

**The Agreement on Agriculture
in the Uruguay Round of GATT**

Zuhair A. Hassan

Working Paper 94-WP 121

April 1994

Revised July 1994

Center for Agricultural and Rural Development
Iowa State University
Ames, IA 50011

Zuhair A. Hassan is a Visiting Professor, Department of Economics, Iowa State University, Ames, and Chief of Party, Agribusiness Research and Training Center, Higher Institute of Agricultural Cooperation, Cairo, Egypt.

THE AGREEMENT ON AGRICULTURE IN THE URUGUAY ROUND OF GATT

The Uruguay Round is the eighth round of multilateral trade negotiations (MTN) under the General Agreement on Tariffs and Trade (GATT). The previous seven rounds produced significant reductions in tariffs on manufactured goods, but little or no progress was made in opening international markets for agricultural trade (see Appendix A). However, the distortions in international agricultural trade and domestic agricultural production and the increasing budgetary outlays prompted trade ministers to consider the reform of agricultural trade as a central point in the GATT negotiating agenda established at Punta del Este, Uruguay, in 1986.

The Punta del Este declaration emphasized that negotiations would aim to achieve greater liberalization of agricultural trade and bring all measures affecting import access and export competition under stronger and more effective GATT rules and disciplines. In addition, the declaration outlined three objectives: (1) improving market access by reducing import barriers, (2) increasing disciplines on the use of all direct and indirect subsidies and other measures directly or indirectly affecting agricultural trade, and (3) reducing the adverse effects of sanitary and phytosanitary regulations on agricultural trade. The declaration explicitly recognized that an obvious linkage exists between domestic agricultural policies and agricultural trade problems, and implicitly acknowledged that existing waivers, derogations, and country-specific exceptions have not adequately served the agricultural sector.

This paper provides an overview of the recently concluded Agreement on Agriculture of the Uruguay Round of the GATT. Specifically, this overview discusses key elements of the agreement (market access, domestic support, and export competition); the nature of exemptions available to developing countries; exceptions from the general rules; potential opportunities available for countries such as Egypt; and world price impacts of implementing the agreement.

Agreement on Agriculture

The agricultural agreement has four main sections: the Agreement on Agriculture; the concessions and commitments GATT members are to undertake on market access, domestic support, and export competition; the Agreement on Sanitary and Phytosanitary Measures; and the Ministerial

Decision concerning least-developed and net food-importing developing countries. Discussion here focuses on the areas of market access, domestic support, and export competition. Details concerning commitments, implementation period, modalities, and the base year are given in Table 1.

Developments in the negotiations are listed in Appendix B, and the definitions of terms appear as Appendix C.

Market Access

Market access concessions relate to binding and reduction of tariffs, to current and minimum access opportunities, and to safeguard provisions. The Agreement on Agriculture considers tariffication (with some exceptions) of existing border measures as the basic approach for reducing nontariff barriers. Tariffication consists of converting all border measures into tariff equivalents. The calculation of tariff equivalents (whether expressed as ad valorem or specific rates) is made using the existing gap between external and domestic prices. All existing tariffs and the newly established tariff equivalents are to be reduced according to the commitments given in Table 1.

The tariffication concept provides for rules assuring the maintenance of current access levels and the establishment of minimum access opportunities. Specifically, minimum access levels in the first year of the implementation period shall represent not less than 3 percent of domestic consumption in the base period 1986-88. These levels are to reach 5 percent of the base figure by the end of the implementation period. If current access levels exceed these minimum levels, they must be continued at least at those higher levels.

In the case of tariffied products, safeguard provisions to protect domestic agriculture will apply if the volume of imports entering a country exceeds a trigger level that relates to the existing market access opportunities (defined as imports as a percentage of domestic consumption), or (but not concurrently) if the price of imports falls below a trigger price equal to the average 1986-88 reference price.

Exceptions to Tariffication. To allow certain countries to postpone the application of tariffication to sensitive commodities — such as rice from Japan, rice, oranges, and beef from Korea, and staple products from developing countries — a special treatment clause was introduced into the agreement. Under certain conditions, this clause allows the maintenance of import restrictions up to the end of the implementation period (and possibly beyond): imports of the so-called “designated products” were less than 3 percent of domestic consumption in the base period 1986-88; no export

