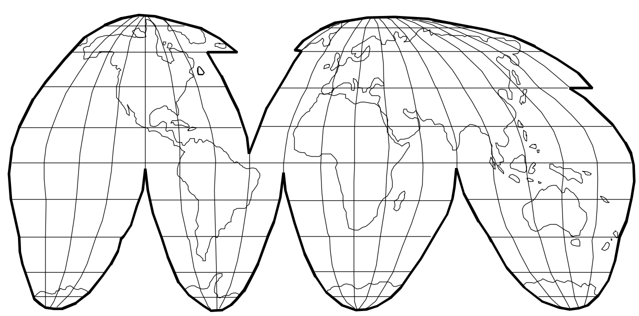
The Uruguay Round Agreement on Agriculture: An Evaluation



Commissioned Paper Number 9

The International Agricultural Trade Research Consortium

Bringing Agriculture into the GATT

The Uruguay Round Agreement on Agriculture: An Evaluation

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This Commissioned Paper was co-authored by a working group, organized by the IATRC. The members of the working group were:

Tim Josling (Chair)
Food Research Institute
Stanford University

Masayoshi Honma
Economics Department
Otaru University of Commerc

Jaeok Lee
Korean Rural Economic Institute
Seoul, Korea

Donald MacLaren
Department of Agriculture
University of Melbourne

Bill Miner
Centre for Trade Policy and Law
Ottawa, Canada

Dan Sumner
Department of Agricultural Economics
University of California, Davis

Stefan Tangermann
Institute of Agricultural Economics
University of Gottingen

Alberto Valdes
The World Bank
Washington, D.C.

All authors participated as private individuals, and the views expressed should not be taken to represent those of institutions to which they are attached.

The International Agricultural Trade Research Consortium is an informal association of university and government economists interested in agricultural trade. For further information please contact Professor Alex McCalla, Chairman, IATRC, Department of Agricultural Economics, University of California at Davis.

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PREFACE

The International Agricultural Trade Research Consortium, an informal association of university and government economists interested in agricultural trade, has taken a keen interest in the Uruguay Round and the negotiations on agriculture from the inception of talks in 1986. This paper is the ninth in a series of Commissioned Papers that have attempted to monitor and interpret the progress of the negotiations and in a modest way to provide a platform for ideas. This last paper completes the story of the negotiations and adds the element of evaluation. The set of papers as a whole provide a chronicle of the changing concerns over the seven and a half year period.

The present Commissioned Paper is the work of a team of authors, under the Chairmanship of Tim Josling. Each co-author contributed a section for the paper and participated in reading and improving the other sections. The drafting responsibilities, reflecting, geographical expertize, were as follows: Chapter 4 (the United States) Sumner; Chapter 5 (the EU) Tangermann; Chapter 6 (Canada) Miner; Chapter 7 (Australia and New Zealand), MacLaren; Chapter 8 (Japan) Honma and (Korea) Lee; Chapter 9 (Latin America) Valdes. Josling, Tangermann and Miner drafted Chapters 1-3 and 10. Hyunok Lee translated the Korean section. Claudia Smith processed the manuscript. Though not necessarily agreeing with every sentence in the text, each of the authors wishes to be associated with the entire report.

The paper has benefitted from careful review by several people with official responsibilities for the content of agricultural trade policy in Ottawa and Washington, D.C. We thank them, but grant them the anonymity that they request. Other reviewers we can mention are Kym Anderson, Dale Hathaway, Scott Pearson and Sandy Warley, each of whom gave us insightful comments and helpful editorial suggestions.

We were anxious to provide a readable yet reasonably detailed interpretation of the agricultural component of the Uruguay Round to inform IATRC members and others. We hope we have not sacrificed accuracy for speed or brevity, but would refer readers to the official texts and Schedules on any specific matter of detail or language.

A note about terminology might help to prevent confusion. We have chosen to refer to the twelve countries of the European Community (EC) by their new name (since November 1993) of the European Union (EU) even when the reference is to a time when the EU did not exist. Though the EC does technically still exist, as a "pillar" of the EU, usage has shifted rather quickly to the new name. We have however chosen to refer to the GATT, both as an institution and as a set of articles, even though this is to be only one part of the new World Trade Organization (WTO). Technically speaking, the GATT (1947) Agreement, which current contracting parties (i.e., members) have accepted, has been converted into GATT (1994), through the Uruguay Round outcome. Countries can still be signatories to GATT (1947) but not GATT (1994). However, most countries will accede to the WTO, which includes GATT (1994) along with the General Agreement on Trade in Services (GATS) and the Agreement on Intellectual Property Rights (TRIPS). Thus one can still talk of GATT as being the set of trade rules for goods (including agriculture), if no longer as a separate institution.

List of IATRC Commissioned Papers on the Uruguay Round

1. Assessing the Benefits of Trade Liberalization
2. Designing Acceptable Agricultural Policies
3. Negotiating a Framework for Action
4. Tariffication and Rebalancing
5. Potential Use of an Aggregate Measure of Support
6. Reinstrumentation of Agricultural Policies
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For copies of these reports contact:

Laura Bipes, Administrative Director
International Agricultural Trade Research Consortium
231 Classroom Office Building
1994 Buford Avenue
University of Minnesota
St. Paul, MN 55108-6040

Executive Summary

From the start, agriculture played a central role in the Uruguay Round of GATT trade negotiations. The Punta del Este Declaration called for a solution to the problems facing agricultural trade through modified trade rules and an agreement to lower protection levels. It was recognized that such an improvement implied negotiations on the national farm policies as well as just trade policies. The time that it took to reach agreement reflected the political sensitivity and technical complexity of this task.

The Agreement embodied in the Final Act of the Uruguay Round breaks new ground for agriculture, and takes a big step towards placing this sector of world trade under rules more consistent with those in operation in other areas. However, the degree of liberalization of markets is modest, and much remains to be done in future rounds of negotiations.

The most far-reaching element in the Agreement is a change in the rules regarding market access. With very few exceptions, all participating countries have agreed to convert all existing non-tariff barriers (along with unbound tariffs) into bound duties and not to introduce new non-tariff measures. Negotiations agreed to reduce these new bound tariffs, as well as tariffs already bound earlier, according to Schedules included as a part of the Agreement.

"Tariffication" will impose changes in import policies for a number of countries. Canada will replace import quotas for dairy and poultry products with tariffs, initially at a high level. The European Union will replace its variable levy with tariffs, though a maximum duty-paid price for cereals has been negotiated which puts a limit on the tariff charged. Latin American countries have generally engaged in tariffication in recent years in advance of the Uruguay Round Agreement: for these, and other countries their tariffs will now be bound. The US will forgo the use of Section 22 import quotas and the negotiation of voluntary export restraint agreements with beef suppliers, but the impact on these markets is likely to be small. Japan and Korea have been allowed to delay tariffication in the case of rice for the next few years.

The Agreement provides in cases of tariffication for "minimum access opportunities", to guard against the impact of high initial tariff rates. This will open up reduced-tariff quotas for a number of products including beef, cereals and fruits and vegetables. The quotas will be expanded to about 5 percent of consumption over the 6 year period. Japan and Korea have agreed to a greater expansion of market access for rice in compensation for the delay in introducing tariffs.

The ability of countries to control export subsidies in agricultural markets was one of the main issues under discussion in the negotiation. Under the Agreement, countries accept commitments on reducing expenditure on export subsidies as well on the quantity of subsidized exports. This will limit export subsidies by the EU and other countries, for such products as wheat, dairy products and beef, and should lead to firmer world market prices in these commodities. These quantities are also expressed in the Schedules which form part of the Agreement. Countries have also agreed not to apply export subsidies to commodities not subsidized in the base period.

The Agreement also sets rules and commitments for domestic support policies. It defines a set of policies which are deemed to be less trade-distorting than others, and allocates them to a "green box" which is broadly immune to challenge. Other policies not sheltered in this way are subject to reduction through a limit on the total support given by domestic subsidies and administered prices. It was decided that neither the U.S. deficiency payments (under current legislation) nor the new hectarage compensation payments under the reformed Common Agricultural Policy of the EU need to be reduced. It was also agreed that subsidies that conform to the new rules are sheltered from international challenge under the GATT.

Developing Countries generally face less stringent commitments, having 10 years rather than six to make the changes, and having to meet only two-thirds of the reduction targets. In addition, development policies are included broadly in the "green box".

Along with the provisions on domestic and trade policies in the Agreement, participants also concluded an Agreement on Sanitary and Phytosanitary Measures (SPS Agreement). The goal was to make it easier to distinguish between genuine health and safety issues and disguised protection. The right of countries to set their own safety and health standards is reaffirmed, but with the provision that such standards should be based on scientific jusification and that use be made of international standards where possible.

The extent to which the Agreement will lead to greater market access, curb export subsidies and modify domestic policies in the next few years can only be determined from a detailed inspection of the Schedule of commitments made by the individual countries. Paradoxically, the immediate impact on national policies is likely in most cases to be small. Many countries have been engaged in a process of reducing government support to agriculture, and making such support more closely targetted to needs, in advance of the outcome of the Round. Policy reforms in the EU, Canada, Sweden, Australia and New Zealand, along with much of Latin America, have been strongly influenced by the negotiations in the Uruguay Round. The Agreement thus takes on the task of supporting and locking-in such reforms, and encouraging them in other countries.

In some aspects the Agreement falls short of expectations (or at least initial demands). It does not constitute a major move toward free trade in agricultural products: the cost of changing the rules has been to give up some degree of liberalization. The tariffs which countries will impose in place of non-tariff barriers are in many cases so high that trade will be restricted to the agreed access quantities. Export subsidy programs will continue though at a reduced level. The major pressure to reinstrument farm policies will continue to be from domestic budget constraints. It will take further rounds of negotiations to reduce protection in agricultural markets to a level comparable to that for most manufactured products. However, with the rule changes and the new types of country commitments agreed, a much more promising basis bas been created for future negotiations.

The Uruguay Round Agreement on Agriculture: An Evaluation

Chapter 1. Background to the Agreement

On April 15, 1994, 111 countries meeting in Marrakesh signed the Final Act of the Uruguay Round. At the same time, the World Trade Organization (WTO) was brought into existence. This body, the institution set up to administer the Uruguay Round outcome, will have as one of its tasks the implementation of an ambitious and wide-ranging Agreement on Agriculture (The Agreement).

This paper is an attempt to evaluate the Agreement in the light of its impact on the regulation of agricultural markets and of necessary changes in national farm policies. Is the Agreement likely to usher in a period of commercial peace in agricultural markets? Will trade be based more on comparative advantage and less on the willingness to subsidize production and exports? Will access to markets be enhanced and the frequent attempts by governments to keep out foreign competition be overcome? Will national policies focus more clearly on the objectives of rural development and income distribution and move away from blanket income support to all those who engage in farming? Will food and farm trade become increasingly tied up in disputes over health and environmental issues, or will clearer rules make this subject less contentious in the future? These are among the questions posed by the Agreement and which define the scope of this paper.

From the start, agriculture has played a central role in the Uruguay Round of trade negotiations. The emphasis placed on agriculture came in part from the countries who saw closed markets and restricted trade opportunities as anomalous with the more liberal trade regime in manufactured goods. In part it stemmed from a source of frustration that rules for agricultural trade were not precise enough to be useful either in preventing disputes or in resolving disputes once they had arisen. But the main emphasis came from a widespread sense that the systems of domestic farm support had become too costly and troublesome, that these programs were in large part responsible for the chaos in world agricultural trade, and that an international solution to these domestic problems was possible through modified trade rules and an agreement to lower protection. This link with domestic policies set the

Uruguay Round talks on agriculture apart from previous rounds of trade negotiations. It is also the factor that made the negotiations so prolonged and the final agreement so difficult to reach.

The focus on national agricultural policies was necessary to resolve the fundamental problems that had beset the treatment of agricultural trade in the GATT from the start. Unlike many areas of trade policy, it was never easy to separate the issue of agricultural trade rules from the conduct of domestic farm policy. Given the political strength of groups that had a stake in these domestic policies, trade policy tended to take a back seat. Had the issue not been tackled in the Uruguay Round, any resulting trade agreement would have been of doubtful value. Among the main issues in evaluating the outcome of the Round are the extent to which domestic agricultural policy reforms are encouraged by the negotiations, and the extent to which these policies are effectively constrained by the terms of the Agreement.

The origins of the Uruguay Round go back to 1982, a time when protectionist sentiments were rising, in particular in the US, as a result of the fear of Japanese competition. The Tokyo Round had finished in 1979 with a somewhat weak agreement on curbing non-tariff import barriers and the negotiation of a number of Codes to tackle issues such as anti-dumping measures, the use of export subsidies, and the existence of different standards. However, the Codes had not proved a great success, and non-tariff barriers proliferated. Agricultural trade had benefitted a little from the reduction of some quantitative trade restrictions, notably by Japan, but no substantive degree of liberalization had been possible. The two commodity agreements concluded in the Tokyo Round, for dairy products and for beef, were of little long term value as ways of liberalizing trade. It had not proved possible to reach an agreement on the international management of grain stocks. With high agricultural prices on world markets at the start of the Tokyo Round in 1974, market liberalization appeared less pressing than stabilization.

Agricultural markets were again firm in the period after the Tokyo Round, with major countries experiencing record agricultural export earnings in 1981. This contributed to renewed concerns about food shortages in world markets. Against this backdrop, the early plans for agriculture in the upcoming round were focussed on rule changes, to assist the settlement of disputes. A GATT Committee on Agriculture was appointed in 1982 to look at such rule changes.

By 1986 the situation had changed dramatically. World prices were on a downward slide, reaching their lowest point for many years. US agricultural exports fell precipitately, and support costs escalated. Export subsidy programs were reintroduced, and trade disputes became more common and more bitter. In the European Community, subsidized exports became the main outlet for surplus production, at an increasingly high cost. Small and medium-sized exporters of agricultural goods began increasingly to suffer under the burden of the export market competition of the two agricultural "super-powers". In this situation, the prospect of the Uruguay Round as a solution to the disarray in world markets began to look more attractive. By the time that governments met in Punta del Este to launch the Uruguay Round of trade negotiations, a general consensus had been reached that it was necessary to reform agricultural policies in order to achieve trade liberalization in agriculture.

The negotiations fall conveniently into three phases. In the first phase, countries exchanged ideas as to the approach to be taken to improving agricultural trade and the way in which negotiations should proceed. This phase began in 1986, after the launch of the Round at Punta del Este in September. In July 1987, the US unveiled its proposal for the improvement of the trade systems by eliminating all trade-distorting farm programs over a ten-year period. All that would be left would be "decoupled" payments, i.e., those not tied to output, together with genuine food aid and domestic nutrition and poverty programs. The OECD PSE measure, which aggregated the effects of diverse policy instruments into a subsidy-equivalent, was suggested as a possible mechanism to embody these commitments. The newly-formed Cairns Group, of 14 small and medium-sized exporters, followed with a proposal that would entail an immediate freeze on price supports followed by a phased reduction, until finally a new set of rules could be introduced to regulate agricultural trade. The EU countered with a two-part proposal to negotiate reductions in support levels, but only after action in the short run to shore up world prices.

This phase produced more heat than light and culminated in the collapse of the negotiations at a meeting in Montreal in December 1988. The talks were rescued in April 1989, when countries finally agreed to a "midterm" package of measures, laying down a freeze in support prices (the first time such an agreement had been possible) and indicating the timetable for the rest of the negotiations. More significantly, it included a political commitment to a progressive reduction in trade-distorting subsidies, to the improvement of import access and to the curbing of export subsidies.

The second phase consisted of an elaboration of the negotiating ideas by each (major) participant, with the intention of leading to a common document on which all parties could focus attention. It was at this stage that the form of the final agreement began to take shape. The US proposed a strategy, in contrast to their original paper of 1987, which would focus on rules to guide both domestic policies and trade in agricultural products. Non-tariff import barriers were to be converted into tariffs. Export subsidies were to be banned. Domestic policies were to be categorized into those that were acceptable, i.e., minimally trade-distorting, and those that were objectionable and therefore had to be reduced. The Cairns Group broadly supported this approach. The EU, however, argued against the rules on individual policy instruments. Though the Community reluctantly agreed to a form of tariffication, it resisted strongly the control of export subsidies. In place of the "rules" approach, the EU argued for an across the board cut in support levels, by means of an instrument similar to that proposed by the US in 1987.

The first document that attempted to pull all of these ideas together was prepared by the Chairman of the Negotiating Group on Agriculture, Aart de Zeeuw in June 1990. This paper represented a substantial and comprehensive draft agreement, but it still did not command full support as "a basis for negotiations". The EU felt that it followed too closely the US/Cairns Group line and rejected it. Despite further attempts to get consensus, the "final" negotiations in Brussels in December 1990 collapsed, largely as a result of the impasse on agriculture. Agreement on the structure of an agricultural package did not occur until February 1991, after the EU had proposed substantial modifications in its own internal agricultural policy so as to be able to live with the changes implied by a GATT agreement.

The third and final phase of the negotiations was to develop the details of such an agreement as it would apply to all the participating countries. These details were incorporated into the "Draft Final Act" of December 1991, submitted by Arthur Dunkel, the Director General of the GATT, and usually called the Dunkel Draft. The Dunkel Draft kept the tripartite structure of "market access", "export competition", and "domestic support" and introduced the timetable for liberalization of support and protection. The Dunkel Draft was modified somewhat by the Blair House Accord, in November 1992, between the US and the EU, and later refined by the last minute negotiations in Geneva in December 1993. But the main elements of the Dunkel Draft have found their way into the Agreement on Agriculture.

The time since the end of the negotiations in Geneva has been devoted to a clarification and verification of the individual schedules that comprise the details of the implementation of the Agreement. Subsequent to the signing of the Uruguay Round Agreement, many countries still have to ratify it under their various domestic legislative procedures. If it survives these remaining hurdles, the Agreement will go into effect in 1995.

Chapter 2. The Uruguay Round Agreement on Agriculture

As befits a negotiation that lasted over seven years and covered several new areas of trade policy, the outcome of the Uruguay Round is contained in a document of more than 450 pages. This includes the Final Act and the text of an Agreement Establishing The World Trade Organization, along with various Ministerial Decisions and Declarations. The Agreement Establishing the World Trade Organization has a number of Annexes which contain the new rules for international trade. The terms of the Agreement on Agriculture are contained in Annex 1A, the Agreement on Trade in Goods. Important detail covering implementation of the Agreement on Agriculture (the "Agreement") is contained in the commitments entered into by each individual country in Schedules that form part of the overall agreement.[1] This section will discuss the major elements of the Agreement on Agriculture, but the details in individual countries' Schedules are left until later sections.

The Agreement establishes a set of completely new and operational rules for agriculture. In particular, it results in a legally effective binding of tariff rates for agricultural goods and imposes constraints on the most trade-distorting types of agricultural policies used throughout the world. This fact in itself is a quantum leap in the way in which agriculture is treated in the GATT. In the past, governments had much scope to design and pursue their agricultural policies as they saw fit for domestic interests, and to treat agriculture as a special case under trade rules. As a result, the GATT did not effectively constrain most government actions in agriculture that impact trade. After the Uruguay Round, governments will have to observe binding commitments that they have accepted under international law. These bindings cover nearly all border measures, both on the import and on the export side, and they also apply to the total of trade-distorting domestic support, to the extent that they have a noticeable effect on international trade. It is hard to overestimate the significance of this fundamental change. An important sector in world trade, which has escaped most GATT disciplines since the inception of the General Agreement, is now for the first time effectively brought under control.

An important factor determining the effectiveness of the Agreement is that it not only establishes general rules to be observed in agricultural trade, but also that all participating countries undertake specific commitments, expressed in their Schedules. The real power of the Agreement lies in the binding nature of these country-specific commitments, because they relieve the process of

[1] Much of the detail regarding the commitments participating countries were expected to make in their Schedules is not covered in the text of the Agreement, but in a separate document entitled "Modalities for the Establishment of Specific Binding Commitments under the Reform Programme" (below referred to as Modalities). This document will essentially lose its legal power after the Schedules have been accepted.

implementing the Agreement from much of the need to find appropriate interpretations of general rules for each individual policy of each individual country. Indeed all waivers and special exemptions for agriculture in the trade rules are to be removed. New types of commitments have been made which did not exist before in the GATT, in agriculture or in other sectors. Whereas GATT schedules in the past contained only tariff bindings, their agricultural components now also contain bindings regarding export subsidies and total support. This legal innovation is an important aspect of the agricultural negotiations, made necessary by the complexity of dealing with domestic farm policies at the international level.

