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GATT and the Agricultural Sector

by Dr T. E. Josling, London *

The agricultural sector has to a large extent remained on the fringes of the process of trade liberalisation that has been going on for the last 25 years. The rules of the General Agreement on Tariffs and Trade (GATT) cover agricultural trade, but countries have found it expedient both to ask for derogations to protect their own domestic agricultural interests and also to be less rigorous in the enforcement of such rules even when derogations have not been requested.

The principles of the GATT recognise that agricultural trade based on the international division of labour is to the advantage of each country whether importer or exporter.¹ But the existence of extensive domestic farm-support policies has meant that such trade has often become divorced from considerations of efficient production; moreover, such trade as exists has been characterised by price instability and uncertainty of income for producing countries.

Arguments for Reform

Several considerations dictate that a serious attempt should be made to reach agreement on desirable reforms of the system of trade in temperate-zone farm products:

- Denial of the benefits of specialisation reduces the standard of living of people in all countries below what it might otherwise be.
- As some countries have a strong interest in agricultural trade liberalisation, progress in other areas appears to be dependent on a satisfactory agreement on agriculture.
- Many of the domestic farm policies are themselves a costly reflection of the need to offset the implications of those of other countries; mutual "disarmament" may be possible where each country cannot act alone.
- Much of the developing world is still dependent on exports of primary commodities. In many cases development is hindered by the effects on world markets of farm-support policies in developed countries.

There is evidence that distortions to rational trading patterns have increased at a time when other sectors of the economy have become adjusted to a regime of freer trade. Even though agricultural trade has been increasing over the last decade there have been considerable changes in trade patterns due largely to the influence of agricultural policies. The best pattern and level of trade is not necessarily the greatest volume of trade; although it is probably true that trade volume would increase with liberalisation, to improve the pattern of trade is more significant than to increase the quantity of traded goods.

The problems of agriculture are increasingly becoming recognised to be similar to those in other industries which have to undergo adjustment to rapid technical change. Each country has an obligation to its citizens to aid this adjustment and pursue its social objectives. To attempt to shift the burden of such adjustment onto other countries through trade impediments has proved neither effective in itself nor desirable from the viewpoint of international harmony.

Price-support policies themselves are coming under scrutiny as to whether they are successful in achieving the aims of maintenance of farm income. There is increasing evidence that support through high food prices not only puts a heavy burden on poorer consumers, but also benefits disproportionately the more affluent farmer.² It is very probable that farm-support systems will themselves be modified for this and other reasons to put greater emphasis on direct income-payments. Such a move would reduce considerably the problems of agricultural trade as farm prices come more into line with price levels on world markets. Similarly, a concentration on structural

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¹ This article is based on a paper "Expansion of Commercial Trade in Agricultural Products", in: Frank McFadzen et al., *Towards an Open World Economy*, London 1972, a report prepared by an Advisory Group of the Trade Policy Research Centre.

² See T. E. Josling and Donna Hamway, *Distribution of Costs and Benefits of Farm Policy*, in: Josling et al., *Burdens and Benefits of Farm-Support Policies*, Trade Policy Research Centre, London 1972.

policies would make it easier to reduce price levels; although at high levels of price-support, structural change could increase pressure on world markets.

Possible Solutions

Three main developments would seem possible: first, a movement towards the removal of support policies which impede trade, including those which encourage output by means of high prices, thus reverting to a relatively free market for farm goods; second, an attempt to "manage" world markets by international accord so as to substitute a multilateral price-support system for those at present in domestic operation; and third, a further retreat to autarchy and isolation in national policies, accentuating the residual nature of trade.

The third development is undesirable for the reasons given above. Food production would be unnecessarily costly and the basis of the world trading system would be undermined. The second possibility of a managed market could be appropriate for some goods. International commodity agreements have broken down largely because the burden of their survival has fallen heavily on a few countries. With an appropriate system of burden-sharing it would be possible to develop international policies that allowed some of the advantages of liberal trade whilst at the same time protecting the farm sectors of the participant countries. But insofar as the problems of agricultural adjustment would still be evident, such policies would have to be carefully constructed to avoid wide-scale waste and economic cost to consumers.

Liberalisation of Farm Policies

The first alternative, however, which is the establishment of domestic farm policies which are less disruptive of trade, has the wider application. Countries would still preserve their right to run as extensive a farm programme as they see fit either individually or in conjunction with other countries. But over time these policies should be brought into line with the principles governing the GATT and be subject to the usual procedures for settling grievances.

Although it may be taken that all countries signatory to the GATT would welcome in principle such a development, it is equally clear that even a limited step in this direction will require intensive negotiation. This should not be hampered by an attempt to achieve comprehensive inter-governmental statements or by the desire to seek further studies and deliberations by committees, though as such these might be useful. The prob-

lems are already well known and the positions of OECD major governments are well established. Nor need negotiations as such be concerned with individual methods of farm-support practiced in the various countries, where these methods do not themselves infringe GATT rules.