Table 1. Agreement on agriculture

Policy Area	Modality	Commitments	Base Period	Implementation Period
Market Access	Tariffication with some exceptions	Ordinary custom duties, including those resulting from tariffication shall be reduced by 36% (24% developing countries) on a simple average basis with a minimum reduction of 15% (10% developing countries) for each tariff line.	1986-88	Six-year for developed countries (ten-year for developing countries) commencing in 1995.
Domestic Support	Total Aggregate Measure of Support (AMS)	All domestic support in favor of agricultural producers shall be reduced by 20% (13.3% for developing countries) as measured by total AMS.	1986-88	Six-year for developed countries (ten-year for developing countries) commencing in 1995.
Export Competition	Quantity of subsidized exports and expenditures on export subsidies.	Budgetary expenditures and quantities exported shall be reduced by 36% (24% developing countries) and 21% (14% developing countries)	1986-90 (Where subsidized exports have increased since the base period, 1991-92 may be used as the beginning point of reduction, although the end-point remains that based on 1986-90.)	Six-year for developed countries (ten-year for developing countries) commencing in 1995.

subsidies have been provided since the beginning of the base period (1986) for the designated products; effective production controls are applied to the primary products; designated products reflect factors of nontrade concern, such as food security and environmental protection; and minimum access opportunities are provided. The minimum access opportunities correspond to 4 percent (1 percent for developing countries) of base period domestic consumption from the first year of the implementation period, and, after that, are increased to reach 8 percent (4 percent for developing countries) in the sixth year (tenth year for developing countries). And for developing countries, market access opportunities in other products have been provided for under this agreement.

Domestic Support

All domestic support in favor of agricultural products, except measures exempted from reduction, shall be reduced by 20 percent (13.3 percent for developing countries) as measured by the total aggregate measure of support (AMS).

Exemptions. Measures that have no, or at most small, trade distortion effects or effects on production are excluded from reduction commitments. These policies are to conform to certain criteria: support is to be provided through a publicly funded government program not involving transfers from consumers, and support should not provide price support to producers. Examples of these “green box” policies include general government services such as research, disease control, training, extension, inspection, marketing and promotion, and infrastructural; direct payments to producers, such as decoupled income support, structural assistance, payments for relief from natural disasters, structural adjustment assistance under environmental programs, payments, and under regional assistance programs; public stockholding for food security purposes; and domestic food aid.

In addition, three other measures of assistance need not be included in the total AMS reduction commitments. First, in the case of developing countries, such measures include development programs to encourage agricultural and rural development, investment subsidies that are generally available to agriculture, input subsidies that are generally available to low-income resource-poor producers, and programs to encourage diversification from growing illicit narcotic crops. Second, direct payment measures made under production-limiting programs if such payments are based on fixed area and yield, or made on 85 percent or less of the base level of production, or made on a fixed number of head in the case of livestock. Finally, a de minimis provision allows the exclusion of production-specific domestic support that does not exceed 5 percent (10 percent for

developing countries) of the total value of production of individual products, or nonproduct-specific domestic support that does not exceed 5 percent (10 percent for developing countries) of the value of total agricultural production.

Peace Provisions. Domestic support measures that are classified as the “green box” policies are not subject to countervailing duties or certain other trade actions. In general, other domestic support is not subject to countervailing duties or certain other trade actions, unless such support causes or threatens injury or exceeds the 1992 level of support to a commodity. Countries are to show due restraint before initiating any countervailing duty investigation. The peace provisions will apply for nine years.

Export Competition

Regarding export competition, the agreement indicates that commitments to reduce export competition shall be based on aggregate budgetary assistance, and total quantities exported with export subsidies. Expenditures and quantities shall be reduced according to the commitments shown in Table 1. The commitments apply to each individual commodity. The base period is 1986-90. If subsidized exports have increased since the 1986-90 base period, 1991-92 may be used as the beginning point of reduction, provided that the endpoint is still based on the 1986-90 base period level.

Implementation. The agreement provides for some flexibility of reduction commitments in the second through the fifth years of the implementation period. In particular, a member may provide export subsidies exceeding annual commitments, provided that the cumulative amount of budgetary expenditures (quantities), from the beginning of the implementation period through the year in question, does not exceed the cumulative amounts that would have resulted from full compliance with the relevant annual expenditure (quantity) commitments level specified in the members schedule by more than 3 percent (1.75 percent) of the base period budgetary expenditure (quantities). The total cumulative amounts of budgetary expenditures and quantities over the entire implementation period are no greater than the totals that would have been from full compliance.

Exemptions for Developing Countries. In the case of developing countries, there are no commitments on subsidies to reduce the costs of marketing exports of agricultural products including handling, upgrading, other processing, and international transport and freight; and internal transport and freight charges on export shipments provided by governments on more favorable terms than for domestic shipments.

Peace Provisions. Export subsidies that conform fully to the provisions of the Agreement shall be subject to countervailing duties only upon a determination of injury or threat based on volume, effect on prices, or consequent impact. Countries are encouraged, however, to show due restraint before initiating any countervailing duty investigations. Again, the peace provisions will apply for a period of nine years.

