Is The Uruguay Round Dead?

by Paul Drazek and Mechel S. Paggi

➢ Much uncertainty surrounds the Uruguay Round of Trade negotiations, especially with respect to agriculture. Negotiations are continuing. However, the outcomes are far from certain. Failure of this round of trade negotiations would not mean an end to GATT. Importantly, the existing environment for agricultural trade would not be immediately changed. Longer term effects are unclear. The biggest loss for U.S. agriculture would be the failure to realize the economic growth in developing countries that a successful Uruguay Round would stimulate and increasing market opportunities that would result from reductions in trade distorting subsidies and import barriers of developed countries.

Despite a resumption of talks, many still ask if the Uruguay Round of trade negotiations is dead? If not, what can be expected to happen next? Will the EC make the necessary concessions in agriculture to allow an acceptable agreement to be achieved? If the Uruguay Round is dead, what are the implications for U.S. agriculture? And how should the United States react? These and many other questions are on the minds of those involved in U.S. agricultural trade. In an attempt to address these questions it is helpful to trace the events of the December 1990 Brussels meeting and beyond, speculate on the likelihood of substantial change in major participant positions, and review options in the absence of an agreement.

Brussels Meeting Disappointing

Failure was snatched from the jaws of success by the European Community (EC) at the Uruguay Round meetings in Brussels the first week of December 1990. Beginning with a rowdy display by some 20,000 European farmers, the intransigent position of those representing European agriculture signaled an unsuccessful conclusion to the troubled talks. The EC refused multiple requests from many countries to engage in meaningful negotiations to reach a compromise regarding the issues separating them from the other participants (the United States, the Cairns Group and many non-aligned less developed countries). Threats soon surfaced of a walkout by the United States, encouraged by the private sector advisors on the scene, if no movement was forthcoming by the EC. The talks seemed doomed from the start.

Later in the week the Chairman of the Ag Negotiating Group, Mats Hellstrom, fashioned what he thought was a well-crafted document on which to build a compromise. While Hellstrom's draft was clearly vague on specifics, it attempted to bridge the gap between the many issues separating the major participants. Suggested percentage reductions were reduced to accommodate the stated EC limits of 30 percent. In addition, the draft addressed internal supports, market access and export subsidies. The base year from which reductions would be calculated was 1990. The time frame was compressed to five years with a promise to consider continued reductions at that time, a move that embraced the larger reduction desired by the Cairns, United States, and others. And the draft appeared to eliminate the need for continued arguments over rebalancing and tariffication. It also offered room for special arrangements for LDCs without exempting them from making reforms.

The EC Ag Minister, Ray MacSharry, rejected the Hellstrom format. He suggested modifications that would have turned his suggested "compromise" into essentially the old EC proposals and rejected the Hellstrom paper as a basis for further negotiations. These actions by MacSharry so frustrated other countries, particularly the Latin American developing country delegation, that a suspension of the talks was announced. By noon Friday, December 7, 1990, hopes for a more fair and open world agricultural trading system carried by many for the past four years had all but been stamped out by the EC. Talks were suspended and negotiators returned home frustrated and disappointed.

Paul Drazek is the Assistant Director of National Affairs for International Trade and Mechel S. Paggi is the International Trade Economist for the American Farm Bureau Federation.

Talks Resumed

After private consultations with many of the delegations, Arthur Dunkel, Chairman of the GATT Trade Negotiations Committee, declared on February 26 that a decision to restart the Round had been made. Reportedly some 30 delegations had agreed on a very general negotiating approach for agriculture that had been crafted by Mr. Dunkel.

The participants have seemingly pledged to achieve specific binding commitments in three major areas—domestic support; market access; export competition—and to reach an agreement on sanitary and phytosanitary issues.

Negotiating teams are currently engaged in discussing technical components of each of the major areas. However, work on sanitary and phytosanitary issues appears to be much farther along than is work in the three major areas.

The Talks Can Fail

For the Round to be successful the EC will have to be willing to move substantially away from the positions expressed in Brussels in December. EC flexibility in agriculture at this point is: (1) minimal at best; (2) wholly dependent on internal EC pressures from non-agricultural interests to "save the trade round"; and (3) only possible if political commitments were to be made to EC farmers that their incomes would be protected in some acceptable fashion.

First, minimal EC commitments in agriculture might not be sufficient to save the Round. However, if such commitments would improve the current trading environment in agriculture, they might be viewed by many as less than a complete failure of the negotiations. This view would be taken especially by non-subsidizing countries, like New Zealand and Australia, simply because they would have the most to lose if EC and the United States exports subsidies were expanded.

Second, no one knows if non-agricultural interests in the EC can muster sufficient pressure to force EC concessions in agriculture. European business and industry are strongly preoccupied with the economic integration of Europe scheduled to be completed in 1992. Preoccupation with these developments may minimize their interest in multilateral negotiations.

Finally, and perhaps most importantly, European farmers do not appear to accept the idea that significant changes in EC farm support programs are necessary.