The structure of the Agreement on Agriculture is best understood by considering the three major areas on which negotiations focussed--import access, export competition, and domestic support. In each of these three areas, two approaches were applied: the definition of new rules and the reduction in levels of support and protection (see Table 2.1). The reduction schedules contains the specific "concessions" on market access and commitments on export and domestic subsidies. Each substantive area includes a set of safeguards, guarantees and accommodations which were necessary to get agreement. In addition, a Peace Clause, was negotiated which gave countries certain assurances against challenges under GATT rules. The provisions of the agreement apply less stringently to developing countries under the principle of "Special and Differential Treatment". A separate Agreement on Sanitary and Phytosanitary Measures was concluded, which will be discussed after the Agricultural Agreement.

a) Market Access (Box 1)

Perhaps the most far-reaching element in the Agreement is a change in the rules regarding market access. With very few exceptions, all participating countries have agreed to convert all existing non-tariff barriers (along with unbound tariffs) into bound duties and not to introduce new non-tariff measures (Article 4 of the Agreement). The new bound tariffs, as well as tariffs already bound earlier, have to be reduced by 36 percent over the six-year implementation period (1995 to 2000), on a simple (unweighted) average basis, with a minimum rate of reduction of 15 percent for each tariff line.[2]

[2] These percentages, as well as provisions regarding the establishment of base period tariff equivalents and initial tariffs, are not contained in the text of the Agreement, but in the Modalities. The legally binding commitments for each individual participating country are in its Schedule.

Table 2.1 Key Elements of Agreement on Agriculture

	Rules	Liberalization *	Safeguards, Accommodations and Guarantees
Market Access	- change non-tariff trade measures to tariffs - establish tariff quotas - bind all tariffs	- reduce existing and new tariffs by 36% on average over 6 years - reduce tariffs for each item by 15%	- guaranteed access opportunities for exporters through tariff-rate quotas - special safeguard measures for importers
Export Competition	- defined limits on existing export subsidies - no new export subsidies	- reduce expenditure by 36% over 6 years - reduce volume by 21% over 6 years	- adherence to food aid rules - negotiate later on export credits
Domestic Subsidies	- "green box" defined for allowable subsidies	- aggregate level of trade-distorting support reduced by 20 percent over 6 years	- many developing countries subsidies exempted - payments under production limiting programs exempted

* Reduction amounts are for developed countries. Actual reductions are as agreed in country "schedules," which form a part of the Agreement, and differ somewhat from these "target" levels.

Box 1: Market Access Provisions in the Agreement on Agriculture

* non-tariff border measures converted to tariffs
* all tariffs bound (i.e., cannot be increased without negotiation with other countries)
* target reduction of tariffs 36 percent (on average) over 6 years from 1986-88 base
* minimum reduction of 15 percent per tariff line
* reduction of 24 percent (on average) over 10 years for developing countries, with a minimum of 5 percent per tariff line
* additional duties (up to one-third of normal duties) can be levied for remainder of market year if imports surge
* alternatively, additional duties can be levied if world prices fall below preset "trigger" price levels, on a sliding scale, for goods subject to tariffication
* import opportunities to be granted for a share of domestic consumption (generally 3 percent rising to 5 percent) by means of a reduced-tariff quota, in cases of tariffication
* current access opportunities (for example under quotas and voluntary export restraint agreements) to be maintained at the 1986-88 level

The agreement to convert all non-tariff import barriers to bound tariffs takes agricultural trade a big step toward (and indeed beyond) the treatment of manufactures within the GATT. Tariffication has a number of desirable features, including greater transparency of trade measures, both for traders and the domestic interests influenced by tariffs; the removal of a number of "grey-area" techniques employed by countries to control imports, such as variable levies, which effectively escaped GATT disciplines; the ease of binding and subsequent reduction of tariffs; the improved distribution among countries of the burden of adjustment to world market shocks; the greater influence of market signals in shaping production and consumption decisions; and the indirect control of the level of export subsidies implied by the absence of non-tariff barriers to reimporting. Tariffication will change over time the nature of world trade in agricultural goods, leading to more liberal, more predictable and more stable world markets.[3]

To secure visible trade gains and to guard against foot-dragging by importing countries reluctant to open their markets, the agreement provides in cases of tariffication for "minimum access opportunities", generally a share of the domestic market rising from 3 percent to 5 percent of consumption (Modalities, paragraph 5 and Annex 3) to apply in cases where NTBs have been tariffied. Thus in addition to the price-oriented approach of tariffication, a quantity-oriented element was added to the provisions regarding market access. However, importation of these quantities is not guaranteed; to ensure an incentive to fill these quotas "low or minimal duties" are to be charged on these imports. Moreover, where exporters enjoyed market access in the past, their access opportunities remain protected under a "current access" provision (Modalities, paragraph 6 and Annex 3).

However, the process of improving market access conditions through tariffication was not complete and unconditional. Because of the domestic difficulties Japan and Korea had with the prospect of opening up their rice markets, a Special Treatment clause was included in the Agreement (Annex 5) which, under rather specific conditions tailored to the two cases concerned, allows those two countries a delay of tariffication at least for a few years. Moreover, it was felt necessary to include special safeguards for imports of products subject to tariffication, for all importers, in the event of import surges and low world prices (Article 5). If imports of products that have undergone tariffication exceed a certain percentage of the preceding three-year average, called the trigger level, additional duties (of up to a third of the level of normal applicable duty) can be imposed. [4] The importer can apply, alternatively, additional duties when import prices for these products drop below

[3] For a discussion of the merits of tariffication see the IATRC Commissioned Paper No. 4.

[4] The trigger level is set at 105 per cent of base period imports for those products where imports are more than 30 percent of the domestic market; at 110 percent of base imports where imports make up between 10 and 30 percent of consumption; and at 125 percent where imports account for less than 10 percent of domestic sales. The trigger level is, then, adjusted by the change in domestic consumption between the two most recent years, but cannot drop below 105 per cent of the preceding three-year average.

a "trigger" price, on the basis of a schedule relating such duties to the difference between the import price and the trigger price.

b) Export Competition (Box 2)

The ability of countries to define and control export subsidies in agriculture was one of the main issues under discussion in the negotiation. The Agreement attempts for the first time to ban new export subsidies. Existing subsidies are, however, allowed to continue subject to agreed reductions. The Schedules establish the level of such subsidies deemed to exist in the base period. This is an important change, in that these base levels the "equitable shares" defined under GATT Article XVI:3 and the Subsidies Code, though few would argue that these existing market shares are indeed "equitable". By entering base levels of subsidized exports and of outlays on export subsidies into their Schedules, Members have agreed that the figures contained in the Schedules are an accurate representation of their export subsidization in the past. More important, based on these past levels of export subsidization, countries have individually accepted legally binding commitments regarding maximum export subsidization in the future (Article 3). Hence, for the first time in the history of the GATT there can no longer be any doubts as to what (maximum) level of export subsidies a country can grant in agricultural trade.

To define export subsidies clearly and legally, the Agreement contains a list of such subsidies falling under Schedule commitments (Article 9). Moreover, there are provisions guarding against circumvention of commitments, including rules on food aid (Article 10). The burden of proof for not subsidizing exports is laid on the exporting country (Article 10:3). In addition, there is agreement not to extend export subsidies to commodities not subsidized in the base period (Article 3:3 and Modalities, paragraph 12).[5]

Under the Agreement, countries have accepted commitments leading to a reduction in expenditure on export subsidies of 36 percent as well as a reduction in the quantity of subsidized exports by 21 percent during the six-year implementation period (Modalities, paragraph 11).

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[5] Paragraph 12 of the Modalities also provides for the possibility of negotiating commitments regarding exports to individual or regional markets. Where such commitments were agreed, they should have been specified in the Schedules. It appears that this has not happened anywhere. This does not, however, say that there are no bilateral agreements of this nature which have been kept outside the GATT legal framework (e.g., "Andriessen commitment" regarding EC beef exports to the Pacific Rim).

Box 2: Export Subsidy Provisions in the Agreement on Agriculture

* budget expenditures on export subsidies to be reduced by 36 percent over 6 years, from 1986-90 levels in each of 22 product categories

* developing countries need only reduce expenditure by 24 percent over 10 years

* volume of subsidized exports to be reduced by 21 percent over 6 years from 1986-90, in each of 22 product categories

* developing countries need only reduce volume by 14 percent over 10 years

* "genuine" food aid is exempt from reductions

* no reductions on non-subsidized exports

* subsidies include payments-in-kind; subsidized stock exports; producer-financed export subsidies; export marketing cost subsidies; export-specific transportation subsidies; subsidies on goods incorporated into exports

* other subsidies should not be applied in a way that would undermine the cuts in export subsidies

* no new export subsidies on other commodities can be introduced

* export credits and credit guarantees to be covered by a separate agreement

While the latter rule is clearly quantity-oriented, the constraint on export subsidy outlays has also a price-oriented character. To provide some flexibility, countries can shift their export subsidy commitments between individual years of the implementation period, though only within narrowly defined limits (Article 9:2(b)).

c) Domestic Support (Box 3)

Another innovative feature of the Agreement is the set of rules and commitments it establishes for domestic support policies, through in practice the near-term influence of this innovation is likely to be modest. Given the nature of the link between domestic agricultural policies and international trade, the fact that GATT commitments now impose quantitative constraints on certain types of domestic support is itself significant.

The nature of the constraint on domestic support warrants some explanation. The variable constrained under the "domestic support" commitments is not just expenditure on domestic subsidies, but the level of total support (including market price support through administered prices) provided by policies covered under the Agreement. This support includes the value of administered market price maintenance, measured against fixed external reference prices of the base period. This together with the expenditure on included domestic programs becomes the Aggregate Measurement of Support (AMS). The AMS is aggregated over both policy instruments and commodities. The Agreement specifies the method of calculation of the AMS (Annex 3), requires countries to enter their base period (1986-88) AMS in their Schedules (Article 1(a)(i)), and sets the rate of reduction of 20 percent over the six-year implementation period, resulting in annual AMS commitments specified in the Schedules (Modalities, paragraph 8).

However, rather than binding all policies, measures "with no, or at most minimal, trade distortion effects or effects on production" have been exempted from reduction commitments under the AMS approach, and these measures are also not included in the AMS calculation. This "green box" is defined in both general form and in terms of a list of eligible policies which includes measures such as advisory services, domestic food aid, decoupled income support, income insurance and safety-net programs, set-aside payments (if land is retired for a minimum of three years), regional and environmental aids and those that encourage early-retirement (Annex 2). In addition to the green box policies, a *de minimis* provision exempts support is below 5 percent of the value of production of any given commodity (Article 6:4). "Green-box" policies are not actionable for purposes of GATT challenges (see the discussion of the Peace Clause,

Box 3: Domestic Subsidy Provisions in the Agreement on Agriculture

* reduction in total trade distorting domestic support, aggregated across all commodities, of 20 percent in 6 years, from 1986-88 base

* reduction by developing countries of trade distorting domestic support by 14 percent in 10 years

* credit given for reductions since 1986

* policies fulfilling certain "green box" criteria need not be counted (research, extension, inspection, marketing and promotion, infrastructure; food security stocks, domestic food aid, crop insurance, income safety-net schemes, disaster payments, retirement programs, set-asides, structural adjustment programs, environmental programs; "decoupled" income support)

* developing countries need not count (in addition) rural development programs, investment subsidies, input subsidies and diversification subsidies

* if current AMS is less than 5 percent of the value of the product in developing countries, it is exempted

* if current AMS is less than 10 percent of the value of the product in developing countries, it is exempted

* direct payments under production-limiting programs not subject to reduction if they are (a) based on fixed area and yields, (b) made on 85 or less of base production , and (c) livestock payments made on fixed number of head.

below). Policies that are not accepted as "green" automatically become subject to reduction commitments (i.e., are "amber) as a part of the AMS.

As a result of the Blair House Accord between the United States and the EU, another exemption was agreed. It was decided that neither the US deficiency payments (as authorized under the 1990 Farm Bill) nor the new compensation payments under the reformed Common Agricultural Policy of the EU need to be included in the AMS calculation. In this way, both the US and the EU escape the reduction commitment on major aspects of their domestic policy. The wording chosen for this exclusion (often called the "blue box") exempts "direct payments under production-limiting programs" provided that they are made on the basis of fixed area and yield (or number of head for livestock) or on a maximum of 85 percent of base level of production (Article 6:5). Another important consequence of the Blair House Accord was the decision to make domestic support commitments not product-specific but sector-wide (Article 6:1).

d) The "Peace Clause"

As an incentive for countries to accept the new disciplines and commitments on domestic support and export subsidies, it was agreed that policies that conform to the new rules are sheltered from international challenge under the GATT. The Due Restraint provisions (Article 13), known as the Peace Clause, valid during the implementation period, state that "green box" policies (in accordance with Annex 2 of the Agreement) are non-actionable for purposes of countervailing duties and other GATT challenges; all domestic support that conforms with commitments, including "blue box" payments under production-limiting programs (i.e. US deficiency payments and EU compensation payments) is subject to the imposition of countervailing duties (if they can be shown to have caused injury) but is exempt from other GATT challenges as long as support does not exceed that paid in 1992; and export subsidies within the constraints of the Agreement are exempt from most GATT challenge and subject to countervailing duties only if they cause injury.[6]

The Uruguay GATT Round offers to improve trade relations in agriculture in no small part by improving bilateral relations between countries, notably the US and the EU. Such agricultural trade conflicts will not disappear overnight, but they will take place within a clearer framework of rules and obligations. This attractive scenario could be enough to change national policy behavior. By constraining agricultural policies within effective GATT rules, countries would incur much greater

[6] The injury provision already exists in the GATT rules on countervailing duties and is not a new feature of the Uruguay Round. The other GATT challenges include "nullification and impairment" of a country's GATT obligations and "serious prejudice" to another country's interests, usually in third markets.

risks when running policies which offer excessive protection to agriculture. National policies will run up against these constraints and adapt more quickly. Later sections of this paper will examine the Agreement from the viewpoint of individual countries to see whether this optimistic conclusion is warranted

The specific language in the Uruguay Round on "peace" was among the most contentious elements of the negotiations. A key issue in interpreting the peace clause is whether it can be used to protect trade practices that would have been subject to GATT disciplines before the Uruguay Round. Does the peace clause allow trade to be more distorted under the Uruguay Round rules than before? The distinction between "green-box" internal support policies and the category of non-reduced "blue-box" subsidies may become important in this regard. These latter policies are subject to normal GATT challenges.

e) Sanitary and Phytosanitary Measures.

Along with the provisions on domestic and trade policies in the Agreement, participants also concluded an Agreement on Sanitary and Phytosanitary Measures (the SPS Agreement). The goal was to improve on the present operation of Article XX by making it easier to distinguish between genuine health and safety issues and disguised protection. The right of countries to set their own safety and health standards is reaffirmed, but with the proviso that such standards should be based on "sound scientific evidence" and that use be made of international standards where possible.

Although the SPS Agreement is separate from the Agreement on Agriculture, it has close substantive links with it. In particular, commitments to reduce economic barriers to trade may reinforce tendencies to use technical standards to provide protection to domestic farmers. But in addition to guarding against such inappropriate use of sanitary and phytosanitary standards, there are also many "technical" issues relating to such standards in their own right which needed to be better regulated at the international level. In particular, it was important to make sure that these standards can achieve their objectives in the protection of human, animal and plant life and health, while not resulting in economic waste by undue restrictions in international trade.

The Agreement on SPS is an impressive step in this direction, and it has the potential of proving equally important in its area as the Agreement on Agriculture in the realm of economic measures. It is therefore appropriate to think of the new rules regarding SPS as the fourth pillar of the Uruguay Round achievements in the area of agriculture, complementing effectively the new rules and commitments in the three areas of market access, export competition and domestic support.

As a consequence of the nature of measures dealt with, the character of the Agreement on SPS is rather different in many regards from the Agreement on Agriculture. In particular, the Agreement on SPS clearly does not specify any quantitative requirements and, more importantly, it does not (and, given the subject matter, cannot) regulate any specific policies. Hence, there is nothing in the form of individual country commitments to certain adjustments in their policies. The Agreement on SPS instead establishes general guidelines for government behavior in the areas concerned. Some of these guidelines are open to interpretation. It is therefore not directly evident which regulations will have to change in which way in which countries.

Implementation will rely heavily on the two principles of harmonization and equivalence laid down in the Agreement on SPS. Where harmonization is achieved, i.e. where national SPS are based on standards agreed in the relevant international institutions, policies are presumed to be consistent with the Agreement and the GATT, and disputes should not arise. On the other hand, harmonization at the international level may not always be appropriate. The Agreement therefore allows the alternative option of equivalence, whereby the importing country accepts that the SPS in the exporting country can achieve an appropriate level of sanitary or phytosanitary protection, even though they differ from the measures used in the importing country. Indeed, widespread application of the equivalence principle may in the longer run implicitly result in growing harmonization as trading partners learn more about each other's measures and find out which measures are most appropriate in which cases.

Where a country does not rely on harmonization or equivalence, but rather insists on its own domestic standards, it has to comply with a number of requirements. It has to make sure that its measures do no discriminate between countries where identical or similar conditions prevail, and it must not apply them as a disguised restriction on international trade. These requirements are fundamentally those that have always existed under GATT Article XX, except that they are now somewhat more demanding.[7] However, there is now also the requirement to ensure that the measures concerned are consistent with scientific evidence and that they are based on an appropriate risk assessment. These additional requirements are completely new in the GATT, and governments will have to develop suitable procedures for fulfilling them.

The test of scientific justification is a general rule which is likely to be crucial to the implementation of the SPS Agreement. It is not without ambiguity, however. There will be cases in which scientists disagree on what precisely the implications of particular practices are (e.g. can a hormone fed to an animal affect the health of consumers of the livestock products concerned?). There can also be disagreement on what the appropriate definition of the level of risk is from which protection should

[7] Not only identical, but also similar conditions must be honored; no discrimination "between countries" now explicitly includes the own territory of the country applying the SPS.

be provided. In this case, the SPS Agreement allows countries to define their own level of acceptable risk, but again there will still be scope for interpretation in each individual case. Much will therefore depend on the speed, vigor and effectiveness of settling disputes which may arise out of inconsistent interpretations of the relevant Agreement provisions. Accordingly, a new WTO Committee on Sanitary and Phytosanitary Measures, is to be established under the SPS Agreement.

Although many view the new SPS Agreement as a significant advance, it is difficult to say how effective it will be in curbing trade disputes arising from health and safety standards. It could also lead to unwarranted changes in such standards. Many environmental and consumer groups fear that there will be an erosion of standards in the name of freer trade. The significance of these trade rules may soon be apparent. There are many important issues, such as inconsistent regulations on the use of Bovine Somatotropin in dairy production, different approaches to food irradiation, and disparate requirements for food labelling which threaten to burst on the trade scene and test these new SPS procedures.

Chapter 3. Issues in Implementing the Agreement on Agriculture

The Agreement on Agriculture takes a big step in the direction of "bringing agriculture fully into the GATT". However, in some aspects the Agreement falls short of expectations (or at least initial demands), and some of its elements may also turn out to cause difficulties when it comes to implementing Agreement provisions. The extent to which this is the case differs among the major areas covered by the Agreement.

The particular way in which the conversion of non-tariff barriers into tariffs has been achieved in the Agreement has sometimes been called "dirty" tariffication, because the initial tariffs from which reductions start are often very high, sometimes several hundred percent. In part this reflects the high rates of protection in agriculture. But governments have often searched for price data for calculating base period tariff equivalents that result in high tariffs compared to the actual level of protection in the base period.[8]

Moreover, the simple (unweighted) averaging that countries could use when allocating tariff reductions to individual products has allowed much scope for continued protection of the "sensitive" products. Even the requirement of a minimum reduction by 15 percent has not really helped very much. It was possible for a country, say, to reduce tariffs on three items with an initial tariff of more than a hundred per cent by only 15 percent each and still meet the overall 36 percent unweighted average by reducing by 100 percent the low initial tariff of another product. The dispersion of rates of protection across agricultural products could become more pronounced after the Agreement, causing trade to become more, rather than less distorted.

