NAFTA, GATT, and Agriculture in the Northern Rockies and Great Plains

Special Report, March 1997

Vincent H. Smith

Northern Plains and Rockies Center for the Study of Western Hemisphere Trade
Acknowledgments

[Acknowledgments to be written. Go on backside of title page.]
NAFTA, GATT, and Agriculture in the Northern Rockies and Great Plains

Special Report, March 1997

Vincent H. Smith

Northern Plains and Rockies Center for the Study of Western Hemisphere Trade
Table of Contents

List of Tables and Figures ................................................................. iv

Introduction .................................................................................. 1

Bilateral and Multilateral Trade Agreements ................................. 2

An Overview of NAFTA and GATT .................................................. 4
  The North American Free Trade Agreement (NAFTA) ....................... 4
    A. A Brief History .............................................................. 4
    B. NAFTA’s Major Provisions ................................................. 5
      1. Tariff Reductions ...................................................... 5
      2. Non-Tariff Trade Barriers .......................................... 6
      3. Financial Investment .................................................. 7
      4. Trade Rules, Including Dispute Settlement Procedures .......... 7
      5. Environmental Issues ................................................ 8
  The General Agreement on Tariffs and Trade (GATT) ................. 8
    A. A Brief History .............................................................. 8
    B. GATT’s General Provisions ................................................ 11
      1. The World Trade Organization, Dispute Settlement, and the
         Trade Policy Review Mechanism ................................... 12
      2. Textiles and Apparel .................................................... 13
      3. General Tariff Liberalization ........................................ 13
      4. Government Procurement ............................................ 14
      5. Trade Rules: Anti-Dumping Procedures .......................... 14
      6. Trade in Services ....................................................... 15
      7. International Investment ............................................. 15
      8. Intellectual Property Rights ........................................ 16

The General Agricultural Provisions of NAFTA and GATT .......... 16
  The Agricultural Provisions of NAFTA ......................................... 17
    1. Market Access ............................................................ 17
    2. Special Agricultural Safeguards ..................................... 19
    3. Export Subsidies ....................................................... 19
    4. Internal Support ........................................................ 19
    5. Grade and Quality Standards ....................................... 19
    6. Sanitary and Phytosanitary Measures ............................... 20
    7. Rules of Origin .......................................................... 20
    8. Commercial Dispute Resolution ..................................... 20
### Table of Contents (continued)

<table>
<thead>
<tr>
<th>The Agricultural Provisions of GATT</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Market Access</td>
<td>21</td>
</tr>
<tr>
<td>2. Export Subsidies</td>
<td>23</td>
</tr>
<tr>
<td>3. Internal Support</td>
<td>24</td>
</tr>
<tr>
<td>4. Sanitary and Phytosanitary Measures</td>
<td>26</td>
</tr>
<tr>
<td>5. Dispute Settlement Procedures</td>
<td>26</td>
</tr>
</tbody>
</table>

**Implications of NAFTA and GATT for Major Commodities Produced in Montana**

<table>
<thead>
<tr>
<th>A. Wheat</th>
<th>27</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. U.S. and World Markets</td>
<td>27</td>
</tr>
<tr>
<td>2. Wheat Provisions of NAFTA and GATT</td>
<td>30</td>
</tr>
<tr>
<td>B. Barley</td>
<td>32</td>
</tr>
<tr>
<td>1. U.S. and World Markets</td>
<td>32</td>
</tr>
<tr>
<td>2. Barley Provisions of NAFTA and GATT</td>
<td>33</td>
</tr>
<tr>
<td>C. Beef and Cattle</td>
<td>35</td>
</tr>
<tr>
<td>1. U.S. and World Markets</td>
<td>35</td>
</tr>
<tr>
<td>2. Beef Provisions of NAFTA and GATT</td>
<td>37</td>
</tr>
<tr>
<td>D. Sugar</td>
<td>38</td>
</tr>
<tr>
<td>1. U.S. and World Markets</td>
<td>38</td>
</tr>
<tr>
<td>2. Sugar Provisions of NAFTA and GATT</td>
<td>41</td>
</tr>
</tbody>
</table>

**Conclusion**

| 43   |

**Endnotes**

| 44   |

**References**

| 47   |
List of Tables and Figures

Tables

1. Average Reductions in Tariffs Under the Uruguay Round ....................... 14
2. NAFTA: Summary of Agricultural Provisions Concerning the U.S. and Mexico .......................................................................................................................... 18
3. GATT: Summary of Agricultural Provisions ........................................... 22

Figures

3. Exports of Wheat and Wheat Flour by Major Exporting Countries (1994/95) .... 29
4. Imports of Wheat and Wheat Flour by Major Importing Countries (1994/95) .... 30
5. U.S. Barley Production, Imports, and Exports (1975/76–1994/95) ............ 32
6. Major Barley Exporters (1994/95) ....................................................... 33
7. Major Barley Importers (1994/95) ....................................................... 33
10. World Beef and Veal Net Exporters (1994) (1,000 metric tons, carcass weight) ... 37
11. World Beef and Veal Net Importers (1994) (1,000 metric tons, carcass weight) ... 37
13. World Sugar Production by Region (1995/96) ..................................... 40
14. World Sugar Exports by Region (1995/96) ....................................... 40
15. World Sugar Imports by Region (1995/96) ....................................... 41
Introduction

Over the past seven years, the U.S. government has been involved in several multilateral and bilateral trade negotiations that have led to one bilateral and two multilateral agreements whose provisions have substantive implications for U.S. trade in agricultural commodities, including wheat, cattle, and sugar, which are all important to Montana agricultural producers. The first of these sets of trade negotiations led to the bilateral Canada-United States Free Trade Agreement (CFTA). The second resulted in the current multilateral General Agreement on Tariffs and Trade (GATT), the provisions of which were accepted in principle by countries participating in the GATT process on December 15, 1993, and implemented on January 1, 1995. The third set of negotiations, initiated under the Bush Administration, led to the multilateral North American Free Trade Agreement (NAFTA), which was approved by Congress in November 1993, and implemented on January 1, 1994.

Since 1945, many such agreements have been negotiated and signed by the U.S. and other countries. For example, the first GATT agreement was signed in 1948; since then, there have been seven additional rounds of negotiations and GATT agreements. However, the three agreements signed by the U.S. since the late 1980s have been substantively different from most previous agreements because they each explicitly addressed the conditions under which trade in agricultural commodities takes place. The result has been that, to a greater or lesser degree, CFTA, NAFTA, and GATT have altered or will alter the structure and behavior of world and domestic markets for agricultural commodities that are of central importance to many Montana producers. These commodities include small grains (wheat and barley), sugar, and cattle and beef products.

The main purpose of this study is to provide a detailed description of the agricultural provisions of NAFTA (which incorporates the provisions of the Canada-U.S. Free Trade Agreement preceding it) and the current GATT for wheat, barley, sugar, and cattle and beef, and to discuss possible implications for producers of these commodities. However, bilateral and multilateral trade agreements, while widely viewed as enhancing economic welfare by economists and many policy makers, are almost always politically highly controversial. The study therefore begins by describing the general nature of these types of agreements. Next, brief histories and descriptions of the general provisions of NAFTA and GATT are presented, followed by overviews of the general agricultural provisions of the two agreements. The final section contains more detailed discussions of the provisions and implications of the agreements that directly relate to wheat, barley, sugar, and livestock products.
Bilateral and Multilateral Trade Agreements

Bilateral and multilateral trade agreements are simply agreements negotiated between two (bilateral) or more (multilateral) countries that change the conditions under which those countries’ citizens carry out trade in a wide array of commodities. Since 1945 (the end of World War II), these types of agreements, and particularly the General Agreement on Tariffs and Trade, have had a long history in relation to trade between developed and developing countries outside of the former Eastern European communist bloc and China. The first GATT agreement, for example, was negotiated in 1948. The consistent objective of the various GATT and most other multilateral agreements negotiated since then has been to reduce restrictions on international trade, especially in manufactured goods. This objective has been motivated by two considerations. First, it is believed that reducing barriers to trade on a multilateral basis leads to a more efficient use of resources and generates higher levels of output and economic welfare for the average citizen in each country. Second, because reducing trade barriers increases the volume of trade between countries and enhances economic welfare through exchange between nations, it is also believed that multilateral trade agreements tend to reduce incentives for political and physical conflict (war) between nations. Similar rationales lie behind less extensive agreements such as NAFTA and CFTA that involve smaller groups of countries.¹

The current broad-based interest among policy makers from many different countries in multilateral initiatives to reduce barriers to trade began in the 1940s. One important reason was the desire to create an international environment that would prevent a third world war. Another was the belief that highly protectionist, high-tariff trade policies implemented by the United States and many European countries during the early 1930s had contributed to extending and deepening the worldwide depression of the 1930s. These general concerns continued to provide the impetus for multilateral and bilateral trade negotiations throughout the Cold War era and into the late 1980s and the 1990s.

Major bilateral and multilateral trade agreements involve not only two or more countries, but also many commodities. Separate provisions of these agreements deal with different industries. For example, the most recent “Uruguay Round” of GATT negotiations led to an agreement that dealt with industries as diverse as agriculture, automobiles, computers, computer software, television, and general intellectual property rights. Within agriculture, under both NAFTA and GATT, separate provisions were negotiated for dozens of commodities.

The multi-commodity approach to reducing barriers to trade is usually adopted in trade negotiations because it increases the probability that agreements on tariff reductions and other forms of trade liberalization (such as the relaxation or removal of quantity restrictions on imports through import quotas) will be reached by the participants. Usually, the most active lobbying groups in the politics of trade negotiations represent the industries and industry workers that are most directly affected by the proposed changes in trade policy. In the context of a single commodity, trade negotiations that reduce import tariffs have adverse effects on the industry making the product in the importing country, but benefit the industry in the exporting country. As a result, when only one commodity is involved, it is difficult for the importing country to agree to any trade liberalization. If, however, several commodities are involved, each country is likely to be an importer of some products and an
exporter of others. Thus, while import-competing industries are likely to lobby against any trade agreements, exporting industries are likely to lobby in support of them. The upshot is that when many commodities are involved, both bilateral and multilateral trade negotiations are more likely to be successful because they will have support from effective lobbying groups (export industries) in both countries (Yandle; Rayner, Ingersent, and Hine).

Another characteristic of multilateral trade negotiations is that they are usually incomplete; they do not cover trade in every commodity, they do not generally result in the complete removal of trade barriers, and they do not involve all trading countries. Historically, many countries have viewed some import-competing industries as “too important” to be included in trade negotiations, either because of powerful industry lobbies or because the industries are genuinely perceived as vital to the economic and defense interests of those countries. Until the late 1980s, for example, agriculture clearly was included in that category by major trading countries such as the member countries of the EU, the U.S., and Japan. Thus, until relatively recently, by mutual consent, discussions about agricultural trade policy have been declared to be off limits. For similar reasons, with respect to most other industries, many governments have been willing to negotiate partial reductions in trade barriers (including tariff as well as non-tariff barriers such as import quotas and licenses, sanitary and phytosanitary regulations, etc.), but have ruled out their complete elimination because the economic costs borne by import-competing industries and the political costs to the governments involved would be too large.

Many countries often do not participate in any given set of trade negotiations. In some cases, the reason is simply that they are not invited to the table. For example, the 1994 North American Free Trade Agreement was explicitly designed to involve only Canada, Mexico, and the U.S. In other cases, countries have been invited (or at least not deliberately excluded) but have chosen not to participate. For example, while the recent GATT trade negotiations involved 106 countries, they did not involve all countries. Most notably, partly by choice and partly because of political difficulties with Western democracies (mainly over human rights issues), China did not participate despite that country’s importance as both a buyer and seller in many international commodity markets, including markets for major agricultural commodities such as wheat.

Finally, the fact that any given set of trade negotiations tends to leave many barriers to trade in place creates incentives for future negotiations over trade. As a result, many multilateral trade agreements incorporate explicit or implicit accords between participating countries about further negotiations on trade liberalization. Under the 1994 GATT agreement, for example, explicit reductions in trade barriers with respect to agricultural commodities have been negotiated. In addition, the participating countries have agreed to carry out further negotiations with respect to agricultural trade between 1995 and 2000 to determine further reductions in commodity-specific agricultural trade barriers subsequent to the year 2000. Less explicitly, the U.S., Canada, and Mexico continue to discuss the possibility of expanding the current NAFTA agreement to include other countries in Central and South America.
An Overview of NAFTA and GATT

The recent NAFTA and GATT trade agreements are widely viewed as important trade policy initiatives. This section provides a brief history of the negotiations preceding each agreement and an overview of the major general provisions of the agreements—except for the agricultural agreements, which are discussed more extensively in a separate section.

The North American Free Trade Agreement (NAFTA)

A. A Brief History

The North American Free Trade Agreement among Canada, Mexico, and the United States is intended to encourage the free flow of trade in goods and investment capital throughout North America. The agreement, signed by the leaders of the participating countries on December 17, 1993, was ratified by the U.S. Congress in November of that year, but only after one of the most heated political arguments about trade policy issues over the past 50 years. The public debate culminated with a nationally televised face-to-face confrontation between Vice President Al Gore and industrialist Ross Perot. At one stage in the debate when Congressional ratification of NAFTA seemed unlikely, all of America’s then living Nobel Prize-winning economists, in clear accord, signed a joint letter advocating that Congress should ratify NAFTA because it would yield net economic benefits for citizens in all three countries.

