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Agricultural Trade and the Consumer

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Introduction

Consumers have a broad set of interests relating to agricultural products. They seek a wide choice of safe food products at reasonable prices without endangering the environment, exploiting workers, or contributing to social unrest. These broad consumer interests and concerns extend to, or are affected by, agricultural trade. This leaflet focuses on the consumer issues directly relating to food and agriculture and examines how these issues are affected by trade policy. Food availability, variety and cost, and health and safety are topics which will be discussed.

This leaflet also discusses some initiatives to encourage consumer participation in trade policy discussions. Issues relating to the broader impacts of trade on the economy are discussed in Leaflet 2, and trade and the environment issues are discussed in Leaflet 3.

Food Availability and Cost

Trade can benefit consumers in several ways. Trade gives consumers access to a wider variety of products. This may include items not produced domestically, because resources are lacking. For example, the United States imports coffee, cocoa and bananas, which require a tropical climate. They can be considered as noncompetitive, because they are not produced in the United States and do not compete directly with U.S. agriculture. Agricultural imports of this type amounted to \$6.7 billion in 1994.

Other agricultural products, such as fresh fruits and vegetables, are imported to extend availability, both before and after the U.S. growing season. In some cases, other countries can produce items more cheaply or can produce items of higher quality. In 1994, the value of imported items that are also produced in the United States was \$20.0 billion, three times as large as the value of noncompetitive ones.

An indirect benefit to consumers occurs when domestic producers strive to compete with imported products by seeking ways to improve their products or lower their costs of production through increased efficiency.

These benefits of trade generally hold; however, liberalized trade under specific agreements such as the North American Free Trade Agreement (NAFTA) and the Uruguay Round (UR) of the General Agreement on Tariffs and Trade (GATT) may not produce all of the advantages described in the preceding paragraph. The NAFTA and GATT-UR agreements will lead to a lowering of the trade barriers faced by many U.S. agricultural exports. As a result, U.S.

agricultural exports are expected to increase and this will cause consumer prices for some products in the United States to increase, while greater imports of other products are likely to push some prices lower. The net result of these opposing forces will probably be small relative to changes in prices caused by economic growth, exchange rate movements, and changes in consumer preferences. The bottom line is that in the year 2005, after the implementation of both NAFTA and GATT-UR, food prices for the average household are likely to be 0.5 to 1.5 percent higher than they would have been in the absence of the two treaties. The GATT-UR and NAFTA accords are discussed in more detail in Leaflets 7 and 9.

Health and Safety Standards and Information

Food Safety. Food safety is an important example of a broad consumer issue with an agricultural trade component. U.S. consumers are concerned about the adequacy of existing U.S. food safety regulations and the effectiveness of government enforcement. They have expressed similar concerns about the safety of imported food products.

Imported food products are held to the same health and safety standards as domestically produced items and are tested at the point of entry. These tests are designed to detect the presence of contaminants, such as pesticide residues on crop products, and to measure the concentration. Products cannot be sold, and must be dumped, when residues of unapproved pesticides are detected, or when approved pesticides are present in excess of specified levels. Studies have shown that the incidence of pesticide residues is low in both domestically produced and imported crop products.

Trade in agricultural products has always been subject to national regulation with twin goals of protecting consumers from unsafe food and protecting producing regions from foreign plant and animal pests and diseases. International law recognizes the sovereign right of individual nations to establish regulations based on whatever risk levels a country believes to be appropriate. Health and safety rules, however, have also been used to protect domestic producers from import competition (at consumers' expense). This type of discrimination is an unfair trade practice and is subject to retaliation. Effective legal challenges are possible only when the rules applied to imports are more stringent than those applied to domestic production.

GATT-UR and NAFTA have attempted to eliminate the use of health and safety rules as an unfair barrier to trade. GATT-UR encourages member countries to adopt rules based on scientific evidence of the dangers involved with particular situations, such as chemical residues on food or diseases on plant materials. However, GATT-UR does not require that national and international standards be identical. It recognizes the right of countries to apply different standards and urges harmonization rather than demanding it.

Harmonization. A number of alarms have been raised about the potential impact of the GATT-UR accord on U.S. food safety rules. These include fears that food protection laws in the United States would be open to retaliation unless brought down to lower international standards. Specific concerns have been expressed about challenges to nutritional labeling and individual state laws, such as California's Proposition 65, which requires warnings on food and other

products containing cancer-causing substances and reproductive toxins. While realization of these fears is possible, it is highly unlikely as the following discussion shows.

First of all, international standards are higher than U.S. standards in many situations and lower in others. The Codex Alimentarius Commission was created in 1958 by the Food and Agriculture Organization and the World Health Organization to develop food standards on a global basis. Most countries of the world belong to this organization, but acceptance of the Codex standards is voluntary. These standards are presumed to be scientifically justified and therefore can be adopted by trading nations without additional justification. Stricter rules, based on an individual country's acceptable risk standard, can be challenged by other countries and subject to retaliation if they are not supported by scientific evidence. This evidence can withstand a challenge as long as it *reasonable*; rules need not be based on the *weight or preponderance* of scientific evidence.

U.S. and Codex pesticide standards differ in numerous instances. If all pesticide-related health risks are accounted for, a greater number of Codex standards than U.S. standards are more protective specifically against cancer risks. If the Codex standards were to be fully adopted by the United States, there actually would be a larger number of more protective standards than is the case now. Since protection cannot be measured simply in terms of numbers of standards, this change would not necessarily result in a higher degree of protection overall. All member countries, including the United States, have the opportunity of adopting Codex standards on a case by case basis while retaining those scientifically-based national standards that are more protective than Codex. Disputes will be taken before a new organization, the World Trade Organization (WTO), which will replace the existing GATT dispute procedures. The WTO will have more teeth than GATT, but its authority to impose a solution will be limited in cases where there is adequate scientific evidence. The critical factor for U.S. consumers will be how well the U.S. Administration holds to its promise not to weaken U.S. standards.

