not the elimination, of export subsidies.
4. The imposition of disciplines on the activities of state trading enterprises, such as marketing boards, since monopoly importers or monopsony exporters are viewed as restricting trade or presenting unfair competition.
5. Maintenance of strong rules under the SPS and TBT agreements, so that countries are not able to use these to establish barriers to imports on the basis of production practices or genetic material.
6. Tightening of restrictions on the use of disguised subsidies (for example, green support that is trade distorting) or nontariff trade barriers, and the elimination of the “blue box” category of measures (providing that the United States can continue to provide support, when needed, under the green box category).
7. Continued strengthening of the dispute settlement procedure to insure that the rules are enforced and that suitable sanctions are imposed on violators.

It is currently unclear what the U.S. attitude will be on the degree to which countries should be permitted to pursue domestic objectives, with respect to the environment for example, and still meet their international obligations. Yet, achieving progress in the negotiations is likely to depend on how such domestic objectives and concerns can be satisfied in the key players. The challenge will be to promote the use of domestic and border measures that are minimally trade distorting in order to achieve such domestic objectives, so that the more distorting policy measures can be reduced through the negotiations.

What are the constraints in the United States to achieving these aims?

In addition to the problems that the current and future administrations are likely to face in obtaining the necessary authority to conduct a further round of trade negotiations, there are a number of specific agricultural constraints that will have to be overcome. As the Uruguay Round unfolded it was clear that the main U.S. aim was to provide a framework under which future negotiations could make progress on trade barriers, and to obtain some immediate benefits for U.S. agriculture through a modest increase in export opportunities and reduction in subsidized exports from other countries. The main commodities affected by this strategy were the bulk commodities, such as grain and oilseeds. The more sensitive domestic commodities, such as dairy products and sugar, were largely unaffected by the results of the negotiations. Apart from a few exceptions during periods of high domestic prices, exporters of dairy products have not found it profitable to ship to the U.S. market given the high over-quota tariffs that they face. U.S. dairy exports have generally been modest and have mostly been under government programs.

Support for trade liberalization

The degree of support by U.S. agricultural interests for a new round of trade negotiations will be important for U.S. negotiators. Even though the upcoming negotiations will cover other areas – in particular, services – it would be extremely difficult for any administration to sell a trade deal to the Congress that did not include some benefits for agriculture, regardless of the size of the benefits that an agreement might yield in other areas. As yet, the possibility of further agricultural trade liberalization is not a major item on the domestic political agenda. Farm groups are far more concerned by other matters, such as low domestic prices for many commodities, such as grains, oilseeds and pork, because of increased production and relatively weak market demand. There is far greater debate about structural changes, such as the development of some very large pig or milk producing farms, mergers and acquisitions in the processing and marketing sector, and environmental issues, such as those associated with intensive animal agriculture, than about the possibility of further trade liberalization.

The fall in the prices of many farm commodities during the last two years, due to a reduction in overseas demand and increases in production, has generated a flurry of political activity. A recent analysis of the situation suggests that the fall in farm prices has been primarily due to increased production, rather than due to a fall in demand (Doering and Paarlberg). In other words, farmers' own decisions and the weather (for crops) are at the root of the problem. Whatever the cause, politicians have been eager to show that they are sensitive to farmers' problems and to offer them financial support. Although farmers only represent 2 percent of the working population in the United States, they continue to exert substantial influence on the political process.

With the conclusion of the Uruguay Round of negotiations, the United States was able to introduce a major reform of its farm legislation. The 1996 Federal Agriculture Improvement and Reform Act (FAIR) which is in effect through 2002, eliminated the commodity-specific deficiency payments and planting restrictions that had been the centerpiece of earlier legislation, replacing these with payments that are decoupled from farmers' planting decisions for individual crops. With declining farm prices additional measures have been taken to support prices and farm incomes. These include government purchases of some commodities, the provision of additional cash payments and an increase in funding for loans. It is not certain how much additional financial assistance will be provided to farmers this year, but it is clear that this will be in excess of \$7 billion. Total payments to farmers under the Fair Act and the further measures taken by the administration and passed by the Congress will likely reach \$16.6 billion, second only to the 1987 record of \$16.7 billion (Morehart).

During the Uruguay round, U.S. agricultural interests were generally supportive of the aim of liberalizing agricultural trade. Commodity sectors that we seen as having the most to gain, such as grains and oilseeds, were naturally in favour of changes that could increase their access to overseas markets. Commodity sectors that were fearful of the impact of trade liberalization, such as dairy and sugar, were reassured by the fact that they the outcome of the Uruguay Round would not be likely to subject them to greater competition from abroad.