The agreement was controversial because many U.S. manufacturing industries and some producers of agricultural commodities (especially producers of sugar, fruits, and vegetables in California and Florida) feared they would lose markets to competing Mexican and Canadian firms and farms with lower cost structures (U.S. General Accounting Office; Huffbauer and Schott). A particular concern for some U.S. firms and environmentalists was that cost structures in Mexico were “unfairly” lower because production facilities in Mexico were subject to much less stringent environmental regulations. Thus environmental issues became an important part of the NAFTA debate. Eventually, in part to ensure ratification of the treaty in the U.S. Congress, a side agreement was developed to deal with environmental concerns (Anderson).

For the most part, within the U.S., the NAFTA debate was about whether and how a more liberal set of trade relationships should be established with Mexico. The process of developing a substantially liberalized, largely free trade environment between the U.S. and Canada had been accomplished earlier through the Canada-U.S. Free Trade Agreement (CFTA). The final text of the Canada-United States Free Trade Agreement was agreed on by trade negotiators in December 1987, approved by both the U.S. and Canadian legislative assemblies in 1988, and came into effect on January 1, 1989. The agreement was extensive and incorporated trade liberalization provisions for many sectors of the Canadian and U.S. economies, including the elimination of general tariffs on all commodities other than commodities for which specific exceptions were made in the 18 chapters of the agreement. In addition, under Article 401 of the agreement, the two countries agreed that:
Neither party shall increase any customs duty, or introduce any customs duty, on any goods originating in the territory of the other party, except as otherwise provided in this Agreement.

The agreement also included provisions for reductions of existing tariffs, again under Article 401, and for the reduction and removal of other impediments to trade such as import quotas and import licensing requirements. As a result, by 1994, more than 70 percent of merchandise trade (trade in goods) between the U.S. and Canada entered duty free. In contrast, before the CFTA, Canada’s average tariff (weighted by trade) on goods imported from the U.S. was about 9.9 percent, while the U.S. average tariff on goods imported from Canada was about 3.3 percent (U.S. General Accounting Office).

The CFTA negotiations had been as controversial in Canada as the NAFTA negotiations were in the U.S., and for similar reasons. Many Canadian manufacturing sectors perceived U.S. competitors to have potentially large cost advantages and feared that domestic markets and jobs would be lost to U.S. companies. Also, the CFTA implied larger tariff cuts by Canada than by the U.S. because, as noted above, before 1988, Canada had higher tariff barriers. Thus, during the NAFTA negotiations, both U.S. and Canadian negotiators focused on issues concerned with liberalizing trade with Mexico, both because similar issues had already been resolved between Canada and the U.S. and because reopening those issues might create too much political heat.

With respect to Mexico, U.S. negotiators claimed that one primary objective in developing NAFTA was to ensure that Mexico would make permanent commitments to the economic and political reforms that it had implemented between 1985 and 1993. These reforms, it was argued, had created a more stable environment for U.S. exporters and investors. A second important objective was to reduce Mexican tariffs and other trade restrictions that were limiting the access of U.S. manufacturing firms, providers of financial and other services, and farmers to a large and growing market. Canadian negotiators had similar objectives and, in addition, did not want an independent bilateral agreement between the U.S. and Mexico to undercut the position of Canadian firms that exported goods and services to the U.S.

B. NAFTA’s Major Provisions

The intent of NAFTA is to create a free trade area among Canada, the U.S., and Mexico through the elimination of tariffs and other barriers to trade over the 15-year period 1994–2009. The agreement covers five general areas: (1) tariff reductions; (2) the removal of non-tariff trade barriers; (3) financial investment; (4) trade rules, including dispute settlement procedures; and (5) environmental issues.

1. Tariff Reductions

Tariff duties levied by each of the three countries on imports from the other two countries are to be phased out over a 15-year period between 1994 and 2009, with the bulk of the tariff reductions to be completed by 2004. Different general schedules for the reduction and removal of tariffs were
created for manufacturers, agricultural commodities, and textiles; however, regardless of broad categories, individual tariff reduction schedules have been developed for each type of commodity.

All Mexican tariffs on U.S. manufactured products will be eliminated by 2004. However, in contrast, some U.S. products are defined as import sensitive, so U.S. tariffs on imports of these commodities will be phased out over a 15-year period; some U.S. tariffs will remain in place until 2009.

Both Mexico and the U.S. have provided exemptions from or refunds of tariffs for imports from other countries used as inputs in domestic manufacturing industries. These exemptions, known as duty drawbacks, provide implicit subsidies to the industries using these imported inputs and give them a cost advantage in certain markets. Thus, under NAFTA, duty drawbacks are also to be phased out.

Tariff rates on imports from NAFTA trade partners cannot be increased, and negotiated tariff reductions cannot be rescinded or delayed unless a safeguard action is being taken. Safeguard actions may be taken to delay tariff reductions or even increase trade barriers on a temporary basis when planned or actual NAFTA tariff reductions threaten or cause serious injury to a domestic industry because of increases in imports. Then scheduled tariff reductions may be delayed and the phase-out schedule recalibrated to ease the transition to a free trade environment for the affected domestic industry and workers in that industry. Under NAFTA, temporary import relief measures through the implementation of higher tariffs and/or delays in tariff reductions are permitted for up to four years. It is worth noting that similar safeguard actions are allowed on a bilateral basis (between two countries) under GATT, but only where imports have caused injury to an industry. However, under NAFTA, if a country uses a safeguard action to protect a domestic industry, it must compensate the countries whose export industries are affected or be subject to retaliation in relation to other commodities. In addition, safeguard actions can be taken only after a country has held extensive public hearings and gathered and evaluated all relevant information in an objective manner in order to make a finding of injury. The intent of NAFTA is therefore that safeguard actions should be difficult to invoke because they are exceptional measures to be used only when exceptional problems arise.

2. Non-Tariff Trade Barriers

Generally, all prohibitions and quantitative restrictions on imports from and exports to NAFTA partners are to be removed. Thus, commodity-specific import quotas and import licenses must be removed, although border restrictions may be imposed to protect human, animal, or plant life or the environment. In addition, all Customs User Fees are to be phased out by June 1999. Further, eligible persons may bring with them tools of their trades on a duty-free basis and, beginning in 1998, goods repaired in other NAFTA countries may reenter the country of origin on a duty-free basis. The clear intent of these provisions is to ensure that none of the three NAFTA countries restrict trade through the back door by means other than tariffs.

In addition, because countries have often tried to restrict trade on the basis of sanitary and other health considerations, NAFTA includes provisions that develop clear protocols for dealing with sanitary and phytosanitary issues. Each country is free to develop and apply its own sanitary and phytosanitary standards as long as those standards are based on sound scientific methods. All
nonconforming imports may be banned. Disputes about sanitary and phytosanitary standards are referred to a standing committee of the Trilateral Commission that is responsible for monitoring NAFTA and providing mechanisms for dispute settlement.

3. Financial Investment

Under NAFTA, regardless of where they are located, all NAFTA parties in a financial investment are to be treated in a nondiscriminatory manner according to the national treatment of domestic parties in the country of interest. In addition, no limitations are to be imposed on NAFTA citizens with respect to equity holdings, nor can investors from NAFTA countries be required to divest asset holdings in another NAFTA country because of nationality. Moreover, NAFTA prohibits member countries from applying business performance rules to NAFTA investors. These rules require foreign owners of businesses to export a given level or percentage of goods, make purchases from local suppliers, restrict imports for use in the business or sale from other countries, transfer technology to domestic entities, or act as an exclusive supplier of the firm’s goods and services to a specific region or market. In addition, NAFTA prohibits restrictions of transfers of funds into or out of a member country by entities in the other member countries when those transfers are related to income from investments or their sale or liquidation. The only exception to these provisions is when a member country is confronted with a serious balance-of-payment problem. NAFTA also protects investors in the event of a direct or indirect expropriation or nationalization of assets by permitting expropriations: (1) only for a public purpose; (2) only on a nondiscriminatory basis (that is, only if the assets of all private investors in all NAFTA countries are expropriated); and (3) only on payment of full compensation without delay at fair market value. Finally, an explicit dispute resolution mechanism has been established for breaches of obligations under the investment provisions. This mechanism involves international arbitration rather than reliance on the domestic courts of the country hosting the investment.

4. Trade Rules, Including Dispute Settlement Procedures

Under NAFTA, a Trilateral Trade Commission (TTC) with representatives from the three countries has responsibility for further negotiation and elaboration of the agreement and resolving inter-government disputes concerning the interpretation and application of the agreement. The TTC consists of panels and committees that have responsibility for settling trade disputes. However, permanent working groups provide comprehensive analysis for the TTC panels and committees in five subject areas (rules of origin, customs, standards-related measures, trade and competition, and temporary entry by business persons). The steps involved in any inter-government dispute are as follows: (1) direct consultations between the disputing countries, between agencies, and, if necessary, at the TTC itself; (2) referral of the dispute to an independent panel of experts; (3) dissemination of panel recommendations and findings; and (4) resolution of the dispute or retaliation by the injured party. This process is applicable for disputes about trade in physical goods and financial services. In addition, NAFTA provisions establish procedures by which private disputes, including disputes between private investors and state governments, are subject to binding third-party arbitration.
5. Environmental Issues

NAFTA provides relatively little direct guidance about environmental issues. The agreement does state that each country is free to establish its own environmental standards (as is the case with sanitary and phytosanitary standards). However, it also states that each country should develop standards that are compatible with those of other countries. This provision has been interpreted by some analysts to imply that Mexico will have to develop more stringent environmental regulations over the next few years. In addition, Article 104 of the agreement deals with potential conflicts between NAFTA and other international environmental agreements by allowing other agreements to have precedence over NAFTA rules as long as the parties involved adopt the provisions of the other agreements closest to those incorporated in NAFTA.  

The most substantial environmental issues associated with NAFTA are dealt with in the 1992 trilateral (Canada-U.S.-Mexico) side or parallel agreement specifically directed toward environmental regulation of activities on the Mexican side of the U.S.-Mexico border. This agreement created the Integrated Environmental Plan for the U.S.-Mexico Border Areas. The key provisions of this agreement establish a Border Environmental Advisory Committee and joint initiatives in relation to water and air quality standards, hazardous waste standards, emergency response to environmental crises, and enforcement of regulations. The side agreement is widely viewed as having been essential for U.S. Congressional approval of NAFTA. It was developed in response to pressures from U.S. environmental lobby groups and U.S. firms and workers worried about job and market losses through competition from border area entities located in Mexico to avoid compliance with, and the accompanying costs of, U.S. environmental regulations.

The General Agreement on Tariffs and Trade (GATT)

A. A Brief History

The most recent General Agreement on Tariffs and Trade (GATT) is intended to encourage and expand the free flow of trade in goods and services among the 128 signatory countries to the 1994 GATT agreement. The current GATT is the outcome of eight multilateral rounds of trade negotiations between large and small economies that began in 1947 with what was known as the Geneva Round. The first GATT agreement, which came into force in 1948, involved 23 countries and resulted in approximately 45,000 concessions on tariff rates among the participants. These concessions were largely associated with manufactured and processed products and did not include agricultural commodities or textiles. In the six rounds of GATT negotiations which followed between 1949 (the Annecy Round in France) and 1979 (the Tokyo Round), the focus was mainly on negotiating tariff reductions with new participating countries and further general across-the-board reductions in tariffs on manufactured and processed products. During the Kennedy Round of GATT negotiations in the 1960s, the U.S. did attempt to include agriculture in the GATT process, largely in order to negotiate reductions in tariffs levied by the European Community on U.S. agricultural exports such as wheat, but its efforts were unsuccessful (Premakumar et al.).
In the early 1980s, at the highest levels of government, the U.S. and some other countries were concerned about an apparent worldwide surge in protectionist (high tariff and non-tariff barrier) policies that were impeding those countries’ efforts in specific export markets. Serious reservations were also expressed about the rising use of direct and hidden subsidies for exports that were enabling some countries’ export industries to “dump” goods at very low prices in other countries’ markets. The United States, for example, had particular concerns about “unfair” competition from Japanese automobile and computer chip producers and the European Community wine industry in U.S. markets (Schott).

