Opportunity of a Century to Liberalise Farm Trade

In Doha, Qatar, last November the World Trade Organization launched a new 'round' of multilateral trade negotiations. The central issue is liberalising agricultural trade. To discuss what has to be done to build consensus and support for this liberalisation, the **Cordell Hull Institute** convened in May an international meeting of specialists on trade, agriculture and development at Airlie House, Warrenton, in Virginia. This rapporteurs' report from the **Centre for International Economics** and **Cordell Hull Institute** summarised the proceedings.

The publication coincides with the 2002 meeting of the **Cairns Group Farm Leaders** in Santa Cruz, Bolivia. To encourage public debate on this long-neglected issue, the report and the chairman's statement, issued after the meeting, is published by the **Rural Industries Research and Development Corporation** as part of their Global Competitiveness R&D program. Additional copies of this publication may be obtained from RIRDC by visiting their website (www.rirdc.gov.au).

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Cordell Hull Institute

Cairns Group Farm Leaders

CENTRE FOR INTERNATIONAL ECONOMICS

RIRDC
RURAL INDUSTRIES RESEARCH & DEVELOPMENT CORPORATION

Opportunity of a Century to Liberalise Farm Trade

May 2002

Opportunity of a Century to Liberalise Farm Trade

Rapporteurs' report with a Chairman's Statement by Clayton Yeutter

Cordell Hull Institute's meeting at Airlie House, Virginia, May 2002

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FOREWORD

In Doha, Qatar, last November, the World Trade Organzation launched a new 'round' of multilateral trade negotiations. The central issue is to advance the liberalisation of agricultural trade beyond the agreement reached in the Uruguay Round negotiations of 1986–1994. Launching these negotiations is one thing. It is quite another thing to shift minds and build the consensus needed to make significant inroads into high agricultural protection.

Significant thought will be required to resolve issues that block progress towards reform if the Doha Round discussions are to be a success. In May this year, the Cordell Hull Institute, in Washington, convened a high-level meeting of specialists on trade, agriculture and development from the United States, Australia and a few other countries. The retreat was held at Airlie House, near Warrenton, Virginia.

To ensure that the views and ideas raised at the meeting make the maximum contribution to building a consensus on the need for global agricultural trade reform, RIRDC commissioned this review of the discussion for publication along with the chairman's statement by Clayton Yeutter that was produced after the meeting. This report has been timed to coincide with the meeting of the Cairns Group Farm Leaders meeting in Santa Cruz, Bolivia, in October 2002.

This publication forms part of our Global Competitiveness R&D Program, which aims to identify important impediments to the development of a globally competitive agricultural sector and support research that will lead options and strategies.

This publication is the eleventh in a series of studies by RIRDC into the problem of agricultural protection. Other studies, including *Preferential Trade and Developing Countries: Bad Aid, Bad Trade* and *Solving the Problem: A Look at the Political Economy of Agricultural Reform,* are available from RIRDC's website www.rirdc.gov.au.

Simon Hearn
Managing Director
Rural Industries Research and Development Corporation

RAPPORTEURS' NOTE

In compiling this volume, the rapporteurs have tried to reflect the tenor of the discussions as they occurred, while clarifying points and adding references that substantiate the points made by participants. This facilitates follow-up work and more detailed analysis on issues that may be required. Some of the reporting is therefore somewhat discursive and reflects the nature of meetings of this kind.

Also, the reader will see that some themes recur, albeit in different contexts, throughout the review. That is instructive in itself and so the discussions have not been heavily edited in the write-up to remove repetition. It also means that separate sections can be read as stand-alone pieces. Nevertheless, the proceedings have been edited; and the final product should not be attributed to any one participant whose views might be recognised.

The financial assistance of the Rural Industries Research and Development Corporation to make this publication possible is gratefully acknowledged. Moreover, without the Cordell Hull Institute convening the meeting on trade, agriculture and development, the publication would not have been possible. Organising and managing such events are never easy and the efforts of the Institute and particularly its chairman, Clayton Yeutter, are greatly appreciated. Furthermore, the forty-two who took part and made the meeting a success, deserve acknowledgment. Some of them had to travel considerable distances to participate and all had to take time out of busy schedules to make a

contribution. Each person participated out of a strong belief that considerable effort and thought is going to be required for the Doha Round negotiations to yield worthwhile results. They all know that agricultural trade reform is a difficult issue and that a great deal of work is going to be required in the next couple of years to build a consensus in favour of reform and trade liberalisation. A list of the participants appears in annex A.

The meeting was held at Airlie House, near Warrenton, Virginia. Financial support was provided by Cargill Incorporated in the United States; and, in Australia, by the National Farmers' Federation, the Grain Growers Association and the Queensland Cotton Corporation.

The meeting was chaired by Dr Yeutter. Rather than try to produce an agreed summary or *communiqué*, so to speak, it was suggested at the outset that a 'chairman's statement' might be prepared after the meeting, for which the chairman would alone be responsible, enabling him to set out what the perceived to be the salient features of the discussion. Dr Yeutter agreed and his personal statement is reproduced at the start of this report.

The next meeting in the series is to be held in Rio de Janeiro, Brazil, on 14–16 October 2002.

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ABOUT THE CHAIRMAN AND RAPPORTEURS

Clayton Yeutter

Attorney-at-law with the international firm Hogan & Hartson, and Chairman of the Cordell Hull Institute, Washington, DC. In 1985–88 he was the US Trade Representative in President Ronald Regan's Cabinet when the Uruguay Round negotiations were launched. He was Secretary of Agriculture in President George Bush's Cabinet (1989–91), and later, Chairman of the Republican National Committee and Counsellor to the president for Domestic Policy. Earlier, Dr Yeutter was President of the Chicago Mercantile Exchange (1978–85), having been Assistant Secretary of Agriculture for International Affairs (1970–75) and then Deputy US Trade Representative (1975–77). At the University of Nebraska, while running the family farm, he obtained a JD law degree in 1963, and then his PhD in agricultural economics in 1966.

Andrew Stoeckel

Executive Director of the Centre for International Economics, Canberra. He is a specialist in trade policy analysis and the international economy. While director of the Australia Bureau of Agricultural Economics, Dr Stoeckel initiated and directed programs of research, which included studies of European policies and international trade that received world acclaim. He has over thirty publications to his credit, including the co-edited or co-authored *Macroeconomic Consequences of Farm Support Policies* (1988), *Western Trade Blocks: Game, Set or Match for Asia-Pacific and the World Economy?* (1990), *Solving the Problem: A Look at the Political Economy of Agricultural Reform* (2000) and *Preferential Trade and Developing Countries: Bad Aid, Bad Trade* (2001).

Hugh Corbet

President of the Cordell Hull Institute in Washington, DC, having been Director of the Trade Policy Program at the Sigur Center for Asian Studies, George Washington University, in 1993–97. Before that he was a Guest Scholar at both the Woodrow Wilson International Centre for Scholars and the Brookings Institution, Washington (1990–92). Earlier, Mr Corbet was the Director of the Trade Policy Research Centre (1968–89), London. He also founded, and was Managing Editor of *The World Economy* (1977–89), published in Oxford and Boston. In 1982–88, as part of the international effort to launch and promote the Uruguay Round negotiations, Mr Corbet convened eight ‘informal’ roundtable meetings of trade ministers, senior officials, business leaders and independent exports, hosted by different governments in Western Europe and the Western Pacific.

CHAIRMAN'S STATEMENT

Success in the Doha Round negotiations depends on substantial progress being made in liberalising agricultural trade — which has already been postponed for half a century.

On agriculture, the US has submitted a bold and courageous proposal. On this issue, then, it is now up to the European Union, Japan and others to respond in like vein if progress is to be made on services and industrial products, as well as systemic issues.

Moreover, now that the United States Administration has finally got 'fast track' negotiating authority, the heavy lifting can begin to build momentum in the negotiations. Too many governments and legislatures in industrialised countries are still balking at tackling the 'unfinished business', the accumulated grievances, of previous rounds by confronting entrenched protectionist interests in their own backyards. Many chickens are coming home to roost.

Thus it is time to stop berating the United States over the Farm Act of 2002 and the earlier steel, lumber and other decisions that reflected domestic politics in the effort to get trade-negotiating authority through an evenly divided Congress. Yes, those events were setbacks, but the situation is not irretrievable.

After all, the effort to launch the Uruguay Round negotiations of 1986–1994, in and of itself, pulled the multilateral trading system back from the brink. Those negotiations began the process of reforming and extending, in line with the integration of the world economy, the rules-based trade regime established after World War II and ended by instituting the World Trade Organization (WTO). In particular, the negotiations settled on a framework for extending the trade-liberalising process to agriculture, but only after a long and acrimonious struggle.

Unfortunately, these hard-won successes led to complacency, for the Group of Seven governments did little to maintain the momentum of the Uruguay Round negotiations. So when the second WTO Ministerial Conference decided to prepare the ground for a new round, it took three and a half years of 'talks about talks' to reach agreement on the negotiating agenda, which was finally done in Doha last November.

Negotiators in Geneva are well aware that progress on agriculture is critical to achieving a worthwhile outcome in the Doha Round negotiations. They know, too, that progress in the negotiations as a whole is vital to international cooperation in alleviating poverty, the source of many deep-seated grievances, international tensions and perhaps even global terrorism.

What now has to be done?

Much of the world demonstrated disappointment and frustration over the new US farm legislation, which seemed to take Washington by surprise. In other countries, it was seen to be contrary to the spirit of the Uruguay Round agreement on agriculture, and inconsistent with the objectives of the Doha Round negotiations.

Converting 'emergency' supplementary budgets under the *Freedom to Farm Act of 1996* into permanent farm support amounts to an increase in 'base line' production subsidies.

Increases in assured subsidy levels are an incentive to produce more, irrespective of global price levels. Writing 'circuit breakers' into programs, in case WTO-agreed limits of support look threatened, is cold comfort to those who seek further agricultural policy reforms throughout the world.

Nevertheless, proponents of agricultural trade liberalisation have to move on, for the US Administration has not forgotten its original objectives. In Geneva at the end of July, it proposed dramatic reductions in agricultural tariffs (with a recommended cap of no more than 25 per cent), the phase-out of export subsidies in five years and a limit on trade-distorting domestic supports of 5 per cent of the total value of a country's agricultural production. There were a number of additional suggestions that are also 'export friendly'.

In looking ahead, governments must recognise they are in a hole, so the first thing is to stop digging themselves in deeper. Second, it is necessary to recall how they fell into the hole, having dug themselves out of an earlier one with the Uruguay Round agreement on agriculture. Third, it is necessary to look around the hole to assess the situation in the Doha Round negotiations. Fourth, it is necessary to look up and figure out how to climb out and, once on the surface, proceed without falling into other holes.

Predicament in the Doha Round

Role of the Cairns Group

The Cairns Group is a coalition of smaller non-subsidising agricultural-exporting countries, formed just before the ministerial conference in Punta del Estate in September 1986, the meeting that launched the eighth and last round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). In the ensuing Uruguay Round negotiations, the Cairns Group pushed hard to keep agriculture in the forefront until agreement was reached on a framework for liberalising agricultural trade.[1]

I later wrote, in a review of the negotiations: 'Australia had learned a lesson from its bitter experiences in earlier GATT discussions where it had too few allies and its proposals, however reasonable and well argued, were quickly isolated and ignored.'[2] Its allies in the Cairns Group, accounting for a third of world agricultural exports, include Argentina, Brazil, Canada, Chile, Indonesia, Malaysia, New Zealand, the Philippines, South Africa, Uruguay and Thailand.[3]

The Uruguay Round framework for liberalising agricultural trade provides for 'substantial progressive reductions' in domestic support, border protection and export subsidies. As a basis for negotiating commitments, and for monitoring progress, governments also agreed on 'an aggregate measurement of support', based on TE Josling's 'producer subsidy equivalent'.[4] In addition, governments agreed that the non-tariff barriers to trade used to underpin farm-

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[1] See my paper, 'Critical Role of the Cairns Group in Liberalising Farm Trade', in Stoeckel, A., and Corbet, H. (eds), *Reason versus Emotion: Requirements for a Successful WTO Round*, RIRDC Publication No. 99/167, Canberra, 1999.

[2] Bhagwati, J., and Mathias, H., (eds) 1998. 'Bringing Agriculture into the Multilateral Trading System', *The Uruguay Round and Beyond*, Essays in Honour of Arthur Dunkel, Berlin, Heidelberg and New York: Springer.

[3] The other six members are Bolivia, Columbia, Costa Rica, Fiji, Guatemala and Paraguay. For a while Hungary was a member until it decided to withdraw in order to prepare for membership of the European Union.

[4] The time it took to reach this agreement, from an idea in 1971 to the WTO entering into effect, is testimony to the determination of low-cost agricultural-exporting countries to expose the levels of protection and support that the major industrialized countries are prepared to tolerate. See Tangermann, S., *et al.*, 1987. 'Negotiations on Farm-support Levels', *The World Economy*, Oxford and Boston, September.

support measures should be converted into tariffs to make levels of protection both transparent and easier to reduce.[5]

Alas, the succession of crises it took to achieve these breakthroughs meant that there was little time, energy and patience left in which to negotiate much actual liberalisation. So the United States and the Cairns Group were obliged, in order to conclude the agreement, to accept last-minute changes and settle for a commitment to resume negotiations in 1999–2000.[6]

Failure to build consensus and support

The negotiations on agriculture resumed in early 2000, along with negotiations on trade in services (and other items on the WTO's 'built-in agenda'), well before an agreement could be reached on the launch of a new round of multilateral trade negotiations.

At the second WTO Ministerial Conference, held in Geneva in May 1998, governments decided to prepare for another round. At that stage, however, none of the major trading powers had begun building a domestic consensus in support of further liberalising international trade and investment. Moreover, the US Administration had not secured from Congress the renewal of 'fast track' trade-negotiating authority, which had expired in 1994. This failure, after five attempts, indicated to other governments that the United States was not yet engaged, let alone ready to negotiate.

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5 These were the reasons why the GATT's original architects regarded the tariff as the preferred instrument of protection and, in Part II of the General Agreement, wrote rules aimed at disciplining the temptation of governments to resort to non-tariff measures.

6 GATT Secretariat, 1993. 'Agreement on Agriculture, in Results of the Uruguay Round of Multilateral Trade Negotiations: the Legal Texts', Article 20, p. 55, Geneva.

After the Seattle fiasco, as the third WTO Ministerial Conference is recalled, there was a year's hiatus as governments waited for the 2000 elections in the United States and the arrival of a new administration. Discussions on launching a new round resumed early in 2001 on the initiative of the European Union and Japan. With the next WTO ministerial meeting due towards the end of the year, the aim was to launch the negotiations on the basis of a comprehensive agenda, believed necessary to accommodate the interests of all member countries.

At the fourth WTO Ministerial Conference, held in Doha last November, a comprehensive approach of sorts was agreed by launching the first WTO round on two tracks. On track one are market-access negotiations on agriculture, services and industrial products, plus certain systemic reforms. On track two are 'preparatory studies' on the modalities of negotiations to extend the WTO system to investment, competition, transparency in government procurement, 'trade facilitation' and some lesser items.

Deadlock waiting to happen?

Negotiations on extending the WTO system to investment regulations and competition laws are important to both the European Union and Japan. The modalities for the 'track two' negotiations, however, will not be settled until the fifth WTO Ministerial Conference, which is to be held in Cancun, Mexico, in September 2003.

Manufacturers and suppliers of services have a strong interest in the success of the Doha Round negotiations, but it would be naïve and dangerous for them to focus only on their interests, hoping that contentious agricultural issues will be pushed into the background, as happened in the early GATT rounds.

Until the European Union and Japan are satisfied that negotiations will proceed on investment and competition laws, they are not likely to be forthcoming on agriculture. By the same token, other countries, especially in the Cairns Group, are not likely to be forthcoming on services and industrial products until they know what the European Union and Japan are offering on agriculture. So we have a deadlock waiting to happen.

Settling the implementation problem

In the meantime, many in the Like Minded Group of developing countries, which includes India, Pakistan, Egypt and Malaysia, remain opposed to the idea of extending the WTO system to investment and competition laws. They insist on the 'implementation' problem being overcome before further WTO departures are embarked upon. In the aftermath of the Uruguay Round negotiations, a large group of developing countries have had trouble implementing certain agreements, for they lack the administrative capacity to fulfill the commitments they made.

'The implementation question,' said Stuart Harbinson in Washington recently, 'is a classic example of what can happen if a position articulated by a large group of developing countries is not taken seriously.'[7] To some extent, the difficulties of the developing countries were anticipated, since the Uruguay Round agreements included 'best endeavor' commitments to provide technical assistance.

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7 Harbinson, S., 2002. 'Lessons from the Launch of the Doha Round Negotiations', an address to the Cordell Hull Institute's Trade Policy Roundtable, Washington, DC, 18 April. Mr Harbinson is Hong Kong's Permanent Representative to the WTO and was Chairman of the WTO General Council in 2001-2002. His skillful handling of the preparations for the Doha ministerial meeting contributed in large measure to its successful outcome. Mr Harbinson is now chairman of the WTO negotiating group on agriculture and will soon become chief of staff to the incoming WTO Director General.

But they were non-binding commitments. Not only has technical assistance fallen short, but financial assistance, also required for trade-related 'capacity building' to make headway,[8] has not been sufficiently forthcoming.

Faced with such implementation problems, many developing countries were reticent in their support for a new round, which would require them to undertake still more commitments. In the meantime, the developed countries declined to re-open agreements on a piecemeal basis, pointing out that the agreements contained provisions for review and thus should be handled in the new round. Prior to the Seattle ministerial, little progress was made on the issue, but afterwards, the Like Minded Group took it up again, with a vengeance.

For the implementation issue to be put to rest, the Group of Seven countries will have to make a more effective and determined effort to mobilise, through international financial institutions, the resources necessary for significant trade-related capacity building in developing countries.

Impact of deadlock on other sectors

During preparations for the Doha ministerial meeting, it became clear that countries pressing for the liberalisation of agricultural trade extended beyond the Cairns Group and the United States. Developing countries, where the bulk of the people live in rural areas and more than half the labor force works on the land, obviously must be included.

The danger here is that unless serious progress is made on development issues, there may not be agreement at the

[8] The issue was spelled out in Finger, M., 1999. 'Financial Assistance in Implementing WTO Commitments', a presentation to the Cordell Hull Institute's Trade Policy Roundtable, 16 September, and other presentations. Dr Finger, now at the American Enterprise Institute, was then the World Bank's lead trade economist.

Cancun ministerial meeting on negotiations to extend the WTO system to investment and competition, which may stall progress on the further liberalisation of trade in services and industrial products.

Thus the emerging crisis in the Doha Round negotiations is not only because of recent trade actions and farm legislation in the United States. The drift in the multilateral trading system can be traced to the inability of economies in the European Union, Japan, Canada and elsewhere to adjust autonomously to change. None are leading by example or with ideas. Political thought, institutions and leadership in the major industrial countries have not kept abreast of the rapid integration of the world economy.[9]

Many of us argued the need for the major trading powers to build consensus and support for further trade liberalisation before starting a new round of multilateral trade negotiations. The key word is 'liberalisation', for talk of 'trade expansion' eschews the issue, given that trade can be expanded by subsidies — distorting competition, permitting sloth and inefficiency, storing up problems for the future.

