

## World Agriculture & Trade



# Non-Trade Concerns: International Debate & U.S. Policy

Among the topics of discussion in the World Trade Organization (WTO) negotiations on agriculture, non-trade concerns remain one of the more contentious. In WTO parlance, “non-trade concerns” include a range of issues that are related to agriculture but are not strictly linked to traditional trade measures like tariffs. Non-trade concerns include environmental protection, rural development, and food security, among others.

Non-trade concerns have emerged as a trade issue as a number of factors converged. There is growing public realization that international trade and trade rules can have impacts beyond the flow of goods and services; public demand for environmental protection is putting farm production practices in the spotlight; and incidents of food-borne disease have raised public awareness of food safety. Agriculture can be closely tied to cultural identity, and some may feel that liberalizing trade threatens this identity.

The issue of non-trade concerns is closely linked to multifunctionality, the concept that agriculture (or other industries) pro-

vides a range of noncommodity outputs, or multiple functions. This concept is, on its face, noncontroversial. Most countries accept that agriculture provides services and outputs beyond food, fiber, and forestry. These outputs may include socially desirable goods (open space, wildlife habitat, biodiversity, flood prevention, pleasing rural landscapes, cultural heritage, viable rural communities, and food security) and negative environmental impacts (soil erosion, water pollution, loss of habitat, and loss of biodiversity).

These issues become contentious when they are embroiled in the larger discussion of agricultural policy reform. The WTO and its predecessor organization, the General Agreement on Tariffs and Trade or GATT, provide for general exceptions from trade provisions for measures necessary to protect human, animal, or plant life or health, or to conserve exhaustible natural resources. Countries agreed further, in Article 20 of the WTO Uruguay Round Agreement on Agriculture, to include non-trade concerns in the negotiations to continue the agricultural reform process. In the Doha Declaration that launched the new round

of trade talks, WTO members confirmed their intent to discuss these concerns, but they did not agree on how to address them.

### The International Debate

The debate over non-trade concerns has taken place primarily in the context of agricultural trade negotiations in the WTO. Multifunctionality and non-trade concerns become controversial when used in trade negotiations to justify exemptions from current or future commitments, or as a reason to reconsider disciplines on agricultural support and protection already established in the Uruguay Round.

The crux of the international debate is the presumption that, besides food production, agriculture creates noncommodity spillover benefits and costs. These benefits or costs are not provided or controlled by the marketplace and represent either externalities or public goods. Countries widely agree on the existence of public goods and externalities in agriculture, and most have policies to support the positive benefits and limit the negative impacts from agriculture. The crux of the debate derives from the presumption of *jointness*—that agriculture produces desired noncommodity outputs as *joint products* with agricultural production—and the conclusion that agricultural production is necessary to obtain the desired noncommodity outputs.

To varying degrees, the European Union, Norway, Japan, South Korea, and Switzerland have supported greater flexibility under WTO rules to provide for non-trade concerns. Some of these countries may feel trade liberalization poses a threat to positive noncommodity benefits that are jointly produced with food. By lowering tariff protection or tightening limits on trade-distorting domestic support, some countries are concerned that lower domestic farm prices will reduce agricultural output and its associated benefits. If these benefits were joint products of agricultural production, then lower prices that result from reducing tariffs on agricultural products would cause, for example, a loss of landscape amenities.

Countries on the other side of the debate have challenged these justifications by

## Externalities & Public Goods

Economists use the term “externality” to describe harmful or beneficial side effects that occur in the production, consumption, or distribution of a particular good. Production of an agricultural good may generate an environmental externality, such as wastes or amenities, as a byproduct. These are externalities if they affect the well-being of others in a way that is not transmitted by market prices; i.e., the producer does not bear the costs of the waste cleanup or receive compensation for the benefits of the amenity provided.

Externalities often arise when there is no market for a product. This can occur when there are ill-defined or poorly enforced property rights (for example, when resources such as ground and surface water or air over a city are owned by the community or by no one). Externalities also occur when those affected are widely dispersed and difficult to identify. The cost to the community of water pollution or air pollution is not reflected in the market.

Public goods are goods (or, more commonly, services) for which markets do not work well because of certain characteristics of the goods or services. Typical of public goods is that consumption by one individual does not reduce the amount available for others. This particular characteristic means there is no incentive for consumers to pay for a service. No incentive to pay means no private firm would be willing to supply the service. In such cases, governments provide the service and collect taxes to cover the cost. National defense is an example of a public good.