In addition, by the mid-1980s, the U.S. and other major agricultural exporters such as Australia and New Zealand had become increasingly worried by heavily subsidized exports of many agricultural commodities by the European Union. For example, in the early 1970s, the EU had been a net importer of wheat, but by the late 1980s, it had become the second largest wheat exporter behind the U.S., pushing Canada into third place. Similarly, by the late 1980s, the EU had become the largest exporter of dairy products, poultry, and eggs, and the second largest exporter of barley and beef. These exports were also heavily subsidized, creating a large fiscal burden for both taxpayers and food consumers within the EU and considerable resentment among producers in other exporting countries (Premakumar et al.; Rayner, Ingersent, and Hine). In addition, almost all of the largest agricultural exporting countries expressed serious reservations about the degree to which some importing nations, especially Japan and other Pacific Rim nations, were protecting their domestic agricultural producers from foreign competition through high tariffs and/or a variety of non-tariff barriers such as import quotas, import licensing arrangements, and control of agricultural imports through government “state trading” enterprises (Hathaway and Ingo). Thus, pressure built for substantial reform in agricultural trade policies, both within the EU and among other agricultural exporting nations. In a roughly parallel development, the rapid process of innovation in computer software and hardware and in biotechnology also led several countries to raise questions about the international treatment of intellectual property rights. In addition, several countries wished to bring world trade policies in textiles under the GATT umbrella. Previously, many countries had been participants in multilateral Multi-Fiber Agreements, which limited access to many importing countries’ protected domestic textiles markets (Schott).

In 1986, at the ministerial/cabinet level GATT meeting in Punta del Este, Uruguay, senior politicians and government representatives from 92 countries initiated the eighth GATT round of trade negotiations with the declaration of a major goal:

To achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more effective GATT rules and disciplines.

Significantly, by stating that all measures affecting agricultural trade should be subject to GATT disciplines, the Punta del Este meeting of government ministers emphasized that all agricultural income support policies could be subject to negotiated revision under the GATT process. In addition, the eighth round also received an explicit mandate to address the treatment of intellectual property rights (Schott).
Putting all “trade-distorting” agricultural domestic and trade policies on the table created substantial challenges for GATT trade negotiators. In many developed countries, such as the U.S., Canada, Japan, France, Germany, and the United Kingdom, agricultural lobbies have been very effective in garnering support for domestic and trade programs that enhance farm incomes and protect domestic producers from competition from other countries. Under the guidance of the Reagan Administration, however, in July 1987, U.S. negotiators decided to pursue an aggressive negotiation policy by proposing that all countries abolish all agricultural policies that were “trade distorting.” Thus, the U.S. argued for the removal of any programs that restricted or prevented access to domestic markets by exporting countries or those which allowed producers in exporting countries to provide more of a commodity at lower prices to world markets. If the U.S. proposal had been adopted, trade policies such as export subsidies and import tariffs and import quotas would have been abolished. In addition, any programs that encouraged domestic producers to expand production (such as price support programs and input subsidy programs) would also have been ended. This U.S. proposal was simply politically infeasible, and by the end of 1988, the Uruguay Round of GATT negotiations had stalled.  

A new Republican administration under George Bush, strongly committed to trade liberalization, attempted to kickstart the GATT negotiation in April 1989 by putting forward a new U.S. proposal on agriculture which argued for substantial and progressive reduction in agricultural protection rather than the complete elimination of domestic support. Later that year, the Bush Administration also proposed the concept of “tarrification” under which non-tariff barriers such as import quotas would be converted over time into tariff barriers and then reduced. In addition, under this Bush Administration proposal, general levels of domestic support for agricultural commodities would be reduced, export subsidies would be cut, and a set of rules for dealing with trade barriers resulting from sanitary and phytosanitary regulations would be established. All of these proposals were eventually incorporated into the final version of the Uruguay Round GATT agreement.  

In late 1990, both the U.S. and the Cairns Group, including countries such as Australia, New Zealand, and Argentina, argued for very large reductions in export subsidies (up to 90 percent cuts for each commodity) and general domestic support (up to 75 percent cuts for each commodity) for agriculture. The EU responded by proposing an average sectoral reduction in domestic support of 30 percent; then in December, at a ministerial-level meeting in Brussels, the GATT negotiations again deadlocked over agriculture because of objections by the EU, Korea, and Japan to negotiations with respect to agriculture.  

The negotiation logjam created by the reluctance of the EU to introduce radical changes in its agricultural support programs began to break down in 1991 and 1992, partly because of concerns about the potential breakdown of GATT itself. More importantly, in 1991, low world prices for major agricultural commodities such as wheat raised the budgetary costs of the EU agricultural support programs to levels unacceptable to several major EU member countries including the UK and Germany. The EU budget crisis in 1991 set the stage for major reforms to the EU’s agricultural support program, the Common Agricultural Policy, in 1992. In 1991, Arthur Dunkel, the director general of GATT, had proposed specific cuts relative to levels of domestic support, levels of trade protection, and levels of exports over the period 1989–1990. These included a 20 percent reduction in general subsidies for each commodity, a 36 percent reduction in the value of domestic export subsidies, a 24 percent reduction in the volume of commodities receiving export subsidies, and an
average reduction in import tariffs of 36 percent with a minimum tariff cut of 15 percent for any given agricultural commodity. The 1992 EU agricultural reforms incorporated most of these proposals.

The final step in the resolution of the agricultural component of the Uruguay GATT agreement took place in November of 1992 when, in bilateral negotiations that resulted in the Blair House Accord, the U.S. and the EU developed a mutually acceptable agreement on agriculture. Under the Blair House Accord, the U.S. agreed to a 21 percent reduction in the volume of exports receiving subsidies and only an average reduction of 20 percent in domestic support (rather than 20 percent reductions for each commodity). In addition, a long-standing dispute over trade in oilseeds was resolved. It should be noted that not all EU member countries were satisfied by the Blair House Accord. For example, Professor M. Allais, France’s sole winner of a Nobel Prize in economics, was reported by the Wall Street Journal to have claimed the agricultural agreement would undermine the basis of French culture. Moreover, French farmers lobbied heavily against approval of the agreement (“Handle With Care,” The Economist). However, somewhat atypically, in the end the French government did not step back from its agricultural deal with the U.S. (“The Uruguay Round …,” The Economist).

Once agriculture had been sorted out, intellectual property rights became a bone of contention. However, in December 1993, a new GATT agreement was signed by 117 countries. Finally, in April 1994, the Ministerial meeting of GATT participants at Marrakesh endorsed the agreement after detailed Country Schedules for tariffication, tariff reductions, and other commodity-specific provisions had been negotiated in the interim.

B. GATT’s General Provisions 12

The 1994 GATT agreement extended many preexisting accords about trade policies negotiated in the seven previous GATT rounds. However, the Uruguay Round resulted in several major trade liberalization initiatives and innovations, which are the focus of this section. In addition to trade liberalization in agriculture, discussed in detail below, major components of the 1994 GATT involved trade liberalization in relation to textiles and apparel, general tariff liberalization, and government procurement. In addition, some important changes were made in trade rules dealing with dumping and anti-dumping measures that can be used by damaged parties to offset or “countervail” dumping practices. The 1994 GATT also addressed three new areas: trade in services, investment, and intellectual property rights. Finally, the agreement dealt with several institutional issues including the creation of the World Trade Organization, dispute settlement procedures, and trade policy review mechanisms. This overview begins by examining the institutional provisions of the 1994 GATT.

The World Trade Organization (WTO) was created under the Final Act of the 1994 GATT. Its members are all signatories to the 1994 GATT that have deposited schedules of commitments to meet the obligations of that agreement. Currently, 128 countries are therefore members of the WTO. Another 33 countries (including China and the Republics of the Former Soviet Union) are likely to join, or are considering joining, the WTO.

The WTO operates with a Secretariat (consisting largely of the previous staff of the GATT), which serves the WTO itself and is therefore directly responsible to the member countries. Member countries agree to abide by the terms of the 1994 GATT, including the agreements about trade in services and intellectual property rights. The members of the WTO also agree to follow the dispute resolution procedures established under the 1994 GATT.

The GATT dispute resolution procedures were also modified and unified in the 1994 agreement with the objective of making them more timely, more efficient, and more effective. Under the current procedures established in the Understanding on Rules and Procedures Governing the Settlement of Disputes, as was the case prior to the 1994 GATT, only member nations can initiate dispute resolution procedures against other countries. However, private groups within a country can and do bring potential violations of the GATT to the attention of their governments.

Once a nation initiates a complaint, the dispute resolution procedures operate within specific and tightly defined time limits. First, a 60-day period is established during which the parties attempt to resolve the dispute through consultations. If consultations fail, the party claiming injury may then request the establishment of a three-person dispute resolution panel recommended by the WTO Secretariat which must be set up within 25 to 60 days after the initial request. The panel must issue its report within six to nine months and the recommendations, including those concerning any payments for damages, must be acted upon quite rapidly. Failure of the “guilty” party to pay compensation and/or comply with the recommendation then leads to a finding that the injured party may implement retaliatory measures.

Although these procedures may seem cumbersome, they represent a major reform of the GATT dispute resolution process by imposing strict time limits on the establishment of panels and the periods within which the panels must report. Also, the selection of panel members is now less heavily influenced by either of the parties to the trade dispute, especially the country accused of the trade agreement infraction.

Finally, with respect to institutional arrangements, Annex 3 of the 1994 GATT formally establishes a Trade Policy Review Mechanism under which periodic reviews are to be undertaken concerning trade and other economic policies of member countries that affect world trade. These country-by-country reviews, introduced on a temporary basis in 1988, are to be carried out by a permanent Trade Policy Review Board on the basis of a report provided by the country itself and an independent report prepared by the WTO Secretariat staff. Major trading countries will be reviewed biannually, and all countries must be reviewed within five years of the 1994 agreement (that is, by the year 2000).
The intent is to provide up-to-date information on the degree to which member countries are meeting their GATT obligations. The process may also enable the WTO to establish effective benchmarks against which future trade liberalization negotiations can be developed.

2. Textiles and Apparel

Prior to the 1994 GATT, trade in textiles was largely regulated and restricted through a series of bilateral agreements developed under the umbrella of a series of multilateral Multi-Fiber Agreements (MFAs). The MFAs were really not designed to liberalize trade in textiles and apparel, but to establish and legitimize a complex multi-country system of import quotas and tariffs. Under the 1994 GATT, the system of bilateral quotas negotiated under the MFA is to be phased out over a 10-year period, albeit quite slowly, as the phase-out process will begin with the least restrictive quotas and finish with the most restrictive quotas. In addition, the 1994 GATT establishes a freeze on any new restrictions on trade in textiles and apparel. Despite the fact that the agreement provides individual countries with mechanisms to prevent “sudden surges” in imports as quotas are reduced (in effect, allowing them to delay implementing their commitments to remove textiles trade barriers), this component of the 1994 GATT represents a remarkable accomplishment in trade liberalization. Historically, many countries’ textiles sectors have enjoyed very high levels of protection from foreign competition and, like agriculture, have been exempted from all previous GATT negotiations.

3. General Tariff Liberalization

In addition to developing trade liberalization agreements for agriculture and textiles (sectors previously exempted from the GATT), under the Uruguay Round, substantial proportional tariff cuts were also negotiated for manufactured commodities, although these tariff rates were generally already quite low (an average 6.3 percent prior to the Uruguay Round). Average percentage reductions in tariff levels for industrial goods are reported in Table 1 for developed countries, developing countries, and economies in transition from communism—including, for example, the Republics of the Former Soviet Union, Hungary, Poland, and the Czech Republic. The proportional average cuts in industrial goods tariffs range from 20 percent in developing countries to 38 percent in developed countries, and the proportional cuts implemented by some countries, such as Canada, are even higher. Had no progress been made on trade liberalization in agriculture, textiles, and other areas previously excluded from GATT negotiations, these cuts would represent a substantial movement toward a freer world trade environment; furthermore, they are larger than those achieved for the same commodities under the Tokyo Round in 1979.
Table 1. Average Reductions in Tariffs Under the Uruguay Round

<table>
<thead>
<tr>
<th>Country or Country Groups</th>
<th>Trade Weights for Average Tariffs</th>
<th>Average Tariff Reductions (percentages)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pre-Uruguay Round</td>
<td>Post-Uruguay Round</td>
</tr>
<tr>
<td>Developed Countries:</td>
<td>6.3</td>
<td>3.9</td>
</tr>
<tr>
<td>Canada</td>
<td>9.0</td>
<td>4.8</td>
</tr>
<tr>
<td>European Union</td>
<td>5.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Japan</td>
<td>3.9</td>
<td>1.7</td>
</tr>
<tr>
<td>United States</td>
<td>4.6</td>
<td>3.0</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>15.3</td>
<td>12.3</td>
</tr>
<tr>
<td>Economies in Transition</td>
<td>8.6</td>
<td>6.0</td>
</tr>
</tbody>
</table>


4. Government Procurement

One area in which discrimination against foreign producers of goods and services often applies is government purchases or procurement. The 1994 GATT includes a new Government Procurement Agreement (GPA) which reinforces rules to provide open and nondiscriminatory access to public tenders for the provision of goods and services. However, not all WTO member countries have to abide by this agreement, which is therefore described as a plurilateral agreement, and many have chosen not to sign the GPA. Nevertheless, many large trading countries, including the U.S., the EU, Japan, and Korea, have made substantial concessions in permitting foreign entities access to the market for government procurement contracts.