U.S. Negotiating Authority Important

The GATT Chairman's assurance that the negotiating positions of the parties had changed sufficiently to justify resuming talks opened the door for President Bush to request an extension of Fast Track Negotiating Authority from Congress. The prospects for congressional response are not clear. Labor, environmentalist and some agricultural groups are rallying significant opposition. The Administration's request for fast track negotiating authority also encompassed fast track authority for a prospective North American Free Trade Agreement (NAFTA). This inclusion adds strength to the opposition. Recent polls suggest that the Senate is in support, but that the members of the House are split equally between supporters, uncommitted, and those that oppose the extension.

Without the Fast Track Authority, negotiations are not likely to continue. No country will agree to a deal that will then be picked apart by Congress and run the chance that Congress will insist on a final package that fails to resemble the original negotiated package. Thus, for the Uruguay Round, to succeed, it must face yet another test, complicated by U.S. special interest in bilateral trade issues with Mexico.

Trade War Possible

What happens if the Uruguay Round does, in fact, fail?

First, it must be stressed that this does not mean the GATT, itself, is dead. Current GATT rules and disciplines in world trade will continue in force. However, they may be ineffective and in the end GATT will be weakened substantially if the Round fails.

Second, a number of bilateral agricultural disputes have been on hold. Any one or all of these could become mini, or even major, trade wars. These include the U.S. complaints against the EC's oilseed processing subsidies and Japan's rice import prohibition. U.S. retaliation for either of these measures—if it were to come to that—might be necessary and appropriate.

Retaliation against the EC for its illegal oilseed processing subsidies could involve $2 billion in trade, or about a third of all EC agricultural exports to the United States. Theoretically, the United States could cut off all wine and cheese imports from the EC.

The first procedural step that will likely be taken will be against Japan's rice restrictions. The U.S. rice industry filed a petition under Section 301 of U.S. trade laws. Former Secretary Yeutter assured the industry that this petition would be accepted and that U.S. would retaliate, under Section 301, if Japan refused to open its rice market after a determination that the rice restriction is inconsistent with the GATT—a near certainty. The recent Japanese threat to arrest U.S. Rice Council representatives for an educational display at a Tokyo food show may accelerate action in this dispute.

Third, in the trade war environment, a number of complaints could also be pursued by other countries against certain U.S. trade practices. Chief among them would be the Section 22 import quotas on dairy, peanuts, cotton, and products containing sugar. These quotas would most likely be attacked by withdrawing the 1954 GATT waiver that has allowed the United States to maintain these quotas.

Obviously, such an action would cause a strong negative reaction in the United States toward the GATT. Few in the United States would understand why the U.S. would have to give up import protection in four sectors, when the EC would presumably be allowed to maintain variable import levies on a wide range of commodities, simply because there is no effective GATT rule against variable levies. A U.S. challenge of the variable levy under GATT rules would be a logical U.S. response.

Immediate Effects Minimal

The failure of the GATT negotiations would mean very little for U.S. agriculture in the short term. The existing environment for agricultural trade would not be immediately changed. And that is the problem! Unfair foreign trade barriers will remain in place and continue to inhibit U.S. farm exports. The EC's export subsidies, now around $12 billion per year, will continue unchecked. And the GATT will continue to permit both.

For our part, U.S. trade policies will continue to operate as they have, and domestic farm programs will be implemented according to the 1990 farm bill. Any changes that might have been required as a result of the Uruguay Round will not occur. This includes any negotiated changes in the deficiency payment program or Section 22 import quotas.

There are provisions, however, in the 1990 farm bill to be considered if the Uruguay Round fails. This mechanism would work as follows:

(1) if a GATT agreement has not been enacted by June 30, 1992, the Administration would be authorized to waive acreage limitations on wheat, feedgrains, upland cotton or rice for the 1993-1995 crops, and would be required to institute a marketing loan program for wheat and feedgrains; and

(2) if an agreement has not been enacted by June 30, 1993, the Administration would be required to consider waiving all future budget cuts in agriculture required by the budget package.

Longer Term Effects More Serious

Longer term effects are not clear. New market opportunities overseas will not be opened. We will continue to lose substantial export sales to EC competitors because of EC export subsidies. A wide range of other problems will not be resolved. Canadian transportation subsidies, health regulations being used as trade barriers, seasonal quota restrictions on fresh fruits in Nordic countries, high tariffs on value-added products in many countries, and the GATT-panel dispute settlement process will not be improved, to name a few. The United States will continue to adjust production to demand and the EC will continue to not do so. And, obviously, a trade war is not out of the realm of possibility.

On the whole, a GATT agreement would steer world farm trade in the right direction. Without such an agreement, no one knows in what direction farm trade policy will move.

Despite all the predictions of doom that will be forthcoming if the negotiations fail, trade ministers and heads of state will do what they can to avoid actions that would bring down the international trading system.

Most everyone accepts the notion that a significant contraction in international trade would cause a worldwide recession.

Thus, for U.S. agriculture, the big loss may be the stimulus of economic growth, especially in debt-strapped developing countries, that a successful Uruguay Round would stimulate and increasing market opportunities that would result from reductions in trade distorting subsidies and import barriers of developed countries. Failure to realize this stimulus would be a major net negative for U.S. farmers.