AGRICULTURE, THE EUROPEAN COMMUNITY AND THE URUGUAY ROUND

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The Uruguay Round is the eighth in the series of multilateral trade negotiations held under the auspices of the General Agreement on Tariffs and Trade (GATT). Launched at Punta del Este in Uruguay on 21 September, 1986, the declaration was the most ambitious yet, specifying an examination of trade in agricultural products, services and investment, and completion of the round in four years. For the first time, agricultural trade was accorded prominence in the multilateral trade negotiations.

The Uruguay Round was initiated at a critical time for agricultural trade and the multilateral trading system as a whole. During much of the 1980s, agricultural trade was affected by the build-up of surplus stocks (especially in the United States and the European Community) and the use of export subsidies which resulted in depressed agricultural prices. Further, there was growing tension between major trading partners due to the increasing use of non-tariff barriers and anti-dumping measures, and an erosion of respect for the GATT rules.

The purpose of this paper is to review the progress of the agricultural negotiations in the Uruguay Round focusing on the position taken by the European Community. As one of the major participants, the EC's negotiating position and role in the negotiations are critical to the final outcome and the future of world agricultural trade. In the following section some background is provided on the earlier rounds and the EC's position, the progress in the current round is then reviewed, the MacSharry reform package is briefly examined and, finally, the agreement reached between the United States and the EC in November, 1992 to reduce farm subsidies is discussed.

Agriculture and the GATT

As various authors have noted (for example, see Hine, Ingersent and Rayner 1989; Hathaway 1987), the GATT has had very little impact on the conduct of agricultural trade or the levels of protection afforded the farm sectors of the major western economies. Agricultural commodities have received special treatment and dispensations compared to the GATT rules applying to manufactures. As Hathaway (1987, p. 104) has commented:

> For agriculture ... [t]he GATT rules were written to fit the agricultural programs then in existence, especially the United States. Since then the rules have been adopted or interpreted to fit other national agricultural policies. So instead of developing domestic agricultural policies to fit the rules of international trade, we have tried to develop rules to fit the policies. Not surprisingly, this has not worked very well.

The three basic principles underlying the GATT rules are:

- protection to domestic industry is to be by tariff only and not by quantitative restrictions;

- non-discrimination or the most favoured nation principle requires governments to treat trade of all GATT members equally: any advantage given to one GATT member country must be given immediately, and unconditionally, to all other GATT countries; and

- periodic negotiations are to be held aimed at gradually reducing levels of protection (Hudec 1987).

These general principles are meant to apply to all trade with limited exceptions, for example the right to impose import restrictions because of balance-of-payments difficulties, but there are also special exceptions which apply to agriculture. According to Johnson (1991, p. 311), the inclusion in the GATT rules of the exceptions applying to agriculture lies, to a very considerable extent, with the United States: "American responsibility goes back to the origins of the GATT and to American insistence on exceptions from the general trade rules for agricultural trade". To obtain the agreement of the US Congress, it was necessary to include exceptions permitting the use of import restrictions, where a country was operating a domestic supply management programme, and the use of export subsidies for agricultural trade. In 1955, when the GATT contracting parties found that the US import restrictions on dairy products constituted an infringement of Article XI (covering import restrictions), the United States sought and obtained a GATT "waiver", not just for dairy products but for all US agricultural products, irrespective of whether any supply control measures were in operation. The granting of a waiver of such breadth to "the contracting party that was at one and the same time the world's largest trading nation and the most vocal proponent of freer international trade, constituted a grave blow to GATT's prestige" (Dam 1970, p. 261).

Subsequently, when the anti-subsidy provisions of Article XVI of the GATT were to become effective on 1 January, 1958, the United States was prominent among those countries which refused to endorse an absolute prohibition of export subsidies. As a result, GATT continued to permit the use of export subsidies for primary products subject to what Johnson (1991, p. 313) has termed a "totally meaningless provision" that the export subsidies were not used to acquire "more than an equitable share of world trade in that product" (Article XVI of the GATT).