The Special Safeguard Provisions may also reduce the benefits of tariffication. If trade expands, as one would hope under an agreement supposed to result in liberalization, the quantity trigger safeguard provision is likely to be invoked by many importers. The price trigger provision could also be relatively often applied if countries were allowed to use trigger prices that are high compared to current international market prices. For markets subject to tariffication, there is the risk that the use of safeguard provisions will become the rule, rather than the exception, though it should also be pointed out that trade subject to the high above-quota tariffs is likely to be small. It also remains to be seen how the implementation of these provisions will affect the equity of trading activities. The quantity trigger provision has a tendency to treat imports in the latter part of a year worse than those coming in early, and the price trigger provision is presumably to be applied on a shipment-specific basis, which can lead to a previously unknown degree of price

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[8] For a fuller discussion of the process of tariffication see Josling and Tangermann, 1994.

differentiation in agricultural trade.

The minimum access provisions, to be implemented through tariff-rate quotas, entail many of the problems that quantity-oriented trade policies usually have. Where they are effective, in the sense that imports actually come in under the reduced tariff, rents will result. Hence, there is a need to find appropriate ways of allocating tariff rate quotas to traders. Governments of importing countries will want to allocate licenses to their domestic companies, and exporters are unlikely to receive any price advantage. Issues may arise out of the fact that minimum access commitments have sometimes been undertaken for relatively large aggregates of products, such that importing countries have wide scope for choosing the "appropriate" allocation to individual products.

Finally, the Special Treatment provisions in the form of the "rice clause", apparently necessary to bring Japan and Korea aboard the Agreement, are a delay in the implementation, if not a breach in, the principle of tariffication. Two other countries have also made use of the rice clause: the Philippines (for rice) and Israel (pigmeat, cheese, and milk powder). It remains to be seen whether there will be attempts to extend the delay allowed under these provisions. In any case, a number of issues may arise, some of which may bear similarity to issues that have come up in the protection of "old" Article XI:2(c), such as that of "effective production restricting measures".

Given the traditional preponderance of export subsidies in agriculture, the reduction of both outlays and quantities required by the agreement looks like a straightforward approach. The wording of Agreement rules in this area and the existence of quantitative commitments in country Schedules are so much clearer than the earlier vagueness of the "equitable share" that it is difficult to find anything wrong with this element of the Agreement. However, the quantity constraint on subsidized export, useful as it may be from a pure trade perspective, can push governments of exporting countries into more and strengthened supply controls. This danger of growing government inference with domestic markets is troublesome and is not in line with the Uruguay Round's avowed aim of fostering a more market-oriented agriculture.

As in the case of minimum access commitments, export subsidy undertakings come in the form of relatively large commodity aggregates. Governments, therefore, still have the possibility of creating problems for each other in the area of export subsidization, by shifting the product composition of their subsidized exports such that different competitors are treated differently.[9]

[9] Shifting can, however, occur only among tariff lines identified as having subsidies. Countries cannot shift subsidies to other tariff lines even if they might appear to come under the same broad commodity category.

Moreover, within the constraints on expenditure and quantities, there is no restriction on country targeting of export subsidies.

Domestic subsidies are the least impacted by the quantitative provisions of the Agreement. The "domestic" support provisions of the Agreement act as constraints on the total level of support, whether provided through border measures or through domestic subsidies. Subsidies for individual commodities are not separately constrained, nor are particular policy instruments. Given the numerical parameters of reduction commitments in the areas of market access and export competition, it could well happen that all the reduction required in AMS is effectively achieved through liberalization of border measures. Where that is the case, domestic subsidies in the narrow sense need not actually be brought down and could even be raised, even though overall protection is reduced.

The extent to which the definition of the "green box" will become a problem must be awaited. The general criterion for domestic measures exempted from reduction ("no, or at most minimal, trade distortion effects of effects on production") is laudable. Not all of the policies included in the illustrative list of exempt policies in the Agreement would always fully meet this criterion.[10] On the other hand, all of the policies on the list are considerably less distorting than most traditional domestic subsidies in agriculture. In that sense this list at least establishes an appropriate direction for future agricultural policies. Moreover, it is probable that policies will still have to meet the "decoupled" test even if they appear on the illustrative list. Special provisions, however, have been written into the domestic support provisions of the Agreement which (at least for the transition) exempt US deficiency payments and EU compensation payments from reduction requirements. These policies would not have qualified under the "green-box" criteria. However, they have less protection then green-box policies from challenges under the GATT, under the Peace Clause.

These provisions, arising from the 1992 Blair House Accord, also illustrate another more general shortcoming of the Agreement. Whereas individual countries with specific policy difficulties were required to obtain waivers from GATT obligations, the text of the new Agreement on Agriculture has been drafted such that "waivers" are effectively built into the general agreement. The "rice clause" for Japan and Korea is another such case.[11] More

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[10] One example of this problem is the treatment of crop insurance. It is difficult to hold that crop insurance does not increase production. It encourages farming on marginal lands where yields are uncertain. On the other hand one can limit government contributions to the cost of such insurance, so that no subsidy is paid. However, it is important to recongize that policies claimed to fall in the "green box" must not only meet the respective description in the illustrative list, but also the general criterion of no, or at most minimal distortion. Hence, a crop insurance scheme that has distorting effects is not "green."

[11] An important distinction, though, is that in the latter case the countries wishing to use this special treatment had to declare that in their Schedules.

important, though, may be the political consequence of the fact that under the new Agreement, some important participants have managed to be more equal than others.

Chapter 4. The United States and the Uruguay Round

a) Introduction

Despite its importance internationally, the Uruguay Round has not been central to the making of agricultural policy in the United States for the last decade. Farm bills and budget battles, environmental issues and endangered species, disaster assistance and domestic price problems have spent more time on the front burner of policy attention than had the Multinational Trade Negotiations. Even NAFTA, which has much less sizable implications for agricultural trade, played a more visible role in 1993 than the Uruguay Round. This is not to say the Round was unimportant, only that other issues dominated the day to day agenda of the agricultural debate.

The United States, from the first, saw the Uruguay Round as a way to achieve fundamental reforms in world agricultural policies. After helping to build the momentum for a Punte del Este Declaration that raised hopes (and maybe even expectations), the United States followed up its initial rhetoric with the so-called zero option proposal. This proposal--to use the Uruguay Round to reduce all trade distorting farm policies in all countries to zero--was stated not simply as a goal, but as a concrete proposal to be implemented over ten years. There has been considerable debate about the sincerity, wisdom and practicality of this proposal. There also have been questions about whether the United States was actually serious and whether the negotiations were helped or hindered by having the extreme position staked out so strongly by a such a major player. Some have argued that this position taken by the United States hindered real negotiations because the EU did not think the United States was being serious or did not want to begin discussions when the US position was so extreme, because any move toward the center would leave the final result still close to radical reform.

While it is true that no one really believed that an end to trade distorting subsidies was likely in 10 years, there was substantial sympathy, in the Reagan Administration and among some of the leadership in the Congress for radical multinational reform of farm programs. The zero option did have the virtue of fixing the minds of those involved in international farm policy on a seemingly simple and fundamental goal.

It is tempting to use the zero option as a measuring rod by which to judge the actual results of the Round.[12] Measuring the results of a trade negotiation to reduce trade distortions against the

[12] See the discussion in McCalla, 1994.

base case of no distortions might be natural for economists. However, there is a tendency in the United States to declare the Round a failure because it did not live up to the objective of the zero option. That is clearly not an appropriate comparison. It does not compare reality with an actual alternative, but instead with what was almost surely never a feasible outcome nor even a real objective for the first tranche of reforms. Further, such a comparison is dangerous, when the zero option is cited as a reason for opposition to implementation of the Round by those who claim, sometimes disingenuously, that they would have favored complete elimination of trade distortions in agriculture. Nevertheless, it is legitimate to investigate the consequences of the Round compared with no agreement or with an agreement that is not implemented by the United States.

In this section, it is assumed that the Agreement will be implemented in its present form. However, such implementation in the United States requires approval of legislation by both Houses of Congress and signature of the President. Whereas such approval does seem likely, it is not a sure thing. Further, if the NAFTA experience is any guide, the package of (explicit or implicit) political commitments that accompanies the implementing legislation may itself have a number of features that are unpalatable to those who support the Agreement. For example, the Administration could, in an attempt to assure passage of implementing legislation, agree to side promises to members of the Congress which restrict trade or otherwise make policy that is counter to the spirit of the Agreement. This section of the report attempts to evaluate what the Uruguay Round will actually mean to US agriculture. It does not evaluate the results of the Uruguay Round against the alternative of rejecting the implementing legislation or the alternative of having negotiated some different agreement.

b) The Uruguay Round and US Agricultural Trade

The United States vigorously pursued a far reaching agreement on agriculture in the Uruguay Round under three different Administrations and through five sessions of Congress. Support has not been universal. Even among supporters, there has not been agreement about specifics of what constituted a good deal for the United States. But despite considerable use of trade distorting import barriers, export subsidies and internal support policies, the United States has supported removing or reducing these policies multilaterally. The reason is simply that most US participants, as well as outside observers, expected that the United States as a whole, and (perhaps more important politically) US agriculture, would gain substantially from freer trade in agricultural commodities.

The United States has long been a major trader in agricultural goods and has for several decades run a substantial trade surplus in agriculture (Table 4.1). The farm trade surplus is particularly large when one focusses on non-tropical products for which the United States has a non-negligible domestic industry (Table 4.2). The general notion has been that the US agriculture would benefit from freer trade even compared to the situation in which farmers are being substantially aided by trade distorting policies (USDA, 1992 and 1994). What made the multilateral approach to reform more popular was the growing consensus, often not stated explicitly by policy officials or leaders of farm lobbies, that the amount of domestic subsidies were likely to erode over time anyway due to federal budget pressures and reductions in political support for farmers. The general rhetorical support in the United States for the general idea of free trade and the often repeated confidence in US farmers being able to compete on a "level playing field" have resulted in broad support for a strong position on fundamental reform in the Uruguay Round in agriculture.

c) The Schedule of US Commitments in the Uruguay Round

i) Import access obligations

The access commitments from the United States are in the form of tariffication of non-tariff barriers, tariff reductions for all tariffs (including the newly created ones), minimum access for those products for which imports had been severely restricted by nontariff barriers, and maintenance of current access for goods, undergoing tariffication. In the United States, non-tariff barriers have been primarily operated under Section 22 and the Section 22 waiver created in the GATT decades ago. The major exception are beef imports, which were restricted under the Meat Import Law.

The items covered by US tariffication are listed in Table 4.3. The table lists the new tariff rates, the level of imports allowed under the first tier of the tariff rate quota, and for comparison, the pre-Uruguay Round levels. Some categories of commodities, such as dairy products, have a number of tariff lines associated with the basic product or aggregate. Dairy quotas are presented in more detail in Table 4.4.

For the United States some of the items subject to tariffication are not likely to be subject to substantial imports even after reform. For example, analysis indicates that cotton imports into

Table 4.1
U.S. Imports and Exports of Agricultural Commodities

Year	Total Exports (billions of $)	Total Imports (billions of $)	Agricultural Trade Balance
1961	5.0	3.7	1.3
1981	43.4	16.8	26.6
1993	42.6	24.5	18.1

Source: Economic Report of the President, February 1988 and USDA, ERS, Agricultural Outlook, March 1994.

Table 4.2
U.S. Agricultural Exports and Imports by Commodity, 1993

Agricultural Exports		Agricultural Imports	
Product	$ million	Product	$ million
Meats & preps, excl. poultry	3,349	Meats & preps, excl. poultry	2,726
Poultry meats	1,031		
Dairy products	762	Dairy products	860
All other animal products	2,927	Animals live (no)	1,569
		All other animal products	521
Feed grains	5,261	Grains & feeds	1,639
Feeds & other grains	3,123		
Wheat and flour	4,954		
Rice	766		
Fruits, nuts, & Prep.	3,832	Bananas & plantains	1,083
		Other fruits, nuts, & preps,excl. juices	1,905
Vegetables & Preps.	3,220	Vegetables & preps.	2,440
Tobacco	1,443	Tobacco	1,101
		Sugar	591
		Coffee, tea, cocoa & spices	3,018
Cotton	1,526		
Oilseeds & products	7,211	Oilseeds & products	1,204
Other	4,188	Other	6,290
TOTAL	42,590	TOTAL	24,454

Source: USDA, ERS, Agricultural Outlook, March 1994.

Table 4.3
Tariff Rate Quotas and New Tariffs, United States

Product	1995		2000	
	Quota (tons)	Tariff	Quota (tons)	Tariff
Beef & Veal	656,621	31.1%	656,621	26.4%
Cotton	51,927	$0.37/kg	86,545	$0.31/kg
Peanuts	33,770		56,283	
In-shell		192.7%		163.8%
Shelled		155.0%		131.8%
Peanut Butter	19,150	155.0%	20,000	131.8%
Dairy Products[1]				
Cheese	110,999	$1.443/kg	141,991	$1.227/kg
Butter		$1.813/kg		$1.541/kg
Non Fat Dry Milk		$1.018/kg		$0.865/kg

Source: USDA, FAS, "Gatt/Uruguay Round Fact Sheets" February 1994.

[1] For specific dairy product quotas by tariff line see table 4.4.

Table 4.4

Tariff Rate Quotas for specific Dairy Products, United States

Product	Units	Quota, 1995	Quota, 2000
Fresh/Frozen Cream	liters	5,801,600	6,768,500
Evap./Cond. Milk	tons	3,000	7,000
Dried Lowfat Milk	tons	1,500	5,500
Dried Whole Milk	tons	550	3500
Dried Cream	tons	100	100
Dried Whey	tons	300	300
Butter	tons	4,000	7,000
Butter oil/substitute	tons	3,500	6,100
Dairy mixtures[1]	tons	2,100	4,300
Chocolate crumb	tons	16,000	26,700
Lowfat chocolate crumb	tons	2,122.8	2,122.8
Milk replacer feed	tons	7,400	7,400
Ice cream	liters	3,576,112	5,960,186

Note: These tariff-rate quotas for dairy products account for an expansion in access from 13,700 to 22,785 tons of milk fat; and an expansion from 16,100 to 26,825 tons of non-fat solids from the first year of the Agreement to the year 2000.

Source: USDA, FAS, "Gatt/Uruguay Round Fact Sheets" February 1994.

[1] 100 tons is set aside for infant formula containing oligosaccharides.

the United States will continue to be small and that cotton exports are expected to increase with the implementation of the Uruguay Round (USDA, 1994).

The tariffication of the Meat Import Law was the subject of substantial concern by exporting nations. Both the level of the initial tariff and the quantity in the first tier of the tariff rate are important. Under the Meat Import Law a quota level of beef imports varies each year based on US supply and demand factors. The law also allows for a trigger amount of projected imports at 10 percent above the quota that must be met before a quota could be imposed. This creates an incentive for major exporters to negotiate "voluntary" restraint agreements to keep imports just under the trigger level, but still almost 10 percent above the quota amount. As a result of a series of bilateral negotiations, mutually agreed quantities for the tariff rate quota were established to set access at no less than that provided under the existing non-tariff barrier (NTB). That level was considered consistent with current access is shown in Table 4.3.

For all tariffication items, the rate at which the NTB was to be tariffied is controversial. Estimation of tariff equivalents of NTBs are not straightforward in practice, and that leaves considerable room for manipulation. Because both domestic prices and border prices vary by product characteristic, by date and by other specifics of a transaction, it is easy to find data that make the difference between a border price and an internal price look large or small. An example from the negotiations of the US beef tariff is instructive. At the OECD, exporting nations wanted to show that the US Meat Import Law provided support to the US beef industry. They encouraged the OECD to use a low border price and a high internal price for PSE calculations for US beef. That was done, in part, by comparing Australian and New Zealand cow prices to US prices. The result was a beef PSE in the range of 40 percent (OECD, 1990). When it came to the tariffication negotiations in the GATT, however, the roles were reversed. At this point the United States adopted a variant of the OECD approach to calculate tariff equivalents in the 30 to 40 percent range. The Australian and New Zealand negotiators were now in the position of repudiating the calculations they had successfully pursued, at least provisionally, at the OECD. These countries now insisted on comparing beef of similar grade and quality with appropriate adjustments for transport and other associated costs. The final result is a tariff equivalent of 31 percent.

Dairy and peanuts are the Section 22 import items of most sensitivity in the United States, and the final schedules for these items were being adjusted up to the last weeks before the Marrakesh meeting. The minimum access for dairy raises a number of complications. Several of the traded goods do not exist as domestically produced goods in the form imported. Some of these items were created as attempts to circumvent earlier NTBs. In addition, domestic consumption data are not available at the level of disaggregation provided in the tariff schedules. Therefore, some aggregation in the numerators is required to create import shares to be used to set new import amounts to meet minimum access percentages. Then the required adjustments in quotas need to be distributed to individual tariff lines. A substantial share of dairy consumption in the United States is in the form of fluid milk, which is generally not considered a tradable good. Therefore, the denominator for consumption of tradable dairy products in the minimum access calculations must be developed with care.

Tariff reductions also were controversial for several commodities in the United States that are protected solely by bound tariffs. Of particular sensitivity are frozen concentrated orange juice, fresh limes and a few additional horticultural items. These items will only be subject to the 15 percent minimum tariff cut allowed in the Agreement. However, a number of these items also face added import competition from Mexico under NAFTA, and since the NAFTA tariff cuts are faster, it is not clear how much the Uruguay Round will add to the import pressure.

ii) Export subsidy commitments

Since 1986, the United States has been operating a large export subsidy program, especially for wheat. Notwithstanding its aggressive use of export subsidies the United States, from the first, stressed the importance of disciplining export subsidies in the Uruguay Round. The reason was that industry and government analysts were convinced that the US would be more successful in export markets with a multilateral disarmament in the export subsidy war. The idea was simple. But for EU subsidies, the US wheat industry could export successfully without subsidy. US subsidies were designed to counter EU subsidies without which the EU could not export. Therefore, if the tonnage subsidized was reduced by both parties, the United States would recapture its "natural" share of the market given up by the EU. Further, the export subsidy commitments are for specific commodities, and, as shown in Table 4.5, US export subsidies are primarily used for wheat and vegetable oil whereas EU subsidies are much more widespread. Therefore, in most industries only the EU had to make a substantial export subsidy commitment.

Throughout the negotiations the US pushed for larger cuts in export subsidies than the EU was willing to tolerate. The final compromise, with an overall rate of quantity cut slightly smaller than in the Dunkel Draft Final Act (21 versus 24 percent, as per the Blair House Accord) and the adjustment on the starting point for the cuts (using 1991/2 as a base rather than the 1986-1990 average, as per the final US - EU bilaterals) must be considered minimal. Nonetheless, the quantity commitment will reduce subsidized exports significantly over the

Table 4.5
US Commitments Regarding Export Subsidies

	Units	Annual Quantity		Annual Outlay ($1,000)	
Products		1995	2000	1995	2000
Wheat	1,000 tons	20,238	14,522	765,499	363,815
Coarse Grains	1,000 tons	1,906	1,561	67,735	46,118
Rice	1,000 tons	272	39	15,706	2,369
Vegetable Oil	tons	587,538	141,299	52,960	14,083
Butter & B. Oil	tons	42,989	21,097	44,793	30,497
Skim Milk Pow.	tons	108,227	68,201	121,119	82,464
Cheese	tons	3,829	3,030	5,340	3,636
Other Milk Prod.	tons	12,456	34	14,374	21
Beef	tons	21,486	17,589	33,520	22,822
Pork	tons	483	395	730	497
Poultry	tons	34,196	27,994	21,377	14,555
Eggs	1,000 dozen	30,262	6,920	7,588	1,604

Source: USDA, FAS, "Gatt/Uruguay Round Fact Sheets" February 1994.

transition period and cause international prices to be somewhat higher for most grains and livestock products. Further, the value commitment for a 36 percent reduction over six years, even if not binding initially, sets the stage for final elimination of export subsidies in three six-year tranches at less than the current pace.