Potential Opportunities

The Agreement on Agriculture will help in many ways to create new market opportunities for Egyptian agriculture. In particular, increased exports of agricultural products will likely occur as tariff and nontariff barriers and export subsidies are reduced in countries such as the European Union (EU). Application of minimum access commitments will benefit the international market for agricultural products. And reforms of trade and agricultural policies should benefit developing countries, especially if these countries also liberalize their own agricultural sectors. Potential opportunities for the Egyptian rice, cotton, and fruits and vegetables sectors include:

- **Rice.** Japan will establish a quota of 379,000 metric tons of rice in 1995, which will increase to 758,000 metric tons in the year 2000. The United States will reduce its tariff for milled/semimilled and husked rice to 1.4 cents/kilogram and 1.8 cents/kilogram in the year 2000. The United States will be allowed to subsidize exports of rice up to a maximum of 39,000 metric tons in the year 2000.
- **Cotton.** The United States will reduce its tariff equivalents for cotton to 31.4 cents/kilogram in the year 2000, and it will establish a tariff rate quota of 86,545 metric tons in the year 2000. Thailand and Korea will reduce tariffs on cotton to 4.5 percent and 2 percent.
- **Fruits and Vegetables.** In the year 2000, the European Union will be allowed to subsidize exports of fresh fruits (including citrus) and vegetables up to a maximum of 906,900 metric tons, and the United States will not be permitted to subsidize exports of fresh fruit and vegetables.

These examples show that potential export opportunities will exist for a number of agricultural commodities. However, competition for these opportunities will be based on price, quality, continuity and consistency of supply, and related marketing factors.

World Prices

Public and private decision makers in net food-importing developing countries are concerned about the possible negative impacts of the GATT agreement on levels of world agricultural prices.

Specifically, net food-importing developing countries may believe that the GATT agreement will result in major increases in world agricultural prices, and that their nation's food bill will increase substantially.

To assess the impacts of a GATT agreement on world agricultural prices, the Center for Agricultural and Rural Development (CARD) carried out a GATT scenario in June 1994. The scenario incorporates proposed changes in the agricultural policies of major trading countries according to the Uruguay Round Final Act of December 1993. The May 1992 reform of the Common Agricultural Policy (CAP) of the European Community (EC, now EU) is incorporated in the baseline (alternative scenario). Also, beginning in 1994, the baseline incorporates policy changes associated with the North American Free Trade Agreement (NAFTA).

Under a GATT agreement world commodity prices would be subject to relatively few adjustments (Table 2). Specifically, Table 2 indicates that, in most cases, the effects of GATT on world agricultural prices are small. Between 1995 and 1999 world wheat prices increase by 5.2 percent, corn prices by 2.5 percent, and barley prices by 1.2 percent. Rice prices, on the other hand, increase by 9.3 percent because of the increased market access in Japan and the Republic of Korea.

Results of the CARD analysis can be attributed to a number of factors. First, countries such as the United States and the EU have reduced support levels since 1986, and in May 1992 the EU approved the CAP reform package that further reduces subsidies. Second, with the Blair House agreement, the AMS was changed to a sectorwide (instead of commodity-specific) measure allowing some commodities to avoid reduction as long as the aggregate AMS reduction is 20 percent. Third, the Blair House agreement put some kinds of support, such as the U.S. deficiency payments and compensatory payments of CAP, into a "blue box" category, exempting them from inclusion in AMS calculations. Fourth, reduction in internal support is as little as 20 percent, meaning that many countries, including the United States and the EU, are already below the AMS ceiling as it is applied in the future. As a result, there will be little change in the production of major countries, except as would be necessary to reduce excess supplies to meet export subsidy restrictions.

GATT will have major impacts on some dairy product prices, specifically cheese and nonfat dry milk prices (Table 2). The CAP reform package gave little attention to dairy products, except for the 2.5 percent reduction in butter intervention prices in 1993 and 1994.

Table 2. Impact on world prices under a GATT scenario, 2000

Commodity	Baseline	GATT	Change	Change
	U.S. dollars per metric ton			percent
Grains				
Wheat (FOB Gulf)	133.93	137.67	3.74	2.8
Wheat (Australian Export)	108.66	114.30	5.64	5.2
Corn (FOB Gulf)	101.52	104.06	2.54	5.2
Barley (FOB Gulf)	114.38	115.71	1.33	1.2
Sorghum (FOB Gulf)	98.45	100.50	2.05	2.1
Rice (FOB Bangkok)	287.15	313.95	26.80	9.3
Oil Seeds				
Soybeans (FOB Gulf)	228.01	234.11	6.10	2.7
Meal (FOB Decatur)	200.49	203.95	3.46	1.7
Oil (FOB Decatur)	497.89	517.96	20.07	4.0
Sugar (FOB Caribbean)	236.00	242.00	6.00	2.5
Cotton (Cotlook A Index)	1,457.00	1,494.00	37.00	2.5
Dairy				
(FOB N. Europe)				
Butter	1,359.00	1,367.20	8.2	0.6
Cheese	1,826.00	1,903.60	77.6	4.2
Nonfat Dry Milk	1,647.00	1,736.70	89.7	5.4
Livestock and Poultry				
Beef (Omaha Steer Price)	1,583.40	1,613.82	30.42	1.9
Pork (U.S. Barrows & Gilts)	1,016.86	1,044.68	27.82	2.7
Broiler (U.S. 12-City)	1,219.95	1,249.89	29.94	2.4

Source: CARD 1994.

