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GATT and Agriculture: Gains and Promise!

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The Uruguay Round agreement of the General Agreement on Tariffs and Trade (GATT) is a comprehensive trade pact negotiated among some 117 countries. The objective of the agreement is to expand international trade opportunities. An arduous negotiation process that began in Punta del Este, Uruguay in 1986 was expected to be concluded in 1990. Instead, it was not until December 1993 that a final draft was accepted by negotiators and GATT member countries began to seek ratification. U.S. presidents Ronald Reagan and George Bush both supported the GATT negotiations, and in September President Bill Clinton transmitted legislation to Congress to implement U.S. participation in the agreement. Congress will reconvene after the November elections to vote on this legislation November 29 and December 2.

The Uruguay Round agreement is a comprehensive document covering 21 areas.[1] The provisions of the final agreement are expected to lower tariffs worldwide, improve international exchange of services, protect intellectual property rights, and strengthen global trading rules. By the time the pact comes fully into effect, increased opportunities and efficiency afforded by the agreement are estimated to add annually $100-200 billion to the U.S. economy and hundreds of billions more to the world economy.

One of the key outcomes of the Uruguay Round agreement is the inclusion of provisions to open opportunities for trade of agricultural products. Agriculture has been a particularly difficult area to address in multilateral trade negotiations because it is affected by many interrelated trade and domestic policies. Past GATT negotiations had largely excluded agriculture for this reason. The subsequent costs of barriers to agricultural trade are borne by low-cost producers, whose market access is constrained, and by consumers and taxpayers in countries that impose the constraints. In addition, an expensive export-subsidy competition has developed among countries seeking to maintain their world-market shares for various commodities.

This REAP Policy Paper focuses on the Uruguay Round GATT agreement for agriculture. Reasons why the negotiations took so long to complete are reviewed, the compromise final provisions and their likely effects are described, and policy issues related to congressional implementing legislation are presented. The stakes for agriculture in success of the GATT are substantial. Broilers and cattle and calves, Virginia's two leading agricultural commodities, as well as many of the state's other agricultural products will attain greater international market access because of the Uruguay Round agreement. On the other hand, a few products, such as dairy and peanuts, will face somewhat more international competition as the United States grants reciprocal market access.

The International Negotiations

When the Uruguay Round negotiations began, the participating countries agreed that the objective for agriculture was to expand world market opportunities by bringing domestic and trade policies affecting import access and export competition under strengthened GATT rules. The United States took a

[1] Among the products for which agreements were reached during the Uruguay Round negotiations are agriculture, industrial goods, textiles and clothing, services, and intellectual property rights. Agreements were also reached concerning government procurement, technical barriers to trade, sanitary and phytosanitary measures, subsidies and countervailing measures, antidumping, dispute settlement, and other aspects of international trade rules.

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strong initiative by submitting a proposal under which "all policies which distort agricultural trade" would have been eliminated within 10 years. The European Union (EU), arguably the United States' key competitor in world agricultural markets and key adversary in agricultural trade negotiations, was defensive against such a proposal.[2] Its Common Agricultural Policy (CAP), providing high support prices for unlimited quantities of output, had led to massive surpluses that were exported only with additional subsidies. EU members realized modifications to the CAP would be necessary, but they were determined to protect the CAP from external pressure for reform.

The obstacles regarding agriculture led to a breakdown of the GATT negotiations in December 1990, just when they were initially scheduled to have concluded! Soon after the negotiations broke down, Ray MacSharry, the EU agriculture commissioner, introduced a reform plan for the CAP that suggested limits on the European price-support programs. This was widely viewed as an historic change in EU agricultural policy that could make it easier to reduce trade barriers in the long run.

As the gap between countries, particularly the EU and the United States, narrowed, Arthur Dunkel, director general of GATT, released a draft agreement that aimed to restart negotiations and reach a compromise. Subsequent ratification of CAP reform by the EU removed a major obstacle to the acceptance of the Dunkel draft. Another major obstacle was removed in November 1992, when the EU and the United States resolved a prolonged trade dispute over oilseeds by signing the Blair House Agreement.[3] The Uruguay Round negotiations were concluded just over a year later.