For wheat, the ton for ton reductions in US subsidized exports will match those by the EU. The U.S., therefore, will concentrate its export subsidy bonuses in markets that continue to face subsidized competition from the EU. If the wheat industry in the United States can compete against unsubsidized competition, reducing the tonnage subsidized by the US along with that subsidized by the EU will increase US exports, domestic output and prices.

As shown in Table 4.5, the United States commitment on export subsidies is dominated by its commitment on wheat. For most other commodities, the reductions are expected to exert only minor influence on the domestic industry for two reasons. First, for industries such as rice, only a small share of exports have been covered by subsidy. Second, for industries such as dairy relatively little of the industry output is exported. Further, the United States expects to distribute as food aid the surplus non-fat dry milk that it now sells under an export subsidy program.

For US vegetable oil exports, the export subsidy commitment may be more important. The United States currently exports most soybean oil with subsidy and this is not a market dominated by export subsidies of the EU. The impact is expected to be felt relatively little by soybean producers and more by oilseed crushers whose margins may be reduced by lower exports.

iii) Domestic support commitments

The Uruguay Round negotiations spent more pages of text on internal supports than on any other category. The incentive to include such policies grew out of a desire to be comprehensive in coverage of trade-distorting measures. But all major participants favored excluding from disciplines, as non-trade distorting, a variety of popular policies that use environmental policy, disaster assistance, or regional support as a justification for subsidy. When the debate on internal supports began in earnest, it quickly became clear that, at the level of reductions considered feasible, the United States would not be required to make any substantial reductions for major commodities. Previously completed reforms, done for purely internal reasons in response to domestic political and budget pressures, fully satisfied the internal support commitments contemplated. Even in the Dunkel Draft Final Act of 1991, changes required in domestic subsidies in the United States were minimal.

Once the EU began moving toward a CAP reform proposal to implement direct payment programs not unlike those used in the United States, it was also obvious that no binding internal support commitments would be applied in that case. By the time of the Blair House accord of 1992, what was left of the internal support disciplines on the major countries was further weakened. For the United States this did not affect the anticipated real consequences of the Round because the Dunkel Draft Final Act would have required no change in US internal support policy and the trade effects from reducing other nations' internal supports were calculated to be small (USDA 1992).

iv) Sanitary and Phytosanitary Measures

The objectives of the United States for the sanitary and phytosanitary negotiations were to make it harder for trading partners to use unsubstantiated claims to block imports, while not undermining science-based rules on food safety and plant and animal health. The guidelines established were along the lines favored by the U.S., and some industries, particularly those exporting livestock and horticultural products, expect to see more streamlined settlement of sanitary and phytosanitary issues under the Uruguay Round rules and using the mechanisms of the new WTO.

d) Benefits to US Agriculture from the Uruguay Round

Many of the expected gains for the United States from the Uruguay Round have been mentioned in the context of individual commitments. What remains is to provide information about additional commodities and some summary measures. It is convenient to use the table on exports gains developed by the USDA (March, 1994) to discuss benefits anticipated for US agriculture. Their table is reprinted here as Table 4.6. It shows export changes from the USDA baseline projections. The value of export gains listed in the table are in the range of 3 to 8 percent above the baseline levels by the year 2000. The expected gains double from the year 2000 to 2005. These export gains are based on a combination of specific reductions in export subsidies by competitors, specific commitments on market access by customers, and the expected growth in world income from freer trade generally. The real GDP growth is cumulative and the USDA analysis is based on GDP in various countries being higher than they would otherwise be by 1 to 3 percentage points by the year 2000 and by 2 to 8 percentage points by 2005 (USDA, March 1994). Since the specific agricultural commitments for the developed countries are phased

Table 4.6-Projected Increase in U.S. Agricultural Exports Under the Uruguay Round 1/

Commodity	Change from baseline (million dollars)	
	FY 2000	FY 2005
Grains and feeds	490 - 1,940	1,950 - 3,910
Cotton	50 - 290	60 - 590
Animal Products	740 - 1,660	1,690 - 2,510
Horticultural products	180 - 280	200 - 370
Oilseeds and products	170 - 530	810 - 1,330
Total	1,630 - 4,700	4,710 - 8,710

1/ Valued at point of export.

Table 4.7--Projected Increase in U.S. Aggregate Farm Sector Income Under the Uruguay Round (billion dollars)

Item	Change from baseline	
	2000	2005
Gross farm sector income:	3.6 - 4.6	8.4 - 9.6
Cash receipts	4.0 - 5.4	9.8 - 11.6
Government payments	(0.3) - (0.7)	(1.7) - (2.5)
Other 1/	(0.1) - (0.1)	0.3 - 0.5
Total production expenses	2.5 - 3.3	6.5 - 7.1
Net farm sector income	1.1 - 1.3	1.9 - 2.5

( ) denotes negative number.
1/ Includes farm-related income and value of inventory changes.

Table 4.8--Projected Change in Farm Program Outlays Under the Uruguay Round (million dollars)

Item	Change from baseline	
	2000	2005
Deficiency payments	(435) - (1,040)	(1,735) - (2,410)
Export subsidies	(535)	(535)
CCC dairy outlays	275	300
Total	(695) - (1,300)	(1,970) - (2,645)

( ) denotes negative number.
Source: USDA, ERS, Office of Economics, 1994.

in by the year 2000, additional export gains from 2000 to 2005 attributable to the Uruguay Round are mainly associated with faster economic growth.

For major grains, the most significant factor underlying export gains by the United States is fewer subsidized exports by the EU. For rice the major factor is new access to markets in East Asia under the minimum access commitments. Livestock gains are from a combination of reduced EU subsidized exports, new access in Asia, and income growth world wide. The puzzle in the USDA table is the small expected gains in horticultural trade, which now makes up about $8 million of US farm exports. The gain for horticultural products is expected to be only two to four percent even by 2005 when significant income elasticities of demand of these products in many of the importing countries should play a role.

The following specific items (adapted from USDA, 1994) provide the flavor of export gains and benefits anticipated for a variety of specific US commodities.

Beef

- By the year 2000, the EU's maximum allowable quantity of subsidized beef exports will be 40 percent lower than the 1991-92 level.
- Korea will double its import access from the current level by 2000. In 2001 there is no quota, mark-up, no state trading involvement in Korea.

Citrus

- On July 1, 1997, Korea will establish an out-of-quota tariff for oranges at 89 percent, which will be reduced to no greater than 50 percent for all imports by the year 2004.
- Thailand will reduce its tariff for sweet oranges and grapefruit by 50 percent.

Coarse Grains

- New access commitments by Japan and other countries will provide increased trade opportunities for nearly 1 million tons of coarse grains exports by 2000.

Dairy

- The EU will reduce subsidized dairy product exports substantially. For major products expected reductions are in the range of 25 percent of current quantities.

Fruit, Nuts, and Vegetables

- Tariff cuts by the European Union include a 75 percent cut from the EU's current duty on fresh foliage, a 50 percent cut for shelled almonds, in-shell walnuts, and a 36 percent cut for fresh asparagus, shelled walnuts, fresh grapes, roasted almonds, roasted pistachios, and potato chips.

- Korea will lift its import ban on fresh apples, grape juice, and fruit drinks in 1995 and fresh grapes and apple juice in 1996.

- EU almond exports will decline by an estimated 5-10 percent because of diminished export subsidies, and US growers will pick up most of this market.

Oilseeds

- Japan will reduce its tariff on soybean and rapeseed oil by 36 percent and the duties on sunflower, safflower, corn and cottonseed oil by 50 percent.

- Korea will reduce its tariff on soybean and cotton seed oil from the applied rate of 9 percent to 5.4 percent, (an 82 percent reduction from the bound rate of 30 percent) and will reduce its tariff for sunflower oil from 30 percent to 18 percent. Korea also will cut the tariff on soybean meal from the applied rate of 3 percent to 1.8 percent. (A 91 percent cut from the bound rate of 20 percent.)

Rice

- Japan will establish an import quota for 379,000 tons of rice in the year 1995, which will increase to 758,000 tons in the year 2000.

- Korea will establish a quota for rice of more than 50,000 tons in 1995. Korea will double the quota by the year 1999 and double it again by the year 2004.

Wheat

- The European Union will reduce the quantity and budgetary outlay for export subsidies from the current level. In the year 2000, the EU's maximum allowable quantity of subsidized wheat and wheat flour exports will be 13,436,000 tons, 6,800,000 tons less than the quantity of subsidized exports in 1991-92.

- EU wheat exports will fall substantially because subsidized exports will be reduced by over 8 million tons in 2000, one-third below baseline projections.[13]

Table 4.7, again taken from the USDA, shows changes in farm income aggregates anticipated from the Uruguay Round. Cash receipts are up because of higher prices and more output. More output and higher grain prices mean higher farm production expenses. Net returns from the market are thus up by about $1.5 to 2.0 million in the year 2000. However, because government payments are lower (Table 4.8), net farm income is up by about $1.2 billion by the year 2000 and by about $2 billion by 2005. The US direct payment programs themselves do not change because of the Round. Instead the underlying prices and quantities change and this reduces outlays.

e) Conclusions

The United States pursued a comprehensive and fundamental Uruguay Round Agreement for many years. The actual agreement is not nearly so fundamental as what was contemplated. However, the Agreement does change border measures in agriculture in the United States and elsewhere. Such popular policies as the Export Enhancement Program are subject to disciplines,

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[12] Unless the EU allows domestic wheat prices to drop further than currently planned to world equivalent levels or world prices rise to reach currently planned EU domestic support levels.

and the Section 22 waiver has been eliminated with tariffication. The gains that the US envisions depend on its ability to compete without subsidy and to take advantage of new market access. Most in US agriculture expect those gains to materialize.

Chapter 5: The European Union and the UR Agreement

a) EU Agricultural Policies and the Uruguay Round Negotiations

In the agricultural negotiations of the Uruguay Round, an effort was made to bring the global trading system for agriculture under stricter rules. However, a major part of the negotiations focused on the Common Agricultural Policy (CAP) of the EU. When the Round began, both the US and the Cairns Group countries were strongly dissatisfied with the way the EUpursued its agricultural policies, and they were determined to use the negotiations as a means to change this state of affairs.

Dissatisfaction with the CAP as with other countries' policies played a major role in the agricultural negotiations of earlier GATT rounds. The Dillon Round was essentially addressed to the implications of the establishment of a customs union and as part of it a common agricultural market in the EU. The agricultural negotiations of the Kennedy Round centered around the emerging market regimes under the CAP. The US tried, unsuccessfully, to obtain guaranteed access to EUcereals markets. In the Tokyo Round, held at a time of high world prices, the agricultural negotiations were somewhat more peripheral, and the CAP was less on centre stage. However, growing surpluses on EUmarkets, and the consequent rise in subsidised exports from the EU, made export subsidies a major theme of the negotiations. The Subsidies Code was agreed, but it did little to alleviate the problem.

As a result, at the time preparations were made for the Uruguay Round, the CAP was not really constrained by the GATT. Agricultural production in the EUcontinued to grow, at a rate far above growth of domestic consumption in the EU. Where the EU still was an importer, the volume of imports tended downwards. This in particular happened with oilseeds, the one product group where the EU had zero bound duties. In this case, domestic producers received growing deficiency payments that triggered a massive expansion of EU oilseed output. The only exception to the declining trend of imports, besides tropical products and other commodities not really produced by the EU farming industry, were some cereal substitutes that had access to EU markets at low or zero bound duties. Where imports of these substitutes were not covered by voluntary self-restraint agreements or equivalent arrangements (as was the case for cassava), they continued to grow, as in the case of corn gluten feed. The EU made various attempts at resolving the consequent problems on its grain markets through some form of arrangement with exporters. However, no solution was found because exporting countries were not prepared to forego free access to at least these markets in the EU.

The EU became a growing exporter of most other agricultural products. However, with the high and rising level of domestic price support, the EU needed significant export subsidies to be able to sell on world markets. Over time, expenditure on export subsidies (and other means of surplus disposal) became a pressing problem for the Community budget, which hit its ceiling several times in the early eighties.

Other agricultural exporters, in particular the U.S., became increasingly impatient with these trends in the EU. However, there was relatively little they could do about it. In particular, the GATT offered almost no constraints. On the import side, the EU had not bound tariffs for most of the products where imports could potentially compete with domestic EU production. It used the resulting freedom by applying variable levies and similar schemes such as reference prices and minimum import prices. In the GATT, these measures fell in the "grey area" of policies that were not explicitly prohibited or bound. Since no exporter chose to initiate a dispute on the legality of these measures, they remained unchallenged in the GATT. As a result, there was essentially no effective limit to the protection the EU could afford most of its important agricultural products.[14]

On the export side, the EU benefited from the vagueness of GATT rules on agricultural export subsidies, in particular the "equitable share" rule. In spite of a number of GATT disputes raised against CAP export subsidies, no effective limitation was imposed on the extent to which the EU could subsidise the exportation of its growing surpluses.

The only area where EU agricultural policies were eventually disciplined by the GATT was that of domestic subsidies. The case concerned was that of oilseeds, a commodity group that had a tariff binding. The US claimed that EU deficiency payments resulted in nullification and impairment of the tariff concessions they had received in the Dillon Round. In two successive panel reports, the EU was urged to modify its policies in the area of oilseeds. Among the many disputes initiated against the CAP, this was the only positive outcome in the sense that a major element of EU agricultural policies was successfully challenged in the GATT. As such it also played some role in the Uruguay Round negotiations and in the 1992 CAP reform related to them.

Largely because of the GATT's inability to discipline the CAP and of the growing problems the CAP was creating for world markets, exporters were determined to use the Uruguay Round as an opportunity to change GATT rules for agriculture. In the end they succeeded. The Agreement on Agriculture creates a completely new set of conditions for the CAP. Tariffication reduces the freedom the EU had when determining levels of protection for its agricultural markets. Binding constraints on export subsidisation mean that the EU no longer can dump growing surpluses on world markets. Commitments regarding total support put a cap on the level of price support the EU can grant its farmers. It was not easy to push the EU in this direction. But it is interesting to note that the EU was, from the beginning of the Round, prepared to accept some form of new rules for agriculture. At later stages of the negotiations, the EU even began to see a positive relationship between the GATT negotiations and the domestically felt need for a reform of the CAP. After the Uruguay Round the CAP no longer is what it used to be.

[14] Moreover, a number of GATT panel findings which might otherwise have constrained domestic policy were not adopted. Unaminity among Contracting Parties ("consensus") including the parties involved, was needed for adoption of panel reports.

b) The EU Schedule of Commitments

The nature of the commitments that the EU has accepted in its Schedule follows from the structure of the Agreement, as outlined above. These commitments are basically the same as in all other developed countries. Hence, only some of the more specific aspects are mentioned here.

The EU has agreed to a tariffication of non-tariff import barriers. However, it has been accused, along with other countries, of engaging in "dirty tariffication", by carefully choosing base period price data for calculating the tariff equivalent in order to increase the initial tariff. In particular, the EU has tended to use as the internal price the EU intervention price plus 10 percent, wherever there is an intervention price.[15] It is arguable that the EU should, rather, have used the market price. The market price at the location where imports enter the EU is usually somewhat higher than the intervention price, because of transport costs and trading margins.[16] But with quite pronounced price differences among member states, an average market price does not mean very much in the EU. On the other hand it is not clear why the EU has not used the actual import prices on which it calculated its variable levies during the base period for the external price.[17] Moreover, there are cases in which the EU has used other prices, such as the internal EU price minus export refund (as in the case of tomatoes), which may have resulted in relatively high tariff equivalents.

A more important factor than "dirty tariffication" in determining the high initial tariffs is the fact that rates of protection during the base period were, indeed, very high for many products in the EU. For many fruits and vegetables, tariff equivalents and hence initial tariffs are around 50 percent of the base period external price (see Table 5.1). For wheat and coarse grains they are above 150 percent, for skimmed milk powder, beef and sugar above 200 percent, and for butter above 300 percent. With rates as high as that, it may not matter much how "dirty" the choice of base year prices was.

As far as rates of reduction are concerned, the EU has (fortunately) not made full use of the flexibility that the averaging of reduction rates offered. Rather than reducing some tariffs by only 15 percent, the EU has decided not to reduce any single tariff by less than 20 percent. With very few exceptions, the EU used three reduction rates-- 20, 36, and 100 percent. The 20 percent category is reserved for some more "sensitive" products, such as sugar, skimmed milk powder, olive oil, wine, and most fruits and vegetables and their first stage processed products. For the large majority of agricultural products, tariffs will be reduced by 36 percent, i.e., the rate required for the average. The reduction rate of 100 percent, i.e., free imports by the year 2000, and the few cases of reduction rates

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15 For cereals, the EU has also added the monthly increments and in the case of sugar the storage levy. This is acceptable as the new tariff should allow to protect the market regime price in all seasons, including the high-price season before the new crop comes in.

16 This, however, is not always true, depending on the operation of the EU market regime concerned. For example, for beef the market price can drop significantly below the intervention price. Still, even for beef the EU has used the intervention price + 10 percent as the internal price.

17 It has been alleged that the EU has used, as the external price, f.o.b. prices rather than c.i.f. prices, thereby inflating its tariff equivalents. This is factually not correct. In a number of cases, e.g., for cereals, the EU has used f.o.b. prices from exporting countries. However, these prices have been adjusted for transport costs to the EU (and sometimes also for quality and variety differences).

between 37 and 100 percent are mainly confined to products where the EU had already bound tariffs, usually at rather low rates (e.g., peas for sowing go from 3 percent to free).

In nearly all cases where the EU has traditionally used variable levies or similar mechanisms, the Schedule declares that the EU reserves the right to use the Special Safeguard Provision. In an attachment to its Schedule, the EU has informed the GATT about the trigger prices it intends to use. In many cases, these trigger prices are significantly above the external prices that the EU has used for calculating tariff equivalents. [18]

[18] However, the trigger prices in this list do not have any GATT legal status, and it will not be before the EU actually begins to invoke the Special Safeguard Provisions that these trigger prices are tested in the GATT.

Table 5.1: EU Tariff Equivalents (ECU/tonne)

Product	Tariff Equivalent (*) 1995	TE as percent of External Price	Rate of Reduction Percent
Wheat (common)	149	160.2%	36.0%
Barley	145	170.6%	36.0%
Maize	147	153.1%	36.0%
Durum wheat	231	152.0%	36.0%
Rice (milled)	650	289.4%	36.0%
Rice (husked)	413	215.1%	36.0%
Olive oil	1,556	192.3%	20.0%
Sugar-raw	424	240.9%	20.0%
Sugar-white	524	267.3%	20.0%
Pigmeat	839	n.a.	36.0%
Beef	20% + 2,763	237.3%	36.0%
Beef (frozen)	20% + 2,013	n.a.	36.0%
SMP	1,485	216.8%	20.0%
Butter	2,962	341.1%	36.0%
Whey powder	109	24.9%	36.0%
Wine			20.0%
Sheepmeat	20% + 2,677		30.0%

(*) Total tariff including duties and tariff equivalent of non-tariff measures.

For most fruits and vegetables, the EU has maintained important elements of its current reference price system. It has accepted fixed tariffs without safeguards for exports entering the EU at specified minimum prices, derived from past reference prices. Where exports come in below these minimum prices, the fixed *ad valorem* rates can be augmented by a tariff resulting from the tariffication of compensating duties. In addition, the Special Safeguard Provision can be invoked.

For minimum access (see Table 5.2), the EU has tended to calculate the quantities concerned for relatively large aggregates, based on total domestic consumption of these aggregates, though the Modalities paper called for 4-digit level commitments "in general." For example, there is just one aggregate category called meat, comprising more than forty tariff lines. In this way, the EU could make use of the fact that trade preferences for some products in the aggregate group allow in more than the minimum access for these products (e.g., beef). The surplus can be used to keep minimum access quotas small for other products in the aggregate group (e.g. poultry). However, after the total quantity of minimum access for the aggregate group is calculated, actual access commitments are allocated to individual tariff lines within it.