5. Trade Rules: Anti-Dumping Procedures

For many years, under Article VI of GATT, individual countries have been unilaterally able to impose “countervailing” tariffs and other import restrictions on imports being dumped, or offered for sale below their normal world market value in their domestic markets, by other countries. It is believed the right to countervail against dumping has often been abused because it is inherently difficult to determine what constitutes the normal market value of a product. The 1994 GATT includes a new anti-dumping agreement which, through new common methodological and procedural rules, tries to standardize and make more transparent the basis for anti-dumping actions by individual governments. The new methodology rules specify both the data needed in establishing a case that dumping is taking place and the methods by which the data should be used to estimate the degree of “below-cost” price cutting by the exporting country. The procedural innovations include a de minimus rule under which...
dumping investigations are terminated if prices are being cut by less than 2 percent of the normal export price or the price cuts are applied to less than 3 percent of total imports of the product from all sources by the importing country. The purpose of this rule is to avoid the use of anti-dumping policies when the problem is relatively trivial. In addition, all anti-dumping measures must now include *sunset clauses* under which anti-dumping measures expire after five years unless further review indicates that dumping is continuing. Finally, disputes that arise because of anti-dumping actions are now subject to the new GATT dispute settlement process discussed above.

6. Trade in Services

Trade in services (tourism, financial services, computer support, shipping, air transport, etc.) represents a major component of international trade and is particularly important in the U.S. During the 1990s, annual U.S. exports of services to other countries have been well in excess of $150 billion and amount to about 15 percent of worldwide exports of services. A major U.S. concern during the Uruguay Round of the GATT was to establish some degree of trade liberalization with respect to trade in services. To some degree, this initiative was successful. One component of the 1994 GATT agreements is the General Agreement on Trade in Services (GATS). Like the Government Procurement Agreement (to which it is quite closely related because of the importance of purchases of services by government agencies), the GATS is described as a plurilateral agreement under GATT because not all WTO member countries are participants.

GATS has three main components. First, a set of general obligations has been established that applies to all service sectors. Second, a set of sectoral annexes details how the rules apply to each sector. Third, specific commitments have been made by individual countries for each service sector and types of services within each sector. Trade in services is defined very broadly. It includes cross-border supply of a service (for example, a U.S. bank carrying out international currency exchanges for a Canadian or British company), movement of the consumer to the country of the supplier (for example, Japanese tourists visiting Glacier National Park), movement of the supplier to the country of the consumer (that is, rules allowing suppliers to establish a legal presence in other countries), and the temporary movement of employees who are residents in the supplier’s home country to the foreign country to provide services (for example, an employee of a New York law firm working in London on a temporary basis for a British client). In fact, under GATS, the signatory countries have made very modest commitments to liberalize market access rules and other barriers to trade in services. However, the 1994 GATT agreement is the first to bring trade in services under the umbrella of multilateral trade negotiations.

7. International Investment

While NAFTA achieved substantial progress with respect to the treatment of foreign investment by member countries, the Uruguay Round of GATT achieved relatively little. However, some progress was made in proscribing certain measures that allowed foreign investment to be treated differently than domestic investment. These proscriptions pertain to local content, trade balancing, and foreign exchange balancing requirements. These changes in the rules pertaining to the treatment of investment measures (often called TRIMS), however, are modest. The reason for GATT’s poor
record in relation to the treatment of foreign investment is simple: many countries in the developing world (including relatively large countries such as Brazil and India) have declared their treatment of foreign investment to be off limits to negotiators.

8. Intellectual Property Rights

The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) is an important component of the 1994 GATT. At the outset of the Uruguay Round, concerns about breaches of intellectual property rights by developing countries were widespread in developed economies such as the U.S. and the member countries of the EU. Thus, intellectual property rights issues were placed on the agenda for GATT negotiators at the outset of the Uruguay Round in 1986. However, with some notable exceptions (including China), many developing countries had unilaterally developed more effective intellectual property rights protection laws; thus, a developed country/developing country confrontation did not arise over these issues. However, during the eight-year period of the negotiations, technological advances, especially in relation to computing and biotechnology, created a host of new trade-related intellectual property rights issues that had not been resolved in previous international agreements.

The TRIPS agreement, which incorporates all of the provisions of all previous international agreements on intellectual property rights, is the first to establish a comprehensive set of trade rules for the protection of copyrights, patents, trademarks, industrial designs, trade secrets, and semiconductor designs. The protections provided are quite extensive. For example, copyrights for computer programs and data bases are protected for 20 years, while copyrights for movies, sound recordings, and books are protected for 50 years. In addition, all patents filed after the establishment of the WTO receive 20 years of patent protection (though previously filed patents are only covered by previous agreements). Trademarks receive protection initially for seven years, and applications can be made thereafter for seven-year renewals. It should be noted that the intellectual property rights provisions of the 1994 GATT and NAFTA are very similar, largely because the NAFTA provisions dealing with intellectual property rights were developed with the GATT agreement in mind, although some differences exist with respect to specific arrangements (for example, trademarks are protected for 10-year periods under NAFTA). In addition, under GATT, some countries have up to 11 years to phase in intellectual property rights legislation, while the equivalent NAFTA provisions came into effect when the agreement was signed.

The General Agricultural Provisions of NAFTA and GATT

As we have seen, both NAFTA and GATT deal with a broad array of trade-related issues that cover almost every aspect of trade between the participating countries. In both agreements, the provisions concerning agriculture distinguish the agreements as landmark events in trade negotiations. This section provides a detailed overview of the general elements of these agricultural provisions and a brief discussion of their implications for future developments in agricultural policy. As in the previous section, the agricultural provisions of NAFTA are discussed first and those of GATT second.
Both agreements address issues of *market access* (the removal of non-tariff barriers to agricultural trade), *special agricultural safeguards* (policies to ensure an orderly transition to liberalized trade), *export subsidies, measures of internal support* (domestic policies that affect and distort trade in agricultural products), *sanitary and phytosanitary standards* (regulations restricting agricultural trade because of concerns about animal, human, and plant life), *rules of origin* (which deal with the issue of from which countries products receiving favorable treatment under the agreements can originate), and *commercial dispute resolution*. In addition, provisions in NAFTA also address issues associated with *grades and quality standards*.

**The Agricultural Provisions of NAFTA**

The general agricultural provisions of NAFTA are outlined in Table 2 on the following page. The agricultural component of NAFTA involves two bilateral agreements—one between Mexico and the U.S., and the other between Mexico and Canada. As noted above, under NAFTA, agricultural trade between Canada and the U.S. is governed by the terms of the Canada-U.S. Free Trade Agreement which was implemented in 1989. The focus here is on the agreement between Mexico and the U.S. The implementation period for the agricultural agreement began on January 1, 1994, as did the implementation period for many of the components of NAFTA. Beginning in January 1994, all tariffs on agricultural commodities are scheduled to be phased out, although the transition period for specific commodities varies from five to 15 years. Full implementation of the agricultural agreement is to be achieved by 2008.

1. Market Access

Several important initiatives were implemented to improve access for U.S. agricultural products to Mexican markets and also to improve access for Mexican products to U.S. markets. Adjustments in trade policies concerning tariffs and quotas were to be established in relation to policies extant during the *base period* of 1989–91.

Under the agreement, all import quotas and quantitative restrictions were eliminated immediately. For many commodities, these contracts and other *non-tariff barrier* restrictions to trade were replaced by *tariff-rate quotas* (TRQs), which were designed initially to provide the same degree of protection to domestic producers of import-competitive products. Under a TRQ, a fixed amount of the product of interest is allowed to enter a country and be subjected to either a very low tariff or no tariff. Any additional imports can be imported only if a much higher tariff is paid. Thus, for example, in 1994, Mexico could ship 1,500 metric tons of products with a sugar content in excess of 65 percent to the U.S. without paying a tariff. Any exports of such commodities in excess of 1,500 metric tons (described in the agreement as *over-quota* shipments) were subject to prohibitively high tariffs ranging from 91.2 to 120.3 percent. TRQs have been established for several major commodities by the U.S., including sugar, peanuts, cotton, corn, and orange juice, as well as several other horticultural crops such as tomatoes, squash, eggplant, watermelon, and chili peppers. Mexico has also established TRQs for several commodities including pork, potatoes, malt barley, poultry, eggs, nonfat dry milk, corn, animal fats and oils, and dry edible beans.
Table 2. NAFTA: Summary of Agricultural Provisions Concerning the U.S. and Mexico
IMPLEMENTATION PERIOD:
- Beginning January 1, 1994, all tariffs are to be phased out over a period of 5 to 15 years.
- All agricultural provisions are to be fully implemented by the year 2008.

MARKET ACCESS:
- The base period is established as 1989–91.
- All quotas and quantitative restrictions to agricultural trade between the United States and Mexico are eliminated immediately.
- Non-tariff barriers are converted to tariff-rate quotas (TRQs) to equal the protection of the former non-tariff barrier.
- TRQs are increased annually over the transition period, generally at a rate of 3 percent per year.
- The over-quota tariffs are reduced to zero over a 10- to 15-year period, depending on the product.
- Mexico’s import licensing system for the United States is eliminated.
- Section 22 quotas on imports from Mexico are replaced by NAFTA provisions.

SPECIAL AGRICULTURAL SAFEGUARDS:
- Quota amounts will enter at preferential NAFTA tariffs, and over-quota imports will be subject to Most Favored Nation (MFN) tariff rates, which are not to exceed rates in place on July 1, 1991.
- Quotas receiving the preferential NAFTA tariff will generally be based on the highest annual import volume during the 1989–91 period.
- Quotas will grow at a 3 percent compounded annual rate.

EXPORT SUBSIDIES:
- Export subsidies within the free trade area are inappropriate except to counter the subsidized imports from a non-NAFTA country.
- The United States and Canada are allowed to provide export subsidies into the Mexican market to counter subsidized exports from other countries.

INTERNAL SUPPORT:
- Under NAFTA, all parties should endeavor to move toward domestic support policies that have minimal trade- or production-distorting effects, or policies exempt from domestic support reduction commitments under GATT.

GRADE AND QUALITY STANDARDS:
- The United States and Mexico agree that when either country applies a classification, grading, or marketing measure for a domestic product destined for processing, no less favorable treatment will be given to like products imported for processing.

SANITARY AND PHYTOSANITARY (SPS) MEASURES:
- SPS measures are not to be disguised as restrictions on trade.
- NAFTA explicitly recognizes each country’s right to determine the level of protection necessary to ensure continued agricultural health.
- SPS measures are to be scientifically based.
- Local governments may require more stringent standards, as long as they are scientifically defensible and are administered in a forthright and expeditious manner.

RULES OF ORIGIN:
- The products to be traded with NAFTA preference are required to be of North American origin; no non-NAFTA products are to receive NAFTA preference.
- The de minimis provision, which allows a final NAFTA good to contain a small quantity of the same kind of good from a non-NAFTA source, is to be established.

COMMERCIAL DISPUTE RESOLUTION:
- NAFTA established a trilateral advisory committee to provide a forum for resolving private commercial disputes that arise in connection with transactions in agricultural products.
- The three countries established a joint Committee on Agricultural Trade.
- The NAFTA Committee on Sanitary and Phytosanitary Measures will facilitate SPS disputes.
Over the transition period, the restrictions on agricultural trade associated with the new TRQs are to be phased out through a dual process. First, the quota subject to low or no tariffs is to be increased each year, generally at an annual rate of 3 percent. Second, tariff rates on over-quota shipments are to be reduced to zero over either a 10- or 15-year period.

Finally, Mexico abolished its system of import license requirements as soon as NAFTA entered into force. In addition, the U.S. replaced a system of Section 22 quota restrictions on imports of Mexican agricultural products by TRQs. Thus, by 2008, trade between Mexico and the U.S. in agricultural products will be completely liberalized, except with respect to sanitary and phytosanitary regulations.

2. Special Agricultural Safeguards

As has been noted above, both NAFTA and GATT contain safeguard provisions to prevent the disruption of domestic industries during the transition period. These include the provisions discussed above for only a gradual relaxation of TRQs at an annual rate of 3 percent per year. Amounts imported in excess of the TRQs are then subject to Most Favored Nation (MFN) tariff rates. Initial TRQs were generally established at import levels experienced during the base period 1989-91, to ensure that at the beginning of the transition period in 1994 domestic markets in the U.S. and Mexico would not be disrupted by sudden surges in imports.

3. Export Subsidies

NAFTA identifies agricultural (and all other) export subsidies as inappropriate means for encouraging trade between countries within the free trade area except to counter subsidized imports from a country outside of NAFTA to a country within NAFTA. Thus, Canada and the U.S. will be allowed to provide subsidized agricultural exports to Mexico to counter competition from subsidized exports to Mexico from other countries.

4. Internal Support

Both the CFTA and the GATT contain detailed provisions under which participating countries must reduce domestic support for agriculture in general and specific commodities in particular according to carefully defined criteria. In contrast, the NAFTA provisions simply state that the participating countries should “endeavor” to move toward domestic policies that have minimal effects on patterns of trade or domestic production, or toward domestic policies exempt from regulation under GATT. Thus, the clear intent of NAFTA is to allow domestic agricultural policy changes that affect trade to be mandated under the provisions of GATT rather than through NAFTA.