In the United States, the Administration has just begun an effort to educate the American public on the benefits to the economy of further trade liberalisation. The goal is to make Americans more aware of the role trade plays in their lives — as a job-creator and as a means to make a greater choice of goods available to consumers at affordable prices. The

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9 Three decades ago in the United States, the Williams Commission had the following to say on the resistance at that time to a new GATT round: 'The core of our present difficulty is the fact that government policies and practices, and international arrangements for collective decision-making, have not kept abreast of the high degree of international economic integration that has been achieved since World War II.' Presidential Commission on International Trade and Investment Policy, United States International Economic Policy in an Interdependent World, Williams Commission (Washington, DC: Executive Office of the President, 1971), p. 6.

campaign will emphasize the broader benefits of trade as a means to boost economic growth, raise living standards and promote peace and security around the world.[10]

For the last half dozen years or so, where commercial diplomacy is concerned, the United States has been seen not to be fully engaged with the rest of the world. While waiting for the US Administration to secure 'fast track' negotiating authority from Congress, free of intolerable 'conditions', governments in East Asia and Latin America — with a few exceptions — have placed a higher priority on bilateral and regional negotiations. Now that the Administration has trade-negotiating authority, it can begin to make up lost ground by demonstrating a strong commitment to the WTO system.

The renewed resort to bilateralism has undermined confidence in the multilateral trading system. Small countries look to the WTO system to safeguard their interests *vis-à-vis* the major trading powers. But today even Australia and New Zealand, hitherto strong supporters of the WTO system, are pressing for free trade agreements with the United States.[11]

Focus on regional trade agreements

Free trade areas are effective in dealing with border measures. They are not effective in dealing with trade-distorting

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[10] Recognizing the public distrust and unease that trade agreements face, the US Secretary of Commerce, Donald Evans, launched the public-education campaign in Kansas City, Missouri, on 5 June 2002. Mr Evans and his senior officials plan to carry the campaign to all 50 states. See 'Commerce Secretary Launches National Grassroots Tour to Talk up Trade', US Department of Commerce. Press Release, Kansas City, 5 June 2002, and 'Pushing for a Final TPA', Washington Trade Daily, Washington, DC, 7 June 2002.

[11] Both governments expect the agreements to cover agriculture and meet the 'substantially all the trade' requirement in WTO rules on free trade areas and customs unions.

non-tariff measures within borders. Because of their scope and complexity, most non-tariff measures can only be addressed properly in a multilateral context. This is now thoroughly understood in many developing countries, perhaps most conspicuously in Brazil, where WTO issues command front-page attention. A recent survey of opinion among Brazilians who influence foreign policy found they attach a much higher priority to WTO negotiations than they do to negotiations on a Free Trade Area of the Americas (FTAA).[12]

There is growing concern in the US agricultural trade-policy community over the proliferation of bilateral and regional free trade agreements. Why? Because they typically exclude agriculture, thereby failing to meet the central condition laid down in GATT Article XXIV, which is that free trade areas and customs unions — as approved departures from the principle of non-discrimination — must cover 'substantially all the trade'. With the chief users of the provision making little effort to reform their farm-support policies, it is hard to avoid the conclusion that they are seeking a way around the Uruguay Round commitment to extend the multilateral trade-liberalising process to agriculture.

The Doha Round agenda provides for a review of regional trade agreements. But GATT Article XXIV was reviewed during the Uruguay Round negotiations. All it yielded was an understanding that recognised, although only in the preamble, that a regional agreement's contribution to the

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[12] According to the results of the poll (published in Valor, Rio de Janeiro, 20 May 2002), the FTAA is a priority for only 16 percent of the 149 leaders of opinion surveyed. The survey conducted by the Brazilian Center for International s Relations covered government officials, technical experts, lawmakers, entrepreneurs, special interest groups, NGO heads and academics. 'Some 61 percent of those surveyed said Brazil should only approve creation of the FTAA when the United States eliminates all subsidies and barriers that prevent entry of Brazil's most important export products into the richest market in the world,' reported the Washington Trade Daily on 21 May 2002.

expansion of world trade is increased if it extends to all trade, but is 'diminished if any major sector of trade is excluded'.

Since then, the Committee on Regional Trade Agreements, established at the first WTO Ministerial Conference to review free trade areas and customs unions, has not been able to reach agreement [by consensus] on a report. It is generally acknowledged that the North American Free Trade Agreement (NAFTA) comes closest to satisfying the requirements of Article XXIV. But the Committee cannot find accordingly, it seems, because the bar would then be raised too high for other free trade areas! Perhaps this is an issue that has to be resolved through the WTO dispute-settlement process.

Launching the Doha Round in full

So much for the continuing malaise in the WTO system, notwithstanding the success last November in launching the Doha Round negotiations. It is clear that the negotiations will not get down to business until they are proceeding on both tracks. To date, the negotiations have not grabbed much public interest, either domestically or at inter-governmental level.

Need for ambitious objectives

The most successful of previous rounds of multilateral trade negotiations were those inspired by ambitious objectives. Somehow the leading governments must now come together on a range of objectives that are lofty and imaginative enough to generate the political interest, momentum and commitment needed to achieve a worthwhile and durable outcome that is commensurate with the times.

The overall objective of the Doha Round negotiations should be the integration of developing countries into the world economy. That not only entails adjustment in industrialised countries to increasing imports from developing ones. It also entails developing countries helping themselves by opening their markets and stimulating the adjustment and investment needed to promote economic growth and development.

There can be no underestimating the strength of resistance in many countries, both developed and developing, to the reform of farm-support policies and the liberalisation of the trade restrictions that sustain them. As always in trade negotiations, agriculture will be one of the most daunting issues on the Doha Round agenda.

Building on the WTO agreement

In agriculture, there must be a strong commitment to achieving a bold, deep and ambitious liberalisation package. There is no support for modest, mildly incremental moves towards liberalisation, as some have argued for in the past. At the Airlie House meeting in May, the feeling was that the world has been patient over liberalising agricultural trade for much too long.

Negotiations must proceed on the basis of the framework agreed in the Uruguay Round negotiations: the simultaneous reduction of domestic support, border protection and export subsidies, while also maintaining a tight agreement on sanitary and phyto-sanitary measures. No-one has suggested altering the basic modalities of the WTO Agreement on Agriculture.

On ***market access***, the Doha Round negotiations are expected to build on the tariffication base, reducing the impact of 'dirty tariffication' by substantially cutting tariff peaks. Since the purpose of tariffication was to get rid of non-tariff measures, the concept of tariff quotas should be phased out, for it was a last-minute provision in the Uruguay Round agreement to assure small suppliers a minimum degree of market access.

On ***export subsidies***, mostly used by the European Union, there is general concurrence in the United States, the Cairns Group and all developing countries who are agricultural exporters that export subsidies must be halted, if not forthwith then over a short period. The effect of such subsidies is to depress world prices, distorting consumption, production and trade, especially in developing countries. The agenda should also cover export credits and the conduct of state trading agencies.

On ***domestic support***, it has been argued for a long time in the United States that if border protection is substantially reduced and export subsidies are eliminated, the reduction of production subsidies will follow. But that argument has been undercut in the United States by 'emergency aid' and by the domestic subsidy increases approved in this year's farm bill.[13]

During the Uruguay Round negotiations, a lot of time was spent on categorising domestic supports: (i) the **green box**, those considered not to distort production and trade; (ii) the **amber box**, those considered to be trade-distorting; and (iii) the **blue box**, devised in the Blair House agreement,[14] which carves out direct payments under

[13] In fact, it was learned during the Kennedy Round negotiations, in the 1960s, that liberalising farm trade required not only the reduction of border protection but also the reduction of domestic support measures. Therefore towards the end of the negotiations the European Community itself proposed a montant de soutien approach (negotiations on levels of support).

[14] These talks between the United States and the European Community, held in Washington, took place in the closing stages of the Uruguay Round negotiations and did not include the Cairns Group countries, which were obliged to go along with the outcome.

production-limiting programs as not being subject to reduction commitments.

These categories are much too nebulous. Their aim has been to 'decouple' support payments from a farmer's production decisions. But they have not effectively disciplined domestic supports. If they are to be retained, the boxes need to be carefully redefined and clarified.

Public education on costs and benefits

One of the drawbacks of taking the reduction of domestic support for granted, once other reforms are taking place, is that there is little public awareness of the anomalies, abuses and economy-wide costs entailed in agricultural subsidies and import restrictions. Too often the long-term benefits of trade liberalisation go unrecognised, whereas the short-term costs of liberalising, although they may be far smaller, immediately provoke strong political reactions.

Public support for trade liberalisation would be far greater if the costs and benefits were better understood. At the Airlie House meeting, there were expressions of interest in the way in which a public body in Australia, once called the Industry Assistance Commission (now the Productivity Commission), raised the level of public understanding by assessing the economy-wide cost/benefit trade-offs of trade-policy decisions.

Some outside Australia familiar with the Commission have explored how a public body in the United States might develop a similar role. There have been proposals that the US International Trade Commission or the Federal Trade Commission might take on the 'domestic transparency' function.[15] At Airlie House, one participant proposed that

[15] When US Trade Representative, I informally explored the possibility with respect to the USITC or the FTC, but there was then little Congressional

the function be assigned to the President's Council of Economic Advisers.

More broadly, governments must develop, in the Doha Round negotiations, a solid factual base on which to proceed. In previous rounds there may have been little internationally recognised empirical evidence available to support the benefits of agricultural trade liberalisation. But that is no longer the case. Today there are the track records of the Uruguay Round agreements, the NAFTA and Mercosur experiences, as well as those of significant bi-lateral agreements (for example, the US–Japan beef agreement) that can be studied, evaluated and critiqued.

Food-safety and environmental concerns

The main obstacles to liberalising agricultural trade remain the farm lobbies of the European Union and Japan, along with those in smaller economies such as Korea, Norway and Switzerland, and certain segments of US agriculture. In Western Europe and Northeast Asia, much stress is put on the 'multi-functionality' of agricultural production, by which is meant the pursuit of environmental sustainability, food-security, rural development and food-safety. Regrettably, these are often long-standing protectionist arguments in a new guise. [16]

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interest in the idea. I had earlier been part of a small study group in London chaired by a former GATT Director-General that produced an excellent report on the subject: Long, O., et al. 1989. *Public Scrutiny of Protection: Domestic Policy Transparency and Trade Liberalization* Trade Policy Research Centre, Aldershot, Brookfield and Sydney: Gower.

[16] For an authoritative review of the issues, see the seminal work of Gale, D.J., 1991. 'World Agriculture in Disarray, second edition (London: Macmillan), for the Trade Policy Research Centre and New York: St Martin's Press, 1991, first published in 1973. On post-Uruguay Round changes in US farm-support policies, see Orden, D. Paalberg, R. and Roe, T. 1999. *Policy Reform in American Agriculture*, Chicago and London: University of Chicago Press.

There is considerable potential for trade to be impeded through regulatory actions based on alleged food-safety concerns. This suggests the need for a concerted effort to develop risk-assessment techniques and to make public the magnitude of risks that are identified. Many believe that governmental entities, particularly in developed countries, have chosen to regulate in areas where environmental and food-safety risks are miniscule, often frightening consumers in the process, while failing to regulate effectively where risks may be much greater but have not attracted public attention.

The general view is that WTO rules in this area should be science based, as required in the Sanitary and Phyto-sanitary Agreement, but that high priority should be given to achieving greater international harmonisation in this contentious area. Too many debates on the subject have been inordinately politicised, with more emotion than reason in the arguments. We would all benefit from a lower profile, more systematic and considered attempt at developing broadly accepted rules and standards.

Three other points should be stressed. The goals of multifunctionality can be achieved by more direct policy instruments that are less costly and avoid waste. Agricultural subsidies induce intensive-farming methods, employing fertilisers and pesticides that impact the environment adversely by polluting rivers and eroding topsoil. Agricultural protection is not necessary or desirable to ensuring food-safety, for protectionism diminishes production flexibility, which is likely to put food-safety at greater risk.

Participation of developing countries

The Doha Round negotiations on agriculture will not be a Euro-American exercise, nor even an exercise focusing principally on the United States, the European Union and the Cairns Group countries. All developing countries with substantial interests in agricultural trade — as importers, exporters or both — must be and will be actively involved.

Developed countries must help with trade-related capacity building, however that term is defined, and make sure that developing countries can fully participate in the negotiations. Otherwise the results will be second-guessed and criticised endlessly.

Nevertheless, developing countries cannot expect the Doha Round negotiations to be a 'free lunch', with benefits provided by developed countries without reciprocal obligations being undertaken by them. Most developing countries have onerous agricultural import restrictions, which work to their disadvantage as they seek to hone their international competitiveness and hold down consumer costs. So a major goal should be improved market access *among* developing countries in addition to improved access to developed-country markets.

Developing-country interests are not homogeneous, so there are severe limits to broad-based 'special-and-differential' treatment, with many instances of it being contrary to those interests.[17] The special and differential (S&D) approach often gives short shrift to developing countries with specific and often unique needs and priorities. The Doha Round negotiations, therefore, need to deal with developing-country agricultural interests in a more customised manner, rather than lumping them together in an effort to achieve homogenisation.

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[17] The issue was recently assessed in Bhagwati, J., 2002. 'The Poor's Best Hope', *The Economist*, London, 22-28 June 2002. Also see Stoeckel, A and Borrell, 2001. *Preferential Trade and Developing Countries: Bad Aid, Bad Trade* RIRDC Publication No. 01/116, Canberra.

Hunger and malnutrition in perspective

Food-security will be an important dimension of the Doha Round negotiations, although the term means different things to different people. In Western Europe and East Asia, especially in Japan, it has been used as an argument for import protection, meaning an imposed level of self-sufficiency. One must wonder about the wisdom of such a policy, where the cost is astronomical and where there are alternative, far less protectionist, ways of achieving a given food-security objective.

Food-security in developing countries means something different, for the world's population will increase dramatically during the next half century, requiring a 50 per cent increase in food production. Thus, attention must be paid to the related threats of hunger and malnutrition, considerations that are generally not applicable to the developed world.

The answer to gluts and scarcities around the world is not in forcing increases in production through inefficient public policies and farm practices. That would result in a waste of natural resources with attendant and often-irreversible environmental damage. The better answer is to define the food-security issue in a sophisticated manner and develop a reasoned and systematic response.

Building a broader coalition

The burgeoning public debate over liberalising agricultural trade has revealed a wide range of interests with a stake in the outcome, some represented by long-established organisations, while others are relatively new groups that view themselves as part of civil society. These non-governmental organisations (NGOs) vary in size, focus and methods.

The NGOs have taken full advantage of the internet to open public debate, organise activities and promote their views. Some are anti-capitalists, others oppose globalisation, while still others are simply critical of the WTO system, often for symbolic rather than 'real' reasons. NGOs have assuredly changed the atmosphere of international commerce, catapulting trade and investment issues to the fore, often intimidating political and business leaders in the process. Some misconceptions have taken root, such as the perception of the WTO system as being run by and for the benefit of multinational enterprises. Anyone familiar with the World Trade Organization, and the way it functions, knows that to be nonsense. But even ill-conceived perceptions can provide formidable challenges.

Potential allies among the NGOs

It is time for the anti-globalisation activities of NGOs to be put in perspective. They are not the wave of the future. They do not offer an alternative way of running an economy. These are protest movements.[18] Nevertheless, some of their protests have publicised important criticisms of international economic policies, especially those relating to development.

Again and again, participants in the Airlie House meeting referred to groups outside the 'agricultural community' that are interested in, or opposed to, certain aspects of agricultural trade liberalisation. Agricultural producers, processors and manufacturers need to persuade those groups of the interests they have in common and seek their involvement and support in the Doha Round negotiations on agriculture.

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[18] This assessment owes much to a paper by Wolf, M., 2002. 'The Backlash to Globalization', presented at a conference at the School of Advanced International Studies, Johns Hopkins University, Washington, DC, 19 April.

These include: (i) humanitarian groups concerned about hunger and malnutrition; (ii) development groups interested in alleviating poverty; (iii) environmental groups pursuing excessive use of fertilisers, the conservation of natural resources, the preservation of biological diversity, etc.; (iv) consumer groups campaigning on the cost, availability and quality of food; (v) taxpayer groups that question massive government subsidies; and (vi) academic economists and other trade policy 'gurus' who observe the magnitude of agricultural trade distortions and their adverse impact on agricultural productivity.

Concluding remarks

In the Doha Round negotiations, governments have the first real chance since the GATT entered into force to set about liberalising agricultural trade. Not since the Repeal of the Corn Laws in England, which led to the Cobden-Chevalier Treaty of 1860 and the *système des traités*, which survived until World War I, has there been a comparable opportunity. To make the most of that opportunity, several steps are in order.

First, the major industrialised countries have to reflect on what it took to commence, conduct and conclude the Uruguay Round negotiations and recognise that without the substantial liberalisation of agricultural trade there will be little progress in other areas.

Second, the developing countries have to be fully involved. Trade liberalisation — not just in agriculture but in all areas — offers them the prospect of economic progress and the alleviation of poverty.

Third, emotionally-charged issues such as those involving food-safety, the environment, and food-security need to be addressed systematically and logically, backed by careful research analysis. So-called 'stabilisation' programs have often in the past destabilised the very situations they were meant to address.

Fourth, in view of the present lack of momentum and public support for trade liberalisation, concerted leadership, public education and transparency on the costs and benefits of protection are sorely needed. Without this, the public is not likely to support trade reform with enthusiasm. The Cairns Group has a leadership role to play in this regard as well as a particularly significant role in fostering global trade reforms in agriculture.

Finally, a broad-based coalition of interests has to coalesce around the idea that the liberalisation of agricultural trade is a win–win proposition, benefiting rich and poor countries alike.

CLAYTON YEUTTER
Chairman of the Meeting
Washington DC
2 August 2002

1 INTRODUCTION

Although the Doha Round of multilateral trade negotiations was finally launched in November 2001 by the World Trade Organization at its fourth Ministerial Conference, its top decision-making body, that in itself does not guarantee its success. Indeed, without the talks being launched on 'two tracks', it is not clear that the agreement in Doha to begin another round would have succeeded. That fact, and the failure of preparations for the previous Ministerial Conference, held in Seattle at the end of 1999, conveys a message. There is still no consensus in favour of bold, broad-based trade liberalisation, especially in the sector of world economy agriculture.

Experience in the period between the Tokyo Round agreements and the launch of the Uruguay Round negotiations, at Punta del Este in September 1986, was also one of indifference to the multilateral trading system as the adherence of governments to internationally agreed trade rules continued to deteriorate to the point where the system was verging on collapse. One of the significant contributions prior to launching the Uruguay Round negotiations was the series of informal roundtable meetings of trade ministers, senior officials, business leaders and independent experts that were convened by the Trade Policy Research Centre, London, with discussion on each occasion based on analyses of the situation in the world economy. The success of those behind-the-scenes meetings in helping to build consensus and support for the eighth and last round under the

General Agreement on Tariffs and Trade (GATT) inspired the idea for the Airlie House meeting of specialists in trade, agriculture and development that was convened by the Cordell Hull Institute in May this year. It was motivated by the need to build a consensus by bringing together 'idea-formers' and 'opinion-makers'. Subsequent meetings are planned to take issues further and in greater depth, but this initial meeting was a broad brush over the main issues to be addressed in setting about the liberalisation of agricultural trade.

