The Uruguay Round of the GATT Negotiations on Agriculture

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After four years of intense negotiations, the Uruguay Round of the GATT (General Agreement of Tariffs and Trade) negotiations ended officially December 30, 1990, without reaching any agreements on agricultural products. Countries have a two-year extension until May 1992 to reach an agreement.

Major industrialized countries have different views on liberalizing agricultural product trade. Unlike industrial products, agricultural products have been highly protected in both importing and exporting countries. Exporting countries are very concerned about changes in their market shares in the world market when agricultural product trade becomes freer, and importing countries are concerned about food security as they import more from foreign countries as a result of freer trade.

The objective of this study is to explain the current status of the Uruguay Round of the GATT Negotiations and to evaluate the potential effects of success and failure.

HISTORY OF THE GATT NEGOTIATIONS

The GATT, established in 1948 with 23 signatories, has 107 member countries, which account for approximately 90 percent of total world trade. The objective of the GATT is to reduce trade barriers and to promote fair trade among member countries. The GATT is based on the following general principles: (1) concessions to one country must be given to all other GATT member countries, (2) imported goods should be treated no less favorably than domestically produced goods, and (3) protection to domestic industry should be assured by use of tariffs rather than by use of nontariff barriers.

The GATT includes certain exceptions to the general rules for agricultural or primary products. Article XI bans the use of quantitative restrictions, but paragraph 2(c) of that article allows such restrictions to be imposed on agricultural and fishery products if producing or marketing these products domestically is also restricted. The GATT adopted a rule to prohibit export subsidies in 1957, but this was not extended to cover primary products such as agricultural products. The United States received a waiver from GATT rules for action taken under section 22 of the Agricultural Adjustment Act of 1933, which requires quantity restrictions on imported commodities. The GATT did not prohibit the variable levy the European Community (EC) has been using to block most agricultural imports.

The substantial reduction of tariffs and other barriers to trade was established through seven rounds of negotiations before the Uruguay Round. The earlier Rounds, which focused on tariff cuts for manufactured products, were the Geneva Round (1947), the Annecy Round (1949), the Torquay Round (1951), the Geneva Round (1956), the Dillon Round (1960-61), the Kennedy Round (1964-67), and the Tokyo Round (1974-79).

THE URUGUAY ROUND ON AGRICULTURAL PRODUCT TRADE

Unlike the previous rounds, the Uruguay Round has focused on liberalization of agricultural product trade to prevent distortion in the world agricultural market. Governments agreed to bring all measures affecting import access and export competition for agricultural products under stronger GATT rules and disciplines. They further agreed that internal farm policies should be addressed in the negotiations.

One of the main reasons for liberalizing agricultural trade is that the growth rate of agricultural production has been much faster than the growth rate of consumption as a result of improvements in farming technology in the United States and abroad. This surplus production of agricultural products has increased competition among exporting countries and decreased prices. This also has resulted in decreases in farm income and increases in government expenditures for farm subsidy programs.

In July 1987, the United States proposed the following agricultural trade reforms to the GATT: (1) a 10-year phase-out of all agricultural subsidies that directly or indirectly distort trade flows, (2) a phase-out of import barriers over 10 years, and (3) a harmonization of health and sanitary regulations on the basis of internationally agreed standards. The United States proposed to use aggregate measures of support (AMS) and tariffication, respectively, as a procedure to eliminate the various forms of internal subsidies used by countries and the various forms of barriers adopted by importing countries.

The EC flatly rejected the U.S. proposal to eliminate farm subsidies in 10 years. The EC's proposal, adopted by the Council

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of Ministers December 19, 1989, recommended a gradual reduction in farm subsidies over the next five years, using the so-called support measurement unit (SMU), which is an aggregate measure of support covering all direct and indirect subsidies. The EC also proposed a partial tariffication scheme whereby border protection measures would be assured by a fixed component, which would be reduced at a similar rate as SMUs rather than the variable levy. The EC linked its partial tariffication proposal to "rebalance" agricultural protection. Tariffs would be imposed on grain substitutes to reduce the price differential between surplus feed grains and equivalent imported feedstuffs. Japan and Korea also rejected the U.S. proposal, but the Cairns group including Australia and Canada supported the U.S. proposal.

Little progress was made in negotiations mainly because of the difference in the extent and nature of commitments to policy reform among countries. The commitments, however, were strengthened with the April 1989 mid-term Review agreement to negotiate "substantial and progressive reductions in agricultural support and protection to establish a fair free trade system."

The negotiations proceeded on the basis of a framework the chairman of the Agricultural Negotiations Group proposed. The three major areas for negotiations were identified: internal support, market access, and export competition. The proposals submitted by the United States, the Cairns Group, EC, and Canada are presented in Table 1. The United States, Canada, and the Cairns group made commitments to reduce tariffs and trade-distorting internal support and to reduce export subsidies more

Table 1. Summary of selected proposals in the GATT negotiations on agriculture.