Provisions for Agriculture

The final agreement on agriculture is a compromise of the Dunkel Draft and the Blair House Agreement, with a few negotiated changes. Three main sections deal with increasing trade opportunities. These sections cover 1) limits on the levels of trade-distorting support payments, 2) assurance of some international access to each country's domestic markets, and 3) caps on use of export subsidies.

Trade-Distorting Payments

The agreement provides for a 20-percent cut in each country's total expenditures on domestic policies that are considered trade distorting, such as price supports that apply to unlimited output and encourage expanded production. The cuts will be made in six equal annual installments from a 1986-88 base.[4] Credit will be given for any reductions that have taken place since 1986; the EU and the United States have already met required domestic-support levels through such credits.

Under the Uruguay Round agreement, a set of policies--called green-box policies--were exempted from the domestic support cuts. The exemptions were based on the arguable premise that these policies--which include research and extension, inspection and marketing services, domestic food aid, crop insurance, and many others--have little or no trade-distorting effects. Governments are also able to make direct payments to farmers if the payments are granted under production-limiting programs and are based on fixed area and yield or a fixed number of livestock. Because of these provisions, the EU is able to uphold its commitment to farmers for compensation of any price reduction that results from the CAP reform, while the United States retains the ability to increase deficiency payments provided they are based on fixed acreages and historical yields. Thus, the Uruguay Round agreement mandates few changes in domestic agricultural support policies in either the EU or the United States.

Market Access

The Uruguay Round agreement provides foreign-market access primarily through two provisions. The first provision is "tariffication," which converts existing non-tariff barriers--such as U.S. import quotas, the EU's variable import levies, and similar policies in other countries--into their tariff equivalents, using a 1986-88 base. After these tariffs equivalents are calculated and added to the previously existing tariffs, the resulting total tariffs are to be reduced, over six years, by an average of 36 percent.

[2] The EU countries are Belgium, Denmark, Germany, Greece, France, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and the United Kingdom. Other important parties to the agricultural negotiations included importers such as Japan and South Korea and exporters such as Australia, Brazil, and Canada.

[3] Under the Blair House Agreement, the EU restricted the oilseed acreage eligible for support payments. The EU also agreed to compensate the United States for past damage by allowing 500,000 metric tons of corn to enter Portugal under low tariffs. The Blair House Agreement (so named because it was reached at the Blair House in Washington, D.C., where guests of the president often stay), was so important to the Uruguay Round negotiations on agriculture that it is annexed to the back of the final GATT text.

[4] Developing countries have been offered special consideration and their corresponding amount of reductions is 14 percent over a period of 10 years.

The average tariff cut allows smaller cuts for sensitive commodities; however, each individual tariff must be reduced by a minimum of 15 percent.

The Uruguay Round agreement also includes provisions that require minimum access for imported commodities into each country's domestic markets. Initially, the access must equal to at least three percent of consumption, rising to five percent in 2001. This market access must be facilitated by low, non-restrictive tariff rates on the minimum required imports (the quantity afforded the reduced rates is called a "tariff-rate quota"). Current access opportunities that exceed the minimum levels must be maintained at those higher levels.

Tariffication makes the levels of barriers more transparent for domestic producers, consumers, and traders. Lowering tariffs will improve trade possibilities, and adoption of the tariff mechanism by all GATT members is beneficial as a basis for future trade negotiations. The effectiveness of the Uruguay Round tariff cuts depends on the initial tariff levels from which the cuts are made. The Uruguay Round documents provided partial guidelines for calculating these initial levels, but some of them may have been artificially inflated. In this case, the mandated tariff cuts will do less to open trade than intended. By comparison, this is less of a risk for Mexico and the United States under the North American Free Trade Agreement (NAFTA) approved by Congress in 1993. Under NAFTA, the initial Mexican-U.S. tariff levels will only be distorting over a limited time because all tariffs are to be eliminated within 15 years.

<u>Export Subsidies</u>

Export subsidies were one of the main issues discussed during the negotiations. The Uruguay Round agreement bans new export subsidies, and existing subsidies are to be reduced by agreed-upon commitments.