5. Grade and Quality Standards

As is well known, countries have often attempted to restrict agricultural imports by applying stringent grade and quality standards to imports that are not applied to domestic products. Under NAFTA,
Mexico and the U.S. have agreed that when either country applies a measure regarding classification, grading, or marketing of a domestic product destined for processing, it will provide no less favorable treatment for “like” products imported from the other country for processing. This is an important provision that creates a more level playing field for agricultural products from either country in markets in both countries.

6. Sanitary and Phytosanitary Measures

As discussed above, sanitary and phytosanitary measures were given careful attention in both the NAFTA and GATT agreements, largely because many countries have perceived such regulations to be hidden trade barriers. Under NAFTA, as under GATT, in principle these measures are no longer to be allowed to function as hidden barriers to trade. To accomplish this objective, while NAFTA recognizes each country’s right to establish its own levels of protection to ensure agricultural health, sanitary and phytosanitary measures must now have a scientific basis and must be applied to both domestic and imported products. In addition, regional and local governments within a country are allowed to impose more stringent standards as long as they are scientifically defensible and administered in a straightforward and expeditious manner. A NAFTA Committee on Sanitary and Phytosanitary Measures has also been established to facilitate trade-related and other issues that arise in relation to such regulations.

7. Rules of Origin

In multilateral trade agreements, rules of origin are required to prevent nonparticipating countries from avoiding trade barriers such as higher tariff rates by using a participating country as a transshipment point. Incentives for a transshipment through a participating country exist when tariffs on goods from nonparticipating countries are so high that an exporter in a nonparticipating country can cover any additional shipping and handling costs by exporting to the participating country of interest (say the U.S.) via another participating country (say Mexico). Under NAFTA, commodities receiving NAFTA preferential treatment must be of North American origin. Products produced elsewhere are not to receive NAFTA preferences. This general rule is qualified only by a de minimus provision under which some commodities that receive a NAFTA preference may contain a small amount of the same kind of good from a non-NAFTA source. For example, some juice concentrates processed in Florida may contain very small amounts of juice from fruits grown outside of North America. The de minimus rule permits such concentrates to be exported to Mexico and to receive NAFTA preferences with respect to tariffs.

8. Commercial Dispute Resolution

The general NAFTA provisions for dispute resolution have previously been described in some detail. With respect to agriculture, a trilateral (Canada-U.S.-Mexico) advisory committee on agriculture has been established to provide a forum for resolving commercial disputes that arise with respect to transactions in agricultural commodities. In addition, a three-country joint Committee on Agricultural Trade has been set up to deal with inter-governmental disputes. Finally, as noted already, a NAFTA Committee on Sanitary and Phytosanitary Measures has also been created to
facilitate trade-related and other issues that arise with respect to sanitary and phytosanitary regulations.

**The Agricultural Provisions of GATT**

The general agricultural provisions of the 1994 GATT are outlined in Table 3 on the following page. They are of particular interest because they represent the first (almost) global effort to create a framework for liberalizing trade in agricultural commodities. Commodity-specific provisions relevant to Montana and the Northern Great Plains are described in the next section. Here, the objective is to identify the important general provisions of the GATT that have created the framework within which individual commodity provisions have been developed. While these general provisions are in some respects similar to those developed under NAFTA, a major difference between the NAFTA and GATT agricultural provisions concerns the attention given to domestic price and income support policies. The NAFTA provisions include no substantive requirements with respect to domestic policies that affect agricultural commodity production or trade. In contrast, the 1994 GATT explicitly addresses the issue of domestic support for agricultural commodities in several ways.

GATT was finalized and signed by participating countries in April 1994, and came into effect on January 1, 1995. With respect to the agricultural provisions, an implementation period of six years (1995–2000) applies for developed countries. The 10-year implementation period (1995–2005) for developing countries is longer partly because many signatories recognized that developing-country markets are likely to experience more difficulty coping with adjustments toward liberalized agricultural trade. In addition, many developing countries were politically unwilling to sign on to a six-year adjustment period. Moreover, in many of these countries, the agricultural sector is relatively small and accounts for only a small part of world agricultural production and consumption, and international agricultural commodity trade. Thus, the costs to other countries of allowing developing countries longer adjustment periods were perceived to be relatively small.

1. **Market Access**

A major objective of the Uruguay Round of GATT negotiations was to improve access to domestic markets for agricultural exporters (see, for example, Hathaway and Ingo; Schott; and McCalla). Most commenters agree that in the end substantial progress was made toward this objective. Under the agricultural provisions of the GATT, using the period 1986–88 as the benchmark for tariff rate reductions and import quota liberalization, the GATT signatories agreed to convert non-tariff barriers to tariff equivalent barriers and, by the end of the implementation period, to reduce all tariff rates (including the newly established tariff equivalent rates) by a simple average of 36 percent. For example, if a country were levying a simple tariff at the rate of 50 percent on all agricultural exports, that tariff rate would have to be reduced by 18 percentage points (36 percent of the original tariff rate of 50 percent, or 50 percent multiplied by 0.36) to 32 percent.
Table 3. GATT: Summary of Agricultural Provisions

<table>
<thead>
<tr>
<th>IMPLEMENTATION PERIOD:</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Six years, beginning in 1995 (10 years for developing countries).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MARKET ACCESS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Convert non-tariff barriers to tariff equivalents.</td>
</tr>
<tr>
<td>▪ Reduce tariffs (including tariff equivalents) by 3 percent on a simple average basis.</td>
</tr>
<tr>
<td>▪ Establish minimum tariff cut of 15 percent for each product.</td>
</tr>
<tr>
<td>▪ Require minimum access of 3 percent, expanding to 5 percent of base period domestic consumption for products covered by non-tariff barriers.</td>
</tr>
<tr>
<td>▪ Maintain current access for products covered by non-tariff barriers with greater than minimum percent access.</td>
</tr>
<tr>
<td>▪ Establish special quantity-triggered and price-triggered import safeguards for agricultural products subject to tariffication.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPORT SUBSIDIES:</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Reduce quantity of subsidized exports by 21 percent from 1986–90 levels.</td>
</tr>
<tr>
<td>▪ Reduce budgetary outlays for export subsidies by 36 percent from 1986–90 base.</td>
</tr>
<tr>
<td>▪ Begin reductions from the highest point during 1986–90 levels, or, under certain conditions, the 1991–92 levels.</td>
</tr>
<tr>
<td>▪ Make reduction commitments on a product-specific basis.</td>
</tr>
<tr>
<td>▪ Impose budgetary disciplines on export subsidies for processed products.</td>
</tr>
<tr>
<td>▪ Ban the use of export subsidies for products not subsidized during the base period.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INTERNAL SUPPORT:</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Reduce total aggregate measure of support (AMS) by 20 percent.</td>
</tr>
<tr>
<td>▪ Give credit for reductions made since 1986.</td>
</tr>
<tr>
<td>▪ Establish criteria for non-trade-distorting policies.</td>
</tr>
<tr>
<td>▪ Provide criteria for production-limiting policies.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SANITARY AND PHYTOSANITARY (SPS) MEASURES:</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Base SPS measures on science, using risk-assessment methodologies.</td>
</tr>
<tr>
<td>▪ Encourage the use of international standards, but recognize the right to use stricter standards.</td>
</tr>
<tr>
<td>▪ Require transparency in development and implementation of SPS measures.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SPECIAL AND DIFFERENTIAL (S&amp;D) TREATMENT FOR DEVELOPING COUNTRIES:</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Require lesser reduction commitments for developing countries, equal to two-thirds of corresponding commitment for developed countries, to be implemented over 10 years.</td>
</tr>
<tr>
<td>▪ Exempt least-developed countries from reduction commitments.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DISPUTE SETTLEMENT PROCEDURES:</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Consultations between affected parties may, if needed, proceed to a panel of experts.</td>
</tr>
<tr>
<td>▪ Once the panel has issued a report, neither party may block the adoption of the report.</td>
</tr>
<tr>
<td>▪ If the offending party does not implement the recommendations of the report, the complaining party will automatically have the right to retaliate.</td>
</tr>
</tbody>
</table>
Under GATT, non-tariff barriers implemented via import quotas and/or import licensing arrangements also had to be adjusted to ensure that immediately upon implementation of GATT, imports would be guaranteed access to the domestic market in amounts at least equal to 3 percent of domestic consumption of each product in the base period. Minimum access guarantees are to be expanded to at least 5 percent of domestic consumption during the base period by the end of the implementation period. In addition, if import access for any commodity already exceeds 5 percent of base period domestic consumption in 1994, the current access provisions are to be maintained; that is, countries cannot reduce import quotas below current levels if those levels exceed 5 percent of domestic consumption in the base period.

Finally, special quantity-triggered and price-triggered safeguards were established for agricultural products subject to tariffication to prevent excessive disruption of domestic markets by surges of imports. The details of the trigger levels for quantities and prices are described in Article 5 of the GATT agricultural agreement. The principles are as follows. Import quantity triggers and import price triggers have been established for each product subject to market access provisions. Generally, trigger quantities are determined in relation to consumption of the product in the base period and the current level of market access permitted for imports by the country. The trigger price is typically 90 percent of the average import price at point of entry to the country (c.i.f). When imports exceed the quantity trigger, or when import prices fall below the price trigger, the importing country is allowed to levy higher tariffs either on all imports (in the case of the quantity trigger) or on specific import shipments (in the case of the price trigger). However, tariff rate increases that are introduced under the safeguard provisions are temporary and must be removed within one year.

According to the GATT agreement, the base period is important in determining the degree of trade liberalization associated with import access. As will be seen below, it is also important in relation to mandated changes in export subsidies and domestic agricultural price and income support programs. One reason for choosing 1986–88 as the base period was that by 1993, when the agricultural agreement was hammered out, the two major players in the GATT negotiations over agriculture—the U.S. and the EU—had already cut tariffs, domestic price and income support programs, and export subsidies by the amounts required under the GATT agreement relative to the levels that pertained during the base period. In the case of the U.S., these cuts were accomplished through the provisions of the 1990 Food, Agriculture, Conservation, and Trade (FACT) Act, and partly through the 1996 Federal Agricultural Improvement and Reform (FAIR) Act. In the case of the EU, the cuts were largely accomplished through the 1993 reform of the Common Agricultural Policy. In effect, the base period was selected to ensure that neither the U.S. nor the EU would have to make radical adjustments to domestic farm programs or agricultural trade policies.

2. Export Subsidies

Export subsidies distort trading patterns and domestic agricultural production patterns because they over-stimulate exports and reduce domestic prices in the countries which import the subsidized commodities. They also act as “salt in the wounds” in trade negotiations, exacerbating conflicts over tariff reductions and other import-related trade liberalization measures. Under GATT, relative to the 1986–1990 base period for export related provisions, the volume of subsidized agricultural exports has to be reduced by 21 percent. In addition, budgetary outlays have to be reduced by 36 percent.
from the 1986–1990 base. The requirement that budget outlays on export subsidies be reduced by 36 percent also applies to processed commodities. Finally, the use of export subsidies is banned for commodities that were not subsidized during the base period. It is worth noting that the funding provisions for the U.S. Export Enhancement Program (EEP) in the 1996 FAIR Act are in compliance with GATT export subsidy requirements. In fact, in 1996, 1997, and 1998, the EEP is under-funded relative to GATT requirements.

3. Internal Support

The GATT agricultural agreement is remarkable in that it addresses domestic policies that have the potential to distort trade as well as explicit trade policies such as import tariffs, export subsidies, etc. The level of support provided to domestic producers of an agricultural commodity can affect the amount of the commodity that is produced. Generally, domestic consumption patterns for most agricultural commodities (and especially food and feed commodities such as corn and wheat) are relatively stable. Changes in domestic production patterns caused by domestic agricultural price and income support programs therefore tend to result in approximately equivalent changes in either exports or imports (depending on whether the country is an exporter or importer of the commodity in the absence of domestic production subsidies).

Subsidies for a commodity can take many forms. For example, the use of some farm inputs such as fertilizers may be subsidized, or special loan programs may provide farmers with access to cheap subsidized credit. Alternatively, producers may be guaranteed minimum prices for their products either through floor price schemes which prevent market prices from falling below some predetermined level (such as the loan rate program in the U.S.) or through deficiency payment programs under which the market prices received by producers are topped up to a predetermined level by government payments.

Different countries use very different domestic policies to provide farm price and income supports (see, for example, Johnson). Under the GATT, therefore, each country’s subsidies for each commodity are estimated by an aggregate measure of support (AMS). Specific procedures to measure the AMS for each commodity are outlined in Annex 3 of the agricultural agreement. However, some farm income support programs are not commodity specific. For example, credit subsidies in the form of low interest loans for buildings, equipment, and machinery provide incentives for a general expansion of the agricultural sector. To account for this problem, each country is required to develop a non-product specific AMS estimate. In the U.S., this category includes crop insurance as well as other types of support.