Both externalities and public goods can provide an economic rationale for government intervention.

Source: Krissoff, B., et al., *Exploring Linkages Among Agriculture, Trade, and the Environment*, Agricultural Economic Report No. 738, May 1996.  
[www.ers.usda.gov/publications/aer738.pdf](http://www.ers.usda.gov/publications/aer738.pdf)

questioning the presumption of joint production. If agricultural production and landscape amenities are not jointly produced, then policies other than those that support production can provide similar amenities.

Opposing countries may also contest the economic rationale that these outputs are public goods that require government intervention, citing examples where the market can provide these outputs. These countries cite the fact that WTO members agreed to limits on the level of trade-distorting support, and that trade agreements require countries to consider the effects of domestic policy on global markets.

While most countries agree on the desirability of noncommodity benefits of agriculture, opposing countries believe that policies to address non-trade concerns should be targeted, transparent, and have little or no trade-distorting impact. These countries favor addressing non-trade concerns through “green box” policies. Green

box policies are considered to be minimally trade distorting for WTO purposes, and are therefore exempt from reduction commitments. These policies include environmental, domestic food aid, and certain regional assistance programs. Countries that have been the strongest advocates of this viewpoint include Australia, New Zealand and other Cairns Group members, and the U.S.

Jointness is also a factor for negative externalities in both the non-trade concerns and trade and environment debates. Trade liberalization leads to global economic growth and one concern is that expansion in agricultural output will also increase associated externalities, like water pollution, soil erosion, and loss of biodiversity.

The U.S. proposal for WTO negotiations on agriculture recognizes the importance of policies that address non-trade concerns. At the same time, the U.S. has expressed its view that non-trade concerns

are best met through non-trade-distorting means, in order to avoid imposing the costs of achieving these objectives on other countries. These costs can be considerable. A 2001 study by USDA’s Economic Research Service estimated that price-distorting agricultural policies—market access limitations, domestic support to producers, and export subsidies—cost the world economy \$56 billion annually in lost welfare, or consumer purchasing power.

## The U.S. Experience

Many of the concerns cited in the international debate already feature prominently in U.S. agricultural policy. Moreover, these benefits are also provided in the U.S. through a combination of private actions and public policies. The following examples illustrate how non-trade concerns—environmental protection, rural landscape and cultural heritage, and strong rural communities—are addressed by U.S. policy.

**Environmental protection.** Americans value the environmental benefits offered by agriculture, such as habitat for migrating waterfowl, but also recognize the potential negative impacts of agriculture on land and water resources. Conservation programs have been part of U.S. farm policy since the 1930s. The scope of environmental concerns addressed by present-day conservation programs encompasses the impacts of animal waste, nutrients, and pesticides on surface and groundwater quality, the impacts of agriculture on coastal resources, and the preservation and restoration of wetlands, other ecosystems, and wildlife habitats.

Many environmental impacts—both positive and negative—are closely linked to agricultural production. This close linkage potentially makes a case for the jointness of environmental spillovers and agricultural output. Some U.S. conservation programs create benefits including wildlife habitat, improved water quality due to filtering of agricultural runoff, and floodwater control by taking environmentally sensitive land out of production. The largest program is the Conservation Reserve Program. The Wetlands Reserve Program assists landowners in returning farmed wetlands to their original condition

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through easement payments (voluntary legal agreements that restrict production, development, or other specified activities on farmland) and restoration cost sharing.

U.S. policy also provides numerous examples of how environmental benefits, and control of negative environmental impacts, can be addressed through means other than controlling the level of agricultural production.

- Cross-compliance provisions of U.S. farm legislation require a basic level of environmental compliance as a condition for farmer eligibility for other government programs.
- Cost-sharing programs like the Environmental Quality Incentives Program (EQIP) and the Wildlife Habitat Incentives Program target areas of special environmental sensitivity by contracting with individual farmers to implement conservation practices.
- The new farm bill establishes a Conservation Security Program that provides incentive payments to farmers for maintaining and adopting conservation practices on land in production, and increases funding for existing conservation programs like EQIP.
- Regulatory programs (the Clean Water Act, Endangered Species Act, and Federal Insecticide, Fungicide and Rodenticide Act) require that farmers restrict the use of pesticides which might adversely affect water quality, certain wildlife species or their habitat, or human health.