The limits on export subsidies are one of the Uruguay Round's most binding outcomes for agriculture. For the EU and the United States, expenditures on export subsidies are to be reduced 36 percent, and the volume of subsidized exports cut 21 percent, from their levels in 1986-90. Export subsidies are to be reduced in six equal annual installments.[5] The language of the agreement is quite precise on what export subsidy expenditures are restricted. But foreign food aid is allowed, and for now no limits have been placed on credit subsidies and guarantees for exports.

<u>Other Provisions</u>

In addition to the three provisions discussed, the Uruguay Round agreement on agriculture includes a "peace clause" to protect green-box subsidies from countervailing duties and other challenges. It also includes an agreement that affirms the right of GATT member countries to protect human, animal, and plant life or health through adequate measures, but stipulates that members should minimize the possible adverse effects on trade. The health and safety provisions are considered a significant advancement over previous GATT agreements, but dispute-settlement procedures to which the measures would be subject, including the involvement of a new World Trade Organization, are opposed by critics of GATT.

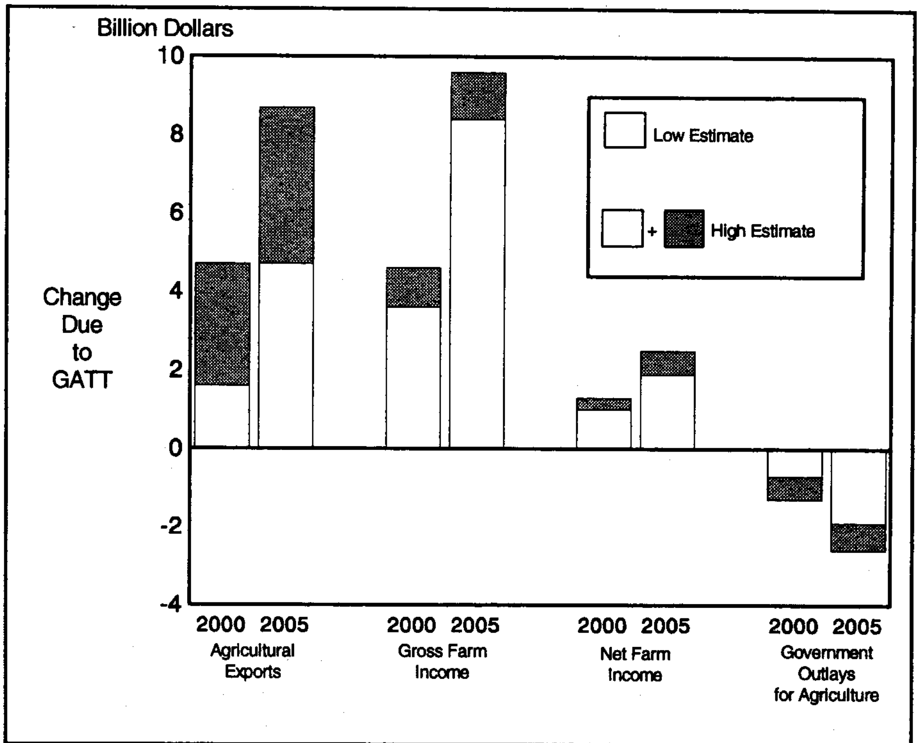
Estimated Benefits

The Uruguay Round agreement will have substantial effects on agricultural exports, farm income and government outlays for agriculture. Figure 1 (next page) shows estimates of the agreement's potential effects on U.S. agriculture. The effects would result from the combination of the agricultural provisions of the agreement and the boost to world agricultural demand caused by the increased world income that the agreement is expected to generate. Even with the compromises involved in the final provisions, GATT could raise U.S. agricultural exports from 10 to 20 percent and net farm income by up to 6 percent within 10 years, with less dependence on government payments, compared to continuation of recent trends. As international markets expand, U.S. agriculture will be a clear winner. Failure to have achieved a GATT agreement, in contrast, might have resulted in deterioration of recent U.S. agricultural exports and greater dependence on government expenditures, as a more intense "trade war" developed with the EU and others.

