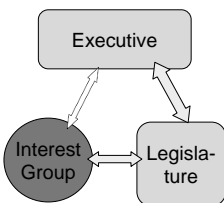


Trade Policy Part 2

Trade policy review

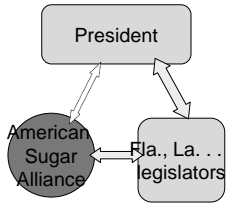
- Two competing arguments about trade barriers
- Trade policy is putting barriers up and taking them down
- Unilateral action is difficult
- Creates two level game

What makes these policies stable?



- Distribution of costs and benefits
- Exercise of influence
- Institutional rules
- Transition problems
- Demands of two level game

An example: sugar policy in the U.S.



- Quotas set annually by USDA based on forecasts of supply & demand
- Higher and more stable sugar prices
- Broad geographic support from cane growers, sugars beets growers, and corn farmers
- Import quotas provide benefits to selected partners

- "We applaud the administration's treatment of sugar in the Australia agreement," US Sugar Industry Group chair Carolyn Cheney said.
- "It clearly demonstrates that an FTA (free trade agreement) can be successfully concluded without market access provisions on sugar and should serve as a template for all future FTA negotiations."
<http://www.theage.com.au/articles/2004/02/10/1076175137991.html?oneclick=true>
- ASA Chairman Dalton Yancey said, "American sugar farmers and processors commend Senator Breaux for the effort he has made to address schemes by some companies to undermine the integrity of the U.S. sugar import quota system and of international trade rules."
- "This language will help USDA administer U.S. sugar policy under the Farm Bill at no-cost to U.S. taxpayers,"
http://www.sugaralliance.org/desktopdefault.aspx?page_id=19&news_id=261

Why would this policy persist?

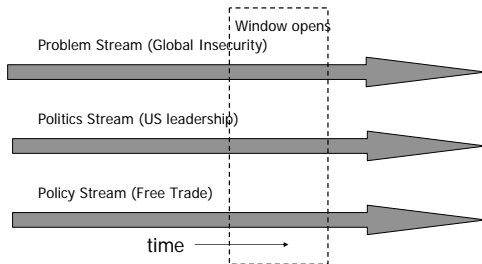
(source M.Moore "Farming subsidies no help to peasants." Guardian 8/5/02)

- | | |
|--------------------------------------|-------------------------|
| • U.S. sugar production | • Why would it persist? |
| • Quotas restrict imports. | • ? |
| • 42% benefits to 1% farms | • ? |
| • Estimated cost to consumers \$1.9B | • ? |
| | • ? |

Why is this policy stable?

- Concentrated benefits and widely distributed costs
- Unevenly distributed organizational costs
- Rational ignorance
- Difficult to compensate the losers
- Concentrated costs outside the system
- Channels of influence (\$, information)
- Broad base and logrolling in Congress
- Some trading partners benefit
- Good story: favor fair trade; uneven playing field makes “unilateral disarmament” unwise. Point to evidence in EU subsidies and Japanese quotas

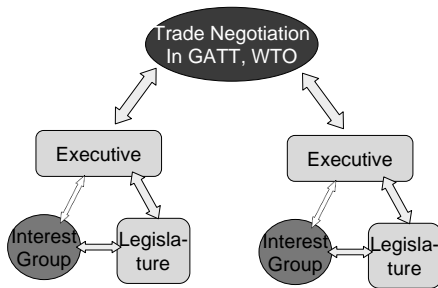
Global Instability Opens a Policy Window



Bretton Woods: A new set of global institutions to promote security and prosperity

- International Bank for Reconstruction and Redevelopment (World Bank) loans for post war redevelopment
- International Monetary Fund (IMF): short term loans and policies for currency stability
- International Trade Organization not organized: General Agreement on Tariff and Trades (a treaty) serves instead to focus on trade. Later becomes WTO.

Trade strategy: Institutionalize 2nd level; focus on reducing barriers.



Unfair Trade? U.S. cotton production

(source M.Moore "Farming subsidies no help to peasants." Guardian 8/5/02)

- Cotton production in U.S. subsidized: \$3.4B
- Keeps U.S. production inflated, prices low.
- Glut of cotton on international market
- Falling prices(66% since 1995).
- Developing growers (e.g. Mali) cannot benefit from comparative advantage
- Lose money despite record harvest.
- Supports sustain U.S. production, pressure of over supply felt elsewhere.