The starting point of the meeting, the *first session*, was therefore a review of the lessons of history in order, first of all, to put the problems of agricultural liberalisation in a global perspective and, second, to reflect on the difficulties and achievements of the Uruguay Round negotiations.

That was followed in the *second session* by a discussion of the anomalies between agriculture and manufacturing and what is so special about agriculture. Agriculture has become the stand-out issue in the world trading system. The inconsistencies between the way agriculture is treated and the way manufacturing is treated only makes for *ad hoc* rules and puts off the development of a consistent, rigorous and even-handed set of rules that WTO member countries can get behind. To do otherwise is to weaken the open trading system that was established after World War II on the basis of internationally agreed rules rather than the exercise of power, which contributed, especially with the *Smoot-Hawley Tariff Act* of 1930 in the United States, to the breakdown of the world economy in the inter-war period.

At the time of the Airlie House meeting, the latest Farm Bill in the United States had just been signed into law by President George W. Bush. The United States is the key player in world affairs and is the largest agricultural producer and single country exporter. The *Farm Security and Rural Investment Act 2002* represents a step in the wrong direction. It came hard on the heels of protectionist decisions on steel and lumber. Therefore the *third session* at Airlie House focussed on the messages conveyed by the latest US farm legislation and the conflicts between domestic goals and international commitments towards agriculture in the major trading powers.

Agricultural support has become so great that it has a noticeable effect on the overall performance of other sectors of the economies of the rich countries that protect farmers the most. But mostly that measurement and analysis is not routinely done. That is a great pity, for such analysis is essential if the costs and benefits of farm-support programs are to be properly understood and sensible, less wasteful policies developed. Furthermore, economy-wide analysis of the impacts of farm support identifies who in society bears the burden of farm support, which is important because it is among them that coalitions for reform are most likely to be emerge, strong enough to counter the weight of narrow self-serving vested interests. So the *fourth session* of the meeting dealt with the impact of farm support on other sectors of the economy.

Another burning issue for the Doha Round negotiations is that of developing countries. Indeed, the talks are officially labelled the 'Doha Development Agenda'. Because such a large proportion of the population in developing countries lives in rural areas and because the worst poverty is in those areas, so the impact of agricultural trade protection on development and poverty alleviation looms large on the international agenda. But there are many misconceptions in this debate and so the *fifth session* dealt with the impact of agricultural protection on developing countries. But this is not the only area where misconceptions arise. The session also addressed misconceptions with respect to trade and food-safety, trade and the environment and the so-called 'multi-functional' aspects of farm-support programs, much talked about by government officials in the European Union, Japan, Korea, Norway and Switzerland.

In the *sixth session*, the issue of what has to be done, both domestically and internationally, to restore the momentum of trade liberalisation was discussed. Key aspects that are important include the need for transparency, especially in institutions, and the rush to bilateral free trade agreements that weaken the push for a non-discriminatory and open multilateral trading system. Again, the theme of trade policy being based on first principles, and the need for public understanding of those principles, are essential to building consensus and support for further trade liberalisation.

Finally, in the *seventh session*, the key role that progress on agriculture is expected to play in the Doha Round negotiations, and how that has come about, was discussed. It was asked whether there will be any progress in liberalising trade in other sectors if there is no progress in liberalising agricultural trade. Agriculture is central to the success of the Doha Round negotiations and to the further development of the multilateral trading system on which the stability, growth and development of the world economy depends.

2 EVOLUTION OF THE EFFORT TO INCLUDE AGRICULTURE IN THE WORLD TRADING SYSTEM

An historic perspective on previous attempts to reform, to liberalise, trade in agricultural products is necessary if we are going to have any idea of the way forward, for we have to understand how we got to where we are. How is it that we are already faced with a political impasse in the Doha Round negotiations when they only began at the start of 2002?

The underlying impasse is long standing. For a long time, it was substantially between the United States and the European Community, who were never able to reach agreement on how to move forward. The multilateral trading system under the General Agreement on Tariffs and Trade, the GATT system, is deemed to have been a big success, but only because it achieved significant progress in liberalising border restrictions on industrial products traded among the industrialised countries.

GATT neglect of agriculture

In those years, the 1950s and 60s, no significant impact was made on the rising trend of protection accorded to agricultural producers in industrialised countries. Nor was much of significance done to promote or liberalise trade in products of export interest to developing countries. In the 1960s, then, it was said that the GATT system was a 'rich man's club'. It was therefore no surprise, or should not have been, when in the early 1970s the developing countries pushed in the United Nations and its agencies for a 'new international economic order' — a whole new system.

Although the ideas expressed at that time were strong on resisting protection, they were weak in other respects. The 'weak' ideas were the extension of international commodity agreements, emphasis on increased financial assistance to developing countries and tariff preferences for developing countries, later described as 'special and differential treatment'. As the developing countries got nowhere with those ideas, it was increasingly impressed on them that they needed to make the most of the GATT system, if necessary pressing for reforms in the Tokyo Round negotiations then in progress.

The GATT system was already breaking down in the late 1960s, even as the Kennedy Round negotiations were concluding, for government intervention in the market process was growing with the increasing resort to non-tariff measures, by which are meant technical standards, subsidies of various kinds, public procurement policies and other devices that can be used to discriminate in favour of domestic suppliers and against foreign ones. It is thus that non-tariff measures distort international trade or, more to the point in an integrating world economy, distort international competition. A particularly pernicious device was the 'voluntary' export restraint, much favoured by the industrialised countries, which induced cartelisation not only internationally but also domestically.

So in the Tokyo Round negotiations of 1973–79, governments tried to address the increasing resort to non-tariff measures, the 'new protectionism' as it came to be called, but they could not do so effectively because non-tariff measures were the instruments of industrial policies that many of them, notably in the European Community, were extensively pursuing. Yes, a number of codes of conduct on non-tariff measures were agreed, but they were only a 'mixed success' because many governments sought to prevent constraints on what they were already doing. In any case, it was left to GATT member countries whether they would be parties to those codes, which were only plurilateral agreements.

More significant in this connection, agriculture was found to be too difficult for the industrialised countries, especially for the European Community, Japan and others. The subject was simply taken off the table so that an agreement on industrial products would not be jeopardised. The smaller agricultural-exporting countries learnt a lesson from that.

Earlier, by the 1960s, it was acknowledged, as evidenced by the French *montant de soutien* approach proposed at the end of the Kennedy Round negotiations of 1964–67, that no progress could be made in liberalising trade agricultural products until something was done about reforming the farm-support policies that border restrictions were designed to sustain. Farm-support policies and agricultural protection go hand in hand. Notwithstanding the *montant de soutien* idea, political leaders in the European Community resisted pressures to reform the common agricultural policy (CAP), which was based on the Original Six's import-levy system of farm support.

In the early 1970s, the CAP began to make an impact on international agricultural trade, for price supports in the European Community were being set at high enough levels to satisfy small farmers, but in the process stimulated production on larger farms — generating huge surpluses that had to be destroyed, stored or dumped in overseas markets, depressing 'world' prices and forcing more efficient lowcost producers in land-abundant countries to cut production, sometimes forcing farmers off the land altogether. In this way, the Community exported the cost of adjustment (the unemployment of resources) to other countries, many of them very poor. Political leaders in the Community refused the consider fundamental reform of the CAP, insisting that it was 'the cement that held the Community together' (which said little for 'the spirit of European unity'). In the Tokyo Round negotiations, the Community pressed instead for international commodity agreements, market-sharing arrangements that are the antithesis of trade liberalisation. This, the United States and the other, smaller agricultural-exporting countries opposed, resulting in dead-lock. That takes us into the early 1980s.

GATT system nears collapse

Within twelve months of the Tokyo Round agreements being signed in 1979, it was recognised that they were making no impact on the mounting protectionism, with governments continuing to resort to across-the-board subsidies and other non-tariff measures, particularly voluntary export restraints. In the early 1980s the GATT system was nearing collapse. That never made the newspapers, but senior officials responsible for the trade policies of their countries, meeting in the GATT's Consultative Group of Eighteen, knew that GATT rules were not being respected by governments, not even those of the major trading powers — the United States, the European Community, Japan and Canada (who in the mid-1980s formed the Quadrilateral Group). So a 'crisis' GATT ministerial meeting was called.

At that stage, coincidentally, there was another Third World debt-payments crisis, with the heavily-indebted developing countries getting conflicting advice. On the one hand, they were being urged to liberalise trade and promote competition in their economies, but, on the other hand, they were being advised by international financial institutions to protect their balance of payments and restrict trade.

What should be done? It was argued that there needed to be some sort of meeting of ministers of finance and ministers of trade. But no inter-governmental organisation seemed to be in a position to convene such a meeting, not without involving all their members, too large for a reflective discussion. The Organisation for Economic Cooperation and Development (OECD) tried, but ended up with a breakfast in a Paris restaurant, which brought a few ministers together. In the German Government, finance is a matter for the Ministry of Finance, while trade is dealt with in the Ministry of Economics — two ministries that do not consult closely. A similar situation exists in the United Kingdom and many other countries.

Back to first principles

Accordingly, the Trade Policy Research Centre, in London, held an 'informal' roundtable meeting at Ditchley Park, near Oxford, in September 1982 — just before the 'crisis' GATT ministerial meeting that was held in November that year. The Ditchley Park meeting was attended by ministers from eighteen governments. It led to seven further informal roundtable meetings of trade ministers, senior officials, business leaders and independent experts in different parts of the world over the ensuing three years, 1982–87, with discussion at each based on an analysis of the situation in the world economy.

The aim of the meetings was to get back to first principles and put short-term disputes in a long-term perspective, in the context of what the GATT system is really all about. The objective was to raise sights to a higher plane where there would be a better chance of securing agreement on what needed to be done. After three of those meetings, Ambassador William Brock, the US Trade Representative in President Ronald Reagan's cabinet, initiated a parallel series of Informal Meetings of Trade Ministers, concerned not with the economics of trade reform but with politics and procedural issues.

These two series of informal meetings had a favourable effect on the progress of events. The Trade Policy Research Centre's meetings enabled representatives of governments to discuss issues informally without commitment in terms of what was needed to achieve durable agreements on the liberalisation of international trade and trade-related investment. They helped to crystallize issues, to get 'outside' ideas into policy-making circles and to promote thinking on the strengthening of the GATT system as a whole, contributing to consensus building at inter-governmental level in formal GATT deliberations.

Today, sadly, nobody is making that effort to raise sights. Everywhere people complain about the lack of leadership and governments seem to be going in all directions — doing things that do not seem to make sense to anybody who thinks rationally in terms of what, after two hundred years of economic analysis since *The Wealth of Nations*, we have come to understand about the way market economies work. Nowadays, such has been the decline in public discussion, it might be hard to believe that those informal meetings made such a difference.

In 1982, however, when the United States began pushing for a new round, and in order to build domestic support, the emphasis was put on 'new issues', on the need to extend the GATT system to trade in services, to trade-related investment measures and to the trade-related aspects of protecting intellectual property rights. (They also put a lot of emphasis on high-tech products, but that was eventually dropped.)

To many trade-policy observers, however, it was clear that no progress would be made on the new issues until there was progress on the old issues of agriculture, textiles and safeguards. In May 1985, a poll was taken in advance of the Informal Meeting of Trade Ministers in Stockholm. Participating governments were asked to prioritise a list of issues. The overwhelming priority was strengthening, that is reforming, the GATT system. It was seen to be a higher priority than trade liberalisation.

So the penny had dropped. It was realised that for trade liberalisation to be durable it has to be couched in a framework of rules that governments respect, that abide by them whether they are large or small, developed or developing. The purpose of the multilateral trading system is to provide a stable institutional environment in which private enterprises know where they stand *vis-à-vis* their governments, and the governments of other countries, so that they can make decisions of long-term significance, so that they can plan for expansion or if need be for adjustment. It is thus that the GATT, and now the WTO, facilitates economic growth and development. Economic growth, after all, is a continuous process of adjustment to change — to changes in patterns of demand, to advances in technology, to shifts in comparative advantage and so on

At the turn of the century, the situation is similar to what it was in the early 1980s. Governments are not paying attention to the multilateral trading system, again turning to bilateralism, albeit of a different kind. Bilateralism in the 1980s was voluntary export restraints. The bilateralism today is free trade agreements. But bilateral free trade agreements have several major flaws. For starters, they are preferential and discriminate against other countries. They undermine the most-favoured nation (MFN) principle, the one system-forming principle of the multilateral system, which also makes the most economic sense. Another flaw in bilateralism, especially as it relates to agriculture, is that it cannot deal with domestic subsidies and other non-tariff measures within countries, which are so important in liberalising trade in agricultural products. Free trade agreements, be they bilateral or plurilateral, can only deal effectively with border restrictions, with market-access issues. More on that later. The point to note here is that the multilateral system is being challenged, but it has been challenged before and, after a struggle, it survived much stronger.

Today, there is a general drift in the WTO system, one of the results of the Uruguay Round negotiations. There is apathy towards maintaining the momentum of trade liberalisation. There are some positive differences, however, that not everybody would see as positive. With the internet, a lot of the silliness in government policies is becoming more transparent. Silly measures get attention, not only in one's own country, but pretty soon in every other country. For example, all around the world there is a good idea of what the US Farm Act of 2002 is about. That would not have been possible in the early 1980s.

Transparency has brought all sorts of new players into the game. Some of them are confused, but many of them are quite serious and often draw attention to issues that need to be underscored. Gradually, some of them are starting to understand what the multilateral trading system is about and what can actually be done at an inter-governmental level. For example, recently Oxfam produced a report which, although flawed in many ways, is at least adopting a fairly positive attitude to the role that trade liberalisations can play in alleviating poverty in developing countries.[19] The challenge is to make a conscientious effort to take good ideas and try and push them in public debate and

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[19] Oxfam 2002. *Rigged Rules and Double Standards, Trade, Globalisation, and the Fight Against Poverty*, www.maketradefair.com, Accessed 22 September 2002.

build support for a well-founded, rules-based multilateral trading system that removes barriers to trade and lifts welfare for all peoples.

Despite the challenges to the multilateral trading system and the failure of preparations for the third Ministerial Conference in Seattle in December 1999, a new round of multilateral trade negotiations was launched last November in Doha, capital of the Gulf state of Qatar.

The fourth Ministerial Conference launched the negotiations on two tracks, one on 'market access' issues includeing agriculture (and certain systemic reforms), the other on 'preparatory studies' on extending the WTO system to investment regulations, competition laws, transparency in government procurement, trade facilitation and some lesser issues.

The European Union, as the Community is now called, and Japan attach considerable importance to modalities for negotiations on the 'track two' issues being agreed at the next WTO Ministerial Meeting, to be held in Cancun, Mexico, in September 2003. They are not likely to make offers on agriculture until they are sure that issues of interest to them will be included in the negotiations.

The disarray in world agriculture has adversely affected developing countries, not only low-cost agricultural exporting countries, but also many net food importers and many net food exporters (although this is not an easy argument to make and is elaborated on in chapter 6). Accordingly, agriculture is today the key item on the Doha Development Agenda, especially with respect to development and poverty alleviation.

Lessons from history

The historical record on the pursuit of trade liberalisation provides several lessons.

To begin with, the *first lesson* was learnt by Australia and other low-cost agricultural-exporting countries when in the late 1970s the United States and the European Community decided to take agriculture off the Tokyo Round negotiating table rather than jeopardise an agreement of industrial products. So in 1986, before the Uruguay Round negotiations were even launched, Australia and the smaller non-subsidizing agricultural-exporting countries formed the *ad hoc* Cairns Group coalition to ensure that that bitter Tokyo Round experience was not repeated. As Clayton Yeutter later wrote, 'Australia had learnt a lesson from its bitter experiences in earlier GATT discussions where it had too few allies and its proposals, however reasonable and well argued, were quickly isolated and ignored'.

During the Uruguay Round negotiations the Cairns Group was a 'third force' and held the feet of the United States and the European Community to the fire until an agreement was reached on how to broach the liberalisation of agricultural trade. After a long struggle, agreement was finally reached on a framework within which agricultural trade would be liberalised through progressive substantial reductions in domestic support, border protection and export subsidies. Unfortunately, this took up so much time, patience and energy that there was little left in which to negotiate much actual liberalisation. In the end, the United States and the Cairns Group had to settle for last-minute changes and to a commitment to resume the negotiations in 1999–2000.

The Agreement on Agriculture provided for the 'tariffication' of non-tariff measures used in farm-support programmes. One of the last-minute changes, aimed at providing a minimum degree of access to major markets for small suppliers, was the introduction of tariff-rate quotas. Another last-minute change was the Blair House accord between the United States and the European Community. That accord inserted in the draft Agreement, in addition to the 'green box' and 'amber box' categories of agricultural policies, a 'blue box' category allowing direct payments to producers under production-limiting programmes to be excused from reduction commitments. Both these changes have undermined the overall Uruguay Round agreement on agriculture.

Therefore a *second lesson* for the Cairns Group countries is the need to consolidate their position so that the question of the major trading powers cutting last-minute deals does not arise. That means they must develop much closer co-operation to overcome the diversity in their stages of development and the fact that they are widely dispersed geographically. A conscious effort needs to be made to build the strongest possible case for the substantial liberalisation of agricultural trade so that it can stand up to scrutiny not only around the negotiating table but also, and just as importantly, in the court of public opinion. This last is critical because trying to get governments to introduce changes against their will does not yield enduring results. So it is necessary in high-protection countries to promote public understanding and support for the liberalisation of agricultural trade.

The pursuit of trade liberalisation is always tough going, however, and concessions are not made just because the arguments are sound economics and can be justified on 'moral grounds', or whatever. Successive rounds of multilateral trade negotiations achieved significant gains with industrial products traded among industrialised countries. Negotiations to liberalise agricultural trade have been even more difficult. So a *third lesson* is that none of the gains from trade liberalisation have been achieved easily. They have required not only a concerted effort and a concentration of minds among trade experts and policy makers, but also the 'political will', meaning the courage, of ministers to stress the benefits of policy reform and trade liberalisation backed by a readiness to hold out for both. In the Uruguay Round negotiations, the Cairns Group made a difference by its readiness to hold up the negotiations as a whole until its concerns were addressed.

A *fourth lesson* is that the multilateral trading system, based on a framework of internationally agreed rules, is essential 'institutional capital' for the health of national economies and the world economy as a whole. The system has been threatened periodically in different ways. In the 1980s, it was being overwhelmed by 'voluntary' export restraints and other non-tariff measures, which lead in the eighth and last GATT round, the new WTO system and a long list of agreements on non-tariff measures, including the Agreement on Safeguards. Now the WTO system is threatened by bilateralism in another form, the plethora of bilateral and regional free trade areas, nearly all excluding agriculture, and by the increasing resort to anti-dumping actions. Maintaining the multilateral system is a matter of constant vigilance and insisting on governments paying attention to systemic issues.