In particular, governments should be free without scrutiny to pursue policies which impinge directly on the farm labour market, on the use of land and on the social conditions in rural areas. Schemes such as amalgamation grants, pensions, retraining, land retirement, income supplements and so on would be outside the area of international discussion. By contrast, those policies which directly raised the price level of farm products and reduced the cost to producers of inputs from the non-farm sector would be subject to discussion among countries even where these measures did not directly imply import barriers or export aids.

Modernisation of GATT Rules

To negotiate on the basis of the trade inhibiting effects of domestic farm-support policies does not of course imply that such policies would be abandoned. Specifically, it is most unlikely that levels of protection in agriculture would be allowed to fall below that accorded other sectors of the economy. It is therefore important to elucidate the extent to which specific methods of price-support conflict with GATT rules. Of particular importance in this context is the variable import-levy and its counterpart, the variable export restitution.

Exporting countries see such policies as denying them by price means the opportunity to compete even when they become relatively more efficient. Importing countries often regard such policies as a convenient way of protecting their own farmers from the vagaries of market price fluctuations and the aggressive export subsidies of other nations. In those cases where price fluctuations occur and export subsidies persist variable import-levy policies should be allowed. Variable export restitutions, on the other hand, should be circumscribed in such a way as to ameliorate their effect on trade patterns. Present GATT rules should be applied diligently to protection by means of quantitative import restrictions. Only where a policy of domestic output control is practiced should countries use quota or licence arrangements to limit imports.

It is natural that countries should insist on a gradual adoption of these precepts. Problems of adjustment in the agricultural sector are likely to be more severe than in most other sectors. Income guarantees may be needed in cases where

high price-supports are reduced. But to delay adjustment often increases its cost. There is a need to inform the farm population of government intentions whilst at the same time assuring adequate adjustment measures.

Adoption of this approach to the development of agricultural trade necessitates a means of monitoring progress. For this the concept of "montant de soutien" has much appeal. The level of farm-support afforded by policies raising domestic prices and lowering direct input costs should be measured against a reference price. This price should broadly correspond to the level which might obtain in the absence of trade distorting policies. The reference price would be changed occasionally if and when it became unrealistic.

Average levels of support with respect to the reference price would be bound by an upper limit, as in the case with duties (including those on many agricultural products) at present under the GATT. These levels would then be subject to negotiation as with industrial tariffs. Countries would be free to use whatever means they wish,

subject to the prescriptions of the GATT, to maintain these levels of support. Discussions between countries would be initiated by allegations of an increase in the "montant de soutien". Self-sufficiency ratios, by contrast, have little value as indicators of the desirable level of trade.

Principle of Reciprocal Advantage

Negotiations on the reduction of the level of support must rest on the principle of reciprocal advantages. No country or group of countries should be required to act unilaterally, though they might wish to do so for domestic reasons. Offsetting advantages may of course be in the market for other commodities both in the farm and non-farm sectors. Export subsidies would also be limited to the difference between the domestic price and the reference price. Support reductions might concentrate initially on the main problem commodities, reducing the "peaks" in support levels, removing any "water" in import-levis indicated by protection unnecessary to maintain the domestic price, and removing quota restrictions.

Trends in Britain's Eastern Trade

by Bernd Kunze, Hamburg *

Although Britain's trade exchanges with the Comecon-states in 1971 amounted to no more than 3.17 p.c. of its total foreign trade, high growth rates have nevertheless been achieved in recent years.

The British business community is still not very optimistic about trading prospects with the East, pointing to the fact that trade exchanges with all the Comecon-states in 1971 amounted to only 3.17 p.c. of Britain's total foreign trade, with imports from these countries representing 3.55 p.c. of total imports and exports 2.75 p.c. of total exports. (The corresponding figures for 1970 were: 3.64 p.c.; 4.03 p.c.; 3.20 p.c.). Moreover, the other West European states — and the Federal Republic of Germany, France and Italy in particular — were able to export more to the Comecon-countries.

And yet there are grounds for cautious optimism in view of the high growth rates that have been achieved in Britain's trade with Eastern Europe since the early sixties. From 1960 until 1963 trade showed an upward trend. Then, in 1964, total trade with these countries receded by 3.1 p.c. with exports declining by 19.2 p.c. But from then on-

wards — from 1965 until 1971 — trade exchanges with the Comecon-states showed a growth rate of roughly 55 p.c. (imports 36 p.c.; exports about 183 p.c.). During the period from 1965 to 1970 the average annual growth rate was 8.7 p.c. which was, however, followed by a 3.3 p.c. decline in 1971 (cf. Table I).

Since 1960 a slight shift has taken place in the regional structure of the British trade with the East. While the share of the developed East European states registered a relative decline, the South-Eastern states increased their trade with Britain. As for the trade exchanges with the Chinese Peoples' Republic, they immediately after the end of the cultural revolution had begun to revive, to subsequently show a downward trend.¹⁾

¹ For details see B. Kunze, "Die Wirtschaftsbeziehungen zwischen der VR China und den westlichen Industriestaaten" (Trade relations between the Chinese Peoples' Republic and the Western industrial states); study undertaken for the German CEPES-Group by the HWWA-Institut für Wirtschaftsforschung (The Hamburg-Institute for International Economics), page 98 et seqq. (To be published short by "Europa Verlag".)

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