AGREEMENT ON AGRICULTURE IN THE URUGUAY ROUND OF GATT: FROM PUNTA DEL ESTE TO MARRAKESH

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AGREEMENT ON AGRICULTURE IN THE URUGUAY ROUND OF GATT: FROM PUNTA DEL ESTE TO MARRAKESH

Introduction

Government intervenes in the agricultural sector in many, if not all, countries in the world. Reasons for government intervention include the desire to provide farm price and income supports, to ensure food security, to improve the balance of trade, to reduce consumer prices, to address environmental and regional concerns, and to pursue sanitary and phytosanitary objectives.

In the 1980s, concerns about increased government intervention in agricultural markets were voiced more loudly than in earlier decades. At the same time, the unfavorable consequences of agricultural support and protection for commodity markets and government budgets, and the inadequacies of the existing General Agreement on Tariffs and Trade (GATT) rules for agriculture became more widely recognized. This situation prompted trade ministers to consider the reform of agricultural trade as a key element in the negotiating agenda for the Uruguay Round of Multilateral Trade Negotiations (MTN) of the GATT. The 1986 GATT meeting in Uruguay produced agreement on the objective of the Round as far as agriculture was concerned.

A major objective of the Uruguay Round of GATT was to reform the world agricultural trading system and make it more transparent. To help appreciate the outcome of the negotiations, this paper will attempt to provide answers to the questions that follow. Why did the agreement take seven years to negotiate? What were the major obstacles to the negotiations? How did the negotiators reconcile the differing point of views on issues such as: the use of an aggregate measure of support, the criteria for classifying internal support policies, and the approaches to reducing protection and export subsidies, etc.? What exactly has been accomplished during the negotiations? Was the agreement successful in reforming agriculture? What kind of adjustments would world agricultural commodity prices be subject to because of this agreement?

This paper contains three parts. The first part provides an overview of the developments in the Uruguay Round of GATT negotiations. Specifically, the common ground and differences among the proposals and offers tabled by the United States, the European Union[1] (EU) (formerly the European Community), the Cairns Group[2], Canada, and Japan will be highlighted and compared.

The second part focuses on the recently concluded Agreement on Agriculture of the Uruguay Round of GATT. Specifically, it discusses key elements of the agreement (market access, domestic support, and export competition); the nature of exemptions available to developing countries; and exemptions from the general rules. The final part discusses the world price impacts of implementing the Agreement. The emphasis will be on explaining why world commodity prices would be subject to few adjustments under the recently concluded GATT Agreement.

Developments in the Uruguay Round of GATT

The Uruguay Round was the eighth round of multilateral trade negotiations under 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). The 1986 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 section begins with a review of the initial negotiating proposals and ends with a discussion of the Blair House agreement.

Initial Negotiating Proposals

Initial proposals on conducting the agricultural negotiations in the Uruguay Round were tabled by the United States (July 1987), the EU (October 1987), the Cairns Group (October 1987), Canada (October 1987), and Japan (December 1987). The Nordic countries (Finland, Iceland, Norway, and Sweden) and the Food-Importing Group (Jamaica, Egypt, and Mexico) also tabled proposals. A summary of selected proposals is given below and in Table 1.

Briefly, the U.S. proposal called for eliminating all agricultural subsidies which directly or indirectly affect trade, freezing and eliminating the quantities exported with the aid of export subsidies, and eliminating import barriers. These objectives would be achieved over a 10-year period. The Cairns Group and the Canadian proposals favored eliminating trade-distorting policies for all agricultural commodities. The EU proposal, on the other hand, suggested stabilizing world markets for cereals, dairy products, and sugar through international commodity arrangements in an initial stage. In a second stage, the EU proposed reducing support levels over the long term. The Japanese proposal called for freezing and phasing out export subsidies, reducing existing tariffs through the traditional request and offer approach, and reducing trade-distorting effects of other subsidies.

All these proposals, with the exception of the U.S. proposal, favored implementing short-term measures to provide early relief from the distortions affecting agricultural trade. The United States maintained that an agreement on a long-term reform framework was required prior to discussing short-term measures. Examples of the proposed short-term measures include improving existing levels of access, freezing export subsidies, reducing all trade-distorting subsidies, and rolling back levels of aggregate support.

