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Stalemate in Seattle Over Farm Subsidies

Agricultural trade is the main stumbling block in the way of a successful launch of the WTO Millennium Round of multilateral trade negotiations. Senior trade officials from the 135 WTO member countries gave up last week in Geneva on efforts to work out a compromise agenda for agriculture, postponing the final showdown to this week in Seattle.

The major trade powers have dug in on agriculture. The United States is calling for the complete elimination of agricultural export subsidies. It is joined in this position by the highly influential Cairns Group of 15 agricultural exporting nations led by Australia. On the other side of the debate are the European Union (EU), Switzerland, Norway, Japan, Korea, which are willing to negotiate over agriculture but only under the relatively weak terms set out in Article 20 of the Agreement on Agriculture. This calls for the initiation of negotiations to continue the reform process begun in the Uruguay Round, but allows the parties to take into account non-trade concerns such as food-security and the environment.

The EU, in particular, has argued that the ‘multi-functional’ role of agriculture needs to be recognized. This is defined broadly to encompass such things as picturesque pastoral countryside and high animal welfare and environmental standards – something that the EU considers only farmers dependent on agricultural subsidies for their livelihoods can provide. Japan now is also seeking the inclusion of reference to the “multifunctionality” of agriculture in the WTO negotiating agenda. In the view of those who seek to eliminate agricultural export subsidies, this is nothing more than a polite way of saying “hands off our farm sector.”

Canada’s position is mixed. We claim to want free trade but are unwilling to discuss our supply management programs for the dairy, poultry and egg sectors. Talking out of both sides of our mouth, some might say.

If Canada is going to open up export opportunities for our grain and other sectors, it is going to have to press more strongly to reform protectionist agricultural programmes. As the fourth member of the highly influential “Quad” group of trading powers, along with the United States, European Union and Japan, Canada is not lacking in clout at the negotiating table. The United States could use Canada’s support to target Europe and Japan’s protectionist agricultural policies. But Canada’s reticence may mean that we’ll miss an opportunity to shape the kind of outcome that would be most beneficial for Canadian farmers and consumers. What’s worse, our refusal to speak up on domestic agricultural reform strengthens the positions of Europe and Japan, which is definitely not where our interest lies.

It’s about time that agriculture gets dragged kicking and screaming into the multilateral trading system. In spite of the valiant efforts of trade negotiators over the decades, trade in

agricultural products is still treated far more leniently than industrial goods in the WTO Agreements. As a result of decades of profligate government spending on farm support programmes, markets are in disarray. For many commodities, world prices bear little relation to the cost of production and don't correspond to the price paid in any domestic market. Until some discipline is imposed on domestic agricultural policies, it's unrealistic to expect farmers to earn their living solely on the basis of world market prices.

Canada's weaving and bobbing on agriculture has got everything to do with domestic politics. The politicians probably ask themselves why they should expose themselves to heat from powerful farm groups now, when the Millennium Round talks on agriculture are certain to go on for several years. Better, in their minds, to lay low and wait until the dying days of the negotiations to make any necessary concessions. That way, if our precious farm programs end up having to be sacrificed, we can claim that our backs were to the wall.

The domestic political dynamic is complicated by the perception that there is a federal-provincial -- read, "Quebec-federal government" -- angle to the problem. This is based on the observation that Quebec farmers account for almost half of Canada's milk production and are extremely vocal. But as with most federal-provincial matters, the Quebec-Canada issue is overblown. Poultry producers are spread evenly across the land. When it comes to egg production, it is farmers in Manitoba that get a higher than "fair" share. Every province has both something to gain and to lose from reform to the status quo. To attribute our inaction on supply management to sensitivity over the Quebec issue is a cop-out, pure and simple.

So what should Canada's negotiating stance on agriculture be? We agree with the government's call for the elimination of export subsidies for agricultural products, although we tend to favour the more forceful Cairns Group demand for "immediate elimination" over the Canadian government's weaker objective of "elimination as quickly as possible." Canada should also press for substantial reductions in trade-distorting domestic subsidy measures and to have these subsidies subject to challenge under the WTO's dispute settlement system, just like similar subsidies to industrial production are.

Canada must also be prepared to enter into discussions about supply management. The truth is that Canada might not have as much to be ashamed of as we may think. The proponents of supply management maintain that it results in stable and predictable markets that benefit both producers and consumers. What's more, it accomplishes this without bleeding the government treasury dry. Unlike the US sugar or European grain programmes, Canada's supply management system regulates production and generates only minimal food surpluses. Hence, it is not nearly as trade distorting as some of the farm programmes our trading partners operate.

In the end, Canada should reform our dairy, egg and poultry system to allow more access for foreign imports. But we should only do so in return for reform to the more egregious farm programs in place in Europe, Japan, the United States, and elsewhere. The problem is that we won't have the opportunity unless we are prepared to enter into discussions about our own system early in the round.

No one ever said that reforming agricultural trade was going to be easy. If we want better markets for our grain, sugar and oilseed exports, we need to bite the bullet on supply management. This is the kind of leadership Canada needs to demonstrate if it is going to contribute to breaking the stalemate in Seattle.

Patrick Grady and Kathleen Macmillan are Ottawa economic and trade policy consultants. Their book, *Seattle and Beyond: The WTO Millennium Round*, was published this week by Global Economics Ltd. and International Trade Policy Consultants Inc.