Implementation Issues

The Uruguay Round negotiations were complicated and entailed a lot of compromise. A popular misconception is that such international negotiations exclude the people who will be affected by the implementation of the final agreement. Nothing could be further from the truth. As the agricultural negotiations proceeded, farm organizations and commodity groups played an integral part in the process. Moreover, reports from the presidentially-

[5] Under certain conditions, countries can make their cuts starting from 1991-92 subsidy levels if these exceed 1986-90 levels. Even in these cases, the country must reach the required total cuts from the 1986-90 base by the end of the six years.



Source: U.S. Department of Agriculture.

Figure 1. Estimated impacts of GATT on U.S. agriculture by years 2000 and 2005.

appointed, private-sector Agricultural Policy Advisory Committee and Agricultural Technical Advisory Committees analyzed the expected effects of the agreement and provided suggestions to the administration concerning U.S. implementation.

Although many agricultural producers had hoped initially for greater gains in foreign-market access, the policy committee concluded that "the agreement provides substantial and substantive improvements in the world trade environment while maintaining policies and programs to provide for economic growth and stability for agriculture."

Committee reports also cited some commodity-specific concerns. The dairy advisory committee wanted the implementing legislation to ensure that the Dairy Export Incentive Program would be utilized "to the full extent possible." Likewise, the oilseeds and oilseed products committee wanted to ensure that the full level of export support allowed by the Uruguay Round agreement would be provided, because substantial reductions in vegetable oil export subsidies are required.

Pay as You Go

There are also domestic issues related to implementing the Uruguay Round agreement. Congress has established a "pay-as-you-go" rule under which new policies or programs can not add to the federal deficit. The cost of each piece of legislation must be offset by a reduction in other spending or by an increase in taxes.

For the Uruguay Round agreement, estimates of the loss of tariff revenue have ranged from $10-14 billion over the first five years and $31-40 billion over 10 years. How these revenue losses are to be offset has been the cause of much of the debate surrounding passage of the implementing legislation. Agricultural groups are particularly concerned about which programs would be cut and by what amount.

Because the agreement is expected to increase economic activity (and, therefore, tax revenue), the notion of seeking a congressional waiver to pay-as-you-go was briefly entertained by the Clinton administration. Not wanting to set such a precedent, the administration settled on offsetting some, but not all, of the first five years of revenue losses. This violates the pay-as-you-go rule and, therefore, requires Congress to approve a budget point of order. In the Senate, this requires 60 votes, instead of the simple majority required to pass the implementing legislation itself. The vote is expected to be close.

The administration is crediting GATT with total savings of $1.7 billion in the cost of agricultural support programs. It is counting these savings as a means to compensate for part of the lost tariff revenue.

The savings would come from two programs: a $1-billion reduction in the Export Enhancement Program required under the Uruguay Round export-subsidy caps, and an expected $700-million decrease of price-support payments as crop prices rise due to Uruguay Round effects on world markets.

Some agricultural groups worry that the consequences of cuts in U.S. export subsidies might outweigh the benefits derived from GATT over the next five years. These groups have lobbied Congress to redirect the $1.7 billion reduction in agricultural expenditures to green-box agricultural programs and GATT-legal foreign market-development and food-aid programs. Rep. Jill Long (D-Indiana) introduced a proposal, known as the Agriculture Investment Measure, to require such action. Rep. Tim Johnson (D-South Dakota) introduced a related proposal to address the specific concerns facing the oilseeds industry. The dairy industry also instigated legislation to alleviate some of the import competition it will face due to the GATT minimum-access provisions. Senator Patrick Leahy (D-Vermont) proposed a "self-help" export program, even though the legality of such a program--which has been supported by the dairy industry for several years--is dubious under GATT.

The Bill in Congress

On September 27, the Clinton Administration transmitted the Uruguay Round implementing legislation to Congress. Senator Ernest Hollings (D-South Carolina), a GATT opponent, held up the legislation in committee, thereby forcing the administration's supporters to postpone the Senate vote from the original mid-October target date to an unusual lame-duck session in late November. The Democratic leadership in the House of Representatives quickly followed suit, claiming in a letter on October 5th to President Clinton that the delay in the Senate "undermined our ability to guarantee strong bipartisan support."

Passage of the GATT implementing legislation before January 1, 1995 (when the Uruguay Round agreement is intended to go into effect) is a top priority for the Clinton administration. Facing opposition from various quarters, it has been willing to make some concessions to potential supporters in order to ensure passage of this legislation.