The United States was hoist on its own petard when the special treatment for agriculture under the GATT rules formed the basis for the development, in the 1960s, of the Common Agricultural Policy (CAP) by the EC. If trade in farm products had been subject to the same GATT disciplines as trade in manufactured products, the CAP could not have relied on variable levies as its main protective device or export refunds to subsidise the sale of its uncompetitive products on world markets. The United States has subsequently devoted considerable diplomatic effort endeavouring to convince the Europeans that the normal GATT disciplines should apply to agriculture.

In the Dillon (1960-61), Kennedy (1964-67) and Tokyo Rounds (1973-79) the United States failed to convince the European Community of the merits of its case and, consequently, the CAP proceeded without fundamental modification, immune from international pressures.[1] In the Dillon Round, the discussions relating to the CAP were focused on negotiating compensation for traditional agricultural exporters for loss of exports following the EC's creation. The EC was successful in resisting moves to provide compensation but did agree to enter into GATT bindings on a limited number of products then thought to be unimportant for EC agriculture, notably, oilseeds, manioc and sheepmeats.

Throughout the 1960s and 1970s the EC was insistent upon its claim that the CAP was a *domestic* support measure unrelated to *trade* policies and, therefore, not negotiable in the GATT. For example, in the Kennedy Round the Commission's negotiating position stated that the CAP's "principles and mechanisms should not be called into question and therefore do not constitute a matter for negotiation" (cited in Harris 1977, p. 39).

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[1] For a brief review see Harris, Swinbank and Wilkinson (1983, pp. 275-9).

During the Kennedy Round, the United States continued to press (again unsuccessfully) for a greater share of the EC market whilst the Communit· continued with the development of the CAP. Very little was achieved for agricultural trade, partly because of the widespread use of non-tariff measures in agriculture and partly because the stage in the development of the CAP made agreement on an EC negotiating mandate for many important products difficult. For example, CAP support regimes for dairy products, beef and sugar were not agreed until July 1966, some two years into the round.

Despite attempts during the Tokyo Round by agricultural exporters to increase their access to the EC market and to bring agriculture under the same disciplines as industrial trade, little was achieved. The EC successfully defended its position, continuing to maintain the "inviolability of the CAP" (Harris 1977). In discussions preceding the Tokyo Declaration, the EC supported the establishment of a separate negotiating group for agriculture due to the "uniqueness of agriculture", thus making more difficult any direct trade-off between US industrial concessions and EC agricultural access. A further aspect of the Community's position at the Tokyo Round was its commitment to the stabilisation of world markets by means of appropriate international arrangements.

Like the earlier rounds, the outcome of the Tokyo Round was disappointing for world agricultural trade. Nothing was achieved with respect to reducing domestic support policies and attempts to introduce international commodity agreements were only partially successful.

The Uruguay Round: The EC's Role

The Uruguay Round was first mooted at a GATT Ministerial Meeting in Geneva in November, 1982. Not surprisingly, with the world economy in the depths of recession, a number of countries were unwilling to embark on another time consuming and potentially disruptive round.

At the May 1986 Tokyo Economic Summit, the G-7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States) acknowledged the serious problems facing world agriculture and drew attention to the urgent need for reform. A few months later, the Cairns Group of fourteen agricultural exporting nations, led by Australia, was formed and added its support for the need to promote a more liberal trading environment. However, according to Alan Oxley (1990), the then Australian ambassador to the GATT, the successful launch of the Uruguay Round in September 1986 was largely due to US efforts, the US having continued to lobby for a new trade round since the disastrous Ministerial Meeting of 1982.

The Punta del Este Declaration

The formal launch of the Uruguay Round occurred at the GATT Ministerial Meeting at Punta del Este, a seaside resort in Uruguay. As previously noted, it was to be the most wide-ranging and ambitious round yet launched and the first round to focus on agricultural trade. With regard to agriculture, the Punta del Este declaration stated:

> Negotiations shall aim to achieve greater liberalisation of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines, taking into account the general principles governing the negotiations, by:
>
> (i) improving market access through, inter alia, the reduction of import barriers
> (ii) improving the competitive environment by increasing discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade, including the phased reduction of their negative effects and dealing with their causes
> (iii)minimising the adverse effects that sanitary and phytosanitary regulations and barriers can have on trade in agriculture, taking into account the relevant international agreements (as quoted in the *Financial Times*, 22 September 1986).