Under the 1994 GATT, total aggregate measures of support must be reduced by 20 percent from their 1986–88 base period levels. As noted before, the policy changes implemented in the U.S. under the 1990 FACT Act and, to a much lesser degree, the 1996 FAIR Act enabled the U.S. to satisfy these GATT requirements. Similarly, the 1993 reform of the EU CAP allowed the EU to comply with the internal support provisions for almost all commodities without developing new policy initiatives.
Some types of income and price support programs are explicitly exempted from the 1994 GATT AMS disciplines. These include any direct payments that are based on fixed areas and yields, or on less than 85 percent of current production, or (in the case of livestock) on fixed numbers of animals. Thus, for example, the market transition payments authorized under the 1996 FAIR Act will not be included in any AMSs calculated for the U.S. because they are based on fixed areas and yields that reflect historical production conditions. In addition, some other types of programs (described in detail in Annex 2 of the agricultural agreement) are exempt. These include the following:

(i) Government funding of general research, research associated with environmental programs, and commodity-specific research programs.
(ii) Pest and disease control programs.
(iii) Training services (including general and specialist training facilities).
(iv) Extension and advisory services.
(v) Market and promotion services where subsidies are provided for the provision of general information and advice (although subsidies that effectively reduce prices are not exempt).
(vi) Inspection services (including health, safety, grading, and standardization services).
(vii) Infrastructure services including electrification, roads and other forms of transport, port facilities, water supply programs, drainage and other general land improvement programs, and infrastructural works associated with environmental programs. In this case, exempt subsidies are only associated with “capital works” such as the construction of dams. Additional preferential subsidies for the use of services (for example, subsidized discounts on electricity rates to farms) are not exempt from AMS measures.
(viii) Public stockholding for food security purposes, including aid for private storage schemes, as long as such schemes can be shown to exist for purposes of maintaining adequate food supplies within the country.
(ix) Domestic food aid to sections of a country’s population who are in need, including subsidies associated with food stamp programs as well as direct gifts of food to the hungry.
(x) Government participation in: (a) income insurance and income safety net programs, as long as such payments relate only to income and payments are made only for losses in excess of 30 percent of average incomes; and (b) crop yield and livestock loss insurance and disaster assistance programs based on crop losses in excess of 30 percent of average production, where average production is measured on the basis of production over the past five years.18
(xi) Structural adjustment programs that facilitate the retirement of farmers and/or farm resources (in particular, land and other resources such as livestock).19
(xii) Structural adjustment assistance provided through investment aids to assist the physical restructuring of producers’ operations.
(xiii) Payments made to farmers under environmental and conservation programs.
(xiv) Payments made under regional assistance programs to farmers in areas where it has been clearly demonstrated that such farmers operate at a substantial disadvantage.20

Several of the above exemptions relate specifically to environmental programs. Consequently, those programs have become known as green box programs. Other exempted programs have become known as blue box programs.
Finally, if countries provide minimal support levels for a particular commodity or for agriculture in general, then, although AMSs are computed for those countries, they do not have to reduce their levels of domestic support. The “cutoff” point is an AMS of less than 5 percent; that is, if a commodity-specific level of support is estimated to be less than 5 percent of what would be the market value of the commodity in the absence of support, then the country has no obligation under the GATT to reduce its AMS for that commodity. In fact, countries may even increase price and income transfers as long as the AMS for a commodity remains below 5 percent.

4. Sanitary and Phytosanitary Measures

Under the GATT agricultural agreement, all participating countries have agreed to adhere to the provisions of the GATT agreement on sanitary and phytosanitary measures. Such provisions apply not only to agricultural commodities, but also to other commodities (for example, pharmaceuticals). The sanitary and phytosanitary agreement has three general themes. The first is that each country has a sovereign right to establish its own sanitary and phytosanitary regulations. The second is that those standards should be based on credible science and not used as an arbitrary means of establishing barriers to trade. The third is harmonization. Toward the goal of establishing common standards across countries, Article 3 of the sanitary and phytosanitary agreement states that participating countries agree, to the greatest extent possible, to base their own agreements on the basis of credible science. In addition, exemptions are permitted in cases where countries have established pest or disease free areas or areas of low pest or disease incidence (as is the case in the United Kingdom with respect to rabies and hoof-and-mouth disease). However, to facilitate trade, the agreement also requires countries to recognize equivalent, although possibly legally different, standards in other countries. Clearly, the thrust of the sanitary and phytosanitary measures agreement is to create a framework for removing regulations that only exist for the purpose of creating non-tariff barriers to trade.

5. Dispute Settlement Procedures

The dispute settlement procedures for agriculture are similar to those for other commodities. As noted previously, key provisions were modified and unified in the 1994 agreement with the objective of making dispute resolution procedures more timely, more efficient, and more effective. Under the current procedures (established in the Understanding on Rules and Procedures Governing the Settlement of Disputes), as was the case prior to the 1994 GATT, only member nations can initiate dispute resolution procedures against other countries. However, private groups within a country can and do bring potential violations of GATT to the attention of their governments. Once a nation initiates a complaint, the dispute resolution procedures operate within specific and tightly defined time limits. First, a 60-day period is established during which the parties attempt to resolve the dispute through consultations. If consultations fail, the party claiming injury may then request the establishment of a three-person dispute resolution panel recommended by the WTO Secretariat, which must be set up within 25 to 60 days of the request. The panel must issue its report within six to nine months, and the recommendations, including those concerning any payments for damages, must be acted upon rapidly. Failure of the “guilty” party to pay compensation and/or comply with the recommendation then leads to a finding that the injured party may implement retaliatory measures.
Implications of NAFTA and GATT for Major Commodities Produced in Montana

Four commodities are of particular importance to many Montana agricultural producers: wheat, barley, beef, and sugar. In a typical year, cash receipts earned by Montana producers from the sale of crops and livestock products amount to about $1.8 billion. Cattle and calves account for about 44 percent of this income, wheat for about 28 percent, barley for about 7.5 percent, and sugar beets for about 3 percent. Collectively, these four products account for over 80 percent of all Montana farm income received from marketing farm products. This section describes and examines the implications of the commodity-specific provisions of NAFTA and GATT for these four commodities. To provide the reader with the market context within which the NAFTA and GATT provisions operate, each subsection begins with a brief description of the U.S. and world markets for each commodity.

A. Wheat

1. U.S. and World Markets

Trends in world wheat production and consumption over the period 1974/75–1994/95 are presented in Figure 1. During that period, annual world wheat production and consumption grew by approximately the same amount—from about 350 million metric tons to about 550 million metric tons, an increase of almost 80 percent. Over the same time period, annual world wheat exports have increased from about 60 million metric tons to about 100 million metric tons, a somewhat smaller increase of approximately 67 percent. Thus, world exports have become slightly less important when compared to world production, but the size of the international market has increased substantially.

Data on U.S. wheat production, exports, and imports are presented in Figure 2. Over the period 1974/75–1994/95, annual U.S. wheat production increased from about 47 million metric tons to about 64 million metric tons, an increase of around 35 percent. Annual U.S. wheat exports over the same period increased from about 27 million metric tons to about 33 million metric tons, a more modest increase of just over 20 percent. Therefore, over the past 20 years, although U.S. wheat production and exports have increased, they have increased more slowly than world production and world exports, and the U.S. share of the world export market has declined. One important reason for the difference between the rates of growth of U.S. output and world output for wheat is technological catch-up. Innovations in wheat varieties that took place in the U.S. during the green revolution years of the late 1950s and the 1960s were being adopted in many other countries in the 1970s and 1980s. Another important reason has been the extensive use of land retirement programs like the CRP by U.S. farmers in major wheat growing areas.\(^{21}\)
Figure 1. World Wheat Production, Consumption, and Exports
(1974/75–1994/95)

Figure 2. U.S. Wheat Production, Imports, and Exports
(1974/75–1994/95)

The relatively slow increase in domestic production, coupled with a more rapid increase in domestic consumption, has reduced the proportion of the U.S. wheat crop available for export; this is one reason for the decline in the U.S. share of world wheat exports over this period. Another piece of this puzzle is the increase in wheat production and exports within the European Union. Until 1993, the EU’s Common Agricultural Policy provided EU farmers with wheat prices that were typically more than 50 percent higher than world market prices, so producers in EU member countries like France and the United Kingdom had large incentives to increase wheat acreage and, through the heavy use of chemical inputs, wheat yields. The result was that the EU, which had been an importer of wheat in the early 1970s, through the use of large export subsidies, had become a large net exporter of wheat by the beginning of the 1990s.

Data on the shares of world export markets enjoyed by major wheat exporting countries are presented in Figure 3 for the 1994/95 marketing year. In that marketing year (as in most marketing years), the five largest wheat exporters, in declining order of importance, were the U.S. (33.03 percent), Canada (22.05 percent), the European Union (17.23 percent), Australia (8 percent), and Argentina (8 percent). The Former Soviet Union (FSU) had a market share of 5.44 percent, but generally exported wheat to other emerging democracies. The dominant roles played by the U.S., Canada, and the EU have led several observers to suggest that at least one or two of these countries may enjoy some monopoly market power. In this regard, Canada, because of its single-desk export marketing program operated by the Canadian Wheat Board, has recently been the focus of particular concern on the part of U.S. policy makers. All three major exporters, either explicitly (the U.S. and the EU) or implicitly (Canada), have operated fairly substantial wheat export subsidy programs over the past few years.

**Figure 3. Exports of Wheat and Wheat Flour by Major Exporting Countries (1994/95)**


Data on the market shares of major wheat importers are presented for the 1994/95 marketing year in Figure 4. China (with a 10.46 percent share of total world imports) and the FSU (with 9.13 percent) were the largest importers in that year, followed by Brazil (6.77 percent), Japan (6.46 percent), Egypt (6.15 percent), Algeria (4.62 percent), and South Korea (4.41 percent). Over 35 percent of all wheat exports were purchased by countries with import market shares of less than 1 percent.
The implications of the above data on world wheat trade data are clear. While the export side of the world wheat market is quite concentrated, the import side is not. On the import side, it is also important to note that Pacific Rim countries (China, Japan, South Korea, the Philippines, and Indonesia) represent a substantial proportion (about 27 percent) of the total world wheat import market. In addition, North Africa (Algeria, Morocco, and Egypt) remains an important market for exporters, with a 12 percent market share, in part because of food aid programs.

2. Wheat Provisions of NAFTA and GATT

NAFTA provisions with respect to wheat are as follows. Prior to the implementation of NAFTA, Mexico restricted wheat import access by means of import licenses and also applied a 10 percent tariff on durum wheat imports. Under NAFTA, Mexico agreed to eliminate all import licenses for wheat and, in 1994, to apply a common tariff to all wheat imports. This tariff will gradually be reduced to zero over a 10-year implementation period between 1994 and 2003. Mexico imports a modest amount of wheat from the U.S., typically just under 1 million metric tons per year. The USDA has forecast that Mexican imports of U.S. wheat are likely to rise moderately as a result of NAFTA to between 1.0 and 1.5 million metric tons, although the NAFTA-related effects of trade liberalization in wheat between Canada and Mexico on U.S. exports to Mexico are not easy to assess.

The GATT provisions with respect to wheat are considerably more complicated. On the export side, the EU and the U.S. have agreed to cut subsidies for wheat by 21 percent in terms of volume of subsidized wheat exports, and by 36 percent in terms of the dollar value of those subsidies. In addition, both countries agreed to reduce their AMSs for wheat by 20 percent. However, by 1994, both the U.S. and the EU had made all of these adjustments. Australia does not directly subsidize wheat exports, nor does it heavily subsidize the production of wheat. Canada also does not provide direct subsidies for wheat exports and recently abolished some of its major wheat subsidy programs—in particular, its transportation subsidy program known as the CROW rate. As a result, Canada has also met its GATT obligation to reduce its AMS by 20 percent. Thus, the implementation of GATT in 1994 had minimal immediate effects on the incentives provided by those countries to
producers and exporters of wheat. However, it must be noted that the EU CAP reforms implemented in 1993 were in part a response to the then-expected agricultural provisions of the 1994 GATT. These reforms have had substantial adverse effects on incentives for wheat production in EU member countries. It is also important to note that Canada and Australia market their wheat through export marketing boards. These boards, known also as *state trading enterprises*, use implicit subsidies to market at least some of their exports, but these subsidies are difficult to measure because of the confidentiality granted to the boards by their respective governments *vis à vis* their commercial transactions. While the operations of these types of state marketing agencies were not examined carefully in the Uruguay Round, they are likely to be subject to much closer scrutiny in the mini-GATT round of negotiations scheduled for the year 2000.

Import access provisions with respect to wheat are as follows for the major importing countries that are members of GATT. Tariff rates on all commodities have to be reduced and import access expanded in most cases. With respect to Pacific Rim countries, in Japan, while the tariff rate quota (TRQ) for wheat is only to be expanded from 5.565 million metric tons in 1995 to 5.740 million metric tons in 2000, the tariff rate on imports over that amount will be cut by 15 percent. In South Korea, tariffs on wheat imports are to be cut by 25 percent by 2004, and in the Philippines, tariff rates are to be cut by 40 percent (from an initial level of 50 percent to 30 percent by 2004). No changes in wheat trade policies will be implemented by Indonesia and China. In the case of China, this is because it has not yet joined the World Trade Organization, although negotiations over its entry into the WTO are beginning.