As we enter a new round of negotiations, support for freer trade among agricultural interest groups has weakened considerably. There has been a natural tendency by politicians and some agricultural interests to emphasize the positive aspects of freer trade, such as easier access to markets and less competition from subsidized exports by other countries. There has been a reluctance to acknowledge that freer trade might mean greater competition in domestic markets, and that international trade can be risky. The reduction in demand for U.S. agricultural exports in the wake of financial crises in Asia in recent years came as a shock to some who had been led to believe that international demand and prices could only head in one direction – upwards.

Consequently, among U.S. agriculture as a whole there may be less enthusiastic support for the upcoming round of negotiations than during the Uruguay Round. Among those segments who would clearly gain from an expansion of market access and further reduction in subsidized competition, such as the grain and oilseeds complex, there is likely to be more skepticism about the negotiations and their potential benefits than previously. Among those segments of agriculture that could face a significant increase in competitive pressure as a result of trade liberalization, there is already outright opposition to the negotiations. This is the case for sugar.

Sugar

The domestic sugar industry has traditionally opposed trade liberalization¹. Prior to the Uruguay Round it operated under a protective system of import quotas. The volume of imports was tightly regulated in order to keep domestic sugar prices above world prices. Under the URAA, a TRQ with a variable quota has achieved the same result. Domestic sugar prices are roughly double those on international markets. As a result, lower-cost sweeteners, such as high fructose corn sweetener, have made substantial inroads into the market, particularly in processed foods and beverages. There is opposition to trade liberalization by the sugar industry and by the sweetener industry as a whole as a result of this situation, since both anticipate that cheaper imports would displace them from domestic markets. On the other hand, large users of sweeteners, such as the soft drinks industry, support trade liberalization since this would allow them access to cheaper sources of supply. The U.S. sugar lobby is a powerful political force that is likely to be very active in its opposition to any liberalization of sugar imports.

However, a foreign policy dimension complicates the sugar situation. The exporters of sugar and related products to the United States are primarily developing countries – Latin American and Caribbean countries provide roughly 50 percent of total imports by value and roughly 70 percent of the volume of cane and beet sugar imports. Access to the high-priced U.S. sugar market has been used to further U.S. foreign policy objectives, including economic development in the Western Hemisphere. Given the current political situation, exports from one of the largest sugar producers in the region – Cuba – are excluded from the U.S. market. An interesting situation could emerge if political and economic reform occurred in Cuba. Any substantive movement to democracy and a market economy in Cuba would place enormous pressure on U.S. politicians to help the country economically. One of the options that would inevitably arise would be to open the U.S. market to sugar imports from Cuba. This would be a tangible and immediate step that could be taken to increase the flow of dollars into the struggling Cuban economy and to help avoid a mass exodus of Cubans to the United States.

¹ For an industry viewpoint on this see Roney (1999).

With the possibility of future political change in Cuba, its continued economic difficulties, and the strong emotional linkage which exists between Americans of Cuban descent and those on the island, pressures to liberalize U.S. sugar imports might come from a source unrelated to international trade negotiations. The likelihood of such outside pressure for change in U.S. sugar policy will increase if the negotiations take some time to conclude.

Dairy

If substantial progress is to be made in the negotiations, it will be necessary to liberalize trade in dairy products. The attitude of the U.S. dairy industry to the negotiations will be important.

Traditionally, the U.S. dairy industry has taken a protectionist stance on trade. U.S. dairy policy played a significant role in undermining the application of the GATT to agriculture in the 1950s. The United States was forced to obtain a waiver for the introduction of import quotas for dairy products under Section 22 of the Agricultural Adjustment Act in 1955. As Josling et al observe this “was to have a chilling effect on international agricultural trade policy.... and demonstrated that agricultural products were indeed subject to different trade rules” (page 29).

Until the 1990s the main concerns of the dairy industry with respect to trade were to ensure that any loopholes in the quota system that would allow greater imports of dairy products were closed, and that government funds were available to export “surplus” dairy products.

The current situation is far less clear cut primarily because of reforms in domestic dairy policies. Under the FAIR act dairy policy has been changing dramatically. A phase-out of dairy price support was initiated with the program scheduled for elimination on January 1, 2000. Under previous legislation government purchases of butter, nonfat dry milk, and cheese were used to prevent the farm price of milk from falling below a specified level. In addition it was decided to consolidate the then 33 federal marketing orders into 10-14 orders. The federal order system had been used as a price discrimination mechanism to maintain higher consumer prices for fluid milk than would otherwise be the case, and to limit interregional competition in the dairy industry.

On March 31, 1999 the Secretary of Agriculture announced that the consolidated milk marketing order system will be composed of 11 orders. He also proposed a new pricing mechanism for milk in which the price would reflect the market value of its various components, such as butterfat and protein. It is unclear whether these reforms will be successful. The change in the pricing mechanism is generating opposition in some parts of the dairy industry and may not succeed. The industry as a whole is unsure as to whether it wants to move in a market-oriented direction.