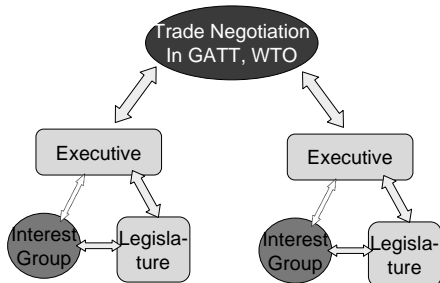
Key features of GATT/WTO

- Three “disciplines”
 - MFN
 - National treatment (nondiscrimination)
 - Prohibition on quotas
- Three part structure:
 - Plenary body for negotiation of trade agreements
 - Dispute settlement body: identify and reduce trade barriers through resolution of nation to nation disputes (becomes binding with WTO)
 - Secretariat

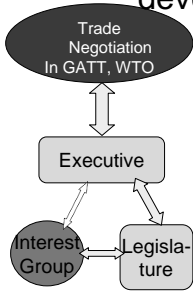
Policy develops through rounds of multilateral negotiation

- | | |
|-----------------------------------|--|
| • Geneva I 1947
23 members | • Dillon 1960-61
39 members |
| • Annency 1949
29 members | • Kennedy 1963-67
74 members |
| • Torquay 1950-51
32 members | • Tokyo 1973-79
99 members |
| • Geneva II 1955-56
33 members | • Uruguay 1986-94
103 members
Produces WTO |

Multilateral negotiations extend the logic of a 2 level game

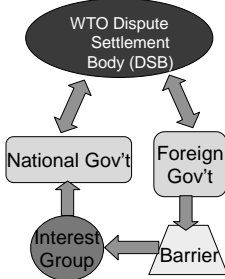


Domestic roles in policy development



- President negotiates
- Congress approves implementing legislation
- “Fast track” requires up or down vote

Dispute settlement (WTO)



- Initiated by firm, interest group, gov't
- National gov't files
- Sequence: complaint-consultation-panel-report-[appeal]-resolution (compliance, compensation, retaliation)

Tuna-Dolphin controversy under GATT

- 1950s fisherman in Eastern Pacific discover yellowfin tuna swim beneath dolphins.
- Dolphins easier to see.
- Set purse seines on dolphins to catch tuna
- Trapped dolphins die

A policy controversy opens

- US laws apply
- Late 80s new attention
- New US measures
 - Embargo
 - “Dolphin Safe” label
- Mexico brings case to GATT
- GATT panel rules for Mexico
 - Rules must apply to product not process by which produced.
- Never adopted. Dies when GATT becomes WTO.

International trade and domestic policy

- Continued threat of Mexican challenge under WTO
- Threat triggers domestic policy struggle in U.S.
 - Quiet while NAFTA being negotiated
 - Embargo lifted to comply with GATT ruling
 - “Dolphin safe” retained
 - Change in standards for “dolphin safe”

Food safety: a new WTO controversy

- Sanitary and Phytosanitary measures protect human, animal, or plant life or health
- Some trade restrictions common
 - Quarantines for diseases, pests, and contamination
- WTO rules allow but must be “based on scientific principle and not maintained without sufficient scientific evidence” and not “arbitrarily or unjustifiably discriminate.”

WTO policy and national standards

- WTO rules reference international standards as basis for national measures
- To exceed must 1) show “scientific justification” that employs risk assessment and 2) achieve goal in the “least trade restrictive way possible”
- where evidence is “insufficient” may adopt provisional measures

EC food safety policy challenged

- EC bans importation of meat injected with growth hormones
- U.S. and Canada challenge in WTO
- Panel and appeal rule in favor U.S.
- Focus on “rational relationship” between risk assessment and science
- Policy disallowed

GMOs: a current controversy

- Moratorium since 1998 in EC on new GMO food products
- Policy based on precautionary principle
- U.S. firms want to challenge the EU regulations
- Clinton Administration refuses to bring case
- Bush Administration decides to challenge at WTO
- EU defends as “clear, transparent, reasonable, and nondiscriminatory.”
- New EU measures on labeling and traceability

WTO and national policy

- Loss of sovereignty?
- Democratic deficit?
- Economic policy vs. other policy goals?
- Negative character of sanctions.
- Is trade a neutral policy language?