A *fifth lesson* is that negotiators, trade policy experts and ministers have to address and think through issues on the basis of solid analysis. Small informal meetings of key players have worked in the past and, notwithstanding all the gains in modern communications, face-to-face meetings and the focussing of minds on issues will again be an essential to the success of the Doha Round negotiations.

Related to this point is the need to keep in mind, and if necessary insist on going go back to, first principles to address basic issues. Most fundamental to the multilateral trading system is the principle of non-discrimination, as expressed in unconditional MFN treatment and national treatment, which is constantly being undermined because it is seen to be too demanding. Yet if it were abandoned altogether the WTO system would cease to be a system of rules and quickly deteriorate into a 1930s situation, a hotch-potch of autarkic and discriminatory arrangements, shaped by the exercise of power.

If political leaders and policy makers, especially in the major trading powers, had a better understanding of the role of MFN and national treatment in the maintenance of the multilateral trading system there would not be the rush into bilateral and regional free trade areas that do not meet the requirements for forming them.

There are many other examples where first principles are being overlooked. Another would be the resistance to the use of the so-called Swiss formula to reduce tariffs on agricultural products whereby the greatest reductions would be made in industries with the largest tariffs. The purpose of trade liberalisation is to improve welfare. Barriers to trade reduce welfare because they distort the pattern of resource use and consumption. The bigger the distortion — the wedge between what one industry receives versus another — the bigger the cost. Hence, in order to make the biggest reductions in costs and lift welfare the most, it is necessary to remove the biggest distortions. Using the Swiss formula to reduce tariffs should therefore be 'a no-brainer'. This issue is contentious only because people are not paying attention to the fundamental principle of opening economies to improve welfare.

Many of the flawed arguments advanced in favour of protection that are outlined in the different chapters of this report have their genesis in the neglect of first principles — and a lack of transparency and public debate.

In the Doha Round negotiations, governments now have an opportunity to set about liberalising agricultural trade, the first real chance since the GATT was negotiated after World War II. Not since the Repeal of the Corn Laws in Britain and the *système des traités* (the system of bilateral commercial treaties based on MFN treatment), which followed the Cobden-Chevalier Treaty of 1860 and survived until World War I, has there been a comparable opportunity.

3 TIME TO TACKLE THE ANOMALIES: PUTTING AGRICULTURE ON A PAR WITH MANUFACTURING IN THE WTO SYSTEM

In the 1950s, agriculture was viewed as a 'special case' — a sector that had to be treated differently from manufacturing. It was treated differently. The consequence is that, despite the inclusion of agriculture in the Uruguay Round negotiations, there are many anomalies between the treatment of agriculture and manufacturing. One of the objectives of the Cairns Group in particular, is to put agriculture on a par with manufacturing in the WTO. After all, many of the agricultural products that are traded and protected around the world are, in fact, classified under national statistical conventions as 'manufactured products'. A good example would be dairy products.

Putting agriculture on a par with manufacturing in the WTO has several advantages. One is the application of a set of rules which have been tried and tested and made workable in the WTO, even if not perfectly. Another advantage is the lower average level of protection that manufacturing receives. Through successive rounds of trade negotiations, average tariffs on manufacturing have been reduced to quite low levels. There are some standout industries where significant protection remains, such as steel and textiles, but in the main, average levels of tariffs have fallen significantly. Arguing that agriculture should be on a par with manufacturing implies two things. It implies that it is politically feasible to bring about lower rates of protection — after all, it has been achieved for manufacturing. Second, it stands to bring consistency between the treatment of manufacturing and agriculture, which, as noted above, is mostly manufactured and transformed. Consistency of rules and the application of them encourages predictability and certainty by traders, and encourages investment.

Another aspect of putting agriculture on a par with manufacturing is that it forces debate on why is agriculture apparently so special. If there are special aspects to agriculture warranting government action, maybe there are better, lower-cost ways to achieve those ends, rather than through trade protection. That issue raises the whole question of 'multifunctionality' — also taken up in chapter 6. Here we highlight the anomalies and differences between agriculture and manufacturing, some of the political-economy reasons for these differences and how they might be addressed in moving forward.

Anomalies and contradictions in the treatment of agriculture

There are many contradictions and anomalies in the treatment of agriculture in the WTO and in the arguments used by politicians and trade negotiators to support these various positions. There are anomalies in the way subsidies are addressed, in the level of assistance agriculture receives, and the blatant contradictions by some, such as the European Union, in arguing support for export subsidies for agriculture. The European Union argues to retain export subsidies, yet strongly argues for anti-dumping policies at the same time. Export subsidies for agriculture are, by definition, dumping. The Common Agriculture Policy (CAP) is the world's largest dumping program.

The main anomaly with agriculture compared to other sectors, particularly manufacturing, is that there has been far less trade liberalisation. The Uruguay Round made a significant start in putting agriculture on a similar basis to other sectors by tariffying the non-tariff barriers and providing a framework for more liberalisation. But the Uruguay Round Agreement on Agriculture did not achieve the significant results in reducing protection over its initial time-frame as hoped. However, the Uruguay Round negotiations did establish the framework which forms a sound basis for the Doha Round.

The second anomaly for agricultural assistance is the high reliance on domestic supports relative to assistance provided by border barriers. Of course, trade distortions are ultimately a by-product of domestic distortions that countries impose for domestic reasons. There are some encouraging signs that many countries are intent on reducing their domestic distortions. For example, the former Soviet Union, developing countries such as India and other parts of Asia, and even Latin America, have improved their internal market orientations over recent years, although that improvement is from a high base and there is still a long way to go in many places.

What does the *Farm Security and Rural Investment Act 2002* suggest? Troublesome as it is, the Farm Act could be a lot worse. It is not as distorting as some other policies that have been in place in the past. The real problem is that it marks a reversal in direction from the previous farm bill — the so-called *FAIR Act*. The worst aspect of the current Farm Act is that the United States is going to spend about US$19 billion per year supporting commodity programs, maybe US$10 billion per year in direct payments, US$6 billion in marketing loan assistance and US$3 billion in crop insurance subsidies.

These subsidies are going to have a tendency to increase production. Not only is the direction of this support wrong, but in a quantitative sense it is not clear how big the extra encouragement of production will be. One of the 'wild-cards' in this program is the ability to update the base year of assistance. That provision could end up encouraging more production than intended. Also, the marketing loan payments are definitely production-distorting and the crop insurance program has internal flaws. Under the crop insurance program, there is an increased incentive to raise production in the less productive and more risky areas of the country.

One of the favourable aspects of the Farm Act is that there was no evidence of any temptation to return to supply management programs. Also, the system that is in place now is fairly transparent. Taxpayers will see the amounts being paid to farmers year after year. As budgets come under pressure, so will the scrutiny of these farm programs.

The major problem in tackling the anomaly of greater assistance for agriculture than for manufacturing is the political aspect. It is in a country's interests to have free trade in agriculture, yet there is little domestic support for that proposition, especially in rich countries. Electoral boundaries and marginal seats have given farmers greater political clout than many of their manufacturing cousins.

One other difference with the agricultural agreement and framework as it exists now, is the ability to classify programs as 'green box'. The limits on aggregate support were placed on so-called 'amber box' policies — those that are trade-distorting. However, such discipline does not apply to 'green box' measures. So, part of the question of whether the US Farm Bill will run up against its limits depends partly on how programs are classified — whether or not they can be placed in the 'green box'. The designers of the current Farm Act obviously believe their program compliant with WTO agreements. And a 'circuit breaker' is included in the legislation should it look like limits may be breached.

Subsidy differences

Apart from the observation that protection for agriculture is much higher than it is for manufacturing — especially in the rich countries — the second major difference is the way in which this protection is delivered. As noted, in agriculture, substantial assistance is offered via domestic subsidies. These subsidies are broken down into different types and put into 'boxes'. There is an 'amber box', 'green box' and 'blue box' set of measures for agriculture. There is no parallel subsidy classification in manufacturing. Indeed, in manufacturing, there is ostensibly more discipline on the use of subsidies, although in reality this tends to be eroding. The reason disciplines on subsidies for manufacturing are being eroded is that there is great difficulty for other manufacturing exporters to impose discipline on countries that subsidise their manufacturers. Importers can resort to anti-dumping duties to exercise some discipline on a country subsidising its manufacturing exports, even though such anti-dumping action is usually not in the national interests of the country imposing the duties.

Political economy differences

The importance of reliance on subsidies in agriculture is twofold. The first is how these subsidies should be treated in the Doha Round of negotiations. The second is the political economy behind the use of subsidies in the first place. That leads to the question of whether or not international efforts should go on reducing border measures or reducing domestic subsidies, or both. That issue is taken up next, but it is worth noting that as of 1 January 2004, the so-called 'Peace Clause' of the Uruguay Round Agreement on Agriculture expires. As such, agricultural subsidies will be folded over into the subsidies agreement. If it was just a simple matter of folding the agricultural subsidies into the WTO subsidies agreement, there may be little need to negotiate between now and then on these measures. However, a big unknown is the extent to which the WTO subsidies agreement will act as an effective discipline on agricultural subsidies, but the 'game' will have changed with the expiration of the Peace Clause.

Central to these negotiations is where the emphasis should lie — on reducing domestic subsidies, or expanding border access by reducing tariffs and tariff rate quotas. The point is that these domestic subsidies are in place for domestic reasons. A by-product of these subsidies is, depending on the specifics of the subsidy program, a large distortion of agricultural trade. For example, in the United States the domestic subsidies to cotton and other crops are the primary determinant of protection for that market, not border measures. Similarly, for oilseeds in the European Union, for oilseeds, it is domestic subsidies which damage American and other exporting interests rather than border measures.

Domestic subsidies are in place for a host of domestic reasons, the primary one being to help farmers. What we have in the Doha Round of negotiations is an international negotiation trying to reform these domestic policies. That makes it harder for negotiators because there is an extra link between domestic subsidies and the distortion to trade which is not as obvious as the link between protection at the border and the distortion to trade. In the minds of some, it is more difficult to secure reform of domestic policies in an international arena. Indeed, it can be argued that attempting to reform domestic policies through an international mechanism reduces the chances of getting agreements approved at home because of the intense opposition that can occur. Consequently, some people argue the most basic and fundamental issue of the Doha Round of negotiations is to reduce protection at the border — these measures are amenable in the public's mind to an international negotiation.

Where does that leave protection for agriculture from domestic subsidies? Basically, reform at the border will put additional pressure on domestic budgets to be able to fund domestic subsidies and it will force greater annual scrutiny of programs. In the United States, for example, between 1984 and 1988, there was a desire for reform because of the budget deficit. The minute the budget deficit went away and record surpluses were run up, so the domestic pressure for reform abated.

There was also a subtle point about reforming domestic supports and whether, in the first instance, policy makers should be encouraged to switch programs to 'green box' policies (which are supposed to be less trade-distorting) and leave it for another day and another negotiation to limit the size of 'green box' measures. The real problem is that *all* subsidies — whether they be in the 'blue', 'green' or 'amber' box — are distorting. The subsidies eventually become reflected in the asset base and the production base of agriculture. Sure, some subsidies are more distorting than others. But there is a real risk that by encouraging additional 'green box' policies, the false perception is given that progress is being made when in fact that is not the case. A total cap on the size of the 'green box' or tightening criteria may be a valuable addition.

Another difference between agriculture and manufacturing is that some of the political-economy reasons justifying the programs are different. For example, the catch-cry of supporters for protection to manufacturing, where it still exists is 'jobs'. Jobs are not the issue in agriculture. Agriculture, the argument goes, is needed to feed people. The differences lead to the dangerous notion that 'agriculture is special' and worthy of special treatment.

Developing countries do not always trust others to feed them. They have some legitimate concerns. In the past, sanctions have been placed on food exports and other programs that have limited availability of food to developing countries. Food-security[20] becomes an emotional issue and can cloud judgement about the need to reduce protection in agriculture.

There are two fallacies here. One is that in modern agriculture today, the production of food on the scale required to feed the world's population is impossible without access to oil, tractors, seeders, chemicals and other manufactured goods. Food-security also implies security for manufactured goods and oil, and so on, and that it is best achieved by a multilateral, well-working rules-based system (see box 1). The second fallacy is that, by protecting markets, the adjustment is forced onto the world market, and the volatility of prices — that is food-security — is impaired. After all, food-security is about a reliable supply of agricultural products that even poor countries are able to afford.

Going back to first principles, the most reliable, lowest-cost global supply of agricultural products will come from an agricultural production and marketing system that is as flexible as possible and that is most responsive to market

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[20] A good paper on food-security issues and the WTO and who the 'food intensive' developing countries are is in Diaz-Bonilla, E., Thomas, M., and Robinson, S., 2002. 'On Boxes, Contents, and Users: Food-Security and the WTO Negotiations' a paper presented at the OECD World Bank Global Forum on Agricultural Trade Reform, Adjustment and Poverty, Paris, 23-24 May 2002.

forces. Analysing that proposition leads to the conclusion that open markets for agricultural, and other products, are the best way to achieve global food-security.

1 Russian chicken war — advantage of a rules-based system

One of the trade issues of 2002 has been the so-called Russian chicken war. Russia is a very large importer of chicken from the United States. Russia wanted to reduce the amount of US chicken coming into its market so alleged a food-safety concern to keep US chicken imports out. They put a total embargo on US chicken coming into Russia. Russia is not a member of the WTO as yet, so a strong response had to be made by the US Administration, which apparently went all the way to President Bush.

Without a set of well defined rules and procedures, the issue came down to Presidents Bush and Putin having to resolve the issue. The Russians agreed, at least twice, to re-open the market, but then proceeded not to re-open it. A rules-based system would have imposed additional discipline on the unilateral action by Russia and provided a predictable framework for officials to work the issue through — and the ability to bring in independent third parties (the WTO) to resolve the dispute.

4 CONFLICTS BETWEEN DOMESTIC GOALS AND INTERNATIONAL COMMITMENTS IN THE MAJOR TRADING POWERS

The United States is the world's only super power. It is also the world's largest agricultural producer and single country exporter. The stance the United States takes on agricultural policy and the leadership that it provides in negotiating rounds therefore has a marked influence on global agricultural trade liberalisation. With the new Farm Act, farm policy in the United States has taken a turn for the worse since a promising beginning with the previous *Freedom to Farm Act 1996*. The good and the bad aspects of the current Act and its potential implications for global trade talks are addressed here.

The current US Farm Act

Although the *Farm Security and Rural Investment Act 2002* increases support for farmers, it is unlikely to violate any US commitments under the WTO. The current limits of spending in America are US$19.1 billion per year. The farm program was officially costed at about US$170 billion — although, some people think that is a bit low and it could go as high as US$190 billion. Over 10 years this becomes something like US$19 billion per year. On top of that, some US$5.2 billion of that amount is unarguably 'green box' and not subject to limits. Also, the Farm Act provides for a lot of rural development, conservation, research money and other clearly 'green box' activities that are not subject to the WTO disciplines.

The probability that the United States will violate the limits is very low. Of course, whether or not the United States violates limits will partly depend on the course of world agricultural prices, but some estimates show the probability of violating limits as low as 15 or 20 per cent. On top of that the Farm Act has something called a 'circuit breaker': a mandated that the Secretary not allow WTO spending limits to be exceeded. A process will be put in place to examine, in a forward-looking sense, the danger of limits being exceeded. If so, steps will be taken to make sure that this does not happen. Whether this circuit breaker is an effective tool remains to be seen. Were programs required to be cut, the odium for making these cuts would fall onto the Republican administration and be politically unpopular. The most likely course of action, should program limits look like being exceeded, is for programs to be rejigged so they fall under exempt 'green box' programs.

There are some positive aspects of the Farm Act, such as an approximate 80 per cent increase in spending for conservation. Most of the money is for conservation practices on working land. And, things could have been much worse — there is no emphasis in the current legislation on supply management programs that heavily distort markets that have been used in the past.

The real issue of the Farm Act is what it signals about the political scene in America and the prospects of achieving a good outcome in the Doha Round.

On the face of it, coming hard on the heels of protectionist decisions on lumber and steel, the current Farm Act sends a powerful signal that protectionist pressure within the United States is very strong. It signals that there is only a weak coalition of interests for freer trade within the United States. Tied in with the difficulty that President Bush had in securing Trade Promotion Authority (TPA) — formerly called 'fast track' — can make for a pessimistic viewpoint. However, the reality is that the House and Senate are evenly divided and elections are due in November this year. With close elections, it was always going to be expedient to follow short term populism and bow to protectionist pressure. This is largely what has happened.

However, US agriculture is still firmly behind the Doha Round of trade negotiations. The American Farm Bureau continues to be willing to reduce domestic supports. Indeed, the US position for the negotiations in the Round is bold and quite aggressive. The United States has announced an ambitious package that calls for the opening up of markets for US exports, truly addressing the disparities they see in tariffs, and also promote the use of the 'Swiss formula'. The US proposal to the WTO calls for the elimination of export subsidies and reductions in domestic support.

In the end, most countries will have to rally behind the United States and also the position of the Cairns Group. A longer term issue is the effect of the Farm Act on the competitiveness of US agriculture. Under large subsidies, artificially high prices get capitalised into land values and America loses its competitive position compared to other potential exporters such as Brazil. Brazil, for example, is becoming much more efficient in agricultural production than the United States.

Are the current politics now any different from previous years?

Several things — the current Farm Act, adverse decisions on steel and lumber, and the difficulty in getting trade promotion authority all indicate a lack of consensus strongly in favour of free trade in the United States. But is this any different from other years? In the first years of the Reagan Presidency, for example, there was a dramatic departure from the free trade rhetoric. In quick succession, there were voluntary restraints on automobiles, a voluntary restraint system on steel and a sevenfold increase in anti-dumping duties. There was a whole battle leading up to the *1998 Trade Act* where the President had to veto the Textile Bill that Congress passed. The Administration was becoming enamoured with Section 301 in trying to open up other markets.

The point is that there have been difficult times in the United States in the past in securing and pursuing a free trade agenda. The *1988 Trade Act* saw what was really an overt rejection of the multilateral trading system. Essentially, it boiled down to a path of bilateral reciprocity and a path of imposing unilateral restrictions on countries that had trade surpluses with the United States. The thinking at the time was 'let's do all these other things because a multilateral system does not work'. The end result was the last grant of trade negotiation authority up until this year.

All the same, the political economy of trade protection has changed. There is a new unholy alliance between anti-trade and anti-multilaterialism groups that has arisen since the completion of the Uruguay Round. There are three parts to this unholy alliance. First, there are the traditional protectionist groups — those that want to prevent trade liberalisation at any cost and hang on to what they have because they have a large stake in the status quo. This is a narrowing group of industries, but they are still a clearly identifiable group and are very powerful politically.

The second group have concerns about sovereignty. These people question whether sovereign countries should really be doing anything to commit to an international system. This group has always been present, but they are more virulent than previously realised.