The conclusions of the CARD study are clear: GATT as proposed by Dunkel and the Blair House agreement will have effects on world grains, oilseeds, and livestock prices that are small in the context of other factors affecting prices over the next five to ten years. These include supply and demand shifts in major producing and consuming regions caused by such phenomena as income growth, changing tastes, technological change, and changes in policies other than trade policy.

**APPENDIX A
GATT Rounds**

Round	Accomplishments (or lack of)
1. Geneva 1947 2. Annecy, 1949 3. Torquay, 1951 4. Geneva, 1956	The first four rounds emphasized the reduction of tariffs (mostly for industrial commodities) through a series of requests and offers.
5. Dillon, 1960-61	<ul style="list-style-type: none">- Tariffs reduced by an average of 20 percent, mostly for industrial commodities.- Agreement by EC to zero binding (no tariffs) on oilseeds.- EC was permitted to introduce a number of measures not covered by GATT rules (e.g., variable import levies, minimum import price, and voluntary export restraints) for the Common Agricultural Policy (CAP).
6. Kennedy, 1964-67	<ul style="list-style-type: none">- Method of tariff reduction shifted from a product-by-product approach to across-the-board. Tariffs were reduced by 50 percent for industrial commodities.- International grain Agreement to set minimum and maximum world price for wheat was established. However, the economic provisions of the agreement were dead within a year, when wheat was sold at prices below the minimum agreed level.- Antidumping code was adopted.- Food Aid Convention was established.- (A proposal by the United States that the European Community bind the level of self-sufficiency for grains to assure guaranteed access to the EC market failed. The United States requested that 13 percent of grain requirements be reserved by foreign suppliers. The EC offer was 10 percent)- (A proposal by the European Community to bind for 3 years margin of support (difference between domestic price support and an international reference price) also failed.)

7. Tokyo, 1973-79

- Tariffs on industrial commodities reduced further.
- Emphasis on reduction of nontariff barriers.
- Codes of conduct on subsidies and countervailing, government procurement, technical barriers to trade, and customs valuations were adopted. However, the subsidies code continued to exempt agricultural products from the ban on export subsidies.
- Commodity arrangements for dairy and bovine meat were negotiated.
- Generalized system of preferences for developing countries was established.

8. Uruguay, 1986-91

See text.

APPENDIX B
Developments in the Negotiations

Initial Negotiating Proposals
(July to December 1987)

Mid-term Ministerial Review in Montreal
(December 1988)

Agreement in Geneva
(April 1989)

Detailed Negotiating Proposals
(October to December 1989)

Framework Proposal on Agricultural Reform Program
(July 1990)

Agricultural Offers
(October 15 - November 21, 1990)

Ministerial Meeting in Brussels
(December 1990)

Draft of Final Act
(December 1991)

Blair House Agreement
(November 1992)

Agreement on Agriculture
(December 1993)

APPENDIX C
Definition of Terms

Aggregate Measurement of Support (AMS)

The annual level of monetary support, provided for an agricultural product in favor of the producers of the basic agricultural product, or nonproduct-specific support provided in favor of agricultural producers in general, other than support provided under programs that qualify as exempt from reduction.

Equivalent Measurement of Support

The annual level of monetary support, provided to producers of a basic agricultural product through the application of one or more measures, the calculation of which in accordance with the AMS methodology is impracticable.

Basic Product

The product, as close as practicable to the point of first sale.

Total Aggregate Measurement of Support

= All aggregate measurements of support for basic agricultural products + all nonproduct-specific aggregate measurements of support + all equivalent measurements of support for agricultural products.

Tariffication

Conversion of all border measures other than ordinary customs duties into tariff equivalents (either specific or ad valorem).

[These measures include quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, nontariff measures maintained through state trading enterprises, voluntary export restraints, etc.]

Export Subsidies

Subsidies contingent upon export performance.

Year

Calendar, financial, or marketing year.

REFERENCES

- Center for Agricultural and Rural Development (CARD). 1994. The Impacts of the Uruguay Round on U.S. Agriculture. A CARD Symposium, Washington, D.C., June 15.
- General Agreement on Tariffs and Trade (GATT). 1993. Agreement on Agriculture. MTN/FA II-A1 A-3. Geneva, December.