Finally, all the proposals discussed above, with the exception of the Japanese proposal, suggested using a Producer Subsidy Equivalent[3] (PSE) type Aggregate Measure of Support (AMS) to serve as a tool to compare support and protection between countries for different commodities or commodity groups. Japan argued that the PSE approach reflects neither the wide-ranging purposes pursued by agricultural policies such as food security, preserving

TABLE 1 Initial negotiating proposals, 1987

	Country/Group of Countries				
Objective	U.S.	Cairns Group	Canada	EU	Japan
Long Term	Eliminate over 10 years all agricultural subsidies which directly or indirectly affect trade. Freeze and eliminate over 10 years the quantities exported with the aid of export subsidies. Eliminate import barriers over 10 years.	Eliminate trade-distorting policies.	Eliminate trade-distorting subsidies and all access barriers.	Reduce the negative effects of support on world markets. Reduce the imbalance between supply and demand.	Reduce tariffs. Eliminate export subsidies. Reduce trade-distorting effects of other subsidies. Recognize food security needs.
Short Term	None	No reduction in existing levels of access. Freeze all export and production subsidies affecting trade. Roll back level of aggregate support.	Reduce all trade-distorting subsidies and improve access opportunity.	Stabilize world markets for cereals, dairy products, and sugar through international commodity agreements. Freeze support for cereals, rice, sugar, oilseeds, dairy products, beef, and veal at 1984 levels.	Freeze export subsidies.
Aggregate Measure of Support (AMS)	Producer Subsidy Equivalent (PSE) type	PSE type	Trade Distortion Equivalent (TDE) based on PSE	PSE type	Not required

land and environment, and achieving regional development, nor does it reflect the special characteristics of agriculture in specific countries.

Midterm Review of the Uruguay Round

The various proposals were the subject of considerable discussion throughout the year prior to the Midterm Ministerial Review in Montreal in December 1988. The meeting ended in a stalemate over the objectives of the agricultural negotiations, i.e., elimination or reduction of support and protection in the longer term, and the implementation of short-term measures to cope with the current agricultural trade problems. After this initial standoff, however, the participants reached an accord in Geneva in April 1989. The agreement included a framework for the long-term negotiations and a short-term commitment. In the shorter term, the participants agreed to ensure that: (1) current domestic and export support and protection levels in the agricultural sector were not exceeded; (2) tariff and nontariff market access barriers in force at the time of the April 1989 agreement were not intensified or extended to additional products, including processed agricultural products; (3) access opportunities for individual products in 1989 and 1990 were on average not less than those in 1987 and 1988; and (4) government support prices to producers determined directly or indirectly were not raised to levels greater than those in force at the time of the April 1989 agreement.

For the long term, the April 1989 agreement stated that the objective of the round was to establish a fair and market-oriented agricultural trading system through substantial progressive reduction in agricultural support and protection. This objective would be reached through a reform process based on negotiated commitments on support and protection and through the establishment of strengthened and more operationally effective GATT rules and disciplines. The reform process would be based on commitments on specific policies and measures, on an AMS, or on a combination of these approaches. The improved rules should be applicable to all contracting parties, and the commitments to be negotiated should encompass all measures directly or indirectly affecting import access and export competition. Finally, credit would be given for measures implemented since the September 1986 declaration that have contributed positively to the reform program.

The Midterm Agreement clearly indicates an explicit recognition by the participants that trade measures outside the current GATT rules (e.g., variable import levies, minimum import prices, unbound tariffs, and voluntary export restraints) are being placed on the negotiating table. In addition, country-specific exceptions, derogations, and waivers from the current GATT rules are also subject to negotiations. Examples of these country-specific measures include the entire Swiss agricultural policy and the U.S. "waiver" regarding the use of Section 22 of the Agricultural Adjustment Act[4].

To achieve the long-term objective, participants were asked to table detailed proposals on the conduct of the negotiations by December 1989. The detailed proposals would address the following areas: the AMS, the GATT rules and disciplines, sanitary and phytosanitary regulations, tariffication, decoupled income support, and special and differential treatment for developing countries.

Detailed Negotiating Proposals

In accordance with the work program agreed upon in April 1989, a number of GATT participants tabled detailed proposals for agricultural reform. A summary of the proposals submitted by the United States (October 1989), the Cairns Group (November 1989), the EU (December 1989), and Japan (November 1989) is given in Table 2. The proposals called for reform in four major areas of policy instruments: internal support, border protection, export competition, and sanitary and phytosanitary measures[5].

In general, the U.S. and Cairns Group proposals were somewhat similar in arguing for phasing out or reducing trade-distorting domestic policies. The EU proposal, on the other hand, favored progressively reducing support to reestablish balanced markets. The main emphasis in the Japanese proposal was on the special nature and role of agriculture, particularly food