The changes in dairy policy under the FAIR Act would lead to greater market orientation in the U.S. dairy market. In addition, the industry is undergoing major structural changes. Dairy farms are growing larger; some very large dairy farms have been established in certain areas of the country, most notably the west and southwest. In addition, there has been substantial activity in mergers and consolidation activity among cooperatives and private dairy processors. These changes are generating stresses and strains in the industry. Some producers would like to preserve a more protected market and look to price enhancement by controlling the allocation of milk to various uses as a means of maintaining profitability. Others are focusing on controlling costs and increasing technical and economic efficiency in order to increase profitability.

It is likely that with continued advances in technical and economic efficiency, a substantial part of the U.S. dairy industry would be competitive in international markets if world trade in dairy products were liberalized (Blandford, forthcoming). Some in the industry view international trade liberalization as an opportunity for expansion, but this is probably not a widely held view. If the U.S. dairy industry were to add its support to trade liberalization efforts, this would provide a powerful impetus to the negotiations. In any event, the evolving attitude of the dairy industry to international trade is likely to have an important impact on the U.S. negotiating position in the upcoming round.

How might U.S. objectives relate to those of other major players? ²

In the Uruguay Round, the key to conclusion of an agreement was reaching an accommodation on domestic and international trade policy between the European Union and the United States. It was necessary to take into account the interests of other key players, for example, Japan on the question of rice, and to provide some concessions to other interest groups, for example, developing countries on the issue of compensation for possible increases in the costs of food imports. However, these were less important than the E.U.-U.S. deal that was concluded at Blair House in November 1992, which itself was made possible by final acceptance of the need to undertake a more ambitious reform of the Common Agricultural Policy (CAP) of the Union.

In the new round of negotiations, it will again be important for the Union and the United States to reach an accommodation on their policies, although the outcome of the round is unlikely to be entirely dominated by these two players. Nevertheless, the negotiating position of the European Union will be critical, and as in the

² For a detailed analysis of the implementation of the URAA in the major countries and their attitudes to further changes in the upcoming round see Josling and Tangermann, 1999.

Uruguay Round its willingness to make further changes in the CAP will be of major importance.

The European Union

Despite changes in the Common Agricultural Policy as a result of the MacSharry reforms of the early 1990s, fundamental weaknesses persist. The situation in the grains sector has improved as support prices have been reduced, allowing domestically produced grain to become more competitive with imports, particularly in livestock feed. However, the dairy and sugar sectors are only kept in a rough equilibrium by means of production quotas and the beef and lamb sectors are prone to overproduction. The costs of the policy have become increasingly visible – more of the burden has been passed from consumers to taxpayers as price supports have been replaced by direct payments. More important, the stated aim of the Union to expand its membership by including countries primarily from eastern and central Europe, poses major problems. To provide farmers in the new entrants with the same generous direct payments made in the current Member States would be expensive. Even without such payments, coping with the increased supply that would result from the increase in prices in some of the new entrants would be problematic, particularly given the restrictions on subsidized exports agreed under the URAA.

In recognition of these potential problems, the European Commission called for further reform of the CAP under its “Agenda 2000” proposals. Characteristically, the actual reforms agreed by the E.U. ministers of agriculture in Berlin in March 1999 were less radical than those proposed by the Commission and are unlikely to resolve all the underlying weaknesses in the CAP. These reforms, which will create some reduction in support prices but at the cost of higher direct payments, are unlikely to be sufficient to solve the problems that would be created by an expansion of the Union. Nor do they allow much room for trade liberalization in the WTO negotiations, particularly in key commodities such as dairy products and sugar.³

If significant progress is to be made in the upcoming negotiations on reducing tariffs, increasing market access and reducing or eliminating export subsidies, further reform of the CAP will be needed. If the United States and other countries take an aggressive stance on trade liberalization, the conclusion of an agreement will be tied to the European Union’s ability to achieve a further modification of the CAP that will be acceptable to domestic constituencies, the new entrants, and third countries. This will pose even greater challenges to the ingenuity of the European Commission and the political leadership in the Member States than did the Uruguay Round of negotiations.

³ A more in-depth analysis of the agreed reforms to the CAP and their relationship to the upcoming round of negotiations is provided by Swinbank, 1999.

Further complicating the situation in Europe, is the increasing public attention being paid to a number of domestic objectives that are being interpreted as being under threat through trade liberalization. The two major areas involved are:

- Multifunctionality – an ill-defined concept which is generally interpreted as agriculture’s role as the supplier of a number of desirable “outputs” in addition to food and fiber. These attributes may range from environmental goods, such as landscape, to employment, social stability, and the maintenance of a viable rural economy and rural population. It is also argued that there is a “European model” of agriculture whose characteristics are worth preserving. Whatever the economic merits of these concepts, which would seem to have validity only in so far as the supply of identifiable public goods is concerned, they are used as arguments for preventing the exposure of European agriculture to international competition.
- Consumer issues – these range from concerns over food safety (whether objectively based, or largely subjective in nature) to preferences for certain methods of production (e.g. relating to animal welfare). One issue – that of genetically modified organisms – is particularly problematic since it falls in both categories. Again, whatever the merits of the issues involved, they are often used as arguments for limiting imports.