In the area of export subsidies, there is not much room for manoeuvre in establishing Schedule commitments. Particularly pronounced problems that the EU feared for some products, where exports or stocks had increased significantly after the base period 1986-90, were partially solved in the last minute through the "frontloading" provision, allowing countries to choose 1991-92 as the starting point for reductions. Both quantities and expenditure coming under constraints in the EU are in some cases large and result in large absolute reductions (Table 5.3). For example, a total base quantity of around 30 million tons of cereal exports is now covered by reduction commitments, and in the year 2000, subsidised cereal exports from the EU have to be nearly 8 million tons below what they were in the base year. This reduction is a significant share of total world exports of cereals. For sugar and beef, the reduction is around 360,000 tons and, for butter it is 100,000 tons. The total reduction in expenditure on export subsidies will be ECU 3.8 billion. For the EU budget, this is a significant saving. On world markets of the products concerned, it means considerably higher earnings for other exporters.

As far as domestic support is concerned, the EU has to reduce its total AMS from ECU 73.5 billion to ECU 61.2 billion (with a credit of ECU 2.4 billion). The rate of reduction agreed in the GATT (20 percent) is less than that offered by the EU in 1990. "Green box" policies in the narrow sense (of Annex 2 to the Agreement) do not so far play a large role in the EU. However, the EU managed to get agreement, as part of the Blair House Accord, that its new compensation payments under the reformed CAP do not need to be reduced. Thus, the domestic support commitment will have no practical policy implications for the EU.

Table 5.2: Minimum Access Commitments (EU)(000 tons)

Product	Base period access 1986-88	Consumption 1986-88	New Access	Final Access
Meat	1,398	29,521	0	78
SMP	2	1,429	41	69
Butter	80	1,803	0	10
Eggs	32	4,792	112	208
Wheat	2,663	58,895	0	281
Coarse grains	4,794	77,967	0	0
Rice	717	1,730	0	0
Sugar (white)	1,876	10,847	0	0
Cheese	111	4,302	18	104

Source: EU schedule

Table 5.3: EC Commitments Regarding Export Subsidies

Products	Annual Outlay Commitment Levels Mill ECU			Annual Quantity Commitment Levels '000 tons		
	Base Outlay Level	1995	2000	Base Quantity	1995	2000
Wheat and wheat flour	1783.0	2069.4	1141.1	17008.1	19118.6	13436.4
Coarse grains	1379.5	1296.7	882.9	12624.5	12182.6	9973.4
Rice	61.8	58.1	39.6	183.7	177.3	145.1
Rapeseed	32.2	30.3	20.6	100.4	96.9	79.3
Olive Oil	85.9	80.7	55.0	148.0	142.8	116.9
Sugar (1)	776.5	730.0	497.0	1617.0	1560.4	1277.4
Butter & butteroil	1325.4	1245.9	848.2	463.4	447.2	366.1
Skim milk powder	370.1	347.9	236.9	308.0	297.2	243.3
Cheese	439.2	505.2	281.1	386.2	406.7	305.1
Other milk products	1008.1	947.6	645.2	1187.9	1161.4	938.4
Beef meat	1967.8	1900.6	1259.4	1034.3	1118.7	817.1
Pigmeat	183.4	172.4	117.4	508.6	490.8	401.8
Poultry meat	143.2	137.8	91.6	367.8	440.1	290.6
Eggs	39.8	37.4	25.5	105.4	107.2	83.3
Wine	64.5	60.6	41.3	3080.4 (2)	2972.6 (2)	2433.5 (2)
Fruit & veg., fresh	102.9	96.7	65.9	1148.0	1107.8	906.9
Fruit & veg., processed	15.4	14.5	9.9	200.8	193.8	158.6
Raw tabacco	62.9	95.0	40.2	142.5	190.4	112.6
Alcohol	150.2	141.2	96.1	1452.4 (2)	1401.6 (2)	1147.4 (2)
Incorporated products	572.5	646.1	366.4	-	-	-
Total	10564.0	10614.1	6761.0			

Notes: (1) Does not include exports of sugar of ACP and Indian origin on which the Community is not making any reduction commitments. The average of export in the period 1986 to 1990 amounted to 1.6 mt; (2) 000 hl.
Source: EU Schedule

c) CAP Reform and the GATT

In spite of these commitments, the policy adjustments the Agreement will force in the EU are relatively limited. This may appear ironic, given that the GATT negotiations on agriculture have, to a significant extent, targeted the CAP. Have these negotiations, then, not been successful? The contrary is true. To see why, one has to look back at events in the period 1990 to 1992.

The first real test of countries' willingness to accept an agreement and to adjust their policies came in fall 1990, after the Agricultural Negotiations Chairman, Aart de Zeeuw, had requested countries to submit offers. In the EU, the Commission began to prepare an offer, with much resistance from most member countries. When the Commission tabled its first figures, the EU agreed to accept a 30 percent reduction in product-specific AMS and tariffication of its border measures with 30 percent reduction of tariffs. The latter offer was to be made conditional on acceptance of "rebalancing", i.e., introduction of tariff-rate quotas for cereal substitutes and oilmeals. No explicit commitments on export subsidies were proposed. In the Council of Ministers, some member countries responded furiously and refused to accept these Commission proposals. It took the Council several months until it finally accepted, with some minor modifications, the Commission proposal, which was then submitted to the GATT, much after the deadline.

This EU offer, fell significantly short of the offers of the US and the Cairns Group countries. But it was the basis on which the EU Commission entered into the December 1990 Ministerial Meeting in Brussels, which was supposed to conclude the Uruguay Round. In these "final" negotiations, EU Commissioner for Agriculture, Ray MacSharry, seemed unprepared to go much beyond this offer. Some member states prevented him from making significant new offers. In particular, there was very strong opposition against accepting any explicit constraint on EU export subsidies. In the end, the Ministerial Meeting broke down over the EC's unwillingness to be more forthcoming in agriculture. At the time the EU was not prepared to make the policy adjustments an agreement would have required.

Soon after the GATT failure, MacSharry tabled his first proposals for a fundamental reform of the CAP.[19] Again most member states in the Council opposed his views strongly. However, within about a year the Commissioner pushed through his plan for reform, with few modifications. In May 1992, the Council adopted the sweeping reform package that puts the CAP on a fundamentally new basis, mainly in the area of crops. In the internal debate about CAP reform, negotiators claimed that it had nothing to do with the continuing GATT negotiations. However, in reality the 1992 reform of the CAP resulted from the Uruguay Round. Unlike any prior "reform", the MacSharry reform reduces the level of price support and protection significantly (mainly for cereals and cereal-based livestock). By doing so, and as a result of mandatory set-aside, it reduces the need for export subsidies. It also alleviates the problem the EU has had with cereal substitutes. In compensation, EU farmers receive payments that are decoupled from yield, though not acreage (Josling, 1993).

[19] The first internal Commission document, which outlined the framework for CAP reform, carries the date of December 6, 1990, the day on which the GATT Ministerial Meeting broke up without agreement.

The high budget cost of these payments is one indication that this reform is not targeted only at domestic problems in the EU. All prior "reforms" of the CAP had been designed to reduce the budget burden. A reform oriented toward domestic needs also would have done so, because the budget continues to be one of the most pressing problems in the EU. Six months later the EU was able to find agreement with the U.S., in the Blair House Accord, on important parameters of an agreement on agriculture. Another year later the Uruguay Round was successfully concluded.

In retrospect it appears as if there was a successful strategy behind the EU attitude at the 1990 Brussels GATT meeting and the CAP reform. The offer that the EU had made in the GATT in 1990 was not at all consistent with the CAP at the time. If that offer had been accepted in the GATT, the EU would have had to reform its policies under external pressure from the GATT, and this reform would have been rather painful. For that reason, it was better for the EU to avoid agreement in the GATT before the CAP was reformed. At the same time, the negotiations in Brussels, were useful because they indicated what the parameters of a final compromise eventually might be. Moreover, by having not bowed to US pressure, Commissioner MacSharry enhanced his credibility among EU member states such that it was easier for him to push his plan for CAP reform through in the Council.

Whatever the politics behind CAP reform and the EU position in the GATT may have been, there is a direct link between the Uruguay Round and the way the CAP was set on a new path in 1992. It, therefore, would be wrong to think that the lack of need for far reaching policy adjustment in the EU indicates that the GATT negotiations on agriculture have failed.

d) Further Policy Adjustments Required in the EU

Since 1986, the beginning of the base period for establishing GATT commitments, the EU gradually has reduced some of its support prices, in particular those for cereals and beef, and market prices of some related products, in particular pigmeat and poultry products, have followed. Moreover, in 1993 the EU began to implement the MacSharry reform. As a result, the total AMS for EU agriculture has come down considerably in recent years. According to an estimate of the EU Commission, in 1993 it was ECU 56 billion, which is already below the EC's AMS commitment for the year 2000 (ECU 61.2 billion). Hence the constraint on domestic support is not binding for the EU and does not force any policy adjustments.

Tariffication and tariff reductions also are unlikely to be very demanding constraints on EU policies during the first six-year implementation period, for the same reasons. For most products where the EU used to apply variable levies, the tariffs included in the EU Schedule are sufficient to defend the intervention prices (or equivalent support prices) the EU will have after implementing the MacSharry reform. Unless world market prices decline very significantly, the level of protection allowed by the new bound tariffs is in most cases higher than the EU needs to maintain its "Community preference", i.e. the price difference between duty-paid import price and the EU intervention price believed to be necessary to prevent imports from causing difficulties for domestic sales of EU produce.[20] As a result, the EU probably will be able to continue to apply a border regime, which in practice may resemble its old system of variable levies. This will be

20 In the past, the term "Community preference" was used to describe the gap between threshold and intervention price in the EU.

possible because a country can always charge duties that are lower than those bound in the GATT and can then adjust them upward and downward with fluctuating world market prices, as long as it does not exceed the bound tariff rate (Josling and Tangermann, 1994).

This will be particularly true for cereals. During its last minute negotiations with the US in December 1993, the EU agreed to limit its duties on imports of major cereals so that the duty-paid import price does not exceed 155 percent of the EU intervention price. At current world market prices, the duties allowed under this special commitment are far below those the EU could have implemented on the basis of the tariff equivalents in its Schedule. However, this commitment is well in line with the threshold and intervention prices decided in the EU as part of the MacSharry reform. Because of this special commitment, the EU will have to adjust its import duties for cereals continuously so that the intervention price plus 55 percent is never exceeded (but also, in the interest of the EU, not undercut). In effect, the result of this mechanism will be something like the old variable levy mechanism, with a threshold price equal to 155 percent of its intervention price, though the terminology will have to change.

Given the redundancy in allowed protection for many CAP products, the EU may not even need to make much use of the Special Safeguard Provision for most of these products. However, where world market prices decline so much that use of the provision may become relevant, the high level of trigger prices may allow the EU to levy additional duties to cover a high share of the further decline of the world market price.

Tariffication and tariff reductions may, though, force protection down in the EU for some "southern" products such as fruits, vegetables, and wine. Among the "core" products of the CAP, the only one potentially affected is sugar. For sugar, the EU has not yet begun to reform its market regime, and hence institutional prices are still high.

Minimum access also is believed to be no major problem for most products. The Community's negotiating partners have agreed that the EU can count most imports under its various preferential schemes (including the newly concluded Europe Agreements with the countries in Central Europe) against its minimum access commitments. Moreover, in bilateral negotiations during the Uruguay Round the EU has agreed to some additional tariff-rate quotas that also contribute to meeting the minimum access commitments.

As in many other countries, the Agreement provisions that are most likely to be effectively constraining the CAP will be those relating to export subsidies (Tangermann, 1994a). The MacSharry reform will go far in helping the EU to meet its new commitments on export subsidisation. In particular, for cereals there is a good chance that the reforms already decided, including set-aside, will be sufficient to keep EU exports below the quantity constraint.[21] This will be particularly true if domestic use of cereals in the EU expands as expected by many observers, mainly because lower cereal prices will lead to a greater use of cereals in EU compound feed. It may be that the EU surplus of wheat will be somewhat above the allowed volume of subsidised exports, but the EU may be able to re-allocate production among cereals to use the remaining scope for exports of coarse grains.

Because of the reduction in the level of price support, the outlay constraint on export subsidies is now easy to meet for the EU.

The only core CAP product where adjustment will still be necessary because of the constraint on subsidised exports is sugar. To meet the constraint on export quantity, the EU will have to reduce its sugar quotas by around 4 percent. Moreover, if it limits quota reduction to this minimum rate, the EU probably will have to reduce the intervention price for white sugar to meet the outlay constraint, by around 15 percent, depending on the future world market price for sugar (see Tangermann, 1994a). Moreover, problems with the constraint on export subsidisation probably will force the EU to go further in reforming its beef market regime. There also could be problems with cheese, where EU exports have grown considerably after the base period. This may force the EU to export more butter and skim milk powder then it might otherwise have done, because the constraints are less binding for these products.

e) Prospects for Future EU Policies

If developments in the EU will be as described in the previous section, there will not be much need for further CAP reform. The EU has already engaged in a major policy reform, in anticipation of the outcome of the Uruguay Round. However, there is the possibility that reform in the cereals sector is not quite sufficient to meet the export volume constraint. This would occur if domestic cereals use in the EU does not expand enough or if productivity growth in EU cereal production is more rapid than expected. In this case the EU will have to reconsider its options for policy response.

One option would be to strengthen supply control. The EU could increase the percentage of farmers' base acreages to be set aside, beyond the 15 percent level currently agreed. However, this would meet with considerable opposition from the more competitive cereal growers in the EU, for example in France, the South of England, and Eastern Germany. Alternatively, the EU could require "small" farmers, who now do not need to participate in set-aside, to set aside acreage as well. But that solution would raise difficult administrative problems and also strong political opposition from the interest groups representing small farms and from southern EU member states where small farms predominate. Hence, strengthened supply control, though not impossible, would not be easily adopted in the EU.

A completely different option would be to reduce the level of price support for cereals further and to compensate farmers through higher compensation payments. However, a limited reduction of the intervention price would probably achieve little if the large price cut that the EU has already adopted has not sufficed to reduce the surplus on the EU cereals market. Hence, there may be a need to consider a more radical approach. The EU could eliminate price support altogether and accept the world market price level, shielding farms by increased compensation payments. Export subsidisation then would no longer be necessary. This would mean that the EU could completely forget about the GATT constraints on export subsidisation. From the point of view of the export subsidy commitment there would no longer be a need for set-aside, because the EU could allow any amount of production to come to the market and, if not consumed domestically, to be exported. The EU would, however, have to consider the GATT constraint on domestic support. For the compensation payments to be exempted from the AMS reduction commitment, they must be paid under some form of production-limiting program and on not more than 85 percent of production. How the payments should be designed to meet this condition would have to be carefully considered. However, the EU might have so much redundancy in its total AMS that it could make the compensation payments fully countable without running into difficulties. If that is not possible, and if a way cannot be found to bring them under the clause for payments under production-limiting programs, the EU could eventually decouple its compensation payments fully by de-linking them from acreage, i.e., by putting them in the green box.

Whatever the exact design of this policy option might be, it may prove attractive for an important part of the EU farming industry. French farmers already have suggested that rather than output restrictions, they would like to see the EU going to the world market price level and exporting as much as the EU farming industry is able to do. If the EU can find a way to do this, the CAP would be in a completely different situation. Giving up on price support for a product as central as cereals has far reaching implications for other agricultural markets. In the end, there could be a sweeping move toward liberal market policies for EU agriculture in general.

If this were to happen, the Uruguay Round negotiations would have led not only to a completely new system of rules and commitments for world agriculture. It also would have put the CAP on a dramatically different basis. How good this would be for other agricultural exporters is not clear. With no price support but also no set-aside, the EU might be able to export more cereals than it can do under the new GATT constraints. Ironic as it may seem, in the long run the Uruguay Round could turn out to have transformed EU agriculture into a competitive supplier on the world market.

Chapter 6: Canadian Interests and Market Impacts

a) Overview

The export of agricultural commodities and foodstuffs continues to represent a major source of earnings for the Canadian farm sector and food processing industry. Thus the principal Canadian objectives in the Uruguay Round were export oriented. These were:

- the elimination or substantial reduction of export subsidies;
- increased access to foreign markets, particularly the removal of exceptional treatment accorded the EU levy system and the US agricultural waiver;
- greater security of market access through the binding of all tariffs, clearer definitions of trade-distorting subsidies, and agreement on acceptable support programs to be free from countervailing action.

However, Canada adopted a dual position for agriculture in the Round by seeking stronger rules to preserve supply management systems. Great importance was attached to strengthening and clarifying GATT Article XI.2. c.(i) to permit the continuation of quantitative import restrictions for the dairy, poultry and egg industries. Among other objectives less specific to agriculture, Canada pressed vigorously for effective dispute settlement procedures, a strong World Trade Organization, and improved sanitary and phytosanitary rules.

The outcome is viewed as a qualified success for agriculture. Important progress was achieved for the export-oriented sectors despite the failure fully to reign-in export subsidy practices or to push back internal programs that distort trade. But Canada failed to maintain exceptional treatment under Article XI for products subject to effective supply management programs. Although Canada abandoned its position on Article XI at the last moment and accepted comprehensive tariffication of import quotas, high tariff equivalents were negotiated in their place. Thus supply management systems can be continued until tariffs come down significantly. This is seen as a political imperative even though a growing segment of the industry is questioning whether these policies serve the longer-term interests of the dairy, poultry and egg sectors in Canada.

b) Principal Benefits of the Agreement to Canada

The commitments taken by other countries will benefit primarily Canada's important grains and red meats complex. In particular, wheat and other grains and oilseed products will gain from somewhat higher world prices to be derived from the export subsidy volume reductions of the European Union and the United States. Direct preferential access arrangements in these and other higher-priced markets also represent important gains.

Tariff reductions across a wide range of products provide improvement in general access. Examples important to Canadian export products are:

- for Japan, a zero tariff for 5.5 mt of wheat and 1.3 mt of barley, to be increased slightly, with a bound mark-up at 33Y/kg;
- an EU 300,000 metric tons (mt) tariff rate quota (TRQ) for quality wheat at zero tariff;
- an EU 7000 mt TRQ for pork rising to 76,000 mt at bound tariff rates;
- reduced tariffs on canola oil into EU (-36 percent) and Japan (-36 percent);
- lower tariffs on linseed oil into EU (-36 percent) and Korea (-60 percent);
- EU wheat and barley imports subject to both a tariff binding and a maximum duty-paid price of 155 percent of the intervention price;
- further reductions in Japanese beef tariff and increases in the Korean beef import quota (tariffication at 40 percent in 2001);
- a 15 percent reduction in bound Japanese pork tariff and a 15 percent reduction, from current levels of applied minimum import price;
- tariff elimination on beer and whiskey into major markets, dried pulses, beef and pork offals into EU, and canola meal into Korea;
- most frozen vegetable tariffs reduced for entry to Japan -40 percent) and EU (-20 percent).

A principal achievement of the Agreement on Agriculture from a Canadian perspective is the prospect it offers of a more predictable and stable trading environment. The agreement to remove country-specific exceptions in favor of clearer universally applicable rules, to bind most tariffs and improve the dispute settlement procedures are goals strongly pursued by Canada. These results, including the new World Trade Organization, are expected to reduce the risk of trade conflicts, rein-in unilateral actions by the larger trading nations and boost exports. They set the stage for further benefits as several of Canada's major trading partners, particularly China and Russia, are expected to join the WTO.

The results should help to resolve a number of trade difficulties between Canada and the United States.[22] Although the MFN tariff concessions granted by the United States will partially erode benefits from Canada's preferential access to the US market, this will remain the most important destination for its exports. The progress achieved in the Round on subsidy disciplines, particularly the non-application of countervailing laws to programs that meet the "green-box" criteria, is a major advance for Canadian agriculture. In recent years, uncertainty regarding potential US countervail action has undermined the effectiveness of existing agricultural support measures and hampered the process of program reform. The GATT Agreement is seen as a key step in developing clear and enforceable rules relating to subsidies and trade remedy legislation that are mainly responsible for the bilateral trade irritants.