It is significant that the UK held the Presidency of the Council of Ministers in the second half of 1986 and the British Minister, Paul Channon, is credited with having "formulated crucial wording on agriculture" (*Financial Times*, 22 September, 1986).[2]

Two points should be noted about the declaration. First, the EC had finally agreed that the CAP *was* negotiable but, second, the negotiations would not focus exclusively on the CAP's variable import levies and export refunds. The inclusion of "all direct and indirect subsidies and other measures affecting agricultural trade" in the negotiations meant that other countries' support measures, most notably the US deficiency payments, would also be subject to scrutiny and, potentially, negotiable.

The timetable set for the round provided for a mid-term review in Montreal in December, 1988 and a ceremonial conclusion in Brussels in December, 1990. This was necessary to accommodate the US "fast-track" procedure which allowed the President until 31 March, 1991 to sign an agreement, which would then have to be ratified by the Congress. If this deadline were met, the Congress would be committed

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[2] See Swinbank (1989) for a discussion of the role of the presidency in CAP decision making.

to accepting or rejecting the agreement as a whole. Beyond the deadline, the Congress would have the right to examine the agreement item by item, thus unscrambling the package. Following the breakdown of the GATT talks in Brussels, the US extended the deadline for the fast-track procedure by two years.

The Initial Offers

The initial offers submitted by the major negotiating parties in the latter half of 1987 revealed major divergences in the extent of their commitment to reforming agricultural policy. The US initial offer, which has become known as the zero option, proposed the phased elimination over a ten-year period ending in the year 2000 of *all* trade-distorting farm policy mechanisms (Hine, Ingersent and Rayner 1989, p. 386; Josling 1991, p. 272). By contrast, no longer under the influence of a British Presidency, the EC's offer was very limited in scope and would have extended onto the world scene the "managed market" concept of the CAP by means of agreed minimum prices for cereals and cereal substitutes, market sharing arrangements for dairy products and production quotas for sugar (Riethmuller et al.). The EC's position at the time is summed up by the communique issued after the EC Council Meeting of 19/20 October, 1987 (at which the EC's negotiating strategy had been agreed) which stressed that "the fundamental mechanisms of the CAP must be preserved" (as quoted in *Agra Europe*, 30 October, 1987, p. E/2).

The zero option was seen by most of the world, including the Europeans, as an outrageous bluff and was therefore not taken very seriously. As a result, preparation for the mid-term review held in Montreal in December 1988 proved inadequate. The purpose of the review was to reassess and review negotiating positions to find common ground. In eleven of the negotiating groups tentative agreement was reached but agreement proved elusive in the groups concerned with agriculture, intellectual property, textiles and clothing, and safeguards.

It is hardly surprising that the divergent views of the US and the EC on the phasing out of agricultural support measures led to an "unbridgeable" gap, with the parties unable to agree on the long-term objective of the negotiations.[3] With the stalemate in the Negotiating Group on Agriculture threatening to undermine the agreements already reached in other areas, a compromise was reached which allowed the negotiations to continue in Geneva until April 1989.

3 For a fascinating insight into the Montreal negotiations and its key players see Oxley (1990, Ch. 12).

The April 1989 Negotiating Agreement on Agricultural Trade

On returning to Geneva, the US and EC "began seriously to address the agriculture issues" and "moved away from their rigid positions" (Oxley 1990, p. 169). By April 1989, the parties had reached agreement and the mid-term review was brought to a successful conclusion with the Negotiating Group on Agriculture agreeing that:

- "the long-term objective ... is to establish a fair and market-oriented trading system" and "to provide for substantial progressive reductions in agricultural support and protection sustained over an agreed period of time", as measured by an aggregate measure of support (AMS);

- "credit would be given for measures implemented since the Punta del Este Declaration which contribute positively to the reform programme";

- "all measures affecting directly or indirectly import access and export competition" would be included;

- participants would make detailed proposals along these lines by December, 1989; and

- support levels, expressed in national currencies (or in ECU in the case of the EC) would not be raised "above the level prevailing at the date of this decision" (Riethmuller et al. 1990, Appendix A).