Other countries that import relatively large quantities of wheat include Brazil, where the TRQ will not change from its current level of about 2 million metric tons, but tariffs on over-quota imports will be reduced by about one-third. In Mexico, the TRQ will also not be measurably increased, and over-quota tariff rates, which are currently 73 percent, will be reduced only to 67 percent. As the tariff rates for U.S. and Canadian wheat negotiated under NAFTA are much lower and NAFTA imports are not subject to quota restrictions, the provisions of the GATT are unlikely to increase the competition faced by U.S. producers from the EU and Australian producers in the Mexican wheat market. In North Africa, GATT had no real effect on wheat import restrictions in Egypt or Morocco, nor were there any GATT-related impacts on wheat import trade policies in the FSU—again because most FSU countries are not yet members of the WTO. Thus, for U.S. wheat producers, the implications of the GATT are relatively modest but generally favorable. Some countries will reduce tariff rates for wheat over the implementation period and/or improve import access to domestic markets. These adjustments are likely to encourage modest increases in world demand for wheat exports that will provide modest benefits for U.S. wheat producers.
B. Barley

1. U.S. and World Markets

Trends in U.S. barley production, exports, and imports over the period 1975/76–1994/95 are presented in Figure 5. Annual domestic production increased between 1975/76 and 1985/86 from about 8 million metric tons to about 13 million metric tons, but subsequently declined. By the end of the period, it had returned to about the same level as in 1975/76. Domestic consumption also remained stable. U.S. exports of barley also remained relatively constant over this period at about 1.3 million metric tons (although with peaks and valleys), or about 17 percent of domestic production. In the early 1990s, imports of barley (which were negligible prior to the 1990s) began to increase, also to about 1.3 million metric tons, mainly from Canada as a result of trade liberalization under the Canada-U.S. Free Trade Agreement.

![Figure 5. U.S. Barley Production, Imports, and Exports (1975/76–1994/95)](image)

Source: USDA/ERS, Feed Situation and Outlook Yearbook, December 1995.

In world markets, as illustrated in Figure 6, the supply side of the world export market for barley is dominated by four major exporting countries: the European Union, Canada, the U.S., and Australia. In the 1994/95 market year, these countries’ export market shares were as follows: the market share for the EU was 39.73 percent, for Canada 18.49 percent, for the U.S. 9.59 percent, and for Australia 8.22 percent. Other exporting countries jointly enjoyed an export market share of about 24 percent. As illustrated in Figure 7, major importers of barley include Saudi Arabia (with an import market share of 23.97 percent), Japan (10.62 percent), China (10.27 percent), the Former Soviet Union (7.45 percent), and other Eastern Europe countries (4.72 percent). Imports to all other countries accounted for the residual 43 percent of the market.
As in the case of wheat, although to a somewhat lesser degree, the export side of the world barley market is characterized by a relatively small number of large exporting countries, while, with the exception of Saudi Arabia, the import side is characterized by a relatively large number of importing countries, none of which purchases a large share of world production. On the export side, the EU and Canada (which also markets all barley exports through its single selling desk agency, the Canadian Wheat Board) have the largest market shares and the greatest ability to exercise monopoly market power.

2. Barley Provisions of NAFTA and GATT

Historically, Mexico has levied high tariffs and implemented quantity restrictions via import licensing arrangements for barley imports from Canada and the U.S. Under NAFTA, Mexico allocated an initial import quota of 120,000 metric tons per year to U.S. barley producers on which no tariffs were levied. Between 1994 and 2004, this duty-free quota will be increased by 5 percent per year to about 195,000 metric tons in 2004. In 1994, over-quota barley imports (that is, imports in excess of the quota) will confront a tariff equal to the greater of either $212 per metric ton ($4.60 per bushel) or
a tariff rate of 175 percent of the c.i.f price at point of entry into Mexico. However, this over-quota tariff on barley is scheduled to be reduced to zero by 2004. Over time, U.S. and Canadian producers are likely to enjoy increased demand for their commodity from Mexican importers.

The GATT provisions for barley are similar to those for wheat. On the export side of the marketplace, the EU is required to reduce its AMS for barley by 20 percent (relative to the 1986–90 base period), to cut its volume of subsidized barley exports by 20 percent, and to reduce the dollar value of its export subsidies for barley by 36 percent. It has accomplished the AMS and export subsidy value objectives through the 1993 reforms of the CAP. In addition, it is likely to meet its commitment to reduce the volume of its subsidized exports because, in major cereal growing areas within the EU, over the past five years farmers have reduced barley acreages in order to comply with new set-aside provisions introduced under the 1993 CAP reforms. The U.S. has a similar commitment to reduce its AMS for barley by 20 percent and to cut export subsidies by the same proportions as the EU. These goals have been accomplished through the provisions of the 1990 FACT Act and the 1996 FAIR Act. Canada is required to reduce its barley AMS by 20 percent (an objective largely accomplished through the abolition of grain transportation subsidies in 1995), to cut import tariffs by 36 percent, and to increase import quotas from 299,000 metric tons to 399,000 metric tons. However, these provisions do not apply to the U.S., whose access to Canada’s barley market is determined by the terms of the CFTA. Australia has no commitments with respect to barley under GATT.

On the import side, access to Saudi Arabia’s barley market is unaffected by GATT because Saudi Arabia is not a member of the WTO. Japan has committed to increase its TRQ for barley minimally from 1.327 million metric tons to 1.369 million metric tons by the year 2000, and to reduce the tariff rate on over-quota imports by 15 percent. The other major importers, China and the FSU, are also not currently members of the WTO; therefore, at this time the GATT has had no effect on market access and trade in barley in relation to those countries. However, China is beginning negotiations to join the WTO and, if it does become a WTO member, the terms that are negotiated with respect to barley will have important ramifications for world barley markets and U.S. barley exports.

On balance, therefore, the effects of the current GATT on U.S. barley exports and imports are likely to be modest. Perhaps the most important aspect of the 1994 GATT concerns EU reductions in barley export subsidies. The 1993 CAP reforms have substantially reduced barley exports from the EU, creating opportunities for the other major exporters (Canada, the U.S., and Australia) in import markets, perhaps especially in the Middle East.
**C. Beef and Cattle**

1. U.S. and World Markets

Trends in world production, consumption, and exports of red meat over the period 1975–1991 are shown in Figure 8. Both world production and world consumption have steadily increased over this period, from about 84 million metric tons in 1975 to about 120 million metric tons in 1991, an increase of about 43 percent. World exports have also increased over the same period, from about 5 million metric tons to about 8 million metric tons, at approximately the same rate as production and consumption. Trends in U.S. production, exports, and imports of beef and veal for the period 1970–1994 are shown in Figure 9. Although U.S. production of these meats has fluctuated over time in accordance with the beef cycle, the long-run trend has been one of only modest growth because output has increased from about 9.7 million metric tons to about 10.8 million metric tons, a rise of around 11 percent over a 25-year period. U.S. imports of beef and veal have remained relatively stable, amounting to just over 1 million metric tons in most years. However, U.S. beef and veal exports have increased from almost nothing in 1970 to close to 1 million metric tons in 1994.

![Figure 8. World Red Meat Production, Consumption, and Exports (1975–1991)](image_url)

In world markets in 1994, as illustrated in Figure 10, on the supply side of the market, major net exporters of beef and veal included (in descending order) Australia (1.164 million metric tons), the European Union (0.779 million metric tons), New Zealand (0.462 million metric tons), Argentina (0.357 million metric tons), and Brazil (0.298 million metric tons). Figure 11 shows that major net importers include Japan (0.843 million metric tons), the Former Soviet Union (0.365 million metric tons), the U.S. (0.345 million metric tons), and Korea (0.170 million metric tons). Mexico (0.108 million metric tons) and Canada (0.060 million metric tons) are also net importers.

The world beef market is complex. Many countries with relatively large exports of beef also are large importers. This is certainly the case for the U.S., which is both the largest producer and the largest consumer of beef in the world, and for other countries such as the members of the EU, Canada, and Mexico. One reason for this phenomenon is that beef exports and imports are often very different in terms of quality. For example, historically the U.S., Canada, and the EU have imported processed beef products, such as corned beef from Argentina and other South and Central American countries. On the other hand, the U.S. has exported large quantities of prime beef cuts to other markets. Thus, changes in trade policies by both exporters and importers have potentially complex implications for U.S. beef producers and consumers.
Figure 10. World Beef and Veal Net Exporters (1994) 
(1,000 metric tons, carcass weight)


Figure 11. World Beef and Veal Net Importers (1994) 
(1,000 metric tons, carcass weight)


2. Beef Provisions of NAFTA and GATT

Under the NAFTA agreement, the U.S. and Mexico have simply exempted each other from their respective import laws. Prior to NAFTA, Mexico did not impose tariffs on live cattle or beef imports, so NAFTA had no effect on U.S. exports of these products to Mexico. Mexico did, however, impose a 20 percent tariff on imports of edible offals (which include brains, heart, liver, etc.). This tariff will be phased out between 1994 and 2003. The U.S. fulfilled its part of the NAFTA agreement by immediately abolishing a 2¢ per pound tariff on all imports of fresh, chilled, and frozen beef, and a 1¢ per pound tariff on imported feed and feeder cattle. These tariffs were modest, so their abolition has had minimal effects on incentives for Mexican cattle producers and beef processors to export beef and beef cattle to the U.S. Under NAFTA, the Canadian government also agreed to abolish tripartite price supports for livestock producers, although the tripartite program had been heavily criticized for some time as ineffective by Canadian cattle producers.
Under the GATT agreement, several major beef-producing countries made commitments to reduce trade restrictions and/or internal supports. The U.S. has agreed to expand its TQR from about 0.634 million metric tons to about 0.656 million metric tons. These imports are subject to an in-quota tariff of $44 per metric ton (2¢ per pound). Over-quota imports were subject to a tariff of $469 per ton in 1994; this tariff will be reduced by 15 percent to $399 per metric ton by the year 2000. Access to U.S. exports by non-NAFTA producers has therefore not been expanded to any substantial degree. Since the U.S. provides relatively little direct support to the beef industries, under GATT the U.S. is not required to make adjustments in its beef AMS.

The same cannot be said for some other major beef exporters. The EU has historically provided substantial subsidies to beef producers, and under GATT is required to reduce its beef AMS by 20 percent. It also subsidizes most of its beef exports and must reduce the volume of subsidized exports by 22 percent and the value of its subsidies to beef producers by 36 percent. Canada is also required to reduce its beef AMS by 20 percent and to reduce its tariffs on beef imports, but these adjustments are unlikely to have major effects on access to Canadian markets by non-NAFTA beef exporters.

Among beef-importing countries, Japan has agreed to reduce its beef AMS by 20 percent and to reduce tariff rates on beef imports by half from the current level of 93 percent. South Korea has agreed to double its TRQ for beef from 123,000 metric tons to 225,000 metric tons between 1995 and 2000. In addition, its tariff rate on over-quota beef imports will be reduced from 44.5 percent to 40 percent. Finally, the Former Soviet Union’s trade restrictions on beef imports are unaffected by the 1994 GATT because it is not a member of the WTO.

With the exception of the constraints placed on EU beef prices and income supports and export subsidies, neither NAFTA nor GATT are likely to have major impacts on the world or the U.S. beef markets in the short to medium term. If, however, future GATT negotiations result in continued reductions in import tariffs and expanded import quotas, especially among Pacific Rim countries, world beef trade could expand substantially over the next 10 to 15 years.

D. Sugar

1. U.S. and World Markets

Trends in U.S. sugar production, imports, and exports for the period 1985–1994 are presented in Figure 12. Over this 10-year period, U.S. production of beet and cane sugar has increased from just over 6 million short tons to about 7.7 million short tons, an increase of approximately 28 percent. In contrast, exports have remained relatively stable at about 0.5 million short tons (approximately 6 percent of domestic production). U.S. imports have fluctuated over the period but exhibit no long-run trends. Currently, the U.S. imports about 1.8 million metric tons of sugar, or approximately 19 percent of domestic consumption, which in 1994 amounted to about 9.5 million metric tons.
Data on world sugar production in 1995/96 are presented in Figure 13. In 1995/96, total world cane and beet sugar production amounted to about 144 million metric tons, of which about 5.76 percent was produced in the U.S. In contrast, South and Central America together produced about 18.65 percent of world output, and the EU’s share was about 14.41 percent. Countries and regions with relatively large shares of world output include the Caribbean (4.25 percent), Mexico (3.6 percent), Sub-Saharan Africa (4.58 percent), Oceania—which includes Australia and New Zealand (4.65 percent), and the FSU (5.46 percent). In addition, the Asian countries account for 31.24 percent of world production.