Even if it were possible to convince European interest groups that the achievement of domestic policy objectives did not require the restriction of imports, it may be difficult to avoid the use of direct payments that influence production and hence trade. The supply of a public good (e.g. a particular type of landscape) may require a particular production system or level of agricultural output. On this basis, the European Union and other countries may seek to use this argument to justify the legitimacy and continued use of “blue box” payments.

The multifunctionality argument and consumer concerns in Europe, which are gaining in political prominence not only in the Union but also in a number of other countries such as Norway and Switzerland, could be used as the basis for mobilizing opposition to trade liberalization beyond the farm lobbies. This could complicate substantially the process of reaching an agreement with the Union on further trade liberalization.

Japan

The Japanese position in the upcoming negotiations is fairly easy to predict. Japanese negotiators will seek to minimize further concessions on market access, particularly for the most sensitive commodity – rice. In this it will receive support from some other Asian countries, most notably Korea.

In addition to the multifunctionality argument, which it also espouses, Japan will stress “food security” as an issue, by which it means its ability to limit the exposure of the domestic rice industry to international competition and a consequent decline in domestic rice production. Although it is questionable whether one of the richest countries in the world would ever be in a position of being unable to obtain sufficient supplies of food from international sources, Japan will press the food security issue in the negotiations.

Developing countries

Many developing countries, particularly the food importers, feel that their interests were not furthered by the Uruguay Round Agreement. The Agreement did include a provision that provided the possibility of compensation for the poorest food importing countries, should food prices increase as a result of trade liberalization. During the mid-1990s, when the prices of basic commodities increased markedly there were calls for such compensation, but these largely went unanswered. Despite the recent decline in world prices, particularly grain prices, developing countries will seek to have a greater impact on the outcome of the upcoming round of negotiations, although whether they will be successful remains to be seen.

The Cairns group

The Cairns group is a group of exporting countries that joined together in an attempt to exert collective influence on the Uruguay Round negotiations. It currently has fifteen members, drawn largely from Asia and Latin America.⁴ Some of the members of the group have conflicting emotions on agricultural trade liberalization. For example, Canada would have at least as much trouble as the United States in trying to convince its agricultural interests that an aggressive liberalization of dairy trade should be pursued. Indonesia would likely have problems with rice trade liberalization. One of the original members, Hungary, has withdrawn from the group since it is seeking to become a member of an expanded European Union. It now views its interests to lie more in obtaining higher prices and subsidies that E.U. membership might offer, than in pressing for access to export markets. Nevertheless, in general the Cairns Group is likely to press for substantial progress in liberalizing trade in the upcoming round of negotiations.

⁴ Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, Uruguay.

Concluding Comments

A review of the history of U.S. trade policy shows a mixture of both liberalizing and protectionist tendencies (Blandford 1990). This same mixture is in evidence today. For example, at the same time as the United States has been pressing for the opening of European markets to its beef, it has recently imposed restrictions on imports of lamb from Australia and New Zealand. Because of the nature of the U.S. political system and the alternating cooperation and competition that takes place between the President and the Congress, U.S. trade policy often appears to be inconsistent to the outside world. To the extent that a "U.S. position" on the upcoming round of trade negotiations can be identified, this is broadly one that leans towards greater liberalization. The strength of this leaning is likely to be heavily influenced by the outcome of the national elections in 2000.

U.S. negotiators will be acutely aware of the constraints within which they operate, particularly in terms of domestic politics. Their ability to pursue trade liberalization will be affected by the state of the U.S. economy and agriculture at the time the negotiations take place. As in other countries, freer trade is easier to accept when markets are buoyant and prices are favourable. It is less palatable when the opposite conditions apply.

Whatever the negotiating position that ultimately emerges in the United States, reaching agreement in the upcoming round will likely prove to be even more difficult and protracted than under the Uruguay Round. The range of issues to be dealt with is now broader and more complex. There is likely to be more vocal opposition to trade liberalization by certain interest groups, particularly environmental and consumer groups. Reconciling domestic objectives with trade liberalization will prove a challenge, particularly when many countries are unwilling (or unable!) to be explicit in defining those objectives. However, the key to success in the round will be to find some way to accommodate key domestic concerns while at the same time opening markets to freer trade and greater competition. It would be unrealistic to assume that the WTO negotiations will provide the means for addressing all the domestic concerns that are involved, but the negotiations will have little chance of success if they are viewed by the public at large as being fundamentally at odds with domestic policy objectives.

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