The Canadian agricultural industry also will face increased competition from the United States, which already enjoys a favorable balance of trade in this sector. However, trade barriers are being removed for most products between the two countries under the Free Trade Agreement (FTA) and NAFTA. For those sectors that continue to be treated as exceptions, including dairy, poultry, eggs and some cereals for Canada, and dairy, sugar and peanuts for the United States, the GATT result will stimulate efforts to overcome continuing

22. The initial impact of the agreement, however, seems to been to create a new problem. The unresolved issue is whether the newly created US and Canadian tariffs will be subject to or exempt from the provisions of the NAFTA.

trade difficulties.

c) Domestic Policy Implications

The export subsidy commitments will force some changes in transport subsidies for the grain sector and in the administration of border measures affecting Canadian Wheat Board grains and the supply management commodities. The AMS commitments for domestic support are not expected to have direct policy or program implications. Support given through "amber" programs has already been reduced by approximately 40 percent from the average level of the 1986-88 base period, primarily due to government spending restraints. This situation is expected to persist given the current fiscal climate. There will be indirect impacts on Canada's income-safety net programs for grains, field crops and red meats. However, following extensive policy reviews in recent years, major reforms in transportation assistance and safety net programs are already under consideration. In addition to decoupling farm supports from commodities to reduce their distorting effects on production, the proposed changes are intended to remove the programs from the threat of countervail.

The GATT outcome is expected to advance major reform of the Western Grain Transportation Act (WGTA). The freight subsidy on product moving through West Coast ports is contingent on export and hence subject to reduction commitments. Although minimal legislative change would be needed to extend the subsidy to all eligible product moving West, as is done under the program for Eastern shipments, more substantial changes have been proposed to remove recognized domestic distortions. These changes are likely to go beyond the export subsidy requirements. There are strong indications that the WGT subsidies will be terminated and a replacement program introduced. Such a new program may well be designed to meet the conditions for "green box" eligibility.

Discussions and planning are well advanced to replace the main income safety net programs, the National Tripartite Stabilization Program (NTSP), the Gross Revenue Insurance Program (GRIP) and the National Income Stabilization Account (NISA), which are not considered to qualify for the "green box" in their present form. For some time the Government, in its search for a "green" safety net which would be free from threat of foreign countervail action, has envisaged the evolution of the existing prototype NISA into a more generic "whole-farm" program. With the GATT Agreement now assured and subject to clarification of some aspects of the "green-box" criteria, a new generation of safety net programs are expected to be put in place. As provided for in the Agreement, such a new program for which "green" status would be sought would be notified to the new Committee for Agriculture.

The Canadian Meat Import Act will be replaced with a tariff of 37.9 percent to be harmonized with the US beef tariff of 31.1 percent by 1995. It will be reduced to 26.5 percent over 6 years. The current level of access of approximately 76,400 metric tons is to be provided on a zero tariff basis.

The supply management systems for dairy, poultry and eggs can be continued due to the high tariffs to be implemented by Canada as set out in Table 6.1 These over-quota import tariffs are expected to be prohibitive. The TRQs summarized in Table 6.2 will enable continuing control over the quantities to be imported at lower tariff levels. These reflect current and minimum access commitments. Although increased access is provided for several dairy products, in some cases reserved for Australia and New Zealand, these imports are not expected to affect internal price levels. The tariffs will be reduced by 15 percent and the in-quota tariff rates by 57 percent over the 6-year transition period. Production quotas for industrial milk and eggs might be expected to be reduced over time in line with expanded minimum access commitments. For fluid milk, harmonization of Canadian and US standards may have to precede the opening of access. No increase in access was necessary for poultry above levels already negotiated in the FTA.

Table 6.1: Tariff Equivalents for Basic Products, Canada (*)

Product	1995 Tariff		2000 Tariff	
	Percent	Minimum	Percent	Minimum
Milk	283.8	$40.6/hl	241.2	$34.5/hl
Cheese (cheddar)	289.0	$4.15/kg	245.7	$3.53/kg
Butter	351.4	$4.15/kg	298.7	$4.00/kg
Skim Milk Powder	237.2	$2.36/kg	201.6	$2.01/kg
Chicken	280.4	$1.96/kg	238.3	$1.67/kg
Turkey	182.1	$2.30/kg	154.8	$1.96/kg
Eggs	192.3	$0.94/doz	163.5	$0.80/doz
Chicks	280.4	$0.36/unit	238.3	$0.31/unit
Hatching Eggs	280.4	$3.43/doz	238.3	$2.92/doz
Durum Wheat	57.7	$97.2/tonne	49.1	$82.6/tonne
Wheat, Other	90.0	$115.98/tonne	76.5	$98.58/tonne
Barley, Malting	111.4	$125.8/tonne	94.7	$106.9/tonne
Barley, Feed	25.1	$18.7/tonne	21.3	$15.9/tonne
Margarine	93.3	$.97/kg	79.3	$.83/kg
Beef	31.1		26.5	

(*) The tariff rate that applies is the higher of either the percentage rate or the specific rate. The percentage rate applies to value of the imported product at the border.

Table 6.2: Tariff Rate Quotas (Selected Products), Canada

	Initial Quota			Final Quota	
Product	Units	Quantity	In-quota Tariff	Quantity	In-quota Tariff
Egg and Egg Products (egg equiv. basis)	m.doz	12.8	various	21.4	various
Chicken (live meat & products) (adjusted eviscerated basis)	tonnes	39,844	various	39,844	various
Beef & Veal (excl. US & Mexico) (product weight basis)	tonnes	76,409	0	76,409	0
Dry Whey	tonnes	3,198	7.72c/kg	3,198	3.32c/kg
Butter (of which NZ 1200 rising to 2000)	tonnes	1,964	26.46c/kg	3,274	11.38c/kg
Cheese	tonnes	20,412	7.72c/kg for most	20,412	3.32c/kg for most
Wheat	tonnes	136,130	$4.41/t	226,883	$1.90/t
Barley	tonnes	239,400	$2.30/t	339,000	$0.99/t
Wheat Products (grain equiv. basis)	tonnes	123,557	various	123,557	various
Barley Products (grain equiv. basis)	tonnes	11,478	various	19,131	various
Margarine (product weight basis)	tonnes	4,535	17.5%	7,558	7.53%
Milk	tonnes	64,500	17.5%	64,500	7.53%
Cream	tonnes	394	17.5%	394	7.53%
Yoghurt	tonnes	332	15.0%	332	6.45%
Ice Cream	tonnes	347	15.5%	347	6.67%

Note: TRQs reflect current and/or minimum access commitments, whichever applicable.

The export subsidy reduction commitments affecting Canadian grain, oilseeds and dairy products are set out in Table 6.3. The producer levy system used to fund dairy product exports will have to be reduced in line with export subsidy disciplines or withdrawn or modified. Although the GATT result will not force basic reform of Canada's supply management systems, it will require changes in the administration of border controls that now will fall under tariff policy legislation. A Federal Task Force is examining changes in quota administration, and this is encouraging a broader review of systems and operations.

In addition to reducing all new tariffs by 15 percent and the rates within TRQs by 57 percent to meet the average cut of 36 percent, Canada is reducing many existing tariffs by this magnitude or more. The tariffs on beer will be removed, as will tariffs for several fruits, nuts and vegetable products. Tariffs applied to live cattle and sheep will be halved. In the case of beer and some processed foods, GATT is an additional factor encouraging rationalization of the industry and the removal of interprovincial barriers to trade. For most foods, the negotiation of the FTA with the United States, and NAFTA, are already key influences in industry restructuring and in adjustments in policy administration and implementation.

d) General Response and Implementation

The general response to the GATT outcome has been favorable in Canada. It will have a positive impact on the economy and stimulate export market development and investment. The Government and agricultural groups now have greater confidence to proceed with planned domestic policy reforms, some of which were "on hold" pending the Uruguay Round resolution.

Of major concern is the failure to complete the access negotiations with the United States and the continuing bilateral grievances over agricultural trade. The status of the newly established tariffs and TRQs in GATT in relation to Canada-US trade under NAFTA remains in dispute. Negotiations are continuing to resolve this issue as well as a range of differences over bilateral trade that are indirectly related to the GATT outcome. These issues are creating uncertainties in Canada and will retard industry adjustments and forward planning unless they are resolved.

Nonetheless, there is broad satisfaction with the Uruguay Round outcome. Early benefits are anticipated for the grains, oilseeds and crop sectors. The red meat industries also are expected to gain significantly from the result as well as exporters of a wide range of food products. There is some disappointment that limited progress was made in achieving a balance in rapeseed oil access in relation to soybeans in some markets. And the access results in several cases, such as the EU and Korea, were modest.

Table 6.3: Export Subsidy: Reduction Commitments, Canada

	Expenditure Million Can. Dollars		Volumes Thousand M.T.	
	1986-90	2000-01	1986-90	2000-01
Wheat and Wh Flour[1]	311	199	11,205	8,851
Coarse Grains	116	75	4,579	3,618
Oilseeds	60	38	2,214	1,749
Vegetable Oil	3.5	2.2	117	93
Oil Cakes	7.5	4.8	274	217
Vegetables[1]	3.1	2	101	80
Butter[1]	17.2	11	4.4	3.5
Skim Milk Powder	48.7	31.1	61.5	48.6
Cheese[1]	25.4	16.2	11.5	9.1
Other Dairy Products	35.2	22.5	0.12	30.3

[1] For these commodities the starting point of the reduction is the 1991/92 Average.
The corresponding amounts are: Wheat and Flour 352 and 14,538; Vegetables 6.1 and 253; Butter 44.4 and 10.7; Cheese 31.4 and 13.1.

The removal of export subsidies was not achieved, and progress on subsidy disciplines was insufficient to resolve many existing trade problems. Because the "green box" programs are not yet permanently free of threat from countervail actions, this adds to industry uncertainties.

There are no problems foreseen in ratifying the new GATT Accords under the Canadian parliamentary system. A majority Government is in place, and the GATT enjoys the support of all political parties. Some problems, however, may arise related to implementation procedures. With supply controls no longer an international obligation for maintenance of import quotas, poultry, egg and milk producers may become less accepting of individual production constraints. Interprovincial barriers to movement of production rights and products are also likely to come under increasing criticism. Continuing US pressures for Canada to reduce its dairy, poultry and egg tariffs at a much faster rate (consistent with FTA modalities for other products), and to accept higher levels of guaranteed (quota) access, are expected. There will be some calls for direct compensation for asset value loss among producers of supply managed commodities. These probably will be resisted given the Government's difficult financial situation. However, it may be harder to resist more subtle forms of compensation such as demands for a more rapid rise in milk prices to compensate for lower asset and income values. A major issue for implementation will be the choice of how to allocate the new access quota amounts. Already, rent-seekers, including importers of record for existing limited imports, are lobbying for the new quota benefits.

In the case of grains, there are likely to be differences with the United States over the application of GATT commitments to bilateral trade and regarding exports to third country markets. For example, Canada has indicated that the tariffs for wheat and wheat products will not apply to imports from the United States, since import licenses have been removed under FTA provisions, but the tariffs for barley will apply. There are on-going differences over the use of EEP subsidies and the operations of the Canadian Wheat Board. However, these issues are more directly related to FTA and NAFTA provisions. While the GATT may be used to resolve these differences, they do not arise directly from the implementation of the Uruguay Round results. Canada can be expected to move ahead with GATT implementation expeditiously and to use its provisions fully in seeking to overcome trade difficulties and to exploit new potentials for agricultural trade

e) Farm Policy Outlook

It is likely that Canadian farm policies will be shaped increasingly in a manner consistent with the new GATT Agreement. This is already occurring in relation to income safety-net programs. Subsidies for rail transportation are being scaled back, and the export subsidy disciplines will speed-up reform of the Western Grain Transportation Act. A debate is underway concerning the total elimination of transportation subsidies. Any new income support programs are expected to meet the "green box" criteria.

The policy outlook for supply controlled commodities is less clear. In the case of central-desk selling of Prairie wheat and barley, some steps have been taken to allow some flexibility in marketing choices. The delivery quota system is being revised in favor of production and delivery contracts, in addition to allowing an open market for domestic feed grains and non-Board grains and oilseeds. A debate is taking place over the merits of extending the dual marketing system to the continental market. These issues are also related to bilateral disputes over the effects of both Canadian and US support and market intervention programs on agricultural trade between the two countries.

Some reforms are necessary as a result of the GATT outcome as it relates to border controls for dairy, eggs and poultry. This is stimulating a broader discussion on the future shape of these supply management programs. Poultry production quotas have been expanded in Ontario and Quebec, and some adjustments have been made in the pricing of raw dairy and poultry products for processing. There are related initiatives to reduce regulations and to remove inter-provincial barriers to trade, to help place Canadian agricultural and food sectors on a stronger footing to compete in a more open, continental market. Thus the Uruguay Round is forcing the pace of reform in some programs and acting as a catalyst for change in other domestic agricultural policies.

Chapter 7: Australia, New Zealand and the Uruguay Round

a) Introduction

Australia and New Zealand, along with other members of the Cairns Group, have had a major role in shaping the agricultural negotiations and in preventing any tendency by others to downplay the significance of agricultural issues in the Round. In the four years after the GATT Ministerial Meeting in 1982, a meeting at which Australia refused to sign the communique and walked out in protest, a more positive attitude was adopted by that country to help solve the problem of agricultural protectionism. New Zealand, undergoing its own radical economic liberalization in the mid-1980s, also decided to lead a diplomatic charge on (mainly US and EC) agricultural trade practices. This led to the formation in 1986 of the coalition of self-styled "fair trading" agricultural exporting countries known as the Cairns Group, with much of the credit for its formation going to Australia and New Zealand.

In the context of the Uruguay Round, the Cairns Group proved to be influential in a number of ways: first, in helping to shape the agenda of the Agriculture Negotiating Group and, in particular, for keeping domestic agricultural policies on that agenda; second, in preventing the total breakdown of the negotiations at the Montreal Mid-Term Review; and third, in acting as a counterbalance between the interests of the United States and the European Union on agricultural issues.

The initial Cairns Group proposal on the conduct of the UR agricultural negotiations, submitted to the GATT in October 1987, covered 3 time horizons. Phase I was to cover the period until the end of 1988 and was to involve, inter alia, a freeze on import barriers, on subsidies affecting trade, and on the use of sanitary and phytosanitary regulations as non-tariff barriers. Phase II was to involve adjustment over a ten-year period to cover, inter alia, targets for reduced levels of overall support, with concentration on a reduction in the use of the most trade-distorting measures. It was accepted in the proposal that some forms of assistance, e.g., decoupled income support and aid for structural adjustment, could be exempted. Phase III was to cover more general aspects of the way in which GATT was applied to agriculture and the ways in which governments should be bound by the disciplines of the General Agreement. The proposal focussed on: the prohibition of "grey area" measures and non-tariff barriers such as variable import levies; the prohibition of the special treatment of waivers sought on the basis of domestic policy instruments, e.g., the US waiver for its Section 22 legislation under Article XXV; the binding of all tariffs at zero or low rates; the banning of agricultural subsidies that affect agricultural trade; the harmonization of sanitary and phytosanitary regulations; and the provision of exemptions for decoupled income support measures and infrastructure support. The proposal also gave support to the use of an aggregate measure of support based on producer subsidy equivalents for expressing reduction commitments.

For Australia and New Zealand, these proposals easily could have been accommodated because the consequent changes in their own agricultural policies would have been relatively minor in comparison with those that would have been required in most other OECD countries. For example, beginning in 1984 the New Zealand government instigated a set of fundamental and far-reaching economic reforms, some of which included the removal of regulation and support for the agricultural sector.[23] As a consequence, as measured by Producer Subsidy Equivalents, assistance fell from 30 percent in 1984 to only 5 percent in 1990 (OECD 1992, p.284).

Over the same period, the Commonwealth Government in Australia undertook a number of commodity-specific reforms, limited by the constraints imposed by the Constitution.[24] These reforms have helped slowly to make the sector more market oriented and less dependent on the abundant supply of statutory marketing authorities with their attendant highly regulated marketing arrangements. Support for this reduction in government involvement in agriculture was to be found in several Inquiries undertaken by the Industries Assistance Commission (now the Industry Commission). However, despite the partial deregulation that occurred in marketing, measures of assistance to outputs, to value-adding factors, and to inputs continued and the PSE measure actually rose from 11 percent in 1987 to 15 percent in 1991 (OECD 1992, p.254).

b) Implications of the Final Act for Australia and New Zealand

If one compares the Cairns Group proposal with the main thrust of the final outcome, the Group achieved some of its objectives with respect to market access, domestic support, export subsidies, sanitary and phytosanitary regulations, and the Dispute Settlements procedures. However, the percentage reductions are much smaller than those that were hoped for originally, reflecting the very substantial political lobby powers of farm groups, particularly those in the United States and the European Union, and the continued ability of these regions to dominate matters of agricultural trade just as they had in the Kennedy and Tokyo Rounds. To curb this dominance was one of the aims of the Cairns Group and to that extent, the Group was unsuccessful. The Blair House outcome strongly shaped the final outcome of the Round.

Just how far the bilateral deals struck by the United States and the European Union weakened the content of the Dunkel proposals (which in turn fell far short of the Cairns Group proposal) can be judged from the results of simulations conducted by Vanzetti et al. (1994). For the Cairns Group the increase in producer welfare, one of the aims of the Group, is less under the more protectionist Blair House Accord than under the Dunkel proposal (Table 7.1). At the same time, consumers lose less and government savings are greater, so the overall improvement in welfare is slightly less for the Blair House (US$1219m) than for the Dunkel outcome (US$1295m).

For Australia and New Zealand, the changes in producer welfare from the Dunkel proposals were calculated to be US$761m and US$260m respectively, whereas under the Blair House conditions the corresponding figures were US$629m and US$206m, respectively (Vanzetti et al., Table 13.4). The contributions to these increases in producer welfare on a disaggregated commodity basis are shown in Table 7.2. For New Zealand most of the total increase is accounted for by the milk and dairy products sector, which benefits by US$159m. For Australia the benefits are more broadly dispersed with the wheat sector

[23] For an assessment of the effects of these reforms on New Zealand agriculture, see Sandrey and Reynolds (1990).

[24] For example, levels of income support were lowered in the dairy sector beginning in 1986, the domestic wheat market was deregulated in 1989 by removing the Australian Wheat Board's monopoly in the domestic market, and the import quota on sugar was converted to a tariff in 1989.

gaining US$176m, the beef sector US$173m, and the milk and dairy products sector gaining by US$125m.

Because Australia and New Zealand are small-country exporters of agricultural products and because assistance to their respective agricultural sectors is low relative to the rates in other OECD countries, the principal effects of the implementation of the Final Act will be on their export markets. Nevertheless, for Australia there are implications for certain domestic sectors, e.g., the dairy and sugar sectors.

At the time of writing it is not clear what changes will be made to the price support arrangements for fluid and manufacturing milk. At present, exports of dairy products are subsidized, and international market share will be lost if changes to the policy are not implemented. There are a number of complications in the dairy sector, not least of which is that manufactured milk products fall under the responsibility of the Commonwealth government while fluid milk is a State government responsibility. The sugar sector is also highly regulated despite an Industry Commission recommendation to the contrary, and it is not at all clear whether the reluctance on the part of the Commonwealth government (for purely electioneering reasons in 1992) to deregulate the sector will carry over to the implementation of the GATT agreement.

Table 7.1
Changes in Annual Welfare for the Cairns Group (US$m) (a) (b)

	Dunkel	Blair House
Producer welfare	5817	4856
Consumer welfare	-4771	-3956
Government savings	249	319
Total	1295	1219

Note: (a) - excludes Fiji
(b) - changes are measured from a base of 1989
Source: Vanzetti, et al. (1994, Table 13.3)

Table 7.2:
Changes in Producer Welfare (US$m) for Australia and New Zealand from the Blair House Accord

Commodity	Australia	New Zealand
Beef (fmd free)	173	33
Milk and dairy products	125	159
Wheat	176	1
Other coarse grains (a)	36	2
Sugar	20	
Total	629	206

Note: (a) Coarse grains, other than corn.
Source: Vanzetti et al. (1994, Table 13.5)

The effects on export markets will be felt in the form of: higher international prices, ranging, for example, from 1 percent for sugar, to 8 percent for wheat and to 20 percent for cheese (Table 7.3); improved access to the major markets of the European Union (particularly meat, dairy products, and horticultural products, the United States (for beef, sugar and dairy products) and Japan (beef and rice); and greater certainty of access to third-country markets with the reductions in the use of export subsidies by the United States and the European Union. In addition, international prices should become more stable as tariffication of price-insulating import barriers occurs.