Major sugar exporting regions for the 1995/96 crop year are shown in Figure 14. Asia is the largest exporting region (18.87 percent) but, as shown in Figure 15, is also the largest importing region, purchasing over 30 percent of all world exports. On a net basis, then, Asia is a substantial sugar importer. In contrast, the three largest exporting regions (Figure 14) on a net basis are South America (with an export share of 18.82 percent), Oceania (with an export share of 14.45 percent), and the Caribbean (with an export share of 12.44 percent). The EU is also a substantial net exporter, providing 14.67 percent of world exports and importing 7.13 percent of total world imports. The EU’s role as both an exporter and importer arises from the terms under which the UK entered the EU in 1973. Under those terms, the UK maintained import quotas that guaranteed ex-British colonies access to UK markets. These quotas, known as Commonwealth preferences, are still maintained and give countries such as Jamaica and Trinidad access to UK markets at EU prices. As EU prices have generally been substantially higher than world market prices under the EU CAP, the Commonwealth preferences quotas are usually filled.
Figure 13. World Sugar Production by Region
(1995/96)


Figure 14. World Sugar Exports by Region
(1995/96)

On the import side, as illustrated in Figure 15, Asia is the largest importer, with a market share of 30.65 percent, followed by the FSU (15.77 percent), the Middle East (13.29 percent), North Africa (8.08 percent), the EU (7.13 percent), and the U.S. (7.03 percent). Canada is also a substantial importer of sugar, with a market share of 3.63 percent. These countries and regions are also large net exporters of sugar (Figure 14).

**Figure 15. World Sugar Imports by Region**

(1995/96)

![Pie chart showing world sugar imports by region](chart.png)


The world market for sugar, along with those for dairy products and textiles, has been regarded as one of the agricultural markets most affected by domestic price and income support policies and explicit trade restrictions. Sugar imports in the U.S. have been subject to trade restrictions since 1790. Since the New Deal, with only a brief hiatus in the late 1970s, U.S. sugar imports have also been heavily restricted by import quotas and/or large tariffs. Currently, both country-specific quotas and large tariffs are utilized to provide U.S. producers with domestic market prices well in excess of world market prices. The history of intervention in sugar markets is almost as long for EU member countries. Napoleon introduced a sugar program in France and its satellite states in the early 1800s that essentially created the Western European sugar industry. Since 1968, EU sugar policy has involved a complex system of import quotas coupled with high tariffs, domestic production quotas, and large export subsidies for the disposal of surplus production. That system has been heavily trade distorting. Thus, at least in the initial trade negotiations, sugar was a prime target for trade liberalization by many countries participating in the Uruguay GATT negotiations.

2. Sugar Provisions of NAFTA and GATT

Sugar proved to be controversial under both NAFTA and GATT. During NAFTA negotiations, U.S. sugar producers lobbied extensively for special treatment, concerned that a rapid reduction in import tariffs would lead to a flood of imports into the U.S. from Mexico and cause a sharp drop in U.S. prices. Under NAFTA, trade both in sugar and sugar-containing products is subject to extensive provisions. The provisions for sugar itself are as follows. If, in a given year during the 15-year transition period for sugar (1994–2009), domestic production in Mexico is less than domestic
consumption, then duty-free imports of sugar from Mexico into the U.S. are subject to the pre-NAFTA highly restrictive quota of 7,258 metric tons. If, during any one the first six years of the transition period (1994–1999), Mexico’s production of sugar exceeds its domestic consumption of sugar and high fructose corn syrups, then it will be accorded net surplus producer status and its duty-free sugar quota will increase to 25,000 metric tons. Thereafter (between 2000 and 2009), assuming Mexico remains a net surplus producer, its U.S. import quota will be expanded to 250,000 metric tons, or about 18 percent of current total U.S. sugar imports.24

Throughout the transition period, over-quota imports from Mexico will be subject to a “second tier” tariff. This tariff, at 16¢ per pound, is applied to all over-quota imports from non-NAFTA countries and is usually substantially in excess of the world sugar price, which has been as low as 7¢ per pound in some years. Between 1994 and 1999, under NAFTA, the U.S. has agreed to reduce the over-quota tariff on Mexican imports by 15 percent (to 13.6¢ per pound); the tariff will be phased out between 2000 and 2009. These trade policy adjustments are likely to have minimal effects on the U.S. sugar industry over the first six years of the 15-year transition period. However, the long-run effects of the NAFTA sugar agreement are likely to be much more substantial. While U.S. domestic prices are likely to remain above world market levels as long as the tariff on non-NAFTA sugar remains in place, it is conceivable that at the end of the 15-year adjustment period, imports of sugar from Mexico may increase significantly, reducing domestic prices somewhat and leading to a contraction in U.S. sugar production. The quantitative size of these effects is disputed, but they are likely to be substantial. One mitigating factor is Mexico’s NAFTA obligation to align its tariff regime for sugar vis à vis non-NAFTA countries with that of the U.S. by 1999, and also to remove all tariffs on Mexican imports of U.S. sugar between 2000 and 2009. The agreement between the two countries to align their tariff structures for sugar in relation to non-NAFTA producers is likely to preclude the possibility of backdoor imports from non-NAFTA countries to the U.S. through Mexico.

The NAFTA agreement also includes provisions for U.S. imports of sugar-containing products from Mexico. At the beginning of the transition period, minimal quotas were established for products such as blended syrups, cocoa, candy, etc. These quotas are to be increased by 3 percent per year over a 10-year transition period (1994–2003). Over-quota imports were initially subject to large tariffs of between 91.2 and 120.3 percent. These tariffs are to be phased out over the 10-year transition period.

The GATT provisions for sugar are also complex, but in general are likely to have smaller effects on world trade in sugar and the U.S. domestic sugar market. Among major net exporters, Australia is required to reduce its sugar AMS by 20 percent and to reduce tariffs on imports of sugar from 55 percent to 28 percent. However, during the base period of 1986–88, Australian tariffs on sugar imports were only about 11 percent. Thus, the effects of GATT on Australian sugar production and sugar exports are likely to be minimal. The story for the EU is a little different. The EU is also required to reduce its sugar AMS by 20 percent. However, sugar production subject to large income transfers in the EU is also constrained by production quotas, so sugar production may not change very much. EU import tariffs also must be reduced by 26 percent, and the volume of subsidized imports must be reduced by 21 percent. However, the effects of these provisions on actual subsidies are also expected to be very small. Finally, because of the EU’s existing system of relatively large import quotas for Commonwealth preference countries, there will be no expanded access to EU markets under GATT, at least not until after the year 2000.
The U.S. GATT obligations with respect to sugar are as follows. The U.S. has agreed to reduce tariffs on sugar imports by 15 percent from its base tariff rate of 18¢ per pound, which is higher than its current tariff rate of 16¢ per pound. Therefore, the effects of GATT on U.S. sugar tariff rates are minimal. In addition, the U.S. import quota for sugar will not change during the GATT implementation period. Given that the U.S. is a large net importer of sugar and that the Uruguay Round of the GATT resulted in no imperatives for change in U.S. sugar trade policy, the effects of the 1994 GATT on U.S. sugar producers are virtually nil. As noted previously, however, this is not the case for sugar with respect to NAFTA.

Conclusion

This special report has described the historical development and the general provisions of the two major multilateral trade agreements negotiated by the U.S. government during the 1970s: NAFTA and GATT. Disputes arose because, while export industries stood to benefit from both multilateral trade agreements, import-competing industries stood to lose as a result of increased competition from foreign producers. The main sections of this paper have concentrated on the provisions of NAFTA and GATT in relation to agriculture. The first of these sections described the general agricultural provisions of the two agreements; the second described the implications of the detailed provisions for wheat, barley, beef, and sugar, and briefly discussed their implications for U.S. and Montana producers of those commodities.

The effects of NAFTA on the U.S. beef and grains industries are likely to be modest and, on a net basis, may be favorable. Over the longer run, toward the end of the 15-year adjustment period, the implications of NAFTA for U.S. sugar producers may be more substantial because of the potential for competition in U.S. markets from Mexican sugar producers. The GATT agreement may also provide U.S. beef and grains producers with benefits from increased access to important import markets in Asia and Europe, especially if satisfactory protocols for the implementation of the GATT sanitary and phytosanitary provisions can be developed. The effects of the 1994 GATT on U.S. sugar producers, however, are likely to be small because minimal changes have been made with respect to sugar tariff policies and market access provisions.
Endnotes

1. Concerns about avoiding conflict were particularly important in leading the original members of the European Economic Community (France, Germany, Italy, Belgium, Luxembourg, and Holland) to create an environment in which citizens of those countries could more easily trade with one another. They are also an important consideration in the debates over whether the current European Union should be expanded to include emerging democracies in Eastern Europe such as Poland, the Czech Republic, and Hungary, and initiatives to encourage trade between Pacific Rim countries such as Korea, Japan, and China (Swann).

2. See Rayner, Ingersent, and Hine for a discussion of these issues.

3. See “Canadian Trade Policy …” (The Economist) for a discussion of these issues.

4. Key sources for the material presented in this section are the U.S. General Accounting Office, and Huffbauer and Schott.

5. A Free Trade Area consists of a group of countries that agree to remove tariffs and other barriers to trade among themselves, but each country maintains its own set of tariffs and trade relationships with “third” countries who are not members of the Free Trade Area. Many such arrangements are legal under the GATT.

6. The NAFTA Trilateral Commission is modeled after the Bilateral Commission, which is responsible for dispute settlement under the CFTA (Article 1101, Canada-United States Free Trade Agreement, 1987).

7. The CFTA has a similar set of arrangements for dispute settlement. The bilateral Joint Canada-U.S. Commission on Grains, which was established in 1994 to examine grain flows from Canada to the U.S. and make policy recommendations, is an example of such a commission.

8. The other agreements include (a) the Montreal Protocol on Substances that Deplete the Ozone Layer, (b) the Convention on International Trade in Endangered Species, and (c) the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal.

9. The European Union, initially called the European Economic Community and later described as the European Community, was founded by the Treaty of Rome in 1958, and at that time included France, Germany, Italy, Holland, Belgium, and Luxembourg as members. Harmonization of agricultural policies began in 1962, and a Common Agricultural Policy, which included very large import tariffs and export subsidies for many agricultural commodities, was established in 1967.

10. It is most doubtful that the U.S. Congress would have ratified a GATT agreement incorporating such radical changes in farm programs.
11. The Cairns Group, established in 1986, included Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, New Zealand, the Philippines, Thailand, and Uruguay. It was formed to give these countries a more effective voice in the Uruguay Round, especially in relation to agriculture. However, as in the past, crucial decisions about the provisions of the 1994 GATT were made largely as a result of bilateral negotiations between the U.S. and the EU.

12. This section draws heavily on Schott, and on the GATT Secretariat.

13. Under Section 22 of the 1933 Agricultural Adjustment Act, the U.S. Congress may introduce restrictions on imports of agricultural commodities to prevent such imports from increasing the cost of agricultural price and income support programs. In this context, a system of quotas, called Section 22 quotas, was established to restrict U.S. agricultural imports from Mexico.

14. Most Favored Nation (MFN) tariff rates are levied on imports from non-NAFTA countries who are signatories to the GATT. The term MFN derives from a GATT provision that countries must levy tariffs on imports from all other signatory countries at the lowest tariff rate offered to the “most favored nation.” Exemptions to this principle, however, have been negotiated under GATT by members of free trade areas, customs unions, and common markets such as the European Union, and for preferential tariff rates for imports by developed countries from less developed countries.

15. The acronym c.i.f. stands for cash, insurance, and freight. A c.i.f. price is a price that includes payment for the product (cash) and insurance and shipping and handling costs (insurance and freight).

16. The base period for export subsidy provisions is 1986–90 rather than 1986–88. One reason for choosing a longer base period for export subsidies may have been that exports exhibit more year-to-year volatility than domestic production and consumption patterns.

17. Domestic demand for most agricultural commodities (especially in developed economies such as the U.S.) is “own-price” inelastic; that is, changes in the price of the product cause only relatively small changes in domestic consumption.

18. Currently, U.S. federal disaster assistance payments are excluded from all AMS measures, but federal crop insurance subsidies are included in the general U.S. AMS.

19. For example, payments made to farmers under the Conservation Reserve Program are exempt from the GATT disciplines on aggregate measures of support. Similarly, payments made under programs such as the federal dairy herd buyout program implemented during the early 1980s would also be exempt.

20. Several European Union programs are specifically designed to provide various forms of assistance to farmers with low incomes in regions where the general population and agricultural producers are economically disadvantaged.
21. Montana, for example, is a state with one of the largest participation rates in the CRP.

22. A large Australian wheat subsidy program that operated throughout most of the post-World War II period was abandoned in 1984.

23. Net exports are defined as the difference between a country’s exports of the commodity and its imports of the commodity. Although both the U.S. and the EU export substantial quantities of beef, on a net basis they are importers; that is, both countries’ beef exports are less than their beef imports (see Figures 10 and 11, p. 37).

24. A country’s net surplus position with respect to sugar is calculated by including high fructose corn syrup consumption with sugar consumption, but not high fructose corn syrup production with sugar production. This has caused serious concern among U.S. sugar producers because of the high levels of high fructose corn syrup consumption in the U.S.
References


“Handle With Care.” *The Economist*, 7 December 1993, pp. 11–12.


