

— DISCUSSION —
**HARMONIZATION/CONVERGENCE/COMPATIBILITY:
TOWARDS SOME CONCEPTUAL DEFINITIONS**

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Tim Josling has once again provided a reflective, insightful, innovative and stimulating paper. I complement and thank him. In general, my comments are supplemental rather than critical, and focus mainly on definitions. These should be interpreted as a personal, rather than an official response.

Definitions are important to facilitate effective communication. Ideally, we would be able to agree on a common usage for the terms "harmonization", "convergence" and "compatibility". At least each of us needs to be aware of how others are using and interpreting the concepts. The Workshop "Outline" document used "H/C/C" in the singular, implying a single concept encompassing all three words. Josling has chosen to define each word differently and draw distinctions. I find this useful.

Implicit in Josling's definitions, and in his own subsequent use of the three terms, are, I think, the following important points:

- 1) All three terms, in the present context, describe policies or policy instruments.
- 2) Policy instruments in two countries may be compatible with each other without being identical or even similar.¹
- 3) Sometimes, governments change or modify policy instruments in a deliberate attempt to make them more compatible with those of another country; at other times policy changes implemented for other reasons can result in policy instruments becoming more similar or compatible.
- 4) The terms "harmonization" and "convergence" both seem to imply a comparison of policy instruments in two or more countries, whereas "compatibility", while it may also be applied to a pair of corresponding policy instruments, may alternatively be

¹ "Green box" type programs are probably the best examples of policy instruments which can be quite different without being "incompatible".

used to connote political acceptability of a single instrument to another country, or even to indicate its consistency with other policy instruments of the same country.

Additional points, not inconsistent with the above, which are less evident in Josling's text, but which I would like to emphasize, include:

- 5) All three terms might be used in an absolute or in a relative (progress towards the absolute) sense. "Harmonization" and "compatibility" on their own (i.e., in the absence of a qualifier like "increased") would grammatically seem to refer to an absolute end-point, while "convergence" on its own is more indicative of progress in a certain direction.
- 6) Notwithstanding the previous point, our practical interest in the three concepts is essentially an immediate, transitional and dynamic one. What is compatible this year may no longer be compatible next year.
- 7) Not all trade conflicts derive from insufficient H/C/C, and not all such conflicts can be resolved by more H/C/C.
- 8) Tests or criteria for compatibility range all the way from pure economic logic to pure politics.

In the light of the above preamble, the key points of distinction in the usages proposed by Josling would seem to be as follows:

Harmonization

- results from deliberate action by governments;
- results in identical or very similar instruments;
 - sovereignty an important counter-force here because of this;
 - mainly applicable to regulations and import barriers;
- is often pursued mainly for reasons of economic efficiency gains, rather than because of political pressures.

Convergence

- is usually a by-product of policy changes implemented in response to other forces, rather than in an intentional effort to make instruments more similar or compatible between countries;
- driven by forces of technical change, globalization, economic interdependence, etc., an element of inevitability is apparent;
- logical necessity may be the key driving force in many cases.

Compatibility

- as with harmonization, deliberate action by one or more governments seems to be implied in its pursuit; however, unlike the case of harmonization, the mutually acceptable,

consistent or compatible policy instruments resulting from the process may be quite different from each other:

- favourable political perception may often be the indefinable test or criterion of "compatibility" (and its corollary, the absence of disputes, its indicator).

I see a disadvantage with Josling's seemingly broad further use of "compatibility" to include the political dimension.² It appears to open up the possibility of a policy instrument being "compatible", from the point of view of another country, in one sense but not in another. For example, Canada's removal of Western Grains Transportation (WGT) subsidies was probably compatible with U.S. political wishes at the time.³ It could also be argued to have been incompatible with the continuation of the use of the Export Enhancement Program (EEP) by the United States, because it exacerbated cross-border price differences. As a result, other ways had to be temporarily found (Canadian Wheat Board restraint on its U.S. sales) to curb resulting flows of Canadian grain into the United States while the EEP was being used. However, with tariffs removed between the two countries, the potential problem still remains if the EEP is reapplied. The only permanent solutions would seem to be for the United States to follow Canada's lead and eliminate the EEP, or, as Josling argues, for Canada and the United States to have a joint or coordinated export subsidy program.⁴ So the question remains unanswerable, under such a broad definition of the term, as to whether Canada's repeal of the W.G.T. Act resulted in more or less compatibility. For this reason, my own inclination is to confine the use of the term to a more technical or economic meaning.