TABLE 2 Detailed negotiating proposals, 1989

	Country/Group of Countries			
Policy Area	U.S.	Cairns Group	EU	Japan
Internal Support	Phase out trade-distorting policies over a 10-year period using an AMS-type measure. Continue policies that are minimally trade distorting. Discipline other policies that have an impact on trade.	Substantially and progressively reduce the most trade-distorting policies over a period of 10 years or less using an AMS-type measure. Reduce producer support prices and budgetary expenditures for commodities where an AMS is not calculable. Classify three policy categories: prohibited; permitted, but subject to discipline; and permitted.	Progressively reduce support and protection to re-establish balanced markets using a Support Measurement Unit (SMU). Measure reductions against the reference year of 1986.	Permit policies with no trade-distorting effects. Reduce other policies through commitments made on an AMS basis and not on specific policies and measures.
Border Protection	Convert nontariff barriers to bound tariffs. Reduce these and existing tariffs to zero or low levels over a 10-year period. Replace nontariff barriers with a tariff rate quota during the 10-year transitional period. Allow tariff "snapback" as a safeguard mechanism during the 10-year transitional period.	Favor conversions to bound tariffs of most nontariff barriers. Reduce all tariffs (existing and converted) over a period of 10 years or less to low levels or zero. Support the use of global tariff quotas on a transitional basis. Explore the use of safeguard mechanisms during the transitional period.	Consider including elements of tariffication if the problem of rebalancing can be addressed. Quantitative import restrictions may be maintained in exceptional circumstances.	Negotiate new rules and disciplines taking into account the special nature and rules of agriculture, particularly food security. Permit border protection measures where necessary for food security reasons. Modify Article XI:2(c)(i) to make it more effectively applicable.
Export Competition	Phase out over a five- year period.	Prohibit new subsidies and phase out existing subsidies over 10 years or less.	Level of subsidy should not exceed the difference between the world market price and the exporting country's domestic price. Amounts granted to exports of products subject to SMU commitments could not exceed that levied by the exporting country on imports.	Reduce progressively and eliminate eventually.

security. Under the Japanese proposal, policies that were used to achieve self-sufficiency should be permitted.

The U.S. and Cairns Group proposals supported the technique of tariffication[6] for dealing with nontariff barriers. The EU was willing to accept some form of tariffication, conditional on rebalancing some internal support reductions with tariff equivalents, and the inclusion of a corrective factor to offset larger-than-normal fluctuations in exchange rates and world prices. The Japanese proposal would permit border protection measures where necessary for food security reasons and favored negotiating new rules and disciplines.

The United States, the Cairns Group, and Japan supported a complete phasing out of export subsidies, whereas the EU preferred to deal with export competition under a general commitment to reduce overall support levels.

There was general support for the use of an AMS-type instrument as a measuring stick to compare support and protection between countries for different commodities or commodity groups. In particular, the U.S., Cairns Group, and Japanese proposals favored using an AMS-type measure for reducing only internal support. The EU, on the other hand, wanted to undertake commitments to reduce an AMS that encompasses all three types of trade-distorting policies (internal support, border protection, and export competition). With respect to GATT rules and disciplines, the EU proposal allowed quantitative import restrictions in exceptional circumstances. Japan supported the continuation of Article XI: 2(c) (i), but wished to expand its scope to include food security concerns in addition to supply controls. The United States and the Cairns Group would prefer to tariffy all quantitative import restrictions (except Canada), eliminate all waivers and derogations from existing rules, and prohibit all measures not explicitly provided for in GATT rules.

Framework Proposal on Agricultural Reform Program

The detailed proposals discussed in the previous section, along with proposals from several other countries, were subject to further elaboration and clarification during the first half of 1990. Following the clarification exercise, the Chairman of the Negotiating Group on Agriculture circulated a draft text entitled "Framework Agreement on Agricultural Reform Program" in early July 1990. The text contained an outline for a framework and a process by which to bring the agricultural negotiations to a conclusion. The proposed framework was comprised of four areas: internal support, border protection, export competition, and sanitary and phytosanitary regulations.

The Chairman's text identified two categories of policies in the area of internal support: (1) policies which would be excluded from the commitment to progressive and substantial reduction (permitted policies)[7], but would be subject to an overall ceiling on support as well as to monitoring and review, and (2) policies which would be subject to reduction (policies to be disciplined). The disciplined policies would be reduced from 1991-92 over an agreed number of years by using an AMS. The proposed AMS would encompass market price support, direct payments to producers, and input and market cost reduction measures available only in respect to agricultural production. The proposed AMS would be expressed by total monetary value per commodity using the base year 1988 and a fixed reference price based on 1986-88 data for market price support. Where the calculation of an AMS was not feasible, the specified commodities would be subject to commitments equivalent to those applied to commodities for which an AMS can be calculated.

Regarding border protection, the Chairman's text considered tariffication of existing border measures as the best technique for reducing nontariff barriers. Tariffication would consist of converting all border measures into tariffs[8]. The magnitude of the established tariff would be equivalent to the existing gap between external[9] and domestic[10] prices. All existing tariffs and the newly established tariffs would be reduced from 1991-92 over an agreed number of years. Establishment of minimum access levels on the basis of tariff quotas would also be required. Special safeguard provisions would apply in case of import surges or world price movements that exceed specified limits. In addition, the possibility existed of negotiating specific solutions in particular situations that may exist for some products, e.g., rebalancing, Article XI.

As for export competition, the Chairman's text suggested that all budgetary assistance to exports be reduced by more than that for internal support and border protection. Commitments to reduce export competition could be based on aggregate budgetary assistance, per-unit assistance, total quantities exported with export subsidies, or a combination of such commitments.

