

"SOLVING THE PROBLEM" Launched in Banff

SUMMARY

World agricultural protection is a major problem waiting to be solved. Agricultural exporters are denied the access to world markets that their manufacturing export brethren have been granted. Barriers to agricultural trade are on average thirteen times the level faced by manufactured goods in high income countries. For some commodities - sugar, for example - the barriers to the rich markets (which are the largest) amount to a tariff equivalent of well over 300 per cent!

The level of agricultural protection has not fallen as a result of the Uruguay Round of trade talks. The mix of support has changed toward direct payments but the consequence is the same - too much agricultural production in the wrong places, which wastes scarce resources. By far the biggest waste is in the rich markets of Europe, Japan, Korea, Norway and the United States.

The agricultural trade problem has been around for some time. It was centre stage at the start of the Uruguay Round in the 1986. The fact that it is still a problem almost fifteen years later underscores the enormous political forces that are brought into play with agricultural policy in protected markets. History, culture, institutional capture, successful lobbying by farmers and the concealment of the real costs involved are all factors behind the problem of agricultural protection.

Calls for the dismantling of agricultural export subsidies, domestic support and border barriers as part of the current agricultural negotiations will come to nought again unless there is a political willingness to 'bite the bullet' and make substantial reforms.

To overcome the powerful political forces resisting reform, equally powerful counterforces need to be found. There are many reasons why agricultural support through subsidies and border restrictions should be removed. For example, the subsidies could be better spent elsewhere - on schools or hospitals or given back to the taxpayers. Trade restrictions hamper economic growth and poverty alleviation in many developing countries. The environment suffers as a result of the policies. The burden of import restrictions falls on other exporters. Consumers have restricted choices and pay too much for food. Yet each of these arguments - as valid as it is - is unlikely to be sufficient on its own to overturn the forces resisting reform.

The answer lies in several of these arguments being communicated in concert to the electorates of the countries with the greatest protection of agriculture. These arguments need to be mounted by different interest groups within each country. National treasuries are best placed to argue that the subsidies can be better spent elsewhere. Environmental groups should be best placed to argue how the environment will benefit from reform as living standards rise and fewer of the planet's scarce resources are wasted. The aid community is best placed to argue that a more liberal trading regime will benefit many developing countries. Agribusinesses, other manufacturing exporters, international banks with non-performing loans to developing countries, and consumer organizations all have separate cases to mount for agricultural trade reform. Only when several of these interest groups coalesce around a chorus for reform will a political counterforce be created to override the narrow vested interests blocking reform. Identifying these groups and refining their arguments, which differ across countries, is now the task to be tackled.

The Cairns Group is one coalition that created a 'third force, in agricultural negotiations. This coalition increases external pressure for reform. Its power will be greatly enhanced if it can be supplemented by coalitions that work on bringing internal pressure for reform to bear within protected markets.

Developing countries themselves have an interest in concentrating the WTO talks on reducing restrictions to trade at the border. Many of these countries do not have the resources to implement WTO rules extended to non-border areas such as intellectual property. Reducing border measures is simple, easy to tackle and monitor, and unambiguously beneficial to all parties. More importantly, it sets up a political dynamic that leads to greater domestic pressure for reform.

The World Trade Organization is underresourced, especially in the area of agriculture. Its

effectiveness needs to be bolstered. More resources and changes to its procedures and rules could make a big difference to encouraging freer trade and educating the public about the benefits of such trade. For example, dispute settlements could be changed to remove the lose-lose nature of enforcement through sanctions. Offending governments not abiding by rulings could be made to compensate aggrieved governments, alleviating the need for sanctions that impose yet another cost on the aggrieved country. Antidumping reviews should become balanced reviews of the economic benefits and costs - not just the one-sided narrow technical evaluation of injury. Such changes make economic sense and they would help to educate the public about the real value of free trade.

In a nutshell education is the key, with different groups communicating different arguments in concert. The benefits of trade reform have to be brought to life and, in the words of some, the messages have to be 'made to sing'. There is a chance that the powerful political forces blocking reform can be overturned.

For More Information:

The [Centre for International Economics](#) prepared the study. Copies of the book can be obtained from the [Rural Industries Research and Development Corporation](#).