The Geneva agreement is significant because it is the first time that the EC had agreed to reduce agricultural support. Despite this concession, the outcome was favourable from the EC's perspective. The provision for "credit" for measures implemented since the Punta del Este declaration meant that significant reductions in the AMS could already be demonstrated, given the high 1986 AMS on which the Commission would subsequently base its calculations. In addition, expressing the support "standstill" in ECUs meant that some Member States could increase their support levels in national currencies simply by devaluing their green conversion rates.[4] Thus for British cereal farmers in April, 1989 one ECU had been worth £0.675071 in the context of the CAP, whilst with the opening of the Single Market on 1 January, 1993 the rate had become 1 ECU = £0.939052, an increase of 39%.

[4] For further discussion see Swinbank (1992).

However, in its December 1989 submission the EC failed to specify the extent to which it was willing to reduce price support under the CAP but it did declare:

> As foreseen by the Declaration in Geneva in April 1989, reductions would be measured against the reference of 1986, in order to give credit for the measures which have been adopted since the Declaration at Punta del Este (GATT Secretariat 1989, p. 4).

At the same time the EC indicated that, despite fundamental reservations, it might be willing to accept some form of tariffication, provided it would be allowed to "rebalance" protection for cereal substitutes (that is, to increase protection levels for cereal substitutes which had previously been bound, in return for reducing support for cereals).[5]

The EC's GATT Offer of 6 November, 1990

During 1990, efforts were directed at trying to bridge the gap which existed between the EC's proposal and in particular those of the US and the Cairns group. However, agreement again proved elusive. A deadline of 15 October, 1990 was set for tabling final offers for the Brussels meeting but the EC failed to meet the deadline.

Commissioner MacSharry's proposal for a 30% reduction in the AMS over a ten-year period, backdated to 1986, met with strong opposition from various groups. For example, the German Farm Minister Ignaz Kiechle, who was facing a national election later that year, was determined "not to sacrifice his farmers on the altar of free trade" (*Agra Europe* 19 October, 1990, p. P/3) and sought compensation for lost income. The French were concerned about the impact on Community preference if import protection were reduced at a faster rate than domestic support (*Agra Europe* 9 November, 1990, p. E/7).

Finally, after months of internal wrangling the Community put forward its formal offer to reduce by 30% support and protection of main products (cereals, rice, olive oil, oilseeds and protein crops, sugar and livestock products). The major components of the offer were:

- support to be reduced by 30% based on an Aggregate Measure of Support, backdated to 1986;

[5]For a comparison of the submissions of the major GATT signatories for long-term agricultural reform see Riethmuller et al. (1990).

- tariffication of certain border measures and a concomitant reduction in the fixed component resulting therefrom, together with "a corrective factor";

- tariffication to be subject to rebalancing; and

- a concomitant reduction of export subsidies (European Community, 1990).

As has already been noted, by backdating the offer to 1986, part of the 30% reduction in support had already been achieved. Further, because the reduction in the AMS could be achieved by either a reduction in price or volume (or a combination of both), the percentage cut in the AMS could translate into a much smaller cut in price. It would also be possible for compensation to occur within product groups.

The offer to introduce tariffication did not conform with the conventional application of tariffs because of the inclusion of the "corrective factor". Annex IV of the EC's offer made it clear that the corrective factor would absorb *all* exchange rate variation and some of any additional change in the world market price compared with that of the base period 1986-88. If world market prices varied by up to 30% from the base period price, then 30% of such variation would be compensated via the corrective factor. If world market prices moved by more than 30% from the base period price, *all* of this additional variation would be compensated by the corrective factor. The corrective factor would therefore act as a variable import levy providing partial or total insulation from changes in the world price. The corrective factor would not be affected by reductions in the fixed component or tariff equivalent of the EC price.