Concerning the negotiation process, the Chairman's text proposed that all participants would table country lists on internal support, border protection, and export competition by October 1, 1990.

The Chairman's text was accepted at the Trade Negotiations Committee (TNC) meeting in late July 1990 as a means of intensifying the negotiations. Most participants at the TNC meeting preserved their negotiating positions with regard to the specific proposals in the draft report. However, all the participants agreed to the suggested process, i.e., tabling of country lists no later than October 1, 1990. In addition, participants agreed to submit specific offers by October 15, 1990. Participants were also reminded that the trade ministers were to meet in Brussels in early December 1990 to approve the final package of results and to conclude the Uruguay Round.

Agricultural Offers

Agricultural offers were tabled by participants between October 15 and November 21, 1990. A comparison of offers tabled by the United States, the Cairns Group, Canada, the EU, and Japan follows. The objectives of the comparison are to highlight common ground and differences among the five proposals and to illustrate the complexity and diversity of the issues under discussion. Details concerning commitments, implementation period, modalities, and the base year are given in Table 3. Again, the following discussion will address the areas of internal support, border protection, and export competition.

Internal Support. In the area of internal support, common ground and differences existed (in addition to those summarized in Table 3) among the five offers on issues such as classifying programs, capping support, and using an instrument for the expression of commitments.

General agreement existed among the offers on classifying programs into two main categories: permitted and disciplined. Permitted policies would be those that are minimally trade distorting and would not be subject to any reduction commitment. Disciplined policies, on the other hand, would be those deemed to have an impact on trade and they would be subject to reduction commitments. There was a difference among the offers, however, concerning the relationship between the two categories as to whether the disciplined category is a residual of the permitted or vice versa. Japan defined disciplined policies first and then dealt with the rest as a permitted category, whereas other offers favored the reverse process. Other countries proposed first to establish criteria for permitted programs. Disciplined measures are then defined as those that do not meet the criteria for permitted policies.

Regarding the criteria for classifying policies, the Cairns Group and the United States proposed a similar set of criteria for exempting current and future policies from reductions. Japan, on the other hand, offered more flexible conditions for exempting support given for food security concerns. Canada linked classification of policies to counteravailability. All offers agreed that a restrictive set of criteria for the permitted category must be established.

Concerning the type of permitted programs, all five offers agreed that generally available programs such as general services, disaster relief, resource diversion, and retirement programs would be exempted from reduction commitments. Differences existed, however, regarding the treatment of safety nets, credit concessions, fuel tax concessions, and investment subsidies. Canada, the Cairns Group, and the United States classified safety nets as permitted programs, whereas the EU considered safety nets as programs to be disciplined. The converse was true for credit concessions, fuel tax concessions, and investment subsidies. Canada, the EU, and Japan regarded investment subsidies, credit concessions, and fuel tax concessions (not applicable for Japan) as permitted programs, whereas the Cairns Group and the United States categorized them as disciplined programs.

TABLE 3 Agricultural Offers, 1990

	Country/Group of Countries				
Policy Area	U.S.	Cairns Group	Canada	EU	Japan
Internal Support					
Commitments	Reduction by no less than 75 percent for commodity-specific support and 30 percent for noncommodity specific support.	Reduction by no less than 75 percent.	Reduction by 50 percent.	Reduction by 30 percent for AMS commodities, 10 percent other commodities.	Reduction by 30 percent in real terms.
Implementation Period	10 years from 1991-1992.	10 years from 1991-92.	10 years from 1991-92.	10 years from 1986.	10 years from 1986.
Base Year	1986-88	1988		1986	1986
Border Protection *Modality*	Tariffication	Tariffication	Tariffication	Tariffication with conditions.	Tariffication should not be the basic approach.
Products to be tariffied	All products.	All products.	All products except those subject to nontariff measures explicitly allowed by the new or revised Article XI:2(c)(i).	All products including table wine, dried grapes, processed cherries, and some fruits and vegetables.	
Commitments	Binding with reduction on a formula basis of no less than 75 percent from 1991-92 for all tariff and tariff equivalents, with a 50 percent ad valorem equivalent ceiling at the end of the implementation period.	Binding with a trade-weighted 75 percent reduction over 10 years beginning in 1991-92, a minimum 50 percent reduction per tariff line, and a ceiling binding of 50 percent at the end of the implementation period.	Existing tariffs reduced using a harmonizing formula over 10 years by a maximum reduction of 38 percent per tariff line. Tariff equivalents reduced using a harmonizing formula of 50 percent over 10 years or to a binding ceiling of 20 percent by the end of the implementation period.	Binding with annual reduction in tariff equivalents (fixed components) by an absolute amount reflecting the incidence of the AMS reduction.	A target reduction rate through a request/offer approach for products for which commitments using an AMS are not offered and for which import restrictions are not imposed. The rate will be equivalent to the one implemented by Japan in the Tokyo Round for all agricultural products.
Export Competition *Commitments*	Reduction of budgetary outlays and quantities exported with export subsidies by at least 90 percent. Export subsidies on processed products to be eliminated over six years.	Reduction of budgetary outlays, per-unit export assistance, and quantities exported with export subsidies by no less than 90 percent.	Phase out of existing government funded export subsidies.	Proposed reduction in support and protection will result in lower export subsidies as the difference between the community prices and world prices is narrowed.	Eliminate export subsidies.