**Rural landscape, cultural heritage, and farmland preservation.** Preserving traditional agricultural landscapes in many areas of the U.S. is closely linked to preservation of the region's historical and cultural heritage. Farmland preservation is relevant when farming faces development pressure in the urban fringe. Farms in metropolitan areas comprise one-third of all farms in the U.S. (but a smaller share of agricultural output). Arguments for preserving these farms, however, go beyond agricultural policy; they are linked to issues of urban revitalization, transportation policy, environmental policy, and judicious use of infrastructure, including schools, roads, and sewers.

### Non-Trade Concerns in the U.S. Proposal for WTO Negotiations on Agriculture

The following discussion is excerpted from: World Trade Organization. "Proposal for Comprehensive Long Term Agricultural Trade Reform: Submission from the United States," G/AG/NG/W/15, 23 June 2000. ([www.ustr.gov/sectors/ltprop.htm](http://www.ustr.gov/sectors/ltprop.htm))

"The United States is committed to working through the WTO to eliminate trade-distorting measures. The United States is likewise committed to and supports policies that address non-trade concerns, including food security, resource conservation, rural development, and environmental protection."

"These objectives are best met through non-trade-distorting means, with programs targeted to the particular concern without creating new economic distortions, thus avoiding passing the cost of achieving these objectives to other countries by closing markets, or introducing unfair competition, or both."

"The United States proposes building on the key elements of the Agreement on Agriculture ... making progress through a fairer and simpler approach to capping, binding, and reducing trade-distorting support. This approach recognizes the legitimate role of government in agriculture. In particular, the U.S. proposal allows for support that is delivered in a manner that is, at most, minimally trade distorting. This could include, among others, income safety-net and risk management tools, domestic food aid, environmental and natural resource protection, rural development, new technologies, and structural adjustment which promote economically sustainable agricultural and rural communities."

"The United States proposes to enhance further...the criteria for exempt support measures while ensuring all exempt measures are targeted, transparent, and, at most, minimally trade-distorting."

Preserving farmland in order to maintain the rural landscape might be seen as an argument for joint production. However, most policies aimed at preserving farmland do not require that such lands produce agricultural goods, and many protect farmland through means that would qualify as green box policies.

A range of public policies and private actions seek to preserve agricultural lands, as well as to promote other objectives. Some examples of public policies include:

- Purchase of Development Rights, primarily state and local programs that purchase conservation easements on agricultural land and thereby prevent it from being converted to commercial or residential uses.
- The Federal Farmland Protection Program uses Federal funds to match state and local funding designated for purchasing permanent easements.
- Governments may place restrictions on the type of activity that can occur in a

geographic area by establishing agricultural zoning, agricultural districts, or urban growth boundaries, essentially prohibiting agricultural land from being converted to urban or suburban development.

- Many states give tax breaks to agricultural landowners in an effort to keep agricultural land from being converted to other uses as property values rise.

Private activities can complement these government efforts. Local, regional, or state nonprofit conservation organizations help protect natural, scenic, recreational, agricultural, historic, and cultural property. Several private groups have formed at the national level for the purpose of raising and pooling funds to purchase land, including the National Preservation Trust, Ducks Unlimited, and The Nature Conservancy. Private conservation organizations also purchase development rights to land, or may seek donations of property. Government may be a partner in these efforts by offering tax benefits for donations,

providing an example of how public policy can complement private actions.

Market-based initiatives can help develop and promote solutions to preserving agricultural lands. Agritourism provides another source of income for farmers and thus may help preserve farmland. Governments may assist in developing market-based solutions through marketing assistance and promotion activities, extension, and technical assistance. Where rising land values put pressure on farmers to sell farmland for development, producing higher value goods can help increase market returns. Government can assist in identifying markets for high-value products and encourage farmers to use marketing techniques better suited to an urban environment. Community-based agriculture, whereby consumers purchase shares of a farm's crop and receive a weekly delivery of fresh produce in return, can help sustain small producers and preserve farmland in the urban fringe.

**Strong rural communities.** Rural communities face a number of challenges, including lagging incomes, lack of economic opportunities, and an inability to attract new businesses because of relatively poor infrastructure. While some proponents of non-trade concerns claim that agricultural production is needed to ensure the viability of rural areas, developing strong rural communities requires policies that target a range of objectives beyond those strictly related to agriculture.