Although the US had shifted away from its zero option, there was still an immense gap between the EC's 30% offer and the US offer of a 75% cut in the main trade-distorting domestic subsidies and a 90% cut in export subsidies over a ten-year period starting in 1991. Not surprisingly, the plan to hold a ceremonial conclusion in Brussels became unachievable when the major participants failed to reach agreement. It was reported that, at the last minute, the EC was prepared to offer further concessions in three sensitive areas—the removal of oilseeds from the rebalancing proposal, a minimum import access arrangement of up to 3% of consumption and a commitment to limit the volume of exports on which export subsidies were paid—but the French Minister "later disassociated himself from the concessions" (*Agra Europe*, 7 December, 1990, pp. P/3 and P/5).

Although agriculture was not the only area in which the parties to the GATT failed to reach agreement, it was seen as the major stumbling block and the EC's unwillingness to concede significant reform was perceived as the major factor causing the breakdown of the negotiations.

The Dunkel Proposal

Despite predictions that the breakdown of the GATT negotiations would result in an all-out trade war, this did not eventuate. The attention of the world powers switched to other concerns—the Gulf War and the events of Eastern Europe. During 1991 very little progress was made in the Uruguay Round. As already noted, the US "fast-track" authority was extended and the EC began debating another set of reforms to the CAP (see below). In December, 1991, Arthur Dunkel, the Director General of GATT, tabled a package of reforms which were intended to form the basis for a final agreement. The main components were:

- an average reduction of 36% in border protection over the period 1993-99 compared with the base period of 1986-88, with a minimum reduction for each tariff line of 15%;

- minimum access of 3% of domestic consumption to be established by 1993, rising to 5% by 1999, determined from a base of 1986-88 domestic consumption in the importing country;

- tariffication of all border measures;

- trade-distorting domestic support measures to be reduced by 20% compared with a 1986-88 base level; and

- budget expenditure on export subsidies to be reduced by 36% and volumes of subsidised exports to be reduced by 24% compared with their average 1986-90 levels.[6]

The agreement was due to come into force on 1 January, 1993 and the GATT signatories were requested to submit detailed proposals by 1 March, 1992 with a view to concluding negotiations by 15 April, 1992 (*Agra Europe*, 3 January 1992, p. E/1).

[6]For a useful discussion of the Dunkel proposal and an analysis of its effects on world agricultural trade, if implemented, see Andrews, Roberts and Love (1992).

The initial EC response to the Dunkel proposal was not particularly favourable. Three major objections were identified by the meeting of EC trade and farm ministers on 23 December, 1991:

- the concession on imports was too large;
- there was no consideration of rebalancing; and
- the classification of production subsidies as production positive was unacceptable (*Agra Europe*, 10 January, 1992, p. P/1).

Nevertheless, in January, the EC, together with the other GATT signatories, agreed to participate in further negotiations based on the Dunkel proposal and to submit detailed schedules on how such a proposal could be implemented. Again, the EC failed to meet the deadline set and on 2 March, 1992, the Commission, after Council discussions which failed to result in a mandate, submitted the technical material relating to tariffication but not the commitments to reductions in support asked for by Dunkel. The French Government was particularly insistent that in submitting this document the EC did not accept the Dunkel paper of December 1991, nor any other of his conclusions that would alter the EC negotiating position in Geneva (*Agra Europe*, 6 March, 1992, p. E/13).

The MacSharry Farm Reforms

Meanwhile, the EC had begun another set of reforms to the CAP. Leaked reports of Commissioner MacSharry's proposal indicated that the reforms were *budget*-driven, *internal* reforms, unconnected with the GATT negotiations (*Agra Europe*, 11 January, 1991, p. P/2). Indeed, the Commission's *Reflections Paper* (1991a) indicated that the reforms were designed to help redress the problems of declining farm income, increasing budget costs, unstable markets, build-up of surplus food stocks and the damage caused to the environment by intensive agricultural production. However, because there was insufficient time to introduce another set of proposals, any GATT reform would need to be based on the MacSharry proposals.

Fundamental to the MacSharry plan were proposals for the cereals regime:

- levels of price support in the cereals sector would be reduced by 35%, bringing them much closer to world market levels;

- farmers would be compensated for their loss of revenue via a system of area-based payments;

- compensation would be "modulated", that is "small" farmers would be compensated in full but beyond a specified size only partial compensation would be paid; and

- to be eligible for compensation, farmers would be required to set aside a portion of their land.