With regard to capping support, the Cairns Group and the EU were prepared to set an overall ceiling on support. The ceiling would include both disciplined and permitted policies. This was to ensure that countries would not shift government funded support from disciplined to permitted. Canada, Japan, and the United States did not establish overall ceilings.

As for the use of an AMS-type measure for expressing and implementing the commitments, the Cairns Group and the United States offered commitments on the basis of specific policies, and offered to use an AMS as a technique for reducing only internal support, with separate commitments being taken on border protection and export competition. However, the EU and Japan offered commitments on the basis of an AMS, and favored the use of an AMS as an instrument for reducing internal support, border protection, and export competition, (not available for Japan), leaving each country with enough flexibility to choose a mix of policies to achieve the required reductions. Canada offered commitments to reduce internal support on the value of government expenditures (or revenue foregone) and not on the basis of an AMS. Canada indicated that the AMS measurement of internal support overestimates domestic support levels because it is based on a comparison with an international reference price that cannot be regarded as a representative price in the current situation of extensive trade distortions and market access barriers.

Most offers agreed that where the calculation of an AMS was not feasible, the commodities concerned were to be subject to equivalent commitments. The Cairns Group and the United States offered commitments based on producer price support (and/or quantity of production eligible to receive them), support through commodity-specific budgetary expenditure, or revenue foregone. The EU offered commitments based on production assistance for commodities such as flax, cotton, tobacco, and fruits and vegetables for processing and on border measures for fruits, vegetables, and wine. Japan offered commitments based on tariffs. In addition, differences existed on issues related to (1) expressing the AMS in total monetary value terms (Canada, the Cairns Group, the EU, and the United States) or per-unit terms (Japan); (2) calculating the AMS on a commodity-specific basis (the Cairns Group and the United States) or a product sector basis (Canada, the EU, and Japan); (3) including border measure effects in the

AMS (Canada, the EU, and Japan); (4) excluding the value of deficiency payments paid on export from the AMS (the Cairns Group); (5) allocating to individual commodities their share of the other disciplined policies that are generally available to all commodities (Canada, the EU, and Japan) or including this in a single, sector-wide AMS (the Cairns Group and the United States); (6) using a current world price or a three-year moving average of world prices as a reference price (the Cairns Group); (7) adjusting the AMS to take into account effective supply control and set-aside programs (Canada, the EU, Japan, and the United States); and (8) adjusting the AMS to take into account the effect of inflation (the Cairns Group, Japan, and the United States).

Border Protection. Common ground and differences also existed in the area of border protection regarding such issues as modalities of tariffication, Article XI, and minimum access levels.

All offers (except the one from Japan) considered tariffication as a basic approach in the negotiations. Japan argued that quantitative restrictions were necessary measures for basic food commodities. The EU accepted the principle of tariffication subject to incorporating a corrective factor to offset currency and market price fluctuations (the United States and the Cairns Group favored the use of safeguard mechanisms based either on a price trigger or a quantity trigger to enable recourse to temporary tariff increases) and the rebalancing[11] of support and protection to reduce disequilibrium among commodities. In addition, the EU proposed to calculate tariff equivalents as the difference between a representative world price and average commodity support (intervention price), increased by 10 percent. The United States, the Cairns Group, and Canada, on the other hand, used the difference between the domestic price and the world price.

The offers by Canada and Japan proposed that quantitative import restrictions continue to be permitted under GATT Article XI: 2(c) (i) and that existing restrictions be brought into conformity with a clarified interpretation of Article XI: 2(c) (i) (Canada). Japan favored the expansion of the scope of Article XI: 2(c) (i) to include food security concerns.

With regard to current access opportunities, the Cairns Group, Canada, the EU, and the United States were prepared to maintain current access opportunities on terms at least equivalent to those existing. Japan, on the other hand, offered to consider the maintenance or improvement of the present access opportunities, taking into account the discussions on the clarification of conditions of GATT Article XI: 2(c) (i) and the supply and demand situations of the products concerned in Japan.

Minimum access levels were offered by the United States, the Cairns Group, and Canada. The United States and the Cairns Group offered 3 and 5 percent, respectively, of domestic consumption, whereas Canada offered 5 percent of production for Article XI: 2(c) (i) products and offered to negotiate a minimum access commitment for tariffied products.

Export Competition. Common ground and differences in the area of export competition related to issues such as definition of export subsidies, depth of commitments, and food aid.