The third group is the greens. This group do not believe that trade liberalisation has any gains for society at all. They believe that any gains from trade liberalisation are economic gains, but these economic gains come only at the expense of sustainability. They believe that trade leads to a worsening of the environment and they fundamentally believe more trade liberalisation will essentially mean more exhaustion of the world's resources. This group believes new technology to be inherently threatening. Rather than solving environmental problems, they see technology as creating more. Specifically, for agriculture, they believe that the new technology of genetically modified organisms (GMO) stands to threaten sustainable ecological development. A strategy to counter some of these arguments has to be developed and articulated.

Although the political economy of protection has changed, in one sense there is nothing new about the current political scene and the consensus for moving towards free trade. In the past, there have been these 'pendulum swings' in changing public perceptions. What has not changed is the political reality that the current administration in the United States is not going to do anything new until they get past the November 2002 elections. Politicians will not make politically sensitive moves on trade just prior to elections. Tactically, these politically sensitive dates have to be borne in mind when revising strategies.

Another factor driving current politics is the timetable for negotiations. 1 January, 2005 was the timetable set for the Doha Round. This timetable is unlikely to be achieved for a number of reasons. The first is that there is not enough time to undertake the necessary work. Even now there are still deep divisions about the modalities for farm trade reform. The modalities are about the 'how' of farm trade negotiations — should reductions be by a linear equal percentage method, or by the so-called 'Swiss formula' which causes greater reductions for tariffs for those industries with the greatest amount of protection. A second reason why the timetable will slip is that it is right after a Presidential election in 2004. The President, George W. Bush, is not going to agree to anything that is sensitive in the period beginning roughly May 2004 through to the election in November. Either President Bush will be re-elected or a new President will be elected. Either way, the world is not likely to see any major decision before November 2004. The whole timetable will have to slow.

That leaves several questions. What do we want to accomplish, knowing that these negotiations may take a bit longer than everybody thinks? How might progress come about? Could American agricultural trade reform benefit by a series of bilateral agreements?

On the last question, the answer is: probably not. In fact, these bilateral agreements may end up being counter-productive. The more bilateral free trade agreements that America undertakes, the more European and other countries, such as Japan, are also encouraged to enter into bilateral agreements. And the Europeans and the Japanese are going to do everything they can to exclude agriculture from the bilateral agreements they seek with other countries.

The problem is that all bilateral agreements are counter-productive for agriculture and particularly for American agriculture. The main means of gain for agriculture is multilateral. Bilateral agreements can only really address border measures. But it has already been noted that much protection to agriculture in rich countries is via domestic subsidies. The damage from domestic subsidies cannot be attributed to a particular bilateral trading partner and are not amenable to negotiation for reduction in a bilateral context. The multilateral system is paramount here.

Note that that conclusion does not necessarily imply that the multilateral negotiations on agriculture are the only way forward and are likely to be successful. Developing countries, in particular, could become a real obstacle to moving forward on the multilateral trade front. What, then, are Europe and the United States likely to do? The answer is to move towards bilateral or regional arrangements. If the multilateral trading system does not move forward, those countries that are obstructing the multilateral system will be the ones likely to be left behind, because prosperous countries such as America will pursue bilateral or regional free trade agreements. The obvious solution is a rigorous push towards an open multilateral trading system and right now, the Doha Round talks are the vehicle for achieving that.

US Farm Act and the Doha Round

In summary, the Farm Act creates a marginal increase in protection for US farmers and creates a marginal increase in the distortion of resource use in farming. The Farm Act makes it more difficult to liberalise trade in the Doha Round but it does not stop the United States from adopting and pursuing an aggressive push for global liberalisation. The worst aspect of the Farm Act is that it is simply lousy economic policy. The rationale advanced for its existence is weak and the means to achieve it is inordinately wasteful.

The sheer complexity and size of legislation makes scrutiny difficult. There is not yet any publicly available analysis of the real economic benefits and costs of the program. So, although much of the United States farm program is 'on-budget' and the transfer from taxpayers visible, in another sense the program is not transparent. The real economic cost of the US farm program comes from the inner workings of the program and the perverse incentives it creates. That cost is not readily clear. That lack of analysis and the related issue of transparency, is taken up next.

5 IMPACT OF AGRICULTURAL PROTECTION ON OTHER SECTORS

When a country protects its agricultural sector, most of the attention is usually directed to the impacts on that sector. Protecting farmers by supporting prices or lowering costs causes an increase in production. The increased production depresses world prices, over-encourages exports or discourages imports of that same commodity. It can lead to a build-up of stocks, depending on the program in question, and it obviously has repercussions for producers of that commodity in other parts of the world.

The US Farm Act has a price tag of US$170 billion which, as seen earlier, could be up to US$190 billion over ten years. People talk of the Farm Act as 'costing' US$19 billion per year. But that price tag is not the economic cost. Much of that US$190 billion sum is simply a transfer from taxpayers to farmers. A lot of the 'cost' to taxpayers is offset by the 'benefit' to farmers.

The real economic cost of the Farm Act is the level of welfare (taken to the level of real consumption) in the world that would result if that policy was not in place. The real cost comes from the misallocation of resources in the economy — too many resources are used in agriculture and too few in other sectors of the economy. If farm policies were not in place, less food would be produced and fewer resources would be dedicated to farming. However, those resources of people and capital would be used elsewhere. The lower income from farming in the absence of supporting policies would be offset by higher incomes in other areas of the economy. This point will be elaborated below with evidence of where the balance of that calculation comes out. For now, the point to note is that the United States is producing too much food and fibre and producing and selling too few Boeing jets, too few IBM computers and so on. These are the types of industries that bear the burden of agricultural policies. And if too few Boeing jets are produced and exported, there are too few jobs in that industry.

Measuring the impacts of agricultural policies on other sectors is important for two reasons. One is that only by measuring the impacts on other sectors can a correct measure of the real cost of agricultural programs be established. And the 'high ground' in the debate about the costs and benefits of farm policies around the world should be based on correct analysis. To do otherwise only invites confusion and bad decisions based on misconceptions.

The second reason why it is important to measure the impacts of agriculture on other sectors of the economy is that correctly measuring the real costs of programs sets up a dynamic process that leads to change in the political economy of reform. This then improves the potential to solve the problem of high agricultural farm support. It naturally leads down the path of greater transparency and the forming of broader coalitions of interest groups that will ultimately lead to reform. Just why this is so and how this aspect of reform can be enhanced is spelt out in this chapter.

The real costs of farm support policies

In the Uruguay Round negotiations, the Aggregate Measure of Support (AMS) for agriculture was developed. The measure purports to show the totality of transfers that go to agriculture from taxpayers and consumers. Today, the OECD regularly publishes the Producer Subsidy Equivalent (PSE) for the major economies in the world. The problem with these measures is that it is simply arithmetic. If 100 million tonnes of wheat are produced in a country and there is a $4 per tonne subsidy, the PSE calculation is $400 million. The concept is useful in that it can add a range of different policy measures together and produce something of a totality of 'assistance' to agriculture for each country. But the problem is that it does not measure the real economic cost of the farm support programs. It does not indicate by how much welfare for citizens would increase if reform was undertaken.

The problem is compounded in that incorrect analysis can lead to wrong policy prescriptions. A good example is the use of anti-dumping policies around the world. For example, if a car exporter such as Korea dumps cars into an importing country like Australia, there are two effects. One is the beneficial effect on consumers of cars in Australia and the other is the harmful effect on producers of locally-made motor cars. Good policy in Australia, would be to assess the benefits as well as the costs and see if one outweighs the other.

The policy course to follow in cases of anti-dumping should be the one where the net benefit is the greatest. But this is not done. In fact, it is not done in any country in the world. All anti-dumping policies around the world measure just the costs to the local producer. And even then, the measurement of cost is a very poor one — it is a technical measure of the difference between domestic and export prices in the exporting country. It does not measure producer surplus — the real measure of cost. Because only the cost side of the equation is represented in anti-dumping policies around the world, there is a biased view of the effects of dumping. There is an inherent bias towards protecting the local producers. Little wonder that anti-dumping actions have become one of the more-often used protective devices. Bad policies are the end result.

A correct analysis of the real economic costs of agricultural support would measure the benefits that accrue to farmers by way of extra production, but it would also take into account the additional costs that are incurred as well. The extra cost of assisting farmers is that resources are artificially attracted into the rural sector. Too much fertiliser, too many tractors, too much capital, too many people all become engaged in agriculture when farmers are supported by the programs that exist in the major rich countries of the world. Just how much extra production is encouraged by individual programs is an important part of the calculation, and how much of a price-depressing effect this has on local and world markets is equally as important a part of the cost side of the equation. But the PSE calculations conducted by the OECD do not even conduct this elementary step.

If more resources of people and capital are used in subsidised agriculture than otherwise would be the case, where have they come from? In a modern economy, all sectors are linked and all resources have opportunities to be used elsewhere. The capital that is used to purchase a new header or build a new silo in agriculture could alternatively be used to build a new building at, say, the Boeing Aircraft plant in Seattle. This effect is not immediate or obvious, but all resources — repeat, all resources — have some degree of scarcity. Their use in one activity precludes their use in another. There is not a single resource in use on the planet today where the real price of that resource is zero. Supporting agriculture crowds out the use of these resources in other potentially higher-value-adding activities. If the extra resources which are tied up in agriculture were available to other sectors of economy, countries such as the United States would produce and sell more of other goods and services such as aircraft, computers and banking services. So the main benefit of farm support policies — the extra production and income from agriculture — is offset by lower production and income elsewhere in the economy.

Do the costs outweigh the benefits? The answer is yes. Enough studies have been done[21] enough times by enough institutions around the world using proper analytical techniques to show that the costs do outweigh the benefits. It is easy to see that in the absence of external effects on a market economy, resources will naturally flow to where their value-added is greatest. In the absence of farm support policies, resources would flow out of agriculture and be dedicated to other areas. Intuitively, that implies that the value of the extra production in other sectors would be greater than the loss of value-added in agriculture.

Table 2 shows some typical results from measuring the impact of agricultural support in the major economies. It shows that cutting support by just 50 per cent results in an annual net gain for the world of nearly US$90 billion and the same exercise show that full liberalisation would lead to an annual gain of US$148 billion.

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21 For some early economy-wide analyses of the impacts of agricultural support on economies see Stoeckel, A., Vincent, D., and Cuthbertson, S (eds), 1989. *Macroeconomic Consequences of Farm Support Policies*, Centre for International Economics, Duke University Press. One of the most recent assessment of the economy-wide costs of agriculture support is by the IMF (International Monetary Fund), 2002. World Economic and Financial Surveys, World Economic Outlook, Trade and Finance, A survey by the staff of the IMF, (September.), p. 81–91.

2 Annual gains from a 50 per cent cut in agricultural protection

Economy/region	*Welfare gains*
	US$ billion of economic welfare
Africa	1.5
ASEAN	3.3
Eastern Europe	0.6
European Union	12.7
Latin America	3.2
North America	6.0
Australia	1.3
China	1.2
Omdoa	1.1
Japan	43.1
Korea	2.0
New Zealand	1.1
Other OECD	5.0
Other	6.8
Total	**89.0**

Source: CIE estimates from GTAP model simulations. ASEAN includes only Indonesia, Malaysia, the Philippines and Thailand. Latin America covers Mexico, Brazil, Argentina and Chile.

Note that the numbers in the table are the cost per year. The real economic cost today is often better expressed as the net present value of the stream of annual losses. Depending on the discount rate used, the economic cost of the farm support policies used by major countries today runs in the hundreds of billions of dollars. Note also, that is a *net* economic cost after taking account of all the measurable costs and benefits. More recent analysis by the IMF[22] shows that world welfare could rise by US$128 billion per year. Most of that gain would accrue to industrial countries

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[22] International Monetary Fund (IMF), 2002. World Economic and Financial Surveys, World Economic Outlook, Trade and Finance, A survey by the staff of the IMF, September.

(US$98 billion) and US$30 billion to developing countries. All regions stand to gain.

The gains are potentially much higher than this. As argued elsewhere, agricultural reform leads to reform in other areas such as services and manufacturing. Without reform of agriculture there will not be reform in these other areas. It could be argued that the gains from reform to agriculture are the gains from full trade liberalistion. As an illustrative exercise, a full global liberalisation experiment is shown in table 3. The lack of agricultural trade reform could be preventing US$44 billion in annual economic gain in the United States alone and US$630 billion worldwide. The world economy cannot afford to forego that level of net benefit.

3 Potential gains in welfare in 2010 from full liberalisation

	Value	*As a proportion of GDP*
	US$ billion	%
United States	44.0	0.6
Japan	149.1	4.3
Australia	14.4	4.2
Indonesia	24.9	14.3
Malaysia	16.0	20.9
Philippines	9.2	10.8
Thailand	26.6	19.1
China	65.2	9.1
India	18.1	6.4
Taiwan	33.2	10.5
Korea	22.5	5.5
Rest of OECD	205.2	2.6
Total[a]	**628.6**	

a Total does not include other countries such as Singapore, New Zealand and Hong Kong.

Source: Simulations with APG-Cubed model.

Those net figures mentioned above reflect the net economic cost of the misallocation of resources in an economy. Mostly they do not include any other external costs, such as environmental costs that can themselves be considerable. For example, in the Gulf of Mexico there is a large patch of water known as the 'dead zone'. This dead zone is completely devoid of life to about 10 feet below the water surface.[23] The dead zone arises due to the poisoning effect of nitrogen and phosphorous that has been washed down by the Mississippi. The zone is about the size of New Jersey. Most scientists agree that nutrient run-off from midwestern farms is the main cause. Since nitrogen fertilisers are cheap relative to the artificially supported prices, farmers apply them too liberally. Excess nitrogen finds its way to the ocean and causes algae blooms which upsets the ecology of the water. Part of the cost of this dead zone is the fewer numbers of shrimp caught in the Gulf of Mexico. This external cost is real, but is not reflected in the calculations above.

Transparency and coalition building

Measuring the real economic costs of farm support policies necessarily means measuring the impact of agricultural programs on other sectors of the economy. Not only is this the correct thing to do, it sets up a dynamic which can potentially lead to reform of these agricultural policies. To see why, it is necessary to trace the line of logic in answer to the question, 'why is there a lack of reform of agriculture in the world?' The starting point is the observation that world agricultural protection is costly to the countries protecting their farmers. Logically, it should be in a country's self-interest to reform agricultural protection. But countries do not reform. There can only be four possible explanations

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[23] *The Economist 2002*, 'The dead zone' 24 August, p.28.

for this inaction.[24] First, the analysis of the costs of agricultural protection is wrong — that somehow, the benefits outweigh the costs. This argument can be easily rejected. The vast majority of studies conducted around the world by reputable institutions and academics all show the same thing — that agricultural protection has a very high cost.

The second explanation for inaction is that somehow, the people in the country actually want to protect their agricultural sector in the way they are doing now. This can be ruled out easily on several counts. First, the justification for the arguments keeps changing. This is seen most clearly with the CAP in Europe. The arguments to support the CAP have gone from self-sufficiency to income support, to job preservation and then, finally, to 'multifunctionality'. The irony here is that the concept of multifunctionality as a defence for agricultural support has been around for eons, but the word has not found its way into most dictionaries yet. A more solid basis to reject the notion that the population wants to support agriculture as it currently does, is that there is heavy reliance in most countries on hidden transfers to deliver that protection. If delivering support to agriculture was so popular, why the need to hide the transfers through tariffs and tariff-quotas? Yet another reason for rejecting the argument that the population wants to protect agriculture is that the policy instruments chosen to deliver the support are unnecessarily wasteful. Nobody benefits from waste. If the Swiss want to see cows eating grass on the hillsides, fine. But then why subsidise milk production? It would be far cheaper to subsidise the grazing of dry cows.

The third explanation for inaction on agricultural policy reform is that the majority of voters do not know the true cost of agricultural support and do not know that it is in

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[24] Stoeckel, A., 2000. *Solving the Problem, A Look at the Political Economy of Agricultural Reform*, Banff 2000, RIRDC Publication 00/124, Canberra.

their own interests to bring about policy reform. This explanation has some currency, since such a large proportion of support for agriculture is still provided by hidden consumer transfers. Also, there is still the incorrect belief held by many that 'exports are good, imports are bad'. The solution here is to analyse, calculate and educate the public on what the costs of agricultural protection really are and increase their understanding of the basis for trade.

A fourth possible explanation for the lack of reform that also has some currency is that, even though many people may know and care about reform, they are too fragmented and unorganised to be effective in lobbying for change. If narrow vested-interest groups are able to block the common good, then logically, reform can only happen when outside coalitions for reform can dominate this narrow vested-interest group of beneficiaries. A coalition of outside interests has to be formed as an effective counterweight to the more narrowly defined vested interests. This is where the measurement of the impact of agriculture on other sectors becomes important. The main beneficiaries of agricultural reform are to be found in other sectors of the economy and in some overseas countries. By far and away, the largest beneficiaries from reform are those that reside within the country that protects its agriculture. The most powerful force for change is vested interests and that force has to be harnessed. But where are these opposing groups and how will they form?

Simple analysis that identifies those groups that bear the burden from agricultural support encourages those groups to coalesce around a group for change. The candy makers in Chicago are hurt significantly by America's sugar policies. The candy makers pay too much for their sugar compared to their competitors and their margins are squeezed. Also, if the United States reformed its sugar policies, one of the major beneficiaries would be Brazil.

Brazil is the world's largest, lowest-cost sugar producer and exporter. But what would Brazil do with its extra earnings of foreign exchange? One of the things that Brazil needs is to update its aging aircraft. The Boeing Corporation could be expected to pick up some additional sales to Brazil. That knowledge — that the Chicago candy makers and the Boeing Corporation are paying a large price for America's sugar policies — encourages both groups to form a coalition and lobby hard against the sugar program.

Other groups and interests could also be brought into this coalition. For example, sugar production in Florida has had a damaging impact on the Everglades — an area threatened environmentally. Green groups also could join the coalition for reform. The point is that the analysis and identification of who is bearing the burden of the various programs encourages those groups to form coalitions and lobby for reform for the national good.

When a complete analysis is done, it is sometimes surprising where the opposition to agricultural support may come from. For example, the impact of the disarray in world agriculture on the financial sector has been exemplified most dramatically by the plight of Argentina. Argentina went into financial crisis because it defaulted on its external debt. There are many reasons why this occurred, but Argentina's plight was not helped by the fact that half of its export returns come from agricultural exports which are limited by restrictions on its access to world agricultural markets. While a lot of Argentina's problems are in the hands of Argentines, their situation has not been helped by the protection of agriculture in industrialised countries that has prevented them from becoming better at what they do best — that is, selling agricultural products on world markets. The implication is that large financial institutions, such as Citibank and even the IMF, also have a stake in world agricultural trade reform. The way to involve these groups is to conduct the analysis and show the results. Chances are, these other groups are not fully aware of the implications for a country like Argentina's agricultural reform.

Transparency institutions

The above argument for a process to enhance prospects for reform relies on two components: one is sound reputable analysis and the second is the wide public debate of those results, that is, transparency. The notion of transparency has been appreciated by policy makers. Establishing the trade policy review mechanism (TPRM) as part of the WTO as an outcome of the Uruguay Round was an important achievement. The idea was correct. The delivery has been something else.