One difficult issue for the administration was linking approval of the Uruguay Round agreement with extension of "fast-track" authority. Fast-track authority allows the executive branch to negotiate international trade agreements that Congress must vote for or against without amendments. The Uruguay Round agreement and NAFTA were reached under fast-track authority. It has been considered essential to the United Sates in completing these international negotiations because it reassured other countries that the United States will not attempt to modify the agreements unilaterally. The Clinton administration had hoped to extend fast-track authority for seven years as part of the Uruguay Round implementing legislation, but concerns about how labor and environmental issues are to be included in future trade negotiations forced the administration to postpone seeking fast-track authority. This is important to agriculture because failure to renew the fast-track authority may derail future negotiations to open world markets further.

The proposed establishment of a new World Trade Organization has also caused dissent in Congress. The new body will replace existing GATT mechanisms for hearing trade disputes and will have more authority to settle these disputes. Critics have charged that U.S. national sovereignty and states' rights are endangered. Agricultural producers have shared some concerns about how the World Trade Organization will operate. To mollify these concerns, the Clinton administration agreed to congressional review of the World Trade Organization after five years, at which time Congress can withdraw participation by the United States.

In October, farm groups also won some of the specific concessions they sought. The administration agreed to seek extension of the Export Enhancement Program and the Dairy Export Incentive Program until the year 2001; the focus of the programs will turn toward increasing U.S. exports through market expansion and promotion, rather than simply reacting to specific foreign subsidies. In an October letter to Rep. Kika de la Garza (D-Texas), chairman of the House Agriculture Committee, the president responded to the interests of the dairy and oilseeds industries by promising to seek funding for these programs "to the fullest extent permissible under GATT."

Agricultural groups have been less successful on the Agricultural Investment Measure. The administration stood firm on using the $1.7 billion savings from agricultural programs to offset the tariff revenue losses from the Uruguay Round agreement. But the president also promised to provide an additional $600 million, over five years, for green-box programs and GATT-legal export-enhancements. The funding is anticipated to come from savings in crop-insurance expenditures and unspecified nonagricultural sources, but allocation of these funds may be a point of contention in the next Congress.

The administration also made some side agreements that are not directly related to GATT. The president promised to continue the Conservation Reserve Program in the 1995 farm bill and to maintain discretionary agricultural expenditures during the next two fiscal years. Based on these concessions and assurances, in early October many farm groups and congressional agricultural leaders endorsed passage of the Uruguay Round implementing legislation.

Conclusions

After seven years of Uruguay Round GATT negotiations, the final agreement does not meet the original U.S. goal of eliminating *all* trade-distorting agricultural policies. But it does include significant provisions for agriculture. These include a cap on domestic production-inducing support programs that undercut trade opportunities and conversion of all nontariff barriers into tariffs. The agreement also prohibits the use of new export subsidies and caps the amounts for those that existed previously.

Some critics argue that there is little evidence of domestic support limits or improved market access in the EU and United States under the Uruguay Round agreement, and that many countries protected their domestic producers by converting nontariff barriers to artificially high tariffs. Even so, tariffication of all nontariff barriers provides fixed tariff levels that cannot be raised and that have the potential for additional reductions in future negotiations. The cap on export subsidies is significant, because export subsidies have become one of the most trade-distorting policies as each country deems it necessary to match its competitors in the amount of assistance given.

Overall, the Uruguay Round agreement is expected to increase world income by hundreds of billions of dollars annually, once the agreement is fully implemented. This stimulus adds to the direct effects of the agricultural provisions to yield welcome improvements in predicted U.S. agricultural exports and farm income. The seven-year effort is about to bear fruit: expanded trade that will carry U.S. agricultural products to many distant shores.

Read More About It

"The Uruguay Round Agreement on Agriculture: An Evaluation," Timothy Josling and others, International Agricultural Trade Research Consortium, Commissioned Paper No. 9, July 1994. Available from the Department of Agricultural and Applied Economics, University of Minnesota, St. Paul, MN 55108.

"Agricultural Interest Groups and the North American Free Trade Agreement," David Orden, National Bureau of Economic Research, Working Paper 4790, July 1994. Available from the author.

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