Views differed on the definition of an export subsidy. Except for the treatment of deficiency payments, the United States and the Cairns Group offered similar lists of government funded programs. The United States excluded deficiency payments on quantities exported from export competition and identified them as internal support, whereas the Cairns Group considered these payments as export subsidies. The EU did not provide any descriptions of export subsidy programs. Japan does not have any export subsidies.

Concerning the commitments on export subsidies, Canada, the Cairns Group, and the United States offered larger reductions for export subsidies than for internal support and border protection, whereas the EU maintained that reducing support and protection would reduce export subsidies.

Regarding the issue of bona fide food aid, the Cairns Group and the United States offered disciplines to (1) assure a level of food aid that is sufficient to continue to provide assistance to developing countries in meeting the food needs of their people, and (2) ensure that food aid transactions are carried out under conditions to avoid any circumvention of commitments on export subsidies.

Ministerial Meeting in Brussels

A ministerial meeting was held in Brussels in early December 1990 with the objectives of resolving any remaining problem areas, approving a final package, and concluding the round. However, agriculture was at an impasse because of the inability of the negotiators to bridge the gap between the EU on one side and the United States and the Cairns Group on the other side over the issue of reducing support and protection. Specifically, there was a failure on the part of all parties involved in the negotiations to agree to negotiate specific binding commitments in each of the areas of domestic support, market access, and export competition. An informal compromise proposal by the agriculture minister of Sweden suggested a 30 percent reduction in support and protection from the 1990 levels over a five-year period but did not break the deadlock. Thus, the round of negotiations was suspended on December 7, 1990. Following the Ministerial meeting in Brussels, the Director General of the GATT, Arthur Dunkel, was charged with undertaking intensive consultations on all areas of negotiations in which differences remained in order to lay the basis for continuing the talks.

The Dunkel Text on Agriculture

The Director General of the GATT announced at the TNC meeting held in February 1991 that the major obstacle to negotiations on agriculture had been overcome and the negotiations would resume on March 1, 1991 in Geneva. At that meeting, participants agreed to negotiate specific binding commitments in each of the three areas of domestic support, market access, and export competition, and to reach an agreement on sanitary and phytosanitary issues.

Intensive consultations took place in Geneva during the last three quarters of 1991. These consultations centered on initiating a technical work program to facilitate negotiations to achieve specific binding commitments on each of the areas of domestic support, market access, and export competition, and to reach agreements in the areas of sanitary and phytosanitary measures, and the implementation of special and differential treatment for developing countries. By early November 1991, a great degree of progress was achieved in clarifying the technical issues and identifying the political options. That is, the negotiations were well placed to enter the phase of political decisions.

In December 1991, the GATT Director General attempted to break the stalemate in the negotiations by issuing the Draft Final Act on agriculture. The draft agreement dealt with, among other things, domestic support, market access, export competition, and sanitary and phytosanitary measures. Key features of the draft agreement on agriculture are summarized below.

Domestic Support. A reduction commitment is set at 20 percent from 1986-88 base in six equal annual installments from 1993 through 1999. The commitments will be based on calendar or marketing years. A *de minimis* criterion, below which no reduction commitments would apply, is set at 5 percent of the value of agricultural production for product-specific support and at 5 percent for sector-wide (nonproduct-specific) support. Commitments are to be taken on AMS levels, or equivalent commitments, not on specific policy parameters. AMS is defined to include market price support, nonexempt direct payments and other nonexempt subsidies. It would be calculated as closely as possible to the point of first sale of each farm product. A fixed external reference price would apply for market price support reductions and a fixed reference price would apply for direct payment reductions. Finally, reduction applies to the total of both national and provincial nonexempt support measures.

Market Access All nontariff barriers are to be converted to tariffs where their tariff equivalents would generally be the difference between average 1986-88 domestic wholesale and world market prices. Tariffs (including tariff equivalents) would be reduced by an average of 36 percent (not trade weighted) with a minimum reduction of 15 percent per tariff line. This reduction would occur in six equal annual steps over the period 1993-1999. All tariffs and tariff equivalents would be bound (i.e., they could not be raised). Current access levels would be maintained or, if below 3 percent of domestic consumption during the 1986-88 base period, would be increased to 3 percent of 1986-88 level in 1993, rising to 5 percent in 1999. A special agricultural safeguard would allow an automatic increase in import duty, without compensation, in case of a surge in import volume *or* a sudden fall in import price.

Export Competition. Reduction commitments are set at 36 percent on expenditure outlays and 24 percent of volumes on base period of 1986-1990. The implementation will be over the 1993-1999 period (six annual steps with provision for some flexibility within the period, except for the first year which requires the full 1/6 annual cut). Export subsidies for new products, but not for new markets, would be prohibited.

Sanitary and Phytosanitary Measures. These measures reinforce the right of all countries to control their borders to curb risks to human, animal, or plant health. Measures must be based on a scientific assessment of risks to human, animal, or plant health in the territory of the importing country and they must be the least trade restrictive among the feasible means to control the risk at an acceptable level. Countries are encouraged to use standards developed by international organizations. However, countries retain the right to develop their own standards where they have scientific grounds for doing so. Countries must recognize the equivalence of foreign health and sanitary standards when they are satisfied that these standards achieve the same degree of risk control as their own.