The TPRM exercise has not worked effectively for several reasons. First, is the lack of resources. Very few WTO staff are assigned to these exercises and they are given little time to do the reviews, although they do a very good job for the resources and time they have. Second, is that their reports contain little or no analysis of the economic benefits and costs of each country's trade policies. There is not the time, expertise or resources to do this. What is reported are the incidence of tariffs, tariff peaks and similar issues. None of these reports have an economic benefit and cost assessment of what the trade policy in each country is actually doing. At a minimum, unless the country is at, or close to, free trade such as New Zealand or Singapore, economy-wide analysis of the trade policies of the country should be undertaken and their costs and benefits measured. The third problem is that this analysis should be conducted independently and in public scrutiny and not with the Ministry of Trade. By their very nature, government reports are bound to make the best possible case about the government's achievements and minimise the importance of what remains to be done.[25] In the case of Sri Lanka, the Ministry even kept their review secret for several months before it was finally released by the WTO. That is not what transparency is about.

The bottom line is that if a country wants a good review and analysis of its trade policies, it will undertake them. The fundamental problem is that they do not want to do so. And relying on an external review — almost as a condition of membership of the WTO — only casts the process as something that has to be complied with.

A minimalist approach is adopted. Ways around this could be to make the reviews voluntary. Countries would only undertake the review if they wanted to, with the implication they want to reform policy in their own self-interest. If they did not do a review, that would indicate to the local population and the world that the country was not interested in trade reform — itself revealing. Ultimately, the public have to be aware that policies have benefits and costs. These benefits and costs change over time as trade patterns, technology and the structure of the domestic economy changes. They should be continually reviewed. Also, the public need to be aware that usually the beneficiaries of a particular policy are a narrow group of recipients — a group able to organise themselves and lobby effectively for programs in their own favour. Countries need to appreciate that the best way to move forward is through world's best practice analysis of benefits and costs of policy that is squarely in the public domain and debated widely through the media.

Transparency is one of the main ways forward for trade policy reform and yet it is barely mentioned in trade circles.

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[25] Cuthbertson, A.G., 1997. *The Trade Policy Review of Sri Lanka*, Blackwell Publishers Ltd, Oxford, UK.

It does not even feature in the Doha Development Agenda. There is a major gap between what should happen and what people are working towards that needs closing. A good starting point would be to dust off the Oliver Long report.[26] In that report, the importance of policy transparency and trade liberalistion was highlighted. Also, former US Trade Representative, Clayton Yeutter, informally proposed that the US International Trade Commission or the Federal Trade Commission take on a 'domestic transparency' function. Other models would be possible — for example, assign the function to the President's Council of Economic Advisers.

There are successful models of transparency agencies to evaluate how they might translate into other countries. One is the Productivity Commission (formerly the Industries Assistance Commission) in Australia. All analysis, submissions and findings are on the public record for anyone to scrutinize. A correct economy-wide framework, where relevant, is adopted in evaluating policy programs. Australia has, over many years, gradually unilaterally reduced protection for industries and much of that credit could be attributed to the working of that Commission. Australia is one of the top-performing OECD economies today and has been for several years. In the end, transparency is simply a matter of good public governance — a bit like independent auditing and independent directors constituting good corporate governance.

The issue of transparency of policy and the role of modern forms of communication such as the internet, discussed earlier, warrants more attention. Transparency has been shown to work. It works by exposing the narrow vested interests, thereby weakening their position, and it identifies

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[26] Long, O., et al., 1989. *Public Scrutiny of Protection: Domestic Policy Transparency and Trade Liberalization* in Aldershot, Brookfield and Gower, for the Trade Policy Research Centre.

the main gainers, thereby encouraging coalitions of interest to form to counter the political weight narrow self-serving interests are able to bring to bear.

6 AGRICULTURAL PROTECTION AND KEY ISSUES: DEVELOPING COUNTRIES, THE ENVIRONMENT, FOOD-SAFETY AND MULTIFUNCTIONALITY

Several issues loom large in the Doha Round of trade negotiations. These issues stand to block progress in the talks so they need to be understood. Developing countries comprise the bulk of membership of the WTO. One of the pressing economic and moral questions for the world today is the plight of many of these developing countries. Indeed, the Doha Round of trade talks is officially labelled the Doha Development Agenda. However, there are many myths and misunderstandings when it comes to assessing the impact of agricultural protection on developing countries. These myths are exposed below.

Another area of talks replete with misunderstanding is trade and the environment. Sustainable development is an important issue and many NGOs exist solely to pursue the goal of better environmental practices in the world. There is a view, most visibly seen at the failed Seattle ministerial talks in 1999, that trade damages the environment — that reform of agricultural trade will only result in pollution, deforestation and other environmental degradation being exported to developing countries. Again, the evidence contradicts this perception.

Yet a third issue is that of 'food-safety'. Protectionists often raise the charge that domestic production should be encouraged because imported product is not safe for people to consume. Again, this is an area replete with misunderstandings.

The final issue that warrants discussion is 'multifunctionality'. Protectionists, in efforts to defend their support, argue that there is more to agricultural support than just looking after farmers. They argue that there is a host of related external benefits on amenities such as 'way of life', and 'nice-looking countryside' that flow from protecting domestic agriculture. Again, there are many arguments here that need addressing and there are unnecessary misunderstandings.

Agricultural protection and developing countries

The first issue in discussing agricultural protection and developing countries requires a caveat. Developing countries are a heterogeneous group — there are food exporters, food importers, oil-rich exporters and so on. The implications of agricultural trade liberalisation for each of these developing countries is different. Notwithstanding the point, there are so many differences between developing countries that to deal with the subject practically, it makes sense to deal with common themes that apply to the bulk of countries in the knowledge that there may be some countries that might be exceptions. Whenever 'developing countries' is used here, the above caveat should be borne in mind.

The problem for the agricultural sector of protection by high-income countries is threefold. The first is that this protectionism distorts production. It stimulates inefficient and larger production that gets dumped on to world markets, depressing world market prices. These lower world prices make it more difficult for developing countries to export. Even net food importers such as Egypt are adversely affected. These countries are still capable of exporting labour-intensive fruits and vegetables where they have a comparative advantage. Their trade is smaller than need be, their earnings constrained and hence imports and welfare are reduced. Even though urban dwellers in such countries may have access to cheaper food imports as a result of subsidised and dumped product, because the country does not use its resources efficiently, it ends up being worse off.[27]

The second problem with agricultural support in high-income countries is that the binding tariff-rate-quotas increase the volatility of international prices. Many rich countries refuse to share in the adjustment to international price shocks by shielding their producers with protection. This causes extra adjustment in unprotected markets. World prices are not only depressed, but have greater volatility than they otherwise would. Food-security is made worse.

Developing countries in general are hurt by both lower prices and greater volatility of price. This becomes a major problem because in most developing countries, their agricultural sectors 'bulk large'. They bulk large in the formation of GDP, the balance of trade and in exchange-rate formation. Anything that shocks the agricultural sector in these countries will shock the macroeconomy and cause instability.

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[27] See for example Loo, T., and Tower, E., 1989. 'Agricultural Protectionism and the Less Developed Countries: The Relationship between Agricultural Prices, Debt Servicing Capacities, and the Need for Development Aid' (who were among the first to point this out) in Stoeckel, A., Vincent, D., and Cuthbertson, S (eds), *Macroeconomic Consequences of Farm Support Policies*, Centre for International Economics, Duke University Press.

Analysts in high-income countries often glibly ignore the rest of the economy when examining the relatively small agricultural sector. Typically, in these countries, agriculture comprises just 2 per cent of GDP, or sometimes less. In developing countries, especially the poorer ones, agriculture can comprise over 50 per cent of the country's GDP. In developing countries, when agricultural prices are depressed and volatility increased, there are adverse spillover effects that ripple out through the entire economy.

The third problem with agricultural protection in high-income countries is the impact on the poor. We know that 70–75 per cent of the world's poor live on less than a dollar a day. These people mostly live in rural areas and most of them are farmers. Actually, a similar generalisation can be made for the half of the world's population that live on less than $2 per day — these people also live in mainly rural areas and are heavily concentrated in agriculture. That is where the bulk of the poverty resides. Anything which reduces international prices that gets passed back into the markets of the developing countries will reduce the income-earning potential of the already lowest-income members of society. If there is a genuine concern about meeting the millennium development goals and reducing poverty in the world, protectionism for agriculture in high-income countries should be reduced. That protection only stimulates larger production, lowers world market prices, increases the volatility of prices and prevents poverty-reduction in low-income countries.

Terms of trade against farmers and development

Another little understood point in high-income countries is that most developing countries' agricultural sectors are under-performing. They are under-performing relative to their potential on either good economic growth or sustainable environmental grounds. That most of them are under-performing is not an argument for self-sufficiency — far from it. The observation is that virtually every developing country's agriculture is producing less than would be consistent with economic efficiency and enviromental sustainability. Why is this so? Virtually all developing countries tilt the terms of trade *against* their farmers. They end up paying more than the world price for their imports and getting less than world market prices for their outputs.

In 1988, a famous study at the World Bank, led by Anne Krueger[28] together with Maurice Shiff and Alberto Valdez, demonstrated the substantial net taxation of agriculture in most developing countries. One of the large sources of net taxation in developing countries was over-valuation of exchange rates. Over the last 20 years, a substantial part of that over-valuation has been removed as a result of IMF and World Bank studies, conditionally on loans and aid programs. However, in net terms, most farmers in developing countries are still being taxed relative to their urban counterparts.

The irony is that if farmers get to be a small enough group so that you can organise them easily (as in rich countries), they can extract large income transfers from consumers and the government. In developing countries, where farmers are so numerous, but where most of the political power lies in the cities, their governments are depressing returns to agriculture in order to keep the price of food low for urban dwellers.

Unfortunately, subsidised exports from Europe, dumped food aid from the US and Europe, and subsidised export credits that are the equivalent to an export subsidy, all tend to get governments of developing countries 'off the hook'

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[28] Krueger, A., Shiff, M., and Valdez, A., 1988. 'Agricultural Incentives in Developing Countries: Measuring the Effects of Sectoral and Economy-wide Policies', *World Bank Economic Review*, Vol. 2 No. 7, Washington, DC.

from doing something serious about 'levelling the playing field' for their own farmers and developing their own agriculture. This is another way in which protection of agriculture in high-income countries ends up enabling developing-country governments to 'tax' their own farmers and further slow the rate of agricultural development and, hence, general economic development.

If the bulk of the people in developing countries are employed in agriculture, it is virtually essential that you 'prime the pump' with economic development in agriculture. The process of general economic development starts there. An increment of income in the hands of a low-income person residing in rural areas will mostly get spent on labour-intensive goods produced locally. There is a big employment multiplier. Giving that same increment of income to a low-income urban resident only sees more of it leak out into capital-intensive goods and to imports. The result is only a relatively modest income-labour multiplier. That is one of the reasons that an 'agricultural development first' approach works better. Once that happens and productivity in agriculture is raised, the amount of income available for expenditures starts increasing. Then the whole economy starts accelerating, like a locomotive picking up speed. Over time, the agricultural sector declines as a fraction of the total economy in income-generation and employment-generation — the kind of transformation of the general economy that has occurred in most high income countries. But the protectionism in high-income countries today holds back the agricultural development in most lower-income countries and in turn impedes their general economic development.

Self-interest of efficient farmers in rich countries

If we care about economic development on a humane or moral basis, certainly the agricultural policies we have in high-income countries hurt most of the developing countries. That is reason enough to change direction. But it is also in the economic self-interest of efficient farm producers of the high-income countries to reduce protectionism. Most of the developing countries of the world have a larger fraction of the world's population. In Asia — South Asia, South-East Asia, East Asia — under any reasonable scenario of rapid technological improvement, these countries are going to be much larger net importers of food in the future. As long as you have any reasonable rate of broad-based economic growth to put additional purchasing power into the hands of several hundreds of millions of presently low-income consumers, it will give them the wherewithal to eat more fruits and vegetables, more animal protein, more edible oils — even eat some sweets or drink an occasional beer! All of these increases in consumption of food result in the rapid growth and demand for food that quickly outstrips their own production capacity.

Some of the largest increases in food imports in the world have been in developing countries where they have increased their exports of food — albeit of a different mix and type. Efficient farmers in the exporting countries of the world should commit to lower protection in their own markets. The result would be extra food exports to developing countries who now have greater capacity to purchase those exports.

It is possible to overstate the link between protection for agriculture in rich countries and the impact on developing countries and poverty reduction. Most developing countries would be better off with lower agricultural protection in rich countries. But the single biggest improvement to their own welfare and poverty reduction comes from developing countries opening their economies to trade.

A recent survey[29] of the literature on this subject of trade, growth and poverty gives three main conclusions:

- poverty reduction is mainly about growth in average per capita income;
- trade openness is an important determinant of growth; and
- the growth that is associated with trade liberalisation is as pro-poor as growth in general.

Openness is not a 'magic bullet' to growth. Trade policy is but one — albeit an important one — of the determinants of growth. Institutions, governance, macroeconomic stability and so on are also important.[30]

Difficulty with compliance

Another issue affecting developing countries is their ability to resource compliance with WTO rules, let alone resource the analysis of positions they should adopt in the Doha Round negotiations. Analysis by Michael Finger[31] of the World Bank showed that, as of 1 January 2000, 80 or 90 of the developing country and transition economy members of the WTO were in violation of the SPS, customs valuations and trade-related aspects of intellectual property rights (TRIPs) agreements. For some, the investment required to the rules represents a full year's development budget, and Finger questions the benefits and costs for developing countries from complying with existing agreements. Yet rich economies, such as the European Union, place priority on issues such as competition policy in the

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[29] Andrew, B., and Krueger, A., 2002. 'Trade, Growth and Poverty'. 14th Annual Bank Conference on Developing Economics, 29–30 April 2002, Washington DC.

[30] Andrew and Krueger.

[31] Finger, M. J., 2000. 'The WTO' special burden on less developed countries', *Cato Journal*, vol. 19, no. 3, pp. 425–36.

WTO. These are important issues, but they are complex and way beyond the capacity of many developing countries to assess, let alone comply with.

Special treatment

To treat developing countries as a special case and give them preferential treatment only stands to potentially make maters worse. As Bhagwati[32] notes, developing countries have not done well out of 'special and differential treatment'. The rich countries, he notes, denied reciprocal concessions from the poor countries and wound up concentrating on liberalising trade in products of interest largely to themselves. Hence, rich country's tariffs discriminate against poor countries.

On preferences, Bhagwati also cites the current fashion of shaming rich countries about the fact that their protection hurts poor countries — which it does, but only to a point. Protection in poor countries also hurts themselves. Just how much can be measured and has been done many times. 80 or even 90 per cent of the gains from trade liberalisation accrue to the country doing the liberalistion.[33] The granting of preferences to developing countries has been shown to make matters worse.[34] Preferences for particular commodities have been shown to be a 'kiss-of-death' for the recipient developing country. Sugar and bananas are the stand out examples.

Preferences are also damaging in that they send the wrong message about what is holding developing countries back.

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[32] Bhagwati, J., 2002. 'The poor's best hope', *The Economist*, 22 June, pp. 24-26.

[33] Stoeckel, A., 1999. 'Removing the hidden taxes on exports' in Stoeckel, A. and Corbet, H. (eds), *Reason versus Emotion: Requirements for a Successful WTO Round*, RIRDC Publication No. 99/167, Canberra, pp. 81-82.

[34] Stoeckel, A., and Borrell, B., 2001. *Preferential Trade and Developing Countries: Bad Aid, Bad Trade*, RIRDC Publication No. 01/116, Canberra.

They provide the convenient excuse for developing countries that someone else is to blame for their plight — that the wherewithal for their own development lies in the actions of other countries. That is wrong thinking and the wrong message to send to developing countries.

It is important to be clear on the impact of protection of agriculture in high-income countries on developing countries: it holds back development in two ways. First, it directly prevents exports from developing countries. Second, the protection provides the excuse for many governments in developing countries to blame others for their own lack of development when they could be doing so much themselves to improve their own agriculture. This political economy problem arises because the link between protection in rich countries and poor food-export performance from developing countries is obvious and easily explained — quite apart from the convenience of blaming someone else. By contrast, the mechanisms for sound economic development at home are far more complex. They involve a system of sound property rights, good governance and rules of law, a working financial system, infrastructure, low taxes and public spending and a liberal trade and investment regime. The complexity and interaction between these factors makes it difficult to spell out a clear and simple path to development of agriculture at home — especially to an electorate that may not have the education at levels achieved in rich countries. One thing removing agricultural protection in rich countries would do, besides the obvious and direct benefit to developing-country exports, is that it would remove one of the excuses for the lack of development. It would put the onus back on governments in developing countries to get their own house in order — where the debate should be all along.

Effects of protection on the environment

The first and obvious effect of agricultural protection on the environment in rich countries stems from turning the terms of trade in favour of agriculture by artificially inflating output prices relative to the price of inputs. This stimulates higher use of inputs per acre of land, whether they be chemical fertilisers, pesticides, or whatever. The result is an increase in the intensity of production and is one of the reasons the European Union has become one of the heaviest users of agricultural inputs in the world. Applying too much chemical or fertiliser, relative to what the crops need, increases the risk of environmental damage. The previous chapter cited the example where subsidies to farmers in the United States were leading to nutrient run-off and adversely affecting prawn fisherman in the Gulf of Mexico. Subsidies damage the environment and there are cases, such as New Zealand, where farm subsidies have been removed and the environment has been improved[35].

There is another avenue of effect that reinforces that tendency to over-use inputs. In the agricultural support schemes used in North America or Europe, typically most of the benefits accrue to the largest farmers. More specifically, most of the benefits accrue to the largest land owners because in most of these programs the benefits get capitalised into land values, artificially bidding up the price of land (or of quotas in the case of a marketing quota constraining the production of crops). Artificially inflating the price of land sends farmers the signal that land is scarcer than it is in reality. The result is that it reinforces the tendency to substitute other inputs for land and further reinforces the increased intensification of production. With

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[35] Myer, N., and Kent, J., 1998. *Perverse Subsidies, Tax $s Undercutting our Economies and Environments Alike*, International Institute for Sustainable Development, Canada.

intensification comes greater environmental damage such as nutrient run-off and erosion.

Added to that incentive to intensification are policies that artificially reduce the risk of producing a given crop. These policies tend to increase the production of risky crops in the wrong places — like growing corn on the high plains of Texas where a more drought-resistant crop would be more appropriate. If a farmer gets all the upside potential and the government absorbs all the downside risk, they will plant corn in the high plains because the gain in good years will be greater than the loss in bad years — the government picks up the difference. The result is a drying down of the water table in that region because of the extra irrigation. Many environmental problems are created through the unanticipated adverse consequences of agricultural price-supports and risk-reducing measures in high-income countries.