Characteristics of rural America shape the U.S. policy response to the needs of rural communities. Farming is no longer the main economic activity in rural America. A mix of manufacturing, services, and other nonfarming activities now dominates the majority of rural counties in the U.S. Many farm households, particularly those on intermediate-sized and smaller farms, are reliant on these local mixed economies because they depend on off-farm earnings for a majority of their income.

Rural development policies in the U.S. include a mix of public and private instruments for increasing rural employment and sustaining rural communities. Public policies are geared toward providing general services, including public education, employee training, and physical and

social infrastructure. The Federal government also provides funding for telecommunications, transportation, housing, and technical assistance aimed at improving rural infrastructure. Several Federal and numerous state and local programs provide tax and other incentives for private investment in distressed rural areas. And some private foundations provide grants for rural development projects to deal with the challenges of job loss, decline in income, out-migration of young people, and persistent poverty.

### Future Directions

Changes in society's expectations of agriculture, combined with WTO commitments to reduce trade-distorting support, have increased the attention given to the noncommodity outputs from agriculture. Consumers have come to expect services from agriculture that range from picturesque farmsteads to enhanced environmental quality. Increased demand for environmental quality may provide greater market opportunities for goods produced using environmentally friendly practices, and thus increase the potential for market-based solutions to provide for environmental quality.

Several U.S. policies illustrate how non-commodity benefits can be provided without agricultural production. If the agricultural negotiations in the current Doha Round yield commitments to further reduce agricultural support and protection, countries may need to rely increasingly on such measures to provide these benefits.



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### For further reading:

"The Use and Abuse of Multifunctionality," November 1999, [www.ers.usda.gov/briefing/WTO/PDF/multifunc1119.pdf](http://www.ers.usda.gov/briefing/WTO/PDF/multifunc1119.pdf)

*Agricultural Policy Reform in the WTO—The Road Ahead* (ed. M. Burfisher). AER No. 802, May 2001.  
[www.ers.usda.gov/publications/aer802](http://www.ers.usda.gov/publications/aer802)

### Upcoming Reports—USDA's Economic Research Service

The following reports are issued electronically at 4 p.m. (ET) unless otherwise indicated.

[www.ers.usda.gov](http://www.ers.usda.gov)

#### July

- 11** *World Agricultural Supply and Demand Estimates*  
(8:30 a.m.)
- 12** *Oil Crops Outlook\*\**  
*Cotton and Wool Outlook\*\**  
*Rice Outlook\*\**
- 15** *Feed Outlook (9 a.m.)*  
*Wheat Outlook (9 a.m.)\*\**
- 16** *Livestock, Dairy, and Poultry Situation and Outlook\*\**
- 22** *U.S. Agricultural Trade Update\*\**  
*Agricultural Outlook (3 p.m.)\**
- 23** *Fruit and Tree Nuts Outlook\*\**
- 25** *Vegetables and Melons Yearbook\**

\*Release of summary.

\*\*Electronic newsletter.

"Development at & Beyond the Urban Fringe: Impacts on Agriculture," *Agricultural Outlook*, AGO-283, August 2001, [www.ers.usda.gov/publications/AgOutlook/aug2001/AO283f.pdf](http://www.ers.usda.gov/publications/AgOutlook/aug2001/AO283f.pdf)

"Community Food Security Programs Improve Food Access," *Food Review*, Volume 24, Issue 1, January-April 2001, pp. 20-26, [www.ers.usda.gov/publications/FoodReview/Jan2001/FRV2411d.pdf](http://www.ers.usda.gov/publications/FoodReview/Jan2001/FRV2411d.pdf)

*Food and Agricultural Policy: Taking Stock for the New Century*. USDA, Washington, D.C., September 2001, [www.ers.usda.gov/news/publs/farmpolicy01/fullreport.pdf](http://www.ers.usda.gov/news/publs/farmpolicy01/fullreport.pdf)

World Trade Organization. "Proposal for Comprehensive Long Term Agricultural Trade Reform: Submission from the United States," G/AG/NG/W/15, 23 June 2000, [www.ustr.gov/sectors/ltprop.htm](http://www.ustr.gov/sectors/ltprop.htm)

World Trade Organization. "The General Agreement on Tariffs and Trade (GATT 1947)," *The Results of the Uruguay Round of Multilateral Trade Negotiations* (The Legal Texts), Geneva, 1995.