Special and Differential Treatment for Developing Countries. The major elements of special and differential treatment for developing countries include:

- reduction commitments in the areas of market access, domestic support, and export subsidies are to be two-thirds of basic rates but can be implemented over a period of up to 10 years;
- some domestic support reductions are exempt when assistance is part of agricultural and rural development programs;
- the *de minimis* provision in relation to domestic support is 10 percent rather than 5 percent; and

- export subsidy reduction commitments for marketing programs, international and internal transport and freight charges are not required.

Least developed countries will not be required to undertake any reduction commitments.

The draft agreement was not accepted in its entirety by the EU, and the negotiations remained stalled over the U.S. and EU differences on agriculture. The main point of contention was the size of the volume of reductions to be applied to subsidized exports.

Most of the year 1992 was spent on bilateral meetings between the United States and the EU. The agreement reached among the EU Ministers in May 1992 to reform the Common Agricultural Policy (CAP), however, was helpful in moving the negotiations forward. And in November 1992, the United States and the EU signed the Blair House Agreement which settled their differences concerning export competition and domestic support. With the Blair House agreement, the AMS commitment was changed to be sector wide (Total AMS), instead of commodity specific. Also, the Blair House agreement put direct payments linked to production-limiting programs (e.g., U.S. deficiency payments and compensatory payments of CAP) into a "blue box" category, exempting them from the reduction commitment. The Blair House Agreement reduced the size of the required reductions in the volume of subsidized export from 24 percent to 21 percent. Finally, the Blair House agreement reconciled the oilseeds dispute between the United States and the EU and included a vague agreement on rebalancing. Thus, the Blair House agreement paved the way for the resumptions of the negotiations in Geneva, and most of 1993 was spent on discussing issues related to market access.

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 the Application of Sanitary and Phytosanitary Measures; and the Ministerial Decision concerning least-developed and net food-importing 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 4. Developments in the negotiations are listed in Appendix B, and the definitions of terms appears as Appendix C.

Market Access

Market access concessions relate to the 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 (ordinary customs duties). The calculation of tariff equivalents (whether expressed as ad valorem or specific rates) is made using the 1986-88 gap between external and domestic prices. All existing customs duties (tariffs) and the newly established ones (tariff equivalents) are to be reduced according to the commitments given in Table 4.

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 access levels before the implementation period exceeded 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 in Japan; rice, oranges, and beef in Korea;

TABLE 4 Agreement on Agriculture, 1993

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 percent (24 percent developing countries), as a simple average across tariff lines, with a minimum reduction of 15 percent (10 percent developing countries) for each tariff line.	1986-88	Six-year for developed countries (ten-year for developing countries) commencing in 1995.
Domestic Support	Total AMS	Total AMS shall be reduced by 20 percent (13.3 percent for developing countries).	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 percent (24 percent developing countries) and 21 percent (14 percent developing countries), respectively.	1986-90 (Where subsidized exports have increased since 1986-90, the 1991-92 level 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.

and staple products in 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; imports of the so-called "designated products" were less than 3 percent of domestic consumption in the base period 1986-88; no export 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; special treatment of the designated products reflects 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 AMS.

Exemptions. Measures that have no, or at most minimal, 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, 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 infrastructure; direct payments to producers, such as decoupled income support, structural assistance, payments for relief from natural disasters, structural adjustment assistance under environmental programs, and payments under regional assistance programs; public stockholding for food security purposes; and domestic food aid.

In addition, three other kinds of support need not be included in the Total AMS reduction commitments. First, in the case of developing countries, such support includes 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 payments 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 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

In regard to 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 4. The commitments apply to each individual commodity. The base period is 1986-90. If subsidized exports have increased since the 1986-90 base period, the 1991-92 level 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 with 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.

World Prices

There is a keen interest in measuring the effects on future world commodity prices attributed to the GATT agreement. Depending on each observer's interests, price increases may be welcomed or feared. For example, 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 bills will increase substantially.

To assess the future 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[12]. The scenario incorporated 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 CAP of the EU is incorporated in the baseline (alternative scenario). Also beginning in 1994, the baseline incorporated policy changes associated with the North American Free Trade Agreement (NAFTA).

Under the GATT scenario, world commodity prices would be subject to relatively small adjustments by the year 2000 (Table 5). At the end of the implementation period, world wheat, corn and barley prices would be 5.2 percent, 2.5 percent, and 1.2 percent, respectively higher under the GATT scenario then they otherwise would have been. Rice prices, on the other hand, would increase by 9.3 percent because of the increased market access in Japan and the Republic of Korea. GATT will have an impact on some dairy product prices, specifically cheese and nonfat dry milk prices (Table 5). 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.