Of course, one of the vexed issues in the trade debate is that of trade and the environment. Judging by the protests in Seattle, many environmental groups are opposed to freer trade on the grounds that it damages the environment. Simply put, many argue that freer trade leads to a 'race to the bottom'. They argue that those countries producing goods using the cheapest and most unfriendly method will increase market share and result in environmental degradation. But work undertaken at the World Bank and OECD shows there is a 'race to the top', not to the 'bottom'.[36] Also, Vogel[37] has shown that trade liberalisation can just as easily be achieved by forcing nations with lower standards to raise them as by forcing nations with high standards to lower them. He notes that the impact of trade

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[36] OECD, 1999. 'Open markets matter: the benefits of trade and investment liberlisation', *OECD Policy Brief*, Paris, October.

[37] Vogel, D., 1997. *Trading Up: Consumer and Environmental Regulation in a Global Economy*, Harvard University Press.

liberalisation on regulatory standards depends primarily on the preferences of wealthy, powerful states and the degree of economic integration among them and their trading partners. That influence seems to have won out. Vogel describes the 'California effect', whereby environmental regulations are driven upwards in a 'race to the top'. Stricter standards can be a source of competitive advantage. Trade liberalisation and greater competition can be a force for higher environmental standards. Many green NGOs would not appreciate that analysis. There are important economic effects from extra trade. As noted earlier, there is a positive link between growth, incomes and demands for better environmental outcomes. The issue of trade and food-safety is taken up next.

Food-safety

As tariff barriers have declined — albeit slowly for agriculture — so the emphasis placed on non-tariff barriers has increased.[38] One of the big non-tariff barriers with agriculture is that of food-safety and quarantine. Over time, there have been increasing demands for government to exert greater control over the safety of food.[39] There are a rising number of trade disputes stemming from the impact of the application of these good regulations.

The impact of food-safety standards on trade in agricultural and food products is addressed through the SPS Agreement. How the regulations and processes outlined in this agreement work become important because the risk is that food regulations become a tool to block trade.

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[38] Henson, S., 1998. 'Regulating the Trade Effects of National Food-Safety Standards: Discussion of Some Issues', prepared for OECD Workshop on Emerging Issues in Agriculture, Paris, 26–27 October.

[39] Both Henson and Vogel make this point.

In discussing the impact of agricultural protection on food-safety it is important to clarify what is meant by 'food-safety'. The environmentalist's rhetoric is that pesticide residues are the number one problem in food-safety. But any scientific study that has ever been done on food-safety puts microbiological food-contamination at the head of the list. Pesticide residues end up way down the list, not necessarily at the bottom, but at least in tenth position. That is not to say it is impossible to get pesticide residues in food. Certainly it is, but the scientific evidence is that pesticide residue is not the principal problem. Even if it was the main food-safety problem, policies that stimulate larger applications of inputs have the potential to leave more pesticide residues in the foods that move through international trade. But, in general, what we really have to be concerned about here is microbiological contaminants.

That brings us back to sustaining a science-based criteria for sanitary and phytosanitary barriers to imports. It is also important that a better job of public education is undertaken so that people's perception that pesticide residues is the main problem is replaced with the more correct view that it is really microbiological contaminants that matter.

There is an important nexus between food-safety, the SPS Agreement and Codex Alimentarius. The issue is that although it does not look like the SPS Agreement will be changed as part of the Doha Round of talks, one of the easiest ways to erect a bogus non-tariff barrier is through foodsafety concerns.

The right to protect health and animal and plant life was included in the original GATT. The intention then was that measures used as part of this agreement would not be arbitrary, unjustified, discriminatory or disguised protection. However, by the launch of the Uruguay Round, national sanitary and phytosanitary measures had become effective trade barriers. Hence, the inclusion of the new SPS Agreement as part of the Uruguay Round Agreement on Agriculture.

The SPS Agreement sets out rules for keeping products out on safety grounds. The agreement sets out that keeping products out on safety grounds should be based on science, there should be transparency, and scientific assessments should be undertaken in a reasonable time.

Contracting parties to the WTO complying with the SPS Agreement must conform to the standards established by an appropriate international standard. Codex Alimentarius is the international 'food code' and is the relevant collection of internationally-adopted food standards. Prior to 1995, Codex was a scientific backwater. It was very technocratic but produced sound, strong rules and standards. But because Codex can influence the implementation of the SPS Agreement, influencing Codex can influence sanitary and phyosanitary measures. Beginning in 1995, the greens in Europe discovered Codex, and the rest of the world has being playing catch-up ever since. The problem is the potential for the erosion of sanitary and phtosanitary measures with Codex. The problem is compounded by the fact that many developed countries, let along developing ones, cannot afford to send delegations to a Codex meeting every three or four weeks throughout the year. Codex, in the words of some, has become the new 'battleground' for issues like the precautionary principle and food-safety.

Multifunctionality

One of the best studies on the subject of multifunctionality was published last summer by the OECD.[40] Most of the arguments used by countries such as Norway, Switzerland and Japan is that they are distorting prices in order to

[40] OECD, *Multifunctionality: Towards an Analytical Framework*, Paris, May 2001.

deliver amenities such as environmental benefits, landscape protection benefits and so on.

The flaw in their argument is that they assume fixed proportions between the production of agricultural products and the amenity being produced. They argue that they need to turn the terms of trade in favour of farmers in order to stimulate production of agricultural products because the other amenities come with it. The beauty of the OECD study is that it shows there is a considerable range of substitutability between the production of any one product and the environmental amenity, or whatever it is that they are seeking to enhance. The study completely deflates the argument that you need to distort market prices of agricultural products if you want to get that environmental amenity. Too much time is wasted debating the merits or demerits of multifunctionality. It is far cheaper and more cost-effective to encourage the desired 'amenity' specifically through direct payments — if people want to see cows eating grass on hillsides, subsidise 'cows eating grass on hillsides', not milk production.

These 'multifunctional' agricultural goals can be achieved by more direct policy instruments that are less costly and avoid waste. These better policy instruments are not used because they are 'transparent' and too easily subject to public scrutiny — and therefore would not be acceptable politically. But the solution is precisely to make the goals and payments transparent, and let communities decide what amenities they want from the rural sector.

There is also the so-called 'world development argument' as an international multifunctional goal. The important point is that world development is about jobs — it is about creating employment off-the-farm in rural areas. We know that most of the small holders who escape poverty do so either by moving to the far-away cities or by taking jobs off-the-farm in the rural areas, part time or full time. What is really needed to create jobs in rural areas is infrastructure — decent roads, communications, access to the internet, electrification, decent schools and decent health care. Agricultural price distortions by rich countries do not achieve that. Agricultural policies traditionally practiced are bad world-development policies and, if anything, accelerate the concentration of farmers. They force small farmers out of the rural areas without doing anything to stimulate greater job creation in those rural areas.

There is an important role for government in a market economy in rural areas to provide 'green box' measures. Infrastructure, roads, agriculture research, market information services, and so on, are important. Developing-country governments are often their own farmers' worst enemies. First, because they turn the terms of trade against their farmers and second, because they have a pronounced urban bias in investment in infrastructure and investment in human-resource development. The cost of transportation and transactions in rural areas is often prohibitively high because of the poor state of rural roads and the lack of communications as a result of the severe under-investment in 'green box' measures. This further impedes the development of rural areas, impedes the reduction of poverty and holds back overall development of the country.

7 WHAT HAS TO BE DONE TO RESUME THE MOMENTUM OF TRADE LIBERALISATION?

To secure a better trading order for agriculture, there has to be a domestic and international consensus that it is in everyone's self-interest to move down the path of liberalisation. That consensus is not present at the moment. The problems and challenges in building this consensus and potential strategies to achieve this are reviewed here.

Lack of domestic consensus

The two major players to be 'won over' to secure agricultural liberalisation are the European Union and the United States. The United States has finally re-secured the trade promotion authority that expired in 1994, formerly known as 'fast track'. The delay has been one of the stumbling blocks to launching another round of talks, let alone to progressing the Doha talks. But the granting of this authority by Congress was not without a struggle — it was granted only after five failed attempts.

These previous failures alone indicated to other governments worldwide that the United States was not ready to embark on a serious negotiation.

The United States would be one of the main beneficiaries of global reform of trade — both in agriculture and other sectors. Why then the resistance to grant trade promotion authority to the President?

At the heart of the problem is a lack of belief that freer trade has substantial net economic benefits. There is a belief that imports 'cost' jobs and that additional trade is harmful to the environment. Both of these propositions, as seen earlier, are clearly wrong. The case has been made many times.

The interesting question is why this message of the benefits from freer trade does not get through. The problem is that the direct and immediate effects are all too visible to the voting population, but the benefits are diffuse and spread more generally. It pays those who stand to lose to organise themselves and lobby for the status quo. It is uneconomic for those who stand to gain to lobby for the common good. What the potential beneficiaries from trade reform often overlook is that they could easily combine forces with others, thus increasing the expected returns from campaigning for reform. The suggestion in chapter 5 was that greater analysis and transparency of the cost and benefits would encourage coalitions of interests in reform to join forces and provide a more effective voice for change. But there is another strategy. That strategy is directed to those perceived to be on the 'losing' side of the ledger. It involves addressing the concerns of those faced with the adverse consequences of reform.

If protection for agriculture, or steel or any other sector for that matter, is removed, resources must necessarily change in either one of two ways. Resources must either leave the sector, or the product must change to make better use of those resources. If they do not, there can be no economic gain.

The resources leaving the protected sector that most people worry about, of course, is labour. But to protect a sector such as agriculture or steel is to say 'we want our children to have future jobs in the steel sector', or 'the future jobs for our children should be in agriculture'. In rich countries, the high-paying jobs and comparative advantage lies elsewhere. It lies in sectors such as the media, entertainment, finance, technology. Protecting and encouraging people to remain in old industries prevents the expansion of other more highly value-adding industries where rich countries have a comparative advantage.

It is understandable that people losing their jobs should be agitated and concerned about prospective employment elsewhere. This concern prompts one line of possible inquiry and a strategy to follow. Robert Litan[41] suggests that compensation packages, either financial and/or retraining, should be developed to cater for those people adversely affect by changing trade policy. Actually, because jobs are constantly being lost as a result of change in other areas not directly related to trade, such as technological change, Litan suggests that more broadly-based compensation schemes should be introduced. These schemes would assist people adversely affected by economic change, and may be both an efficient and equitable policy.

The idea of adjustment compensation has merit worth exploring because, besides the obvious benefits, there are some potential costs and hazards. There are three main costs. One is the possibility of creating an incentive system whereby people and industries seek protection simply to obtain the compensation package. That is, they become 'rent seekers'. The second problem is the difficulty of evaluating the appropriate compensation package. All too often, the adjustment costs, especially from changing trade policy, are overstated. For example, in a major World Bank

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41 Litan, R, 1999. 'Moving towards and open world economy: the next phase' in Stoeckel, A. and Corbet, H. (eds), *Reason versus Emotion: Requirements for a Successful WTO Round*, RIRDC Publication No. 99/167, Canberra, pp. 31–50.

study of the experiences from trade liberalisation by 19 different countries, aggregate unemployment was found not to be an issue.[42] This study found that the costs of adjustment to trade liberalisation were very small. They noted that while the rate of job growth in previously protected industries was slower, liberalisation was associated with job growth because 'the employment gains in the sectors that have previously been discriminated against became net gains for the economy'.[43] How then should fair compensation be determined?

The third cost of compensation packages is, of course, the administrative one. The amount of endogenous change in any particular industry far exceeds the change from reducing protection. Who then should be compensated? And administration of any scheme so devised has it own set of costs and erodes part of the gains from policy reform.

Nevertheless, there are successful examples where economic change has been 'bought' with compensation. One example would be the recent deregulation of the Australia dairy industry. Market milk prices were deregulated and the price to consumers fell. Farmers were given a lump sum payment in return and, although there was considerable discourse, economic change and deregulation were secured. Australia now has one of the most deregulated dairy industries in the world.

The message from the difficult passage of the 'fast track' trade negotiation authority is that there is still no strong domestic consensus for liberalisation of trade, including that of agriculture in the United States. At least the United States has submitted an aggressive and forward-looking

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[42] Papageorgiou, D., Choski, A.M., and Michaely, M. 1990. *Liberalizing Foreign Trade in Developing Countries: The Lessons of Experience*, World Bank, Washington, DC, p.32

[43] Papageorgiou, D., 1990. p. 36.

position on agricultural trade liberalisation to the Doha Round of talks. Their proposal has similar elements to that proposed by the Cairns Group. That will come to nought, however, unless a similar domestic constituency for reform is developed both within Europe and Japan. The onus is now on other highly-protected markets, particularly those of the European Union and Japan, to be as equally forthcoming.

Domestic consensus for reform, especially in the European Union, still has to be built. It was argued before that the best way to do this is through the economy-wide analysis of the benefits and costs of policies and the wide dissemination of the results.

Bilateral trade: action or distraction?

One major trade development over the last five years has been the deepening and expansion of the European Union, and the formation of the North American Free Trade Agreement (NAFTA). Both encompass such a large proportion of economic activity that they warrant scrutiny. An important negotiation for America currently underway is the Free Trade Area of the Americas (FTAA).

These free trade agreements are allowed under GATT Article XXIV, which permits free trade areas and customs unions to form, departing from the MFN principle. A condition of them forming is that they cover 'substantially all' trade.

The rush to bilateral free trade agreements has it genesis in several threads of reasoning. The difficulty of securing trade negotiating authority has been a clear signal that the United States is not fully committed to the multilateral system. Next, the hiatus in Seattle and difficulty in launching another round of talks has meant trade ministers have looked elsewhere to progress trade initiatives. Yet another argument is the sheer difficulty of securing multilateral agreement with so many contracting parties in the WTO — a consensus body. And some bilateral initiatives have been fully consistent with unilateral MFN liberalisation. Thailand is an example. Under ASEAN Free Trade Agreement (AFTA), Thailand has negotiated lower regional trade barriers. The limited scope of trade and negotiations has been easier to achieve without causing serious objections. But once the bilateral or regional reductions have been secured, Thailand has offered some of the reductions on an MFN basis to all trading partners. The bilateral negotiation has been the method of securing unilateral liberalisation.

All bilateral free trade agreements, however, suffer from several major weaknesses, severe enough to weaken the whole multilateral trading system. There are four major weaknesses of bilateral agreements, one of which is somewhat special to agriculture.

First, bilateral free trade agreements are necessarily preferential. They involve setting rules of origin for trade which can be arbitrary, especially for transformed goods. Also, by setting preferences they fly in the face of the most important pillar of the GATT system — that of the most-favoured nation principle and the non-discrimination clause. The trade creation by a bilateral arrangement is offset in part by trade diversion, and the net gain is smaller than first appears.

The second problem with bilateral trade agreements is that, by setting preferences, they create an incentive for some countries to block further multilateral trade reform. Take, for example, Mexico and NAFTA. Under the agreement, Mexico believes it could do quite well out of access to the American market for sugar. But Mexico is not one of the lowest-cost sugar producers in the world — that mantle belongs to Brazil, Australia and Thailand. Mexico believes it could expand sugar production into the United States under NAFTA. If so, it would be at the expense of products from other low-cost exporting countries. Does the Mexican sugar industry want to see general multilateral trade reform for global sugar, in which case they would lose their preferential access into the American market? Not likely. Potentially, Mexico now has an incentive to argue against global multilateral sugar reform.

The third problem with bilateral free trade areas is the wording of GATT Article XXIV. Agreements must cover 'substantially all' trade, so much depends on what is meant by 'substantially all'. Some of the chief users of GATT Article XXIV have made little effort to reform their farm support policies. It is easy to draw the conclusion that these countries are using bilateralism as a way around the Uruguay Round commitment to extend the multilateral trade-liberalising process to agriculture. Indeed, the Committee on Regional Trade Agreements, established at the first WTO Ministerial conference, has not reached a consensus agreement on their report. The problem, it seems, is that many countries would not be complying with the requirements of Article XXIV.

Because bilateral free trade agreements involve both trade creation and trade diversion, the net gains are not nearly as large as those from multilateral liberalisation. Bilateral agreements that exclude significant sectors such as agriculture could run the risk of widening the disparities to protection in a country, thereby increasing the distortion of resource use, and actually increase the costs from protection for agriculture.

The fourth problem with bilateral free trade agreements, and this is somewhat special to agriculture, is that they can only really address protection at the border. It is nigh impossible to target any extra discipline on domestic subsidies to a particular country in the same way as tariffs (or the lack of a tariff) can be granted to a particular bilateral trading partner. Because domestic subsidies are so important as a mechanism for protection of agriculture, bilateral trade agreements, even if they were extended to the sensitive area of agriculture, would still not be an effective discipline on domestic subsidies where much of the distortion lies. To attack these domestic subsidies and other issues such as export credits, a multilateral approach must be used. Not enough people realise that, as far as agriculture is concerned, bilateral agreements are no substitute for multilateral trade talks. Indeed, the other problems elaborated on above, mean that the rush to bilateral free trade agreements is potentially making the going harder for genuine multilateral agricultural liberalisation.

At the heart of this problem of bilateralism and lack of support for the multilateral process is the lack of appreciation of the fundamental principle of the GATT — that of non-discrimination or the MFN principle. There has been a 'dumbing down' of understanding in these bilateral agreements about trade creation and trade diversion. The trade creation from a bilateral agreement looks direct and obvious and is easy to measure and relate to. However, the trade diversion that naturally follows, which is a cost against this trade expansion, requires some thought and a little more sophisticated analysis. Note the common theme here: lack of sound analysis in a proper economy-wide framework capable of assessing all of the benefits and the costs and the follow-up transparency.

Tough decisions ahead

At the end of the day, there is no avoiding the fact that tough decisions lie ahead. Significant adjustments are required in developed countries to integrate developing countries into the world economy, which means opening markets to the exports of those countries, both agricultural products and labour-intensive manufactures. It will come down to a choice by developed countries — either accept the agricultural and labour-intensive products of developing countries or accept a greater inflow of people from them. There are no easy options. But the least difficult option, the one that involves the least cost of adjustment, the least job-shedding with the simultaneous greatest creation of new opportunities to absorb displaced workers and the greatest creation of additional wealth for the most people is the multilateral liberalisation of trade. When all countries liberalise trade together across all sectors, the economic benefits are far greater and the costs far smaller. That is the economic logic behind multilateral talks and it is a message that needs wide public dissemination.

8 FAILURE TO LIBERALISE AGRICULTURE COULD AFFECT SUCCESS IN OTHER AREAS

Agricultural trade liberalisation will be pivotal in securing liberalisation of trade in other sectors. For one thing, agriculture has now become important in the dynamic of WTO negotiations. This dynamic has changed because of the increased interest that developing countries have taken in the WTO negotiations. The developing countries, including the developing country members of the Cairns Group, took a keen interest in placing agriculture on centre stage in the Uruguay Round of trade talks.

Developing countries saw a big opportunity for agricultural liberalisation in the Uruguay Round — if they got a good result in agriculture, they were prepared to do a lot more in terms of other elements of the negotiations. The impasse at the Montreal meeting in 1988 involved developing countries, particularly the Latin American countries and Argentina especially, taking a strong stand. These countries took the view that there was not enough offered on agriculture, particularly by Europe. Throughout the Uruguay Round negotiations, the message was clear: there was not going to be a successful conclusion of the round unless there was a satisfactory outcome on agriculture. Without this message, and the central importance of agriculture, a far smaller package would have been achieved — for example, universal tariffication may not have been achieved.

