COMMENTARY

GATT Negotiations

It's Important to Have a Deal on Agriculture

by John A. Schnittker, Dermot Hayes, and William H. Meyers

THE Uruguay Round enters its final stage as this issue of *CHOICES* goes to press. As expected, negotiations on agriculture represent one of several major impediments to concluding the Round successfully. Negotiators hope to be close to an agreement on agriculture when the final session convenes on December 3 in Brussels, but that may not be possible. A final crisis, aimed at success but risking failure, cannot be ruled out.

The mood was pessimistic in October as the EC was unable to field an agricultural proposal. U.S. officials began to talk darkly of imminent failure early in November. We remain optimistic that in the end, an agreement can be reached which will benefit U.S. agriculture and other exporters, and lead to an improved world trading system for agricultural products.

Like Budget Negotiations

The process for achieving an agreement on agriculture may be similar to the recent U.S. budget negotiations. Walkouts, threats, and warnings of disaster should be expected. Intervention by heads of state, and postponement of final settlements on (say), agriculture and textiles to January 1991, may be necessary before the negotiations are concluded. Congress may even turn an apparent success in Brussels into failure by vetoing the results in 1991, but that seems unlikely.

Wide Differences

There are wide differences in the U.S. and EC positions. The EC proposes subsidy cuts of only 30 percent over 10 years, as indicated by an Aggregate Measure of Support (AMS). The United States is pushing for 75 percent over 14 years (with credit for cuts since 1986-88). The designation of a reference period has taken on substantial importance because both the United States and the EC have reduced farm subsidies significantly in the past few years. The EC has attempted to maximize its credit for past subsidy reductions by proposing 1986 as the reference period from which to measure changes. However, GATT Agriculture Committee Chairman de Zeeuw has set 1986-88 as the reference period, and this is likely to be sustained. He also proposed that the agreed cuts be made over 10 years, while the U.S. proposes 14 years (1986-2000).

Credit for subsidy cuts already made is at least as important to U.S. agriculture as to the EC. Support and subsidy levels for most agricultural products have been reduced significantly since 1987 and will decline further under the legislation that emerged from the 1990 deficit reduction negotiations. These decisions are independent of the outcome of the Uruguay Round; cuts in U.S. support levels will continue even if the trade negotiation fails. For grains, rice and cotton, subsidy cuts already made plus those scheduled probably equal or exceed ultimate U.S. commitments to the GATT. Since budget policy is driving reduction of our farm supports, the United States must seize the opportunity to commit other countries to similar reductions, and to block efforts here and abroad to increase subsidies again after a few years.

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EC Proposal of November 1990

• Cut internal supports 30 percent from 1986 levels over 10 years. Translate variable levies into tariffs and reduce them by 30 percent over time.

• Impose tariffs of 6 percent on average EC imports of cereal substitutes such as corn milling by-products and oilseeds, and a much higher rate on increased imports.

• Reduce export subsidies in line with cuts in internal support and tariffs.

• Implicit in the proposal: average annual cuts of around 3 percent in subsidies and tariffs from 1986-95.

A Possible Bargain

We visualize two generic possibilities for a final agricultural settlement in December or early in 1991:

• The EC accepts average annual cuts in internal supports and tariffs on the order of 5 percent per year (measuring by an AMS) and firm disciplines on export subsidies. The United States accepts sizable "rebalancing" (tariffs) on EC imports of oilseeds and cereal substitutes.

• The EC gives up its "nonnegotiable position" on rebalancing. The United States accepts a comprehensive agreement calling for average annual cuts of only 3-4 percent per year in internal sup-

U.S. Proposal of October 1990

• Cut internal supports 75 percent by 2000. Make cuts specific to key commodities. Reduce tariffs and expand imports now subject to nontariffs barriers by 75 percent.

• Reduce export subsidies by 90 percent.

• No new tariffs on cereal substitutes or oilseeds.

• Implicit in the proposal: average subsidy cuts around 5 percent per year from 1986-88 to 2000.

(The proposals of the Cairns Group and Canada are similar to the U.S. proposal).

ports (AMS) and tariffs, and slightly larger cuts in export subsidies. Japan would match U.S. and EC commitments, including a small start on rice imports.

The first possibility seems unlikely, since the EC had such a difficult time advancing its initial 30 percent cut in supports and border measures. In addition, U.S. negotiators are under extreme pressure from farm and commodity groups not to accept any form of the rebalancing provision. The EC can rebalance its grain and oilseed prices under GATT provisions at any time, if it provides sufficient compensation to the United States and other countries.

The second possibility will seem to some to be too small an achievement. In fact, some people argue that it would be better to have no agreement than one which requires such limited cuts in support programs in highly protected countries. In our opinion, it would be better to recognize that the intransigence of the EC may be based on political reality that supersedes the importance of the GATT negotiations. The U.S., Cairns Group, and LDCs must get all they can from the EC and Japan but will also need to compromise well beyond the October proposals, or there will be no deal.

Some U.S. farm and commodity interests are concerned that the Uruguay Round will adversely affect U.S. producers. They would be happy to see the negotiations fail, fearing broader cuts in U.S. farm subsidies, extending to sugar and dairy products, for example, which were exempted from cuts in the 1990 farm bill. The failure option, however, overlooks the fact that the U.S., more than the EC and Japan, is committed by law and driven by budget policy to reduce farm subsidies even if there is no agreement in GATT.

The real agricultural objective of the Uruguay Round, therefore, is to lock other countries into reforms as rapid and as sweeping as possible, similar to those already under way in the U.S. Also, it is important to remember that farm subsidy reductions will require very different adjustments in each country. In the highly protected EC, a further 15-20 percent cut in subsidies should provide significant trade gains for the U.S. and Cairns Group countries in most commodities.

Studies by the Center for Agricultural and Rural Development at Iowa State University studies indicate that even modest annual reforms over time by the EC, Japan, and other trading partners will benefit most U.S. producers. The gains would more than offset any negative effects on U.S. producers caused by additional cuts in supports or border measures that might be required here. Net gains will be large and positive for most commodities after a few years. Increases of 5-8 percent in grains, poultry, livestock and milk prices, and of 10 percent in U.S. net farm income by 1996 seem likely following moderate but continuing cuts by U.S. trading partners in their internal supports and border measures. Policy adjustments by EC and Japan will have significant positive effects on international commodity markets. Any further cuts in most U.S. supports associated with the agreement would be modest.

Thus, given the cuts already made or planned in the United States, a moderate GATT agreement, with 30-40 percent reductions in internal supports and border measures and larger cuts in export subsidies over 10 years, is the way to insure that other countries will follow. Binding reductions with few loopholes are more important than deep cuts now. Admittedly, subsidy reductions now possible seem small by the obsolete standard of the original U.S. position. But they are not insignificant for U.S. farmers, and they can probably be achieved. C

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...Ben Sunbury's book on *The Fall of the Farm Credit Empire.* Sunbury worked with the Farm Credit Administration for 30 years. He is an informed observer of the inside operations of the system and its relations with the Washington politicos. The book is published by the Iowa State University Press, Ames, IA 50010. The cost is $27.95 plus postage.

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