The prices being proposed were different to those of the EC's GATT offer and the MacSharry reforms made no reference to tariffication. Notwithstanding, if the compensation payments were to be classified in the "green box", the MacSharry reforms were more than sufficient to meet the EC's GATT offer.

Heated debate ensued on a number of aspects of the MacSharry proposals, in particular, the magnitude of the price cuts (bitterly opposed by the French farmers), the modulation of compensation (strongly opposed by large British farmers), the form of compensation and whether or not it would be classified as decoupled for the purposes of the GATT negotiations. From an objective economic standpoint, the area compensation payments for arable crops and the headage payments for livestock would not be regarded as production neutral but, as events will show, the eventual classification would be based on political considerations.

Final agreement to the reform package, which was achieved after a marathon negotiating session in May 1992, retained the basic elements of the original proposal with the exception of modulation, which was rejected. As with the proposals, the final agreement revolves around cereals. The reforms are to come into effect in 1993 and will be fully operational by 1996. Whilst some decisions seem fairly straightforward in principle, details on how the compensation and set asides are going to work are complex. Basically, the reforms shift support from consumers to taxpayers and will thus *increase* budget costs.
The key components of the reform are:

- a 29% reduction in cereal prices from the average July buying-in price of 155 ECU/t in 1991-92 to a target price of 110 ECU/t and an intervention price of 100 ECU/t, to be phased in over three years commencing 1993-94;

- full compensation to cereal producers for the reduction in support prices, such compensation to be on an area basis calculated using average regional yields and an aid rate of 25 ECU/t in 1993-93, increasing 35 ECU/t and 45 ECU/t in the subsequent two years;[7]

- to be eligible for area compensation payments producers must comply with the requirement to set aside 15% of arable land in 1993 (set-aside levels for later years to be determined annually), with exemptions for small farmers;

- a 15% reduction in beef intervention prices;

- generous headage payments to be made to beef producers as compensation, subject to upper limits;

- a 5% reduction in butter prices; and

- a set of accompanying measures covering environmental protection, afforestation of rural land and an early retirement scheme for farmers.[8]

As indicated previously, the MacSharry reforms focused on the cereals sector and ignored the problems in the politically sensitive sugar and dairy regimes. The sugar regime was excluded from the reforms and the changes to the dairy regime were minimal.

The US/EC Agreement

Discussions between the US and the EC based on the Dunkel proposals continued during 1992. The Bush Administration was under considerable pressure to conclude an agreement prior to the presidential elections but it was not until 20 November that an agreement was finally reached. The weeks preceding the final accord were particularly stormy. The US proposed to introduce on 5 December a 200% tariff on selected EC food imports and foreshadowed additional imposts in retaliation for the EC's intransigence on reductions in subsidies for oilseeds producers (*Australian Financial Review*, 17 November, 1992).[9] This was compounded by Ray MacSharry's temporary relinguishment of his responsibilities for negotiating the agricultural dossier in the GATT talks, as a result of alleged interference of the EC Commission President, Jacques Delors, in support of French delaying tactics.

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[7] For example, the British Government has determined that the UK should be divided into five regions, with England being treated as a single region. English farmers growing cereals will receive an area payment of 266.85 ECU/ha for their 1995 crop (MAFF, 1992).

[8] For further details see Commission (1991b) and Swinbank (1993).

[9] For discussion of the oilseeds dispute see Swinbank (1993).

The US/EC agreement is broadly along the lines of the Dunkel proposal. If translated into a GATT agreement, all border measures would to be converted to customs tariffs, 3% minimum access would be provided to the EC domestic market (rising to 5% over six years) ar_ reductions would be made in border protection (36%), internal support (20%), direct export subsidies (36%) and subsidised export volume (21%). Reductions in support and protection would to be phased in over a six-year period. The reduction in the volume of subsidised exports would be less than the 24% proposed by Dunkel; this figure was a major point of contention during the negotiations. The base periods would be those proposed by Dunkel.