As seen in chapter 2, however, a compromise on agriculture was struck at the Blair House meeting between the United States and the European Union in the late stages of the Uruguay Round negotiations. Less was achieved by way of significant reductions in agricultural support. The end result is that, as analysed by Finger at the World Bank,[44] many developing countries had to give away more in terms of issues such as intellectual property than they achieved in terms of solid reductions in agricultural support. Developing countries will not make that mistake again.

Another reason why agriculture will be centre stage in these negotiations, is that, in launching the Doha Round talks, ministers made it very explicit and very precise that this was a single undertaking. With the exception of improvements to the dispute settlement system, which has been put on a separate systemic track, the statement reads 'the conduct, conclusion and entry into force of the outcome of the negotiations shall be treated as parts of a single undertaking'.[45] Simply, an ambitious broad outcome is not going to be possible unless a serious effort is made at providing further real reform in the area of agriculture.

Many difficulties remain and an impending crisis or two is likely before progress is made. The Doha Declaration commits members to reach an agreement on so-called modalities for the negotiations. The modalities are a description of what the shape and outcome of the negotiations will be. Once these are agreed, members go back and apply it to their own regimes and come forward with their schedules

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[44] Finger, M. J., 2000. 'The WTO' special burden on less developed countries', *Cato Journal*, vol. 19, no. 3, pp. 425–36.

[45] Doha declaration

of how that agreement would apply. These schedules are presented to the Ministerial Conference in September 2003. The deadline for modalities to be agreed is the end of March 2003. Clearly, the prospects for a crisis and stalemate before then are large. Meanwhile, countries are submitting their proposals on modalities to the WTO. The Chairman of the Agriculture Committee, Stuart Harbinson, will utilise these to draft a text that he believes will be the compromise position parties will accept as a basis for negotiating an agreement on modalities. This text is due to be completed by December 2002.

If agriculture is pivotal to the talks, where will the leadership come from? One group is clearly the Cairns Group. However, because of the disparate nature of so many members, leadership by the Cairns Group will take time.

The United States is clearly in a position to provide leadership if it chooses. Certainly their proposal in the Round is bold and takes agricultural liberalisation in the right direction. As US Trade Representative Robert Zoellick has pointed out, one in three acres of farm land in the United States is planted for export.[46] Zoellick adds that US farmers are 2.5 times more dependent on exports than the rest of the economy. US agriculture should have a keen interest in securing more liberal access to global markets for food. The problem with the assistance to US farmers is that it has eroded the competitiveness of US agriculture. The assistance has simply been capitalised into land values and conferred benefits to input suppliers such as farm machinery vendors.

The European Union probably does want a result on agriculture, but domestic farm pressure is going to hold them back. The internal issues in Europe regarding enlargement could mean they are keen on assuming a leadership role on

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[46] Magnason, Business Week, September 9 2002 p.38

agriculture in the Doha Round of talks. However, farm support in the community is strong, and farmers will strongly resist reform. One possible line of action is to encourage analysis within Europe and the ensuing transparency to convince the Europeans themselves that it is in their own self-interest to reform agriculture.

Another major player in the world that will not exercise leadership is Japan. They have never shown any leadership in the past or any interest in progressing agricultural trade liberalisation. Rather, at every turn, they seem to want to thwart liberalisation and go to great lengths to prevent transparency of analyses showing the high costs of agricultural protection.

One of the problems for developing countries is the trade-off that will have to be made this time around. In a negotiating sense, if agriculture is central and if liberalisation is to be achieved, ground will have to give somewhere else. In the Uruguay Round, that 'somewhere else' was services and particularly the agreement on intellectual property through TRIPs. This time around, developed countries are looking for arrangements covering investment laws and competition policy. It is in a developing country's own interest to have relaxed laws on investment, and sound working laws on competition policy. However, the regimes and institutional arrangements to implement good competition policy requires considerable investment in several things: a degree of sophistication of the legal system, an ability to perform rigorous economic analysis, and an ability to design effective rules that will secure competition leading to innovation and growth. Already, as has been noted, there is a difficulty for developing countries in implementing the intellectual property rights agreement.

Another problem in securing more liberal arrangements for competition policy or investment, is that there is no natural constituency for these groups in the developed countries.

While the Boeing Corporation, IBM or the Caterpillar Company could all be gainers from agricultural liberalisation in America and therefore supporters of such a proposal, where would the constituency for competition policy to be applied in developing countries come from? The hypocrisy and inconsistency of the European Union must also be noted in this regard. Europe argues strongly for good competition policy. But the simplest, most effective form of competition to introduce in a country is open trade at the border. Good competition policy requires that every exporter has open access to a country's market. In the case of agriculture and in the case of pursuing bilateral preferential arrangements, the European Union is clearly flaunting sound competition policy. Again, there is a basic lack of understanding about first principles regarding trade, competition and economic prosperity.

If agriculture and developing countries are going to be important, there are some other key players who could be instrumental in securing a better outcome. Besides the developing country members of the Cairns Group, the other key players are Mexico, India and China. Also, the like-minded group centred around Pakistan, Egypt and India could be an effective voice for reform. Because Mexico is the host of the next Ministerial Meeting in 2003, and because of their close links to the United States, they potentially could play a role in building coalitions in the developing world for a better deal on agriculture and trade more generally.

Another potential key player is China. China has only recently entered the WTO and obviously did so, not to destroy it, but to view it as an essential aspect of furthering their own economic reform. China is a labour-rich country and has great capacity to export labour-intensive goods. But the export of labour-intensive goods threatens jobs in old industries in rich countries. A lot of trade protection is squarely directed towards preventing labour-intensive goods from entering a rich market and thus saving jobs. Discipline on that natural tendency and resort to a dispute-settlement system and a multilateral trading system based soundly on rules is in China's interests. By its sheer size alone, China offers the prospective of building support for key developing-country interests. Whether or not it does remains to be seen.

If liberalising agriculture is critical to success in liberalising trade in other areas like textiles and services, there are prospects of forming coalitions and groupings to 'cut a deal'. It is China and India — the most populous and among the lowest labour cost countries in the world — that bear the greatest burden from textile protection. The Cairns Group could support textile reform for these countries in exchange for support for agricultural reform. And groups interested in services reform — principally in advanced economies like the European Union and the United States — can be made to realise that they stand to gain little if agricultural trade reform is not progressed. These groups become opponents to the agricultural protectionists within their own borders. Because that debate can be made internally, it is potentially more powerful.

There is no escaping the fact that agriculture is centre stage for the Doha negotiations. Substantial liberalisation has to be achieved if the talks and the WTO system is to enjoy the support of its members for the benefit of its citizens. Reform of agriculture has been postponed for too long. It is, indeed, the opportunity of a century to liberalise farm trade.

A: LIST OF ATTENDEES

Chairman

Hon. Clayton Yeutter, of counsel at Hogan & Hartson, attorneys-at-law, Washington, DC, was the US Trade Representative (1985–88) in launching the Uruguay Round negotiations and then the US Secretary of Agriculture (1989–91) during the 'make or break' period of the negotiations. In 1978-85 he was President of the Chicago Mercantile Exchange.

Convener

Mr Hugh Corbet is President of the Cordell Hull Institute in Washington, having been at the Woodrow Wilson Center, the Brookings Institution and George Washington University. Before that he was the Director of the Trade Policy Research Centre, London (1968–1989), and Managing Editor of *The World Economy*, Oxford and Boston (1977–89).

Other Participants

Mr Albert Ambrose is Vice President, Oilseed Processing, at Cenex Harvest States Cooperatives, Inver Grove Heights, MN, and is the immediate past Chairman of the National Oil Processors Association, which he represents on the management committee of the Inter-national Association of Seed Crushers.

H.E. Mr Rubens Barbosa is the Brazilian Ambassador to the United States, having been Ambassador to the United Kingdom (1994–99) and earlier, Under Secretary-General for Regional Integration, Economic Affairs and Foreign Trade in Brazil's Ministry of External Affairs, Brasilia (1991–93).

Dr Herminio Blanco Mendoza, now an economic consultant in Mexico City, played a major role in Mexico's emergence on the world economic stage when he was Secretary of Commerce and Industry in 1995–2000, overseeing the negotiations on NAFTA and the country's free trade agreements with the European Union, EFTA and the Latin American countries.

Mr Gary Blumenthal is President and CEO of World Perspectives Inc., agricultural consultants, and President, International Food Strategies, a joint venture with the Inter Public Group, Washington. At the White House in 1991–93 he was Special Assistant to the President for Agricultural Trade.

Mr John Campbell is Vice President, Government Relations & Industrial Products, at Ag Processing Inc., Omaha, NE. In 1989–91, he was Deputy Under Secretary for International Affairs and Commodity Programs, US Department of Agriculture; and earlier on Capitol Hill, Washington, he was on the staff of the Senate Agriculture Committee.

Mr Gregory Conko is Director of Food-Safety Policy at the Competitive Enterprise Institute, Washington, and Vice President of the AgBioWorld Foundation. He was the principal investigator for the California Council on Science and Technology's recent report on food bio-technology.

Hon. John Crosbie, QC, former Canadian Minister of International Trade (1988–91) in the Uruguay Round negotiations, is the Chancellor of Memorial University of Newfoundland and counsel at Pattison Palmer, attorneys-at-law, St John's. He has also served as Canada's Attorney-General, Minister of Transport and Minister of Fisheries.

Hon. Richard Crowder, President and CEO of the American Seed Trade Association, Alexandria, VA, was Senior Vice President, International, at DeKalb Genetics (now part of Monsanto) in 1994–2002. In 1989–92, Dr Crowder was Under Secretary for International Affairs and Commodity Programs, US Department of Agriculture

Dr Eugenio Diaz-Bonilla is a Senior Research Fellow at the International Food Policy Research Institute, Washington, DC, where he has been since 1995. Earlier he was Minister at the Argentine Embassy, Washington, and before that worked with various governments and international organisations in Latin America and the Caribbean.

Ms Audrae Erickson, now President of the Corn Refiners Association, Washington, was Senior Director of Government Relations at the American Farm Bureau Federation. She was earlier director for agricultural affairs, Office of the USTR, coordinating trade policy issues bearing on sanitary and phyto-sanitary matters, biotechnology and horticultural crops.

Dr Richard Gady is Vice President for Industry Affairs, and also Chief Economist, at ConAgra Foods Inc., Omaha, NE, and a member of the Agricultural Policy Advisory Committee (to the USDA and USTR). He was formerly an economist at the Federal Research Bank of Cleveland.

Hon. Bruce Gardner, Professor of Agricultural Economics, University of Maryland, College Park, was Assistant Secretary for Economics at the US Department of Agriculture in 1989–91, engaged in preparations for the 1990 farm bill and the Uruguay Round negotiations. He earlier taught at Texas A&M University in 1977–80.

Dr Bernard K. Gordon, Emeritus Professor of Political Science at the University of New Hampshire, Durham, NH, is a Research Associate at the Sigur Center for Asian Studies, George Washington University, Washington. He is the author of *America's Trade Follies* (2002) and is beginning a study of 'farmers in the world economy'.

Mr Ronald Greentree is Chairman of Australia's Grain Growers Association and farms 100 000 acres in New South Wales. Since 2000, he has also been Chairman of Grains Corp Ltd, a diversified agribusiness with the third largest grain storage and bulk-handling capacity in the world, and he is also a director of several other agricultural businesses.

Ms Virginia Greville has been Minister-Counselor (Agriculture) at the Embassy of Australia, Washington, since early 2000. She chairs the Cairns Group of Agricultural Counselors in Washington. Earlier in Australia's Department of Agriculture, Fisheries and Forestry she oversaw bio-technology policy (1998–2000).

Mr Jason Hafemeister has been Director, WTO Agricultural Trade Negotiations, in the Office of the USTR, Washington, since 1999. He was previously at the US Department of Agriculture where his responsibilities embraced WTO affairs, including the Uruguay Round negotiations and China's accession.

Mr Richard Haire has been CEO at Queensland Cotton Holdings Ltd, Brisbane, Australia, since 1990 and is a director of Cotton Australia and Sunwater. Mr Haire is also on the Rabo Bank Australia's Food and Agribusiness Advisory Board and is a member of the Agricultural Business Alliance of Queensland.

Mr Peter Hartcher is Chief of the Washington Bureau, and Associate Editor, of *The Australian Financial Review*, Sydney. He was earlier the newspaper's Asia-Pacific Editor and Tokyo Correspondent. Mr Hartcher won awards for his coverage of the Asia financial crisis and for investigative journalism on Australia's relations with Indonesia.

Mr Gary N. Horlick, until recently a partner at O'Melveny & Myers, is a now partner at Wilmer Cutler & Pickering, attorneys-at-law, and an Adjunct Professor of Law, Georgetown University, Washington; and he is a member of the WTO Group of Experts on Subsidies. In 1979–81, he was a Deputy Assistant Secretary at the US Department of Commerce.

Mr Lyall Howard is Deputy CEO at the Australian National Farmers' Federation in Canberra, where he is also Director of Trade and Quarantine (since 1996). In addition, he manages the secretariat of the Cairns Farm Leaders Group, formed in 1998. Earlier he was with McDonald's Australia Ltd and, before that, with Dalgety.

Dr Marcos Jank is an Associate Professor of Agricultural Economics, University of Saõ Paulo, Brazil, and a Special Expert on Integration and Trade at the Inter-American Development Bank, Washington. In 1998–99, he was Special Counsellor to Brazil's Minister of Industry, Trade and Development (then Celso Lafer).

Dr Charles Lambert, Chief Economist, National Cattlemen's Beef Association, based in Englewood, CO, is located in the Association's Center for Public Policy, Washington, DC. He works closely with legislative and regulatory bodies on beef industry economics, trade and marketing issues.

Ambassador Derek Leask, New Zealand's Chief Agriculture Negotiator, is Director of Trade Negotiations, Ministry of Foreign Affairs and Trade, Wellington, where he was previously Director of the Americas Division (1999–2001). In 1995–98, he was the NZ Ambassador to the European Union — and to Belgium, Denmark and Luxembourg.

Mr David Lyons is Vice President for Government Relations at the Louis Dreyfus Corporation, Washington, having earlier served in the US Department of Agriculture (1985–88). In 1994–85, he was Chairman of the North American Export Grain Association; and he has also been Chairman of the Washington Agricultural Roundtable.

Ms Margaret McDonald, until recently Deputy Chief of Mission at the Embassy of Australia, Washington, was Australia's Ambassador for the Environment (1997–98) and Assistant Secretary, Environment (1995–96), Department of Foreign Affairs and Trade. At the Australian mission in Geneva (1987–90) she took part in the Uruguay Round negotiations.

Hon. Harald B. Malmgren was closely involved as Deputy US Trade Representative (1972–75) in launching the Tokyo Round negotiations. He is now Chairman of Malmgren O'Donnell Ltd, a financial advisory firm in London and Washington, and President of the Malmgren Group, business consultants, Warrenton, VA.

Hon. C. Joseph O'Mara, Chairman of the Agricultural Policy Advisory Committee (to the USDA and USTR), is President, O'Mara & Associates, international trade consultants, Washington, formed in 1996. As the Counsel for International Affairs to the US Secretary of Agriculture, and as Special Trade Negotiator (1989–95), he was heavily engaged in the Uruguay Round negotiations.

Mr Daniel R. Pearson, Assistant Vice President (Public Affairs) at Cargill Inc., Minneapolis, MN, since 1998. He joined the company as a policy analyst in 1987. Earlier on Capitol Hill, Washington, DC, he was a legislative assistant to Senator Rudy Boschwitz (1981–87), working on issues covered by the Senate Committee on Agriculture.

Hon. J.B. Penn, Under Secretary for Farm and Foreign Agricultural Services, US Department of Agriculture, Washington, was previously Senior Vice President, Sparks Companies, Washington, having been President of Economic Perspectives Inc (1981–88). Dr Penn has also served at the President's Council of Economic Advisers.

Hon. William D. Rogers is senior partner at Arnold & Porter, attorneys-at-law, Washington, and Vice Chairman of Kissinger Associates, international consultants, New York. At the US State Department, he was Assistant Secretary for Inter-American Relations in 1974–76, then Under Secretary for Economic Affairs in 1976–77.

Hon. Michael A. Samuels is President of Samuels International Associates Inc., business consultants, Washington. Before establishing the firm, he was Deputy US Trade Representative, based in Geneva (1985–88), and earlier was Director of Third World Studies at the Centre for Strategic and International Studies, Washington.

Dr Herwig Schlögl has been Deputy Secretary-General of the Organisation for Economic Cooperation and Development, Paris, since 1998. Previously, he was Deputy Director-General for Trade Policy at the German Ministry of Economics, having headed the Ministry's division for foreign economic policy and export promotion (1984–96).

Mr Paul Shanahan is Deputy Director of the Agriculture & Commodities Division at the WTO Secretariat, Geneva, where he has been Secretary of the WTO Agriculture Committee since 1993, having been secretary in 1973–77. He played an active secretariat role in the Tokyo Round and Uruguay Round negotiations.

Dr Andrew Stoeckel is Executive Director of the Centre for International Economics, Canberra, Australia. Earlier, as head of the Australian Bureau of Agriculture Economics (1981–86), he directed a series of ground-breaking studies on the economy-wide costs of agricultural protection in the European Union, Japan and the United States.

Ms Ellen Terpstra, Administrator of the Foreign Agricultural Service, US Department of Agriculture, Washington, was previously President, US Rice Federation (1998–2002) and earlier President, US Apple Association (1991–98). Still earlier she was a trade negotiator and policy coordinator in the Office of the US Trade Representative.

Hon. Andrew Thomson, an attorney-at-law in Melbourne, Australia, was previously a Fellow at the Institute of International Economic Law, Georgetown University, Washington, DC. In 1996–2001, Mr Thomson was a member of Australia's House of Representatives, where he was Chairman of the Joint Standing Committee on Treaties.

Hon. Robert L. Thompson, Chairman of the International Policy Council for Agriculture, Food and Trade, was until recently Director for Rural Development at the World Bank (2000–02). He was earlier President of the Winrock International Institute for Agricultural Development. In 1985-87, Dr Thompson was Assistant Secretary for Economics, US Department of Agriculture.

Dr David Walker, Deputy Chief of Mission at the New Zealand Embassy, Washington, was previously the Director of the APEC Division, Ministry of Foreign Affairs and Trade, Wellington. Earlier, he headed the Ministry's Trade & Economic Analysis Division and served at the NZ missions in London and Geneva.

Ambassador John Weekes, Chairman of the Global Trade Practice at APCO Worldwide, Geneva, was previously the Canadian Ambassador to the WTO (1995–99) and Chairman of the WTO General Council (1998). Earlier, he was Canada's chief NAFTA negotiator, after being heavily involved in the Uruguay Round negotiations.

Hon. Rufus Yerxa, now Deputy Director-General of the WTO, Geneva, was previous International Counsel at the Monsanto Company, Washington, since 1998, after three years as a partner at Akin Gump Strauss Hauer & Feld, attorneys-at-law, Brussels. In 1993–95, he was senior Deputy US Trade Representative, having been Deputy US Trade Representative in Geneva (1989–93).