United States	Cairns Group	European Community	Canada
Internal Support			
Reduction of 75% over 10 years in support directly linked to the production or price of a specific commodity Reduction of 30% in other trade-distorting support.	Reduction of 75 % over 10 years from a 1988 base using a commodity-specific AMS. Policies meeting agreed criteria would be exempt from reduction but subject to monitoring.	Reduction of 30% in support for major commodities using an aggregate measure of support, with credits given for policy actions taken since 1986. Comparable commitments taken for other commodities. Identify "green" policies which would not be subject to support reductions and counter-vail duties.	Government expenditures on other policies to be reduced by 50% over 10 years. If an AMS is used as a measure of equivalence, credit to be given for effective supply management.
Market Access			
Convert all nontariff barriers to bound tariffs, then reduce all tariffs by 75% over 10 years for products currently subject to nontariff barriers by use tariff rate quotas. These quotas to be eliminated in 10 years.	All tariffs, including nontariff measures converted to tariff equivalents; these to be reduced by 75% on a trade weighted basis. Current market access to be maintained through tariff quotas which are to be expanded in step with reductions in tariff equivalents.	Conditional tariffication of certain border measures, with a concomitant reduction in a fixed element but with the application of a corrective factor. Rebalancing: zero bindings on oilseeds and noncereal feeds raised to levels commensurate with feedgrain tariffs; lower tariffs to apply within tariff quotas set at recent import levels.	All existing tariffs reduced using and harmonization formula by one-third over ten years or to no more than 20%. Conversion of nontariff measures to tariffs, these to be reduced by 50% or to no more than 20% at the end of 10 years. Continue to allow quantitative import restrictions to support domestic supply control policies.
Export Subsidies			
Reduce export subsidies on primary agricultural products by 90% over ten years. Export subsidies on processed products to be phased out over six years. Negotiate specific commitments on export quantities and budget outlays.	Total budget outlays, per unit assistance, and/or exported quantities to be reduced by at least 90% from 1987-89 levels. Export subsidies cannot be introduced where such assistance does not exist.	Export restitutions to be less than the difference between the internal price of imports and the world price, and not to exceed the import charge on the commodity. Enforce the GATT* equitable market share* disciplines. Prohibit introduction of new export subsidies	.New export subsidies prohibited and existing programs phased out over 10 years. During transition there would be an upper limit on export subsidies and their use to achieve a market share greater than that in 1986-8 would trigger additional disciplines.

SOURCE: Reviving GATT negotiations on Agriculture Commission Paper No. 8, International Trade Research Consortium, March, 1991.

rapidly although each proposal differs from the other in the extent the three categories would be reduced. The Cairns Group generally supports the U.S. proposal. Although Canada's proposal differed from the U.S. proposal, both support the basic idea of liberalizing agricultural trade.

The EC proposal differs from the proposals from the United States, Canada, and the Cairns group in market access and export subsidies. The EC did not make any specific policy commitments on market access and export subsidies. On the other hand, Japan and Korea insist on continuous protection of their rice industries for food security reasons, while they agree with the EC's proposal on internal supports.

ECONOMIC BENEFITS AND COSTS

The outcome of the Uruguay Round is unpredictable. If the GATT fails to reach any agreements, the agricultural trade war could be intensified among exporting countries, which could cost far more than the current expenditures. The United States might have to spend more money for internal support and export subsidies to maintain its market shares, mainly because the rate of agricultural productivity is expected to grow much faster than that of agricultural consumption, which will lead to greater competition among exporting countries. Failure of the negotiations also might lead to increased bilateral trade negotiations between exporting and importing countries and regional economic integrations.

On the other hand, successful negotiations will establish trade flows of agricultural products on the basis of the principle of comparative advantage. This implies that the agricultural sector will produce more efficiently and will have higher productivity for agricultural inputs. Since U.S. agriculture has a comparative advantage in producing agricultural products over major exporting countries, the United States will benefit most from successful negotiations. Consumers in importing countries such as Japan and the EC will benefit most because consumers in these countries would pay much lower prices. In addition, taxpayers would be better off. Reduced tax burdens could save more than $80 billion a year around the world, based on 1986 levels of support (Deaton et al.). Farmers would be far more sensitive to market signals under less government intervention. The world market prices, which will be determined by supply of and demand for agricultural products, should be high enough to cover the short-run average production cost, indicating higher prices after liberalization.

Successful negotiations would require painful structural adjustments in the agricultural sector in all countries, mainly importing countries. Some of the adjustments are transforming resources used in the agricultural sector into the industrial sectors and optimizing farming practices and structure. These adjustments are costly in the countries whose agricultural sectors have a comparative disadvantage in producing agricultural products.

CONCLUDING REMARKS

The outcome of the Uruguay Round of the GATT Negotiations is not certain. However, limited liberalization of agricultural trade may be accomplished through the negotiations mainly because economic consequences of failed negotiations would be too high for member countries to bear. The benefits from the freer trade will be the largest for the United States, but the greatest winner will be consumers in importing countries and tax payers in both exporting and importing countries.

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