The EC won a number of important concessions concerning the implementation of the key elements.[10] If implemented, the EC domestic market would be protected from excessive fluctuations on world markets by a variable element called a "special safeguard clause" which would be automatically added to the tariff. The mechanism would come into effect if world market prices fell by more than 10% compared with the 1986-88 base-period import price into the EC. The effect of this variable element, which increases proportionately to the price fall, would be to insulate the EC market from world price movements. Further insulation from currency movements would be provided by calculating EC prices in ECUs. The effect of these measures would mirror the effect of a variable levy.

In calculating the level of domestic support the EC's preferred method, using an AMS, was accepted with credit to be given for reductions in support already achieved. This avoids the need to make uniform reductions in support in all areas. The EC's direct aids (area compensation and headage payments) have been classified in the "green box" and are *exempt* from any commitment to reduce internal support.

Commissioner MacSharry, who resumed his position prior to the crucial negotiations, is reported as saying the deal was "not a disadvantage for EC farming, but an advantage because it consolidates the reform of the EC internationally" (*Agra Europe* 27 November, 1992, p. E/1). The agreement was hailed as a major achievement by US and EC leaders, in particular, Mr John Major who had pushed the Commission hard to reach an accord with the Americans during the British Presidency of the Council of Ministers. The French, predictably, have greeted the agreement with angry protests and threats to block the accord at a later stage. There has also been

[10]Based on *Agra Europe's* version of the European text (27 November, 1992, pp. E/1-4) which reportedly differs from the American version of the text.

heated debate on the compatibility of the agreement with the reforms already introduced under MacSharry's 1992 farm package.

Meanwhile, the Commission retains the responsibility for continuing with the GATT negotiations in Geneva on the EC's behalf. Only when those negotiations are concluded will the Commission present to the Council of Ministers the overall package for approval. Article 114 of the EEC Treaty specifies that the Council of Ministers would decide on a qualified majority vote. Thus, France could block the agreement only if a sufficient number of Member States were willing to vote with it against the overall package, jettisoning the agreements on services and other sectors as well as agriculture, or if it could successfully invoke the Luxembourg Compromise and thus veto the agreement.[11]

Once concluded, the GATT agreement will almost certainly involve some further modification of the CAP which would be enacted by the Council on the basis of qualified majority vote. Tariffication, for example, must be built into the commodity regimes; the sugar policy will have to be amended to match the export and import commitments entered into; milk quotas may have to be reduced to cope with the export constraints; and even cereals, the centre piece of the MacSharry reforms, may be subject to additional set-aside requirements if, in the face of a continuing growth in yields, the EC's export surplus exceeds the new GATT limits.

Conclusion

At the time of writing it is too early to know whether the agreement of November, 1992 will hold and the Uruguay Round will reach a successful conclusion early in 1993. Media reports indicate that frantic activity is occurring in Geneva on the part of the Americans to bring the negotiations to a conclusion before the end of the Bush Presidency on 20 January (*Australian Financial Review*, 8 January, 1993). Although not delivering the extent of reductions in support initially sought by the US and Cairns Group, an agreement along the lines of the US/EC accord should, nevertheless, be viewed as a reasonably successful outcome for world agricultural trade. It is the first time that the EC has been prepared to negotiate the CAP and that in itself is a major breakthrough. The changes which have been made in 1992 will no doubt be followed by other reforms in the late 1990s as the CAP is brought more in line with world market forces. Experience with manufacturing tariffs suggests that several rounds are required to achieve meaningful reductions in protection.

[11] See Swinbank (1989) on the Luxembourg Compromise.

Consequently, the Uruguay Round should be viewed as an initial step towards freer agricultural trade.

Two puzzling questions which are left unresolved by this discussion are first, why the EC ever allowed agriculture to be included in the Uruguay Round of GATT negotiations in the first place; and second, whether at the time the Europeans ever had any real intent that the CAP would be reformed and become subject to GATT disciplines? Answers to these questions await a full political history of EC decision making in the 1980s; but in the meantime agricultural economists could perhaps make a useful contribution by assembling a multi-national team to examine respective Member State perspectives along the lines of the Petit examination of the introduction of milk quotas in 1984 (Petit et al., 1987).

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