Estimates of the gains for Australia and New Zealand have been calculated in a number of ways. For example, using the SWOPSIM model, the Australian Bureau of Agricultural and Resource Economics (ABARE) has published the results shown in Table 7.3. The increases in export volumes will be modest and certainly substantially smaller than those that would have occurred if the Cairns Group proposal had been implemented. The increase in the annual value of agricultural exports of A$950m represents 6.5 percent of the annual average of farm sector export earnings (A$14.6b) over the period 1988-89 to 1992-93.

However, there are a number of caveats which should be acknowledged in interpreting these results. First, they are once-and-for-all gains which will be realized only at the end of the period of adjustment. Second, this period has not definite real time dimension. Third, the handling of tariff quotas in a modelling framework is not straightforward, and there is no indication in the source document how this was done. And fourth, there are a number of imponderables about how countries will allocate the required 20 percent reductions in the levels of domestic support across individual commodities which, in turn, will affect the magnitude of the anticipated rises in prices.

New Zealand will also benefit from the increases in world prices but, in addition, will gain from country-specific changes in market access. Approximately one-third of agricultural exports are generated from dairy products. Improved access to the European Union market for butter and to the United States market for cheese will create additional annual export earnings of NZ$50m per annum and NZ$65m over a six-year period for cheese. respectively.[25] The net gains will be smaller because of short- and medium-term substitution away from third-country markets. Moreover, there will be MFN benefits in addition to these New Zealand-specific gains, e.g., a share of an extra 100,000 tons of cheese to the European Union.

[25] The estimates of gains in export revenues for New Zealand have been taken from Trading Ahead which has just been published by the New Zealand Ministry of Foreign Affairs and Trade, Wellington.

Table 7.3: Predicted Changes in Prices, Volumes and Values of Australian Agricultural Exports from Implementing the Uruguay Round

Commodity	Price Increase	Volume Increase	Value Increase
	%	%	A$m
Beef (fmd free)	6	7	330
Butter	4		
Cheese	20		
Dairy products		10	210
Rice	8	5	30
Wheat	8	7	320
Sugar	1	<5	10
Total			950

Source: Andrews, N. et al., p. 70

For beef, which in 1993 accounted for 14 percent of agricultural export earnings, the major export destinations are the United States, Canada, Japan and the Republic of Korea. With the tariffication of the United States Meat Import Law, the continuation of the Kerin/Andriessen Assurance (as agreed at Blair House), and the reduction in the Japanese tariff rate, export opportunities should improve at the same time that world prices will be rising. For sheepmeat, which accounts for 13 percent of agricultural export earnings, the main destination is the European Union. The existing voluntary export restraint, which has been in place since the United Kingdom's accession to the European Union in 1973, will be converted to a tariff quota. It is anticipated that this change will increase the value of exports of sheepmeat to the EU by NZ$80m per annum. Exports of wool (11 percent of agricultural exports) are likely to be affected in a more significant way by the phasing out by 2005 of the Multifibre Agreement than by the Agreement on Agriculture. Exports of horticultural products (12 percent of agricultural exports) destined for Japan, the United States and the European Union will benefit from MFN reductions in tariff rates for kiwi fruit and apples, in particular.

While the main effects of the Uruguay Round outcome on Australia and New Zealand will be determined in export markets, nevertheless, there will be some changes made in import protection. For example, in dairy imports, the Australian quota of 11,500 tons on imported cheese will remain (it represents more than 5 percent of domestic consumption), but the within-quota tariff of $A96 per ton will be removed, and the original tariff quota of A$2,100 per ton will be reduced from $A1,440 per ton (an *ad valorem* rate of 37 percent) in 1995 to $A1220 per ton by the year 2000. For sugar, the specific tariff will be $A142 per ton in 1995, reducing to $A70 per ton by the year 2000. For unmanufactured tobacco for cigarettes, the local content regulations have been converted to a tariff-equivalent of $A1.25 per kilogram which represents a reduction from about 30 percent to 25 percent in the nominal rate of protection. New Zealand will be required to make few changes in agriculture because of the deregulation of the economy which took place in the 1980s. For example, non-tariff restrictions on imports of apples, pears and hops will have to be converted to tariff equivalents; reductions in domestic and export support are not applicable, having already been withdrawn.

c) Conclusions

Historically, Australia has exhibited a sense of grievance toward the conditions under which agricultural trade takes place and a sense of vulnerability in terms of international political economy. Despite the rhetoric about being a free-trading agricultural exporting country, Australia continues to use a mix of domestic and trade policy instruments to support farm incomes. These policies are particularly obvious in the dairy and sugar sectors and changes will have to be made, especially in dairying, to ensure that support meets the requirements of the *Final Act.* On the other hand, in the past, New Zealand agriculture has not been so exposed to the vagaries of international markets because of the special access arrangements with the European Union and because of measures of domestic income support. However, with the sweeping deregulation of that country's agricultural sector in the mid-1980s, there was a need to find new ways of generating greater certainty in agricultural sector incomes. The participation of Australia and New Zealand in the Cairns Group has been important in reducing these countries' vulnerability to international markets. The shape of the agenda for the agricultural negotiations reflects the perspective of these small-country exporters.

The size of the percentage reductions in import barriers, levels of domestic support, and levels of export subsidies are modest when compared with those envisaged by the Cairns Group in 1987. Nevertheless, since Australia and New Zealand on their own have limited bilateral economic and diplomatic power, the formulae-based modalities of the Round are to their advantage. These improvements in the conditions for international agricultural trade, together with the changes to the Dispute Settlements procedure which will be part of the WTO, should ensure greater stability, transparency and "fairness" in agricultural trade. There is also a less tangible benefit from the Round, that governments of most of the OECD countries appear at last to have accepted that the status quo for agriculture, and in particular with respect to export subsidies, is no longer a feasible option. Therefore, although much will remain to be done to dismantle agricultural protectionism after the year 2000, Australia and New Zealand will benefit from the reductions agreed in the outcome of the Round. The governments of both countries are reported as being satisfied with the conditions under which the Round has been concluded for agriculture. As the Australian Minister for Trade remarked recently (at the Cairns Group Meeting of 20 May 1994): "We are not satisfied with the Uruguay Round as the end of the process of agricultural trade liberalization. We welcome it as a beginning."

Chapter 8: Japan, Korea and the UR Agreement

The main thrust of the agricultural negotiations centered on the trade relations between the US and the Cairns Group on the one hand and the European Union on the other. Not all other countries escaped individual scrutiny from the temperate-zone exporting countries. Japan, in particular, was under pressure from the early stages of the Round to continue the opening up of its market for farm products begun in earlier GATT Rounds and in bilateral trade deals. The main focus was upon the rice market, which had survived earlier external pressures to liberalize. Korea, also a target of bilateral negotiations on import access, faced similar challenges in the area of rice. The two countries share a vital interest in the continued liberalization of the multilateral trade system and in the improvement in trade rules. But they also share similarities in the political sensitivity of the domestic rice market and the hostility of farmers and others towards imports of rice. Though different in many other regards, these similarities allow the discussion of the agricultural implications of the Uruguay Round for both Japan and Korea to be combined in the current chapter.

a) Japanese Commitments in the Agreement

In the area of market access, Japan agreed to convert all the non-tariff border measures to tariffs except for rice. Rice is exempted from tariffication in a six-year grace period from 1995 to 2000. In return, Japan will import 4 percent of its domestic rice consumption under a "minimum access" formula in the first year of the period, with the rate increasing each year until it reaches 8 percent in the final year. This special treatment is under the conditions that (i) imports of the product were less than 3 percent of domestic consumption during the period 1986-88, (ii) no export subsidies have been provided for the product since 1986, (iii) effective production restriction measures are applied to the product, and (iv) minimum access opportunities are provided as mentioned above. The quantities of rice to be imported for the minimum access amount to 379,000 tons in milled rice in 1995 and 758,000 tons in 2000, calculated from domestic consumption in the 1986-88 base period.

Japan will have to negotiate again with other GATT member nations if it is to seek extension of the special treatment on rice. The accord requires Japan to make "additional and acceptable" concessions, for example, expansion of the minimum-access quota, to have the grace period extended. On the other hand, if Japan implements tariffication by the end of the six year transition, the tariff on rice will be calculated under an original formula that would have been applied at the start of 1995. Japan then will have to set the tariff rate on rice at least 15 percent lower than the tariff it would have set originally if Japan had accepted tariffication from the start.

The foreign rice will be imported by the Japanese Food Agency, a state-trading organization. The Food Agency will charge at maximum 292 yen per kilogram on imports of rice as mark-up, which is equal to 731 percent in tariff equivalent if based on the comparison with Thai rice. The mark-up rate will not be reduced during the six-year period.

Other non-tariff barriers for imports of wheat, barley, dairy products, starches, legumes, peanuts, konnyaku (ginger) roots, cocoons and silk, and pork are to be replaced by tariffs that provide substantially the same level of protection as in the base period. The tariffs are set as a specific duty for all the products except dairy products and pork. For dairy products, a mixed measure of specific duty and ad valorem duty is applied. For pork, an *ad valorem* duty is applied if the import price is higher than a reference price, but the tariff is the difference between the reference price and import price if the latter is lower than the former. The tariffs will be reduced by 15 percent for all the above products by the year 2000. The details of the tariff level commitments by product are summarized in Table 8.1.

Japan maintains state-trading for wheat, barley, skimmed milk, butter, and silk. As well as the tariffs at the same level as in the base period, the state trading enterprises will charge agreed mark-ups on imports of wheat, barley, skimmed milk, and butter. The mark-up rates are themselves bound and set at lower levels than the tariff equivalents. Private companies, therefore, will not import those products themselves until the quota is filled. Instead, they will purchase from the state-trading enterprises. The mark-up rates will be reduced by 15 percent over six years as well as the tariff equivalents. The mark-up rates are also shown in Table 8.1.

Japan is committed to allow access to certain quantities of imports (minimum access guarantee) for the products under tariffication. The committed quantities of imports are based on the level of imports in the base period 1986-88 (see Table 8.1). Tariff rate quotas are applied to the access quantities committed. Existing (modest) tariffs are maintained for the access quantities at the same level as in the base period: the new tariff equivalents are only applied to the amounts beyond the access quantities. This means that Japan is committed to allow import access for the products under tariffication for at least as much as in the base period.

For agricultural products that are already supported by tariffs on imports, Japan is committed to tariff reductions of more than 15 percent, so as to make the average reduction rate 36 percent for all the products (Table 8.2). Imports of beef and oranges were already "liberalized" in 1991. The *ad valorem* tariff rate for beef will be further cut from 50 percent to 38.5 percent and that for oranges will be cut from 20 percent (June to November) and 40 percent (December to May) to 16 percent and 32 percent,

Table 8.1: Summary of Commitments on Tariffication of Border Measures, Japan

Product	Year	Tariff Equivalent (yen/kg)	Mark-up (yen/kg)	Access Quantity (1,000 ton)	Tariff on Access Quantity (percent
Rice	1995 2000	- -	292 292	379 (1) 758 (1)	- -
Wheat	1995 2000	65 55	53 45	5,565 5,740	0 0
Barley	1995 2000	46 39	34 29	1,326.5 1,369	0 0
Skimmed Milk	1995 2000	466 yen/kg+25% 396 yen/kg+21.3%	358 304	93.142 (2) 93.142 (2)	25 25
Butter	1995 2000	1159 yen/kg+35% 985 yen/kg+29.8%	950 808	1.873 (3) 1.873 (3)	35 35
Starches	1995 2000	140 119	- -	157 157	25 25
Legumes	1995 2000	417 354	- -	120 120	10 10
Peanuts	1995 2000	726 617	- -	75 75	10 10
Konnyaku Roots	1995 2000	3289 2796	- -	0.267 0.267	40 40
Cocoons	1995 2000	2968 2523	- -	798 (3) 798 (3)	140 yen/kg 140 yen/kg
Silk	1995 2000	8209 6978	- -	798 (3) 798 (3)	7.5 7.5
Pork	1995 2000	5% tariff if import price (P) $\geq$ 460 yen/kg; (482.5 - P) yen/kg if P < 460 yen/kg. 4.3% tariff if import price (P) $\geq$ 393.1 yen/kg; (410 - P) yen/kg if P < 393.1 yen/kg.			

Note: 1) In milled rice. 2) In addition, the state-trading enterprise (the Livestock Industry Promotion Corporation) will import annually 137.202 tons of milk products in milk equivalent during the implementation period. 3) The amount is the total of cocoons and silk in silk equivalent.

Table 8.2: Selected Commitments on Tariff Reduction for Agricultural Products, Japan

Products	Tariff Rate (percent)			Reduction Rate (percent)
	Base	Current	2000	
Beef		50	38.5	23
Orange (June-Nov)		20	16	20
Orange (Dec-May)		40	32	20
Orange Juice		30	25.5	15
Natural Cheese		35	29.8	15
Ice Cream		28	21	25
Candies		35	25	29
Macaroni, Spaghetti		40 yen/kg	30 yen/kg	44
Biscuits		24	15	37.5
Soybean and Canola Oil		17 yen/kg	10.9 yen/kg	36

respectively, for the six-year period.[26] The reduction rates are thus 23 percent for beef and 20 percent for oranges. In exchange for the relatively large reduction rate for beef, a revised safeguard system for beef will be introduced. Specifically, Japan can set the tariff rate back to 50 percent if the imports of beef in a quarter exceed 117 percent of the imports in the same quarter of the previous year, and it can keep the 50 percent rate until the end of the year.

In the area of domestic support measures, Japan is committed to reduce the total AMS (Aggregate Measure of Support) by 20 percent during the implementation period (1995-2000). Japanese total AMS in the base period (1986-88) is estimated at about 5 trillion yen. Therefore, it is supposed to reduce the amount to about 4 trillion yen. In calculation of the total AMS, the following items are excluded as "green box" policies: government expenditures relating to the rice production control program; subsidies to improve infrastructure for agriculture and rural areas; assistance to research, developments, and extension services; and subsidies to the agricultural mutual benefit program. Also, the government support for eggs, vegetables, and fruits are excluded because the AMS for those products is less than 5 percent of the value of production.

Japan did not provide any subsidy on agricultural exports during the 1986-90 base period. Thus, Japan has no commitment on the reduction of export subsidies. Japan committed itself not to introduce export subsidies on products whose exports have not ever been subsidized.

b) Implications of the Agreement for Japanese Agriculture

In the larger context of the Uruguay Round, rice was not a particularly pressing issue. But in Japan, the Round was debated and discussed as if rice was all that mattered. Rice is a highly political commodity in Japan, and rice producers are protected under the Food Control System with a high level of price supports. Japan has repeatedly rejected the tariffication of rice support measures because the tariffication would have required abolition of the current Food Control System. Japan succeeded in not applying the tariffication to rice for the six-year period at the cost of larger minimum access quantities than would have been the case if tariffication had been accepted at once.

This solution to the rice issue can hardly be termed a diplomatic victory. Neither postponement of tariffication nor continued import quotas hold promise for the future of Japanese agricultural development. The Food Control System is a major obstacle to restructuring of Japanese agriculture, and it is maintained by avoiding tariffication for rice. Moreover, making an exception to tariffication is contrary to the GATT principle of the ban on import quotas. By allotting quotas to rice exporting countries, Japan will find itself practicing the very thing it so vehemently preaches against--managed trade.

The proposal for tariffication was moderate, calling for only a 15 percent reduction in rice tariff over the six-year period, which computes to a compounded annual rate of 2.7 percent. If rice farming in Japan could raise productivity by that much each year, domestic rice would become competitive with imported rice. The producer price of rice under the government control was reduced at such a rate for 1986-1991. Therefore, tariffication might have had a smaller impact on the domestic rice market with the smaller

[26] This is contained in a letter of agreement between the governments and certain exporting countries and is not in the GATT schedule for Japan.

minimum access than with the tariffication exemption with the larger minimum access.

Japan has to import 379,000 tons of rice (in milled rice equivalent) in 1995 and 750,000 tons in 2000. The total for six years will amount to 3,830,000 tons. In addition, the government decided to ease up on acreage restrictions to increase rice stockpiling to avoid a shortage such as that experienced in 1993. It will increase the annual rice supply by 650,000 tons. If this policy continues, the supply of rice including the imports will be increased by 7,730,000 tons for the next six years. This excess supply of rice will lead to substantial price reductions in the domestic rice market if the market functions normally. But the reality may be that the government accumulates the rice stocks to a certain level at the cost of taxpayers and then strengthens the production control of rice.[27] This is a replication of the unsuccessful policy-mix experienced over the past two decades.

For the commodities for which border measures are converted to tariffs, the impacts of tariffication seem to be small. The tariffs are set at high enough levels to avoid increases in imports beyond the committed minimum access quantities. In particular, for the commodities under state trading, imports after payments of the high secondary tariffs will be very small because mark-up rates lower than the tariffs enable the state-trading agency for each commodity to be the sole importer. The mark-up can be used as a financial source for domestic supports to the producers, if that support is provided in accordance with the new GATT criteria for domestic support.

Despite the commitment that the tariffs and mark-ups will be reduced by 15 percent during the six-year period, the calculated tariff equivalents for the base period were much larger than the current levels. Thus, even with the 15 percent reductions by 2000, the prices of imported products will decline only very slightly. This also can apply to the calculation of the total AMS. Japan already has reduced the AMS by more than 20 percent since the base period, with decreases in domestic subsidies and support prices.

The most significant impacts of the agreement seem to be produced by the tariff reductions on the commodities that were already liberalized, those listed in Table 8.2. For example, the tariff rate for beef will be 38.5 percent in 2000, though it will have a special safeguard as explained above. The self-sufficiency ratio of beef has declined since its imports were liberalized in 1991, as the tariff rate was sharply cut from 70 percent to 50 percent in just two years. This trend will continue after further reductions in tariffs. The same will apply to other commodities listed in Table 8.2.

The impacts of tariffication do not seem to be significant for the relevant commodities in Japan for the coming six-year period. Thus, the tariffied commodities other than rice are given a six-year grace period during which farmers cam prepare for greater trade liberalization in the future.

[27] This perspective was described in Hayami (1993).

c) Korea in the Uruguay Round[28]

Korea is an important industrial exporter and an important and growing market for agricultural imports. Its participation in the Uruguay Round agricultural negotiations was active and significant. With one exception Korea agreed to all provisions and will apply reduction commitments according to the schedules for developing countries.

Korea will eliminate non-tariff barriers and open markets for all agricultural commodities with the exception of rice according to the tariffication provisions applicable to developing countries. Tariffs and newly established tariff-equivalents will be reduced by 24 percent on average over ten years.

In the case of rice, the most important commodity in Korea, a grace period of ten years is allowed before tariffication. Minimum market access for rice imports does apply. Access is gradually increased from one percent of base period domestic consumption beginning in 1995 to two percent by 2000, and four percent by 2004. Postponement of tariffication for rice required application of domestic supply control and an agreement not to use export subsidies. These conditions are the same as those required for the postponement of tariffication for rice in Japan.

All other agricultural commodities which were subject to import restrictions and tariffs can be considered in two groups. First, there is a group of 143 items whose import restrictions are prescribed under special domestic rules. Second, there is a group of 142 items whose import restrictions are covered by particular trade rules. The first category includes items such as barley, soybeans, corn, potatoes, and sweet potatoes. These will be subject to tariffication, and the tariff-equivalents will be reduced by ten percent over ten years. For barley, potatoes, and sweet potatoes, three percent additional market access is provided to bring import access for these commodities to five percent of base period consumption by 2004. For corn and soybeans, for which imports are already significant, the import access quantities are secured by the provision to maintain current access. The importation of 97 of the 143 commodities in the first group will be administered by the Korean government. The Korean government will impose an agreed mark-up within the amount of the market access tariff rate quota.

The other group includes commodities for which Korea had previously agreed to open the market by July 1997, according to a 1989 agreement related to the Balance of Payments (BOP) provisions under GATT Article XVIII. These items include beef, pork, poultry, citrus, dairy products, peppers, garlic, onions, and sesame seed. Beef and oranges, which are already subject to tariffication, will initially have higher tariffs applied to the above-quot imports, but these will be reduced to the current level over an agreed time period. Complete elimination of the tariff rate quotas for these items are also scheduled for within ten years. Items such as pepper, garlic, onions, and sesame seed will be subject to a low within quota tariff and an above-quota tariff equal to the difference between domestic and international prices. A flexible tariff structure combining ad valorem and specific tariffs will be applied to barley, soybeans, peppers, garlic, and onion.