Is H/C/C a phenomenon to be merely studied, for the sake of its better understanding, or is it something to be actively pursued by governments? Josling would appear to put "convergence" in the former category and "harmonization" and "compatibility" in the latter. Some further insights into refining his definitions of the last two might be derived by considering why active pursuit of H/C may be desirable. At least four reasons come to mind:

Mutual Advantage Even if two programs in different countries are already compatible and/or equivalent, there may be considerable efficiency gains to be obtained by making them the same or similar. This fits well with Josling's definition of "harmonization", and could involve changes by one country or by both countries. A comparison of a policy instrument of one country with the corresponding instrument in another country is implied.

Mutual Compatibility In a global market with significant trade, some grades, standards and regulations which differ between countries may be incompatible. Consumers in all countries stand to benefit to the extent that world-wide industry standards can be agreed and adopted. Governments can at least facilitate this, by changing incompatible regulations and

² In places, he seems to implicitly equate 'achieving compatibility' with 'doing whatever it takes to defuse a political problem'.

³ While exceeding Canada's WTO export subsidy reduction commitments, it was, of course, compatible with these too.

⁴ Strictly speaking, the former is just a special case of the latter.

encouraging industry initiatives. Again, a between-country comparison of policy instruments is implied.

Improved International Relations To the extent that the goal is to avoid trade disputes and to achieve or maintain harmonious relations, then the focus may well be just on one policy instrument at a time without any cross-country comparisons. If a particular program is perceived to put another country at a disadvantage, and if that perception can not be changed (by objective analysis, education, dialogue, etc.), then that program may have to be changed for H/C to be achieved, regardless of whether adverse international effects are real or only imagined. Just as civilized people avoid language which is offensive to others for the sake of good interpersonal and social relations, so civilized countries may have to avoid the use of offensive programs, for the sake of good international relations. In both cases, insisting on a right to individual action (sovereignty) may not be worth the cost. Such a motivation for pursuing H/C would support the adoption of Josling's rather broad concept of "compatibility".

Long Term Agricultural Policy Reform Since the late 1970s, this has been recognized as needed in many countries to curb fiscal waste, inefficiency and economic distortions, lack of market orientation, undesirable distributional effects, etc. It has been agreed that such reforms are politically difficult if attempted unilaterally and more feasible if pursued multilaterally. The latter implies a certain degree of coordination, and international equality in the pace of reform, in order to maintain a sense of balance and fairness between countries. The Uruguay Round negotiations and commitments are a part of that multilateral undertaking. In this context, pursuing H/C can imply assessing a whole package of policy instruments or policy changes simultaneously, relative to the package being applied by another country. For these purposes, indicators like Product Subsidy Equivalent (PSE) and Aggregate Measures of Support (AMS) levels, average percentage tariff levels or cuts, etc., can be useful. Josling's definitions of both "harmonization" and "compatibility" seem to fall short of embracing this motivation for mutually advantageous agricultural support policy change, and the more aggregative perspective which it implies. This must surely be an oversight by the father of the PSE.

Finally, I should point to a couple of misleading statements in Josling's text about the state of affairs in Canada. He overemphasizes, in my view, the importance of interprovincial trade barriers for the supply-managed products. Much progress has been made in this area, and the main international problems of supply management will remain even when and if there is a single Canadian market across the board. Second, "pooling" in the marketing of western Canadian grain implies averaging returns over time (within a crop year) and, to a limited extent, over quality (within a grade), but not, generally, over geographic space. Farmers located further away from export position have commensurately higher transportation charges deducted from their return. Neither of these examples were essential or important to Josling's arguments, but, for the record and to avoid misconception, they needed to be corrected.