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. Second, with the Blair House agreement (see Table 6), the AMS commitment was changed from a commodity specific commitment to a sector wide one allowing some commodities to avoid reduction as long as the reduction of Total AMS 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 the reduction commitment. Fourth, reduction in internal support is as little as 20 percent, meaning that: (1) many countries, including the United States and the EU, are already below the AMS ceiling as it is applied in the future; and (2) support and protection will not be eliminated as originally advocated by the United States (Table 7).

The conclusions of the CARD study are clear: The Uruguay Round of GATT will have small effects on world grains, oilseeds, dairy, and livestock prices 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.

TABLE 5 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	2.5
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
Oilseeds				
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	1,649.00	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. Barrow and Gilt)	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: Helmar et al., 1994

TABLE 6 Main modifications to the Dunkel Text

Policy Area of Commitment	Dunkel	Blair House	Agreement on Agriculture
Domestic Support			
AMS	Commodity-specific commitment.	Sector-wide commitment	Sector-wide. commitment
Direct payments under production-limiting programs.	Part of AMS	Not part of AMS.	Not part of AMS.
Market Access			
Tariffication	No exceptions.		With some exceptions.
Minimum Access	No commodity aggregation.		Commitments can be aggregated.
Export Competition			
Quantity of subsidized exports	Reduce to 76 percent of 1986-90 level.	Reduce to 79 percent of 1986-90 level.	Reduce to 79 percent of 1986-90 level.
Beginning level for reduction	1986-90 level	1986-90 level	Higher of 1986-90 or 1991-92 level.

TABLE 7 Domestic support reduction: U.S. proposals and offer, Dunkel Text, and Agreement on Agriculture

U.S.				
Initial Offer (1987)	Detailed Negotiating Proposal (1989)	Agricultural Offer (1990)	Dunkel Text (1990)	Agreement on Agriculture (1993)
Eliminate over 10 years all agricultural subsidies which directly or indirectly affect trade.	Phaseout trade distorting policies over a 10-year period. Continue policies that are minimally trade distorting. Discipline other policies which have an impact on trade.	Reduce by no less than 75 percent for commodity-specific support and 30 percent for noncommodity specific support over a 10-year period.	Reduce each commodity specific AMS by 20 percent, over a six-year period.	Reduce a sector wide AMS by 20 percent, over a six-year period.

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	- Tariffs reduced by an average of 20 percent, mostly for industrial commodities. - Agreement by EU to zero binding (no tariffs) on oilseeds. - EU 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 CAP.
6. Kennedy, 1964-67	- 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 EU bind the level of self-sufficiency for grains to assure guaranteed access to the EU market failed. The United States requested that 13 percent of grain requirements be reserved by foreign suppliers. The EU offer was 10 percent.)

APPENDIX A (Continued)

GATT Rounds

Round	Accomplishments (or lack of)
	- (A proposal by the EU to bind for three years the 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 valuation 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, 1986-93	- See text.

APPENDIX B

Developments in the Negotiations

Punta del Este Declaration
(September 1986)

Initial Negotiating Proposals
(July to December 1987)

Midterm 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)

Endorsement of the Final Act
(April 1994)

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

Equals all aggregate measurements of support for basic agricultural products plus all nonproduct-specific aggregate measurements of support plus all equivalent measurements of support for agricultural products.

Tariffication

Conversion of all border measures other than ordinary customs duties into tariff equivalent (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.

ENDNOTES

1. The European Union consists of Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom.

2. The Cairns Group consists of Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

3. The level of producer support that would be necessary to compensate producers for removal of governmental programs.

4. Section 22 requires the U.S. Secretary of Agriculture to establish import quotas (or impose higher tariffs) if imports of a commodity are interfering with the operation of the price support program (even when the program does not contain domestic supply control measures).

5. This discussion will emphasize internal support, border protection, and export competition.

6. Converting of all border measures other than normal customs duties into tariff equivalents.

7. The permitted policies are to include programs such as generally available services (e.g., research, extension and training, inspection, pest and disease control, and marketing and promotion), resource diversion and retirement programs, disaster relief crop insurance, domestic food aid, public stockholding for food security purposes, regional development, and income safety net programs. Criteria for permitted programs include the following: (1) assistance must be provided through a taxpayer-funded government program, not involving transfers from consumers, (2) assistance must not be linked to current or future levels of production, (3) assistance must not be restricted to any specific agricultural product or product sector, and (4) assistance must not have the effect of providing price support to producers.

8. Tariff equivalents would be expressed as specific or ad valorem rates.

9. External prices would be actual c.i.f. unit values for the importing country.

10. Internal prices would be the average price ruling in the domestic market.

11. Rebalancing involves the introduction of tariffs and tariff quotas for some products to reduce disequilibrium in support and protection.

12. Two other studies by the Australian Bureau of Agricultural and Resource Economics (February 1994), and the United States Department of Agriculture (March 1994) produced similar kinds of results.

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