State Regulations. The GATT-UR accord does little to change existing U.S. obligations concerning state regulations. The federal government is obligated to take reasonable measures to ensure that states and localities do not apply standards that act as disguised trade barriers. The federal government also agrees to notify WTO and others through a public notice of proposed regulations at the state level, but not the local level, which may have a significant impact on trade; are not based on international standards; and are not based on federal government standards.

A challenge to individual state laws that are more restrictive than federal laws can be defended successfully. On the premise that state regulations are constitutional, neither WTO nor NAFTA can require the federal government to invalidate them, since such an action would be unconstitutional itself. Further, individual state regulations are scientifically based and therefore compatible with trade treaty requirements. The fears about the loss of stricter state rules find little support in international law, or in the texts of the NAFTA and the GATT-UR agreements. At the minimum, the United States is no worse off with respect to the primacy of stricter state regulations and is better off in its ability to defend challenges because of improvements in the dispute settlement process.

Nutrition Information. The question on nutritional labeling and trade is more complex than for food safety regulations, but the conclusion is about the same. Labeling requirements in the United States are based on the consumer's right to know what is in a product (ingredient labeling) and on the government's policy to improve nutrition through information about nutrients and their importance in a consumer's diet (nutritional labeling). There is no legal basis for challenging ingredient labeling as a trade barrier as long as it applies equally to domestic and imported products. The weak link in nutritional labeling is in its complexity. The National Research Council has identified some 45 essential vitamins, but the scientific support for establishing a recommended average daily allowance (RDA) varies. Most scientific support is the best that we can expect currently and represents a step in the right direction. The scientific evidence appears reasonable and it is unlikely that these labeling rules can be challenged successfully as an unfair trade barrier.

Food Safety and Food Costs. It is clear that existing scientifically justified U.S. food safety regulations can be defended. There is consumer pressure for new, stricter rules and these could be adopted only if they can be justified scientifically. Food safety experts state that the U.S. food supply is safe by any reasonable, scientifically justifiable standard, and that consumers are concerned about the wrong food safety issues. Nevertheless, there is a wide gap between this scientific view of reality and consumer perceptions. Furthermore, consumers want food that is completely free of contaminants, particularly pesticide residues, not standards that permit the presence of contaminants up to specified levels based on an evaluations of reasonable risks to health and safety.

Do consumers understand the potential effects of additional pesticide and pesticide residue restrictions on food availability, product quality, and prices? Eliminating or further restricting the use of pesticides would reduce both domestic yields and the availability of imports, could lower the quality of food products, and would raise food prices. These impacts could be significant for certain foods and the cost would fall disproportionately on the poor, who spend a larger proportion of their income on food. The taxpayer costs also would rise for the Food Stamp and other food assistance programs. If additional food testing is required the costs must be borne by the taxpayer or consumer.

Production Practices. U.S. consumers are interested in knowing more about products they buy. They want information on product ingredients and production processes so they can influence how food products are made and what they contain. For example, a small but growing segment of consumers are willing to pay higher prices, or accept lower cosmetic quality, for products that have been produced "organically" even though no standard definitions or government certification programs yet exist for these organic products. Concerns about production processes incorporate multiple issues but often include food safety as one component. Examples include concerns for the environmental consequences of crop and livestock production practices, the impact of production practices on animal welfare, the safety of new technology, including irradiation, and the safety of genetically altered organisms and farm products. Providing consumers with adequate information for informed choices is difficult enough for domestic products, where farms and food processing facilities can be inspected. Providing comparable treatment for imported products is much more difficult but is likely to become increasingly important.

Consumer Participation in the Trade Policy Process

Consumers were not involved in negotiating earlier trade treaties, and were not involved much in NAFTA or GATT-UR until the process was well underway. Increased awareness by consumer groups and improved procedures within WTO and NAFTA are likely to change that situation. One change was the establishment, under the GATT-UR Dispute Settlement Understanding, of procedures to improve public access to the dispute settlement process. Parties to a dispute are required to supply public versions of their panel submissions. The procedures also will enable a party in a dispute to go public with its position at any time it chooses. A second, and related change strengthens procedures to obtain expert or scientific advice in the dispute settlement process. This can assure that expert opinions about food safety, for example, have a better chance than before of being heard.

The United States government has taken measures on its own to assure public participation in the identification and resolution of disputes. These measures include public notice of every dispute, seeking advisory committee advice on the U.S. position, and providing easier public access to WTO panel reports. The government has made a commitment to ensure the participation of consumer interests on advisory committees to agencies responsible for negotiation and implementation of treaties. Other strategies to increase consumer input depend on initiatives from consumer groups with support from the federal government. These include participation in committees of Codex and other international organizations.

Summary

This leaflet has discussed some of the effects of trade on food availability and prices, and health and safety. Consumer participation in trade policy formulation also is discussed. Other leaflets in this series consider the impact of trade policies on the the availability and prices of non-food items, consumer income, employment, and economic development, all of which could affect consumers. All of these factors need to be considered in determining whether consumers will be better off as the result of specific changes in trade policy. Consumer influence in treaty negotiation and dispute settlement will probably increase. Consumer attitudes and the achievement of consumers' goals will become a more important factor in the formulation of trade policy in the future.

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