Internal subsidy reductions are on an aggregate basis with a reduction of 13.3 percent over ten

[28] The section on Korea was translated and edited by Hyunok Lee, UC Davis.

years. The commodities subject to this subsidy reduction are rice, barley, corn, soybean, and vegetables. Subsidies on grapes, silkworm, and milk are less than 10 percent of total production value and thus excluded from the subsidy reduction under the *de minimis* provision applied to developing countries. Korea did not use export subsidies during the base period and so has no reduction commitment, but is not allowed to institute such policies in the future.

d) Implication of the Agreement for Korean Agriculture

Since the beginning of the negotiations, Korea supported the Uruguay Round principles to reduce international trade protection and promote trade. However, among the 15 negotiation groups, agriculture was the most difficult area for Korea. Negotiation over opening the market for rice was especially difficult because rice is the most important commodity in Korean agriculture, produced on 90 percent of Korean farms and representing 50 percent of Korean farm income. There were many difficulties and reasons why Korea could not come to an agreement on tariffication without exception. First, food security has long been an important issue to Korea and is associated with domestic rice production. Second, economic development policies in Korea have tended to neglect agriculture relative to nonagricultural sectors. As a result, the agriculture and rural areas remain underdeveloped with low productivity. It is clear that, under open international competition, many low productivity farms would be forced out of business, and the resulting social cost and unrest would be significant. Thus, under the principle of tariffication, Korea emphasized the need for delayed implementation to prepare for and adjust to changing market conditions. In the end, Korea agreed to the tariffication provisions for all commodities except rice.

The economic impact of the agreement of minimum market access for imported rice is expected to be minimal on the domestic rice market. However, the emotional impact on rice farmers is expected to be significant. The rate of farmers leaving rice production is projected to exceed the rate of decline in rice consumption, and this may even cause future rice shortage. Thus, the access of imported rice to the Korean market may not have a significant price impact compared to current conditions. Tariffication of corn and soybeans import barriers, along with current market access, is not expected to have a significant effect on domestic prices. These commodities have been imported in substantial quantities for many years.

The Korean markets for peppers, garlic, and onions have fluctuated substantially from year to year. Tariffs (for the second tier of the tariff rate quota) for these commodities will be increased substantially over current rates, and thus the resulting market effects are expected to be minimal. However, this would not be the case if the imports of cheap Chinese products become important.

The greatest access concern for Korea is the opening of the market for livestock products. Especially, in the case of beef, the first tier tariff quota quantity will increase sharply until 2001, and then the market will open completely with the tariff of 41.2 percent (falling to 40 percent in 2004). Once the tariff rate quota is completely removed, the Korean livestock industry is not likely to be able to compete with foreign producers.

The domestic subsidy reduction requirement also will be binding for Korea. Unlike the U.S., Japan, and EU, domestic subsidies in Korea were increased since the base period, which implies a larger percentage reduction compared to current levels to meet the required AMS limits.

The overall outcome of the UR agreement is regarded as favorable in Korea, mainly because of the exclusion of rice from tariffication. Korea was able to apply developing country status to reduce the required commitments in setting the reduction rates, reduction periods, and green box provisions.

Chapter 9: Latin America and the URA

a) Recent Trade Liberalization in Latin America

Trade liberalization in several countries in Latin America has already overtaken the Uruguay Round agreement of December 1993. After decades of protectionism, most of Latin America began to open up their economies in the late 1980s, effectively putting an end to four decades of import substitution policies. As a result, the effect of the Agreement is to reinforce changes already made as part of economic reform.

Until a few years ago, most countries relied on quantitative restrictions and, in most cases, high tariffs to protect the production of importables. The high import tariffs and QRs resulted in a substantial misallocation of resources, discouraged the growth and the diversification of exports, led to creation of inefficient industries, and exacerbated a deteriorating income distribution. For agriculture, one of the most striking findings was the extraordinary high indirect tax on agriculture from industrial protection and macroeconomic policies and the evidence that this high taxation was associated with low growth for agriculture and the economy (Schiff and Valdes, 1992).

Trade reform gradually emerged as a centerpiece in the formulation of Latin America's new development strategy. A consensus began to emerge among policy makers in the region during the late 1980s. Preconditions necessary to restore economic growth included deep structural reforms that would open up economies and restore the private sector as the principal player. Together with access to international trade (with less discriminatory treatment across sectors) other complementary reforms included liberalization of the financial sector, reduction of regulations on economic activity, reform of public enterprise, and privatization. The main objective of trade liberalization programs was to reverse the negative consequences of protectionism, especially the anti-export bias.

During the 1980s and early 1990s, most countries in the region embarked on a unilateral process of tariffication consisting of instituting bound tariffs, eliminating most QRs, and removing export taxes. The basic elements that characterize Latin American trade reform are: the reduction of the coverage of non-tariff barriers, including quotas and prohibitions; the reduction of the average level of import tariffs; the reduction in the dispersion of tariffs; and the reduction or elimination of export subsidies (World Bank, 1993).

A fundamental part of trade reform has been the elimination or severe reduction of nontariff barriers. Although the process has varied from country to country, as shown in Table 9.1, the average coverage of NTBs was dramatically reduced between 1985-1987 and 1991-1992. Despite this progress, the coverage of NTBs still included competing activities including cereals, dairy products, fruits and vegetables, and meats.

Tariff reductions for both non-agricultural and agricultural products have been significant in almost every country since the mid-1980s, allowing a more competitive environment and reducing the anti-export bias of the previous trade regime. A key determinant of the success of trade liberalization is maintaining a competitive real exchange rate that encourages exports. Recently, however, and largely as a result of increased capital inflows, several Latin American countries have seen their real exchange rate (RER) appreciate. This RER phenomenon is already creating tension regarding trade liberalization programs for agriculture in Argentina, Chile, Colombia, Venezuela, and others countries. Thus the RER management could be important for the sustainability of the trade reforms in the future.

Furthermore, there has been a trend toward free trade agreements among various countries, for example, between Mexico, the United States and Canada; the Southern Cone Common Market (MERCOSUR), the Andean Group, the Central American Common Market; the Caribbean Community (CARICOM), and several recent agreements such as between Mexico and Chile; Colombia, Venezuela and Chile, and others. In contrast with previous integration efforts in the region in the 1960s and 1970s, these recent regional and bilateral agreements are based on much lower tariffs with respect to the rest of the world, recognizing the need for Latin America to compete in international markets.

b) Tariff Bindings in Selected South American Countries

In keeping with the move toward modest level tariffs, spanning many commodity lines, the tariffs bound under the Uruguay Round are relatively uniform. The following examples illustrate the levels at which some of the countries in the region have bound their tariffs.

Bolivia: Offered to bind all tariffs at 40 percent, with no exceptions.

Brazil: For products from Chapter 1 through 24 (plus products included in the list of agricultural products of the Agricultural Agreement), tariffs were bound at 35 percent, except for wheat, maize, cotton, beef, milk powder, rice, and wine, with tariffs at 55 percent.

Chile: Tariffs were bound at 25 percent, except for agricultural products under price bands (wheat, sugar, and vegetable oil) which were bound at 31.5 percent.

Table 9.1: Reduction of Protection in Latin America, selected countries and years, 1985-92 (percent)

	Average tariff protection[a]		*Average coverage of nontariff barriers*[b]	
Country	*1985*	*1991-92*	*1985-87*	*1991-92*
Early reformers				
Bolivia	20.0	8.0	25.0	0.0
Chile	36.0	11.0	10.1	0.0
Mexico	34.0	4.0	12.7	20.0
Recent reformers				
Costa Rica	92.0	16.0	0.8	0.0
Uruguay	32.0	12.0	14.1	0.0
Very recent reformers				
Argentina	28.0	15.0	31.9	8.0
Brazil	80.0	21.1	35.3	10.0
Colombia	83.0	6.7	73.2	1.0
Guatemala	50.0	19.0	7.4	6.0
Nicaragua	54.0	--	27.8	--
Paraguay	71.7	16.0	9.9	0.0
Peru	64.0	15.0	53.4	0.0
Venezuela	30.0	17.0	44.1	5.0
Future reformers				
Ecuador	50.0	18.0	59.3	--

-- Not available

a. Average total charges (tariffs plus paratariffs) unweighted

b. Unweighted percent of tariff lines where non-tariff barriers are present.

Source: World Bank data, 1975; and Ezran and others 1989.

Colombia: The ceiling binding option was used but at very different tariff levels. For agricultural products, Colombia offered an initial ceiling of 100 percent declining to 70 or 90 percent over the ten year implementation period. For non-agricultural products, Colombia consolidated at 35 percent with some exceptions at 40 percent. Commitments are also taken on agricultural export subsidies and domestic support measures.

Peru: A ceiling binding for all products operates at 30 percent. The only exceptions are wheat, maize, rice, sorghum, sugar and dairy products for which rates of 68 percent are bound. There are no exceptions for non-agricultural products and no export subsidies or agricultural domestic support commitments are taken.

Venezuela: Tariff bindings were at 40 percent and commitments were made on agricultural export subsidies and domestic support measures.

It should be noted that in the case of Colombia and Venezuela, the tariff equivalents reported to the GATT from the tariffication process are higher than the initial ceilings for some agricultural products. For Colombia, for example, they are: wheat (124 percent); maize (194 percent); rice (189 percent); oilseeds and oil (104-227 percent); powder milk (151 percent). For Venezuela these are: dairy products (70-117 percent); wheat (117 percent); rice (88 percent); sugar (105 percent); poultry meat (135 percent).[29]

c) Emerging Issues in Agriculture under Tariffication in Latin America

In the past, most governments intervened to achieve some degree of price stabilization vis-a-vis border prices on several agricultural importables, usually through import licenses and state trading. Governments currently implementing reforms seem reluctant to subject basic foodstuffs to the volatility of border prices. Furthermore, there is a common concern in many countries about what trade treatment should be applied in the case of products (such as sugar and milk powder) facing export subsidies from developed country exporters. Thus, the movement towards tariffication makes more evident the potential conflict between the desire for more transparent and nondiscriminatory tariffs and the presence of highly distorted and unstable border prices.

The above problem is compounded by recent regional and bilateral free trade or trade preference agreements. Extending trade preferences exposes producers of import-competing activities in countries that are residual markets for exports from trading partners in the region to face low and

[29] It is worth mentioning that the member countries of the two major free-trade agreements in this region (the Andean Group and MERCOSUR) took commitments on tariffs on an individual basis in spite of moves toward common tariffs.

very unstable border prices from the regional suppliers.

Under a trade regime based on tariffs, the stabilization of domestic prices, is an issue that merits additional analysis. Safeguard measures, countervailing duties, minimum import reference prices, and price bands on importables (first applied on wheat and sugar by Chile in 1983) are the options often resorted to in Latin America.

General GATT articles allow for safeguard measures. However, these measures are limited to temporary increases above the basic tariff and subject to automatic phase-out over time. Countervailing duties also are allowed by GATT under the standard requirement of proof of export subsidies and of injury. However, a common problem for the effectiveness in the use of safeguard measures and countervailing duties is they require monitoring of external market conditions, and having the capacity to react to, and relay information in a timely fashion to the interested parties such as government agencies or GATT. This is a technical function quite different from the traditional revenue collection functions of the customs office in the past (when QRs were often used to deal with such questions), and thus its implementation is still quite unsatisfactory.

Most countries in the region seem to be able to deal with explicit export subsidies, such as wheat exports from the United States and sugar and powder milk from Europe. They apply countervailing duties or minimum customs valuation. The problem arises with other, less explicit forms of export subsidies and with occasional country exports at prices below those prevailing in the central markets of the countries concerned. Given the savings in transport costs, with preferential tariffs, local importers can offer supplies at prices considerably below longer-term trend prices.

Agricultural price bands on importables have become popular among countries moving to tariffication in Latin America. Initiated in Chile in 1983, similar schemes exist today in Colombia, El Salvador, Ecuador, Guatemala, Honduras, Nicaragua and Peru, and are being discussed in Venezuela and Brazil. The Chilean price band scheme on wheat and sugar uses a variable tariff to stabilize prices. The band is based on a moving average of border prices (and not linked to a domestic target price) with a percentage of highest and lowest prices removed from a series of past prices (60 and 120 months in wheat and sugar, respectively). The 25 percent highest and 25 percent lowest fob prices are removed, then converted to cif prices by adding the uniform ad valorem tariff (11 percent), transport costs and other service costs. The results become the floor and ceiling prices. While computed as a variable levy, the computation appears as a specific duty in an annual publication corresponding to a range of possible fob prices. Adjustments are made for foreign inflation.

Under tariffication, and with increasing trade integration through regional schemes, farmers' concerns about price instability and minimum prices for importables have become dominant features of agricultural trade policy in Latin America. Sugar as an importable is a case for which some form of price band would seem to be a reasonable approach. Very low average prices in the residual market are combined with an exceptionally volatile market subject to infrequent, but unusually high price increases (spikes); complete disprotection of the domestic sugar industry could expose the importing country on occasion to a very high import bill. Where bound tariffs are high enough, price bands will still be possible. In other cases, pressures to revert to the QRs will mount.

To avoid the pressure for protection in product markets, the countries can emphasize structural adjustment by intervening in factor markets. These strategies would focus on targeted actions facilitating the transition by increasing productivity of labor and land in the most affected regions. A complementary element would be compensation for small farmers located in areas without access to broad non-farm employment in nearby areas. Within this setting, the development of risk-diffusing instruments to manage price risks, and improving the implementation capacity for the application of safeguards and countervailing duties becomes critical.

Chapter 10: Evaluation

The Agreement on Agriculture constitutes a major step toward the effective establishment of an improved set of rules for agricultural trade. The chances of these rules being effectively enforced through the dispute settlement mechanism are also increased. From the point of view of agricultural trade rules, the agreement contains much that is an advance on the situation before 1986. In domestic terms, it would represent a major change in the attitude of governments toward the international control of national agricultural policy. It does not, however, move the world very much nearer to free trade in agricultural products in the next few years to come; the cost of changing the rules has been to give up some degree of liberalization that might otherwise have been possible.

One value of the Agreement on Agriculture is its comprehensiveness. It deals with all agricultural commodities, rather than only those most visible or those least sensitive. It is also comprehensive in country coverage. The package forms part of the overall GATT/WTO agreement, applying to all contracting parties, albeit with a set of less restrictive rules for developing countries which give them a longer time period over which to make changes. This comprehensive nature of the agreement is significant in a world where developing and former central-plan countries are trying to integrate into the world trade system.

The conversion of all non-tariff barriers to tariffs is an unprecedented move for any sector. This conversion exercise will include import barriers that predate the GATT itself. It also will encompass the exceptional treatment for farm products negotiated by countries on their accession to GATT. Even the Japanese ban on rice imports was not granted a permanent derogation from the rule of tariffication; a delay was negotiated in return for allowing a higher level of immediate access. But of greater significance for future trade, the variable import levy system under the Common Agricultural Policy and the US Section 22 import controls will be converted to fixed tariffs. The agreement to bind all tariffs against increases, to reduce existing and new tariffs, and to provide a minimum level of access makes this the most significant GATT Round to date for agricultural trade.

The new rules on export subsidies, though lagging behind those applying to most other sectors, are also a significant development. Export subsidies in agriculture, on observation in the GATT, have been among the most disruptive policies for world markets. The prohibition of new subsidies, along with the capping of expenditure and quantities under current subsidy programs, will get a hold on this problem. The reduction in the extent of subsidies will benefit certain markets, particularly such as wheat, beef, dairy products and vegetable oils: even the partial rollback of export subsidies in these markets will make a difference to their stability.

The Agreement on Agriculture has established further precedents through taking initial steps to discipline internal farm programs that disrupt trade. For the first time in any sector, multilateral agreement has been reached to identify the types of domestic programs that are judged to have little or no impact on trade, and to accept commitments to place a ceiling on and to reduce support provided through other more trade-distorting domestic policies.

Because farm support programs are at the root of the trade difficulties for agriculture, governments needed to reach substantial agreement on the nature and direction of farm and trade policies. In this there has been success. Countries are committed to a process of adjustments in border measures, export subsidies, and domestic programs that should eventually allow markets rather than government interventions to direct agricultural production and trade. These results are best regarded as the first step in an on-going process of agricultural policy reform. The Agreement will be reviewed in 5 years, and further negotiations are mandated (the "mini-round") before the transition period ends.

Despite this impressive outcome, the agricultural negotiations fell short in some areas and remain unfinished in others. The principal deficiency is the modest and partially incomplete access result for sensitive products and the inability to outlaw export subsidies, even over an extended transition period. Behind these results is the fact that agricultural production will still receive substantial subsidies and protection. Given productivity gains, the industrial countries will probably continue to over-produce for commercial markets.

The major players in the game seem to have come out of the negotiations with relatively few mandated changes to policies. The European Union and the US refused to give up the use of export subsidies. Despite some concessions, they also refused to provide much better access to their markets. In this they were joined by Japan, Korea, the EFTA countries and others that wanted to maintain tariff protection to support a high level of self-sufficiency. Even Canada, an exporting country, held out for special protection for its dairy and poultry producers until the last minute and then introduced high tariffs to block import competition.

The fact that significant rule changes can coexist with minimal liberalization and few domestic policy changes illustrates the nature of the problem. Trade rules, such as tariffication and the banning of new export subsidies, will constrain the room for manuever for national domestic policy actions in the future. However, the major forces which shape these policies are still likely to be internal to the countries concerned. Rapid adjustment of agriculture to be internationally competitive may be desirable, but it is rarely feasible. Too many political and social obstacles prevent rapid liberalization. These issues can be resolved only gradually as marginal farmers leave production and those remaining adjust to compete. The GATT result at least places a ceiling on trade-distorting support and, most importanly, it locks in the reforms that are underway in many countries. But much remains to be done to achieve fully market oriented policies in agriculture operating in a liberal trade system.

Will the Agreement usher in a period of commercial peace in agricultural trade relations? Such a prospect seems unlikely, even with the existence of a Peace Clause. The Clause itself will certainly protect some policies from some challenges. But trade frictions emerge when trade patterns change rapidly--either expanding or contracting--and are not easily swept under the rug. The Agreement helps, not so much by excluding policies from challenge, but by giving clearer rules on which panels can give opinions. Coupled with the improved rules for the dispute settlement process, this could indeed mean swifter and more consistent interpretation of rules and enforcement of decisions. The disputes will still be present, but each dispute could be resolved in a more timely way and with more domestic acceptance of international processes.

Agricultural trade will not overnight be transformed into an example of liberal exchange based on comparative advantage. Subsidies will continue to distort such trade, and many markets will be blocked for many years by high tariffs.[30] But the situation should improve as a result of the Agreement. Investment will be able to respond to reasonable expectations of future market opportunities. Access quantities are explicit, even where the tariffs that replaced non-tariff barriers are high. Where tariffs already existed, they will be reduced on a known schedule. Firms will have less fear of arbitrary closure of markets and of additional competition from subsidized exports. The SPS Agreement offers some hope of less protectionist regulations in the area of plant and animal health, though disputes in this aspect of trade policy seem destined to increase in the next few years. Most importantly, the new rules give a better basis for future negotiations, in the "mini-round" scheduled for 1999 and beyond. In such future negotiations, countries can concentrate on rates of reduction rather than rules.

In a broader context, the Agreement ensures that agricultural trade rules will be in place for the major changes in world trade envisaged in the next few years. The Uruguay Round helped to prepare the trade system developed among industrial democracies and developing market economies for the incorporation of formerly centrally-planned economies. China and Russia are anxious to join the WTO, and could do so shortly. This would have a marked effect on trade relations, in particular with China, and bring both problems and opportunities. The Uruguay Round Agreement could thus

[30] A complete evaluation of the Agricultural Agreement on world markets must wait upon detailed examination of all the Schedules--a task that is likely to take many months. Estimates of the impact on world markets must remain very tentative until such an examination is complete.

achieve new importance as laying down the rules for countries as they become integrated in the trade scene.

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