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# From Cairns To Geneva Via Uruguay: Has The Journey Been Worth It?

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## Abstract

The Cairns Group was one of the participants in the agricultural negotiations which in 1987 submitted specific proposals for agricultural trade liberalisation. In the paper these proposals are compared with those contained in the *Draft Final Act*. Using a computable general equilibrium model of world trade, simulation results are obtained in which comparisons are made between what was originally proposed by the Cairns Group and what was agreed at the end of the Round. An assessment is provided of whether the journey from Cairns to Geneva via Uruguay has been worth it for Australia and New Zealand as members of the Cairns Group.

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## 1. Introduction

The Uruguay Round was the first negotiating round in which domestic agricultural policies as well as trade policies were on the table. It was also the first round in which there was agreement on the use of a quantitative measure of support to monitor assistance to the farm sector. Although in the concluding stages of the Round, the shape of the final agreement on agriculture was once again determined bilaterally by those long-time protagonists, the United States and the European Union, the Cairns Group countries can feel satisfied that they had been influential in shaping the agenda for the Negotiating Group on Agriculture group in the Round. The Cairns Group proposal in 1987 was one of six such sets which formed the basis of the negotiations. It is now possible to look back at the proposals, to compare them with the agreed outcome and to judge whether this agreement could be judged to be a success from the viewpoint of the Cairns Group.

The aim in this paper is to present highlights of the 1987 Cairns Group proposal to the GATT and to contrast them with the agreement arrived at in December 1993 (Section 2). Using an applied general equilibrium model, two experiments are evaluated: the first involves the simultaneous removal of domestic and agricultural trade policies in both the United States (US) and the European Union (EU) in order to approximate the spirit, if not the letter, of the Cairns Group proposal; and the second is an approximation of the three main components of the December agreement (Section 3). The results of these two policy experiments are then discussed (Section 4).

## 2. The Cairns Group Proposal and the Uruguay Round Outcome

The Cairns Group proposal which was submitted to the GATT in October 1987 covered three time horizons (GATT 1987, Rossmiller 1988). Phase I was to cover the period until the end of 1988 and was to involve, *inter alia*, a freeze on import barriers, subsidies which affect trade, and sanitary and phytosanitary regulations which were acting as non-tariff barriers. Phase II was to involve adjustment over a ten-year period to cover, *inter alia*, targets for reduced levels of overall support, and concentration on a reduction in the use of the most trade-distorting measures. It was accepted in the proposal that some forms of assistance, e.g. decoupled income support and aids for structural adjustment, could be exempted. Phase III covered more general aspects of the way in which GATT was applied to agriculture and the ways in which governments should be bound by the disciplines of the General Agreement. The proposal focussed on: the prohibition of "grey area" measures such as variable import levies; the prohibition of the special treatment of waivers sought on the basis of domestic policy instruments, e.g. the US waiver for its Section 22 legislation under Article XXV; the binding of all tariffs at zero or low rates; the banning of agricultural subsidies which affect agricultural trade; the harmonisation of sanitary and phytosanitary regulations; and the provision of exemptions for decoupled income support measures and infrastructural support. The proposal also gave support to the use of an aggregate measure of support based on producer subsidy equivalents.

The main thrust of the Cairns Group proposal was the reduction in domestic support levels, improved market access through the conversion of "grey area" import measures to GATT-consistent measures and the removal of export subsidies. For countries such as Australia and New Zealand these proposals could easily have been accommodated because the consequent changes in their own agricultural policies would have been relatively minor in comparison with those that would have been required in most other OECD countries. However, they posed a major dilemma for Canada which, although supporting the Cairns Group as a member, could not have complied with the proposal because of her domestic supply management programmes and in the end she submitted a proposal independently.[1]

In December 1991 the *Draft Final Act* was published. In it, the focus for agriculture was on market access, domestic support levels and export subsidies.[2] Some of the detail was subsequently modified through bilateral deals between the US and the EU at the Blair House meeting of November 1992 but the basic thrust of the Dunkel text remained. It would appear that the agreement in December 1993 was close to that agreed at Blair House. On **market access** it was agreed that there will be the tariffication of all barriers to imports and that the rates for the aggregate of commodities will then be reduced by 36 per cent over a six-year period beginning in 1995 based on their values for the base period of 1986-1989. There will also be a minimum reduction of 15 per cent per commodity over the same period. On **domestic support measures** there will a classification of policy instruments into 'amber policies' and 'green polices'. The former represent production- and trade-distorting policies: the latter are those which do not. All amber policy instruments are to be part of the total AMS calculation. It has been agreed that this statistic will be reduced by 20 per cent over the six-year period from 1995 from the base period of 1986-1989. On **export subsidies**, it was proposed in the *Draft Final Act* that there would be a reduction of 36 per cent in subsidy outlays and a 24 per cent reduction in the subsidised export volume. At the Blair House meeting, the latter figure was reduced to 21 per cent. As with adjustments in the other measures, reductions would occur over the six-period from 1995 from the base of 1986-1990. There is also a component of the proposal which is designed to prevent subsidised exports be shipped in the guise of food aid. In addition, there are special provisions for various categories of developing countries.

[1] For a discussion of the Canadian position in the Cairns Group, see Cooper (1992).

[2] For greater detail, see Anon (1993) and ABARE (1992).

In comparing the Cairns Group proposal with the main thrust of the final outcome, it is clear that the Group achieved many of its objectives. However, what is also clear is that the percentage reductions are probably much smaller than those hoped for originally, reflecting the very substantial lobby powers of the farm groups in the United States and the European Union. To estimate the gap between the hope and the reality, policy simulations were run using a computable general equilibrium model.

## 3. Policy Experiment

The computable general equilibrium model used for the policy simulations was the Global Trade Analysis Project (GTAP) model.[3] The particular aggregation used was the one shown in Table 1. The two policy simulations were run using a multi-region, general equilibrium closure.

In the first experiment, which was designed to capture the essence of the Cairns Group proposal, the domestic agricultural policy and trade policy instruments of the United States and the European Union were removed, i.e. there was liberalisation of the agricultural and food sectors[4]. For these two regions, this was essentially the proposal by the United States in 1987 on which little credence was placed at the time. The non-agricultural sector was not liberalised at all nor were any of the policies in the other regions. The second experiment was an attempt to simulate part of the final agreement. In this experiment instead of complete liberalisation by the United States and the European Union, the percentage reductions agreed to by the Contracting parties were applied to domestic support, to the implicit tariff rates and to export subsidy rates. The complication of the minimum 15 per cent reduction on any one commodity was ignored and all rates were reduced by the full 36 per cent. In addition, on the export side, the

[3] For details of this model, see Hertel and Tsigas (1993)

[4] The land set aside under existing policies was left unchanged on the assumption that it would be added to the conservation reserve rather than being brought back into production once the set-aside policy was removed.

restriction on the volume of exports was ignored and only the 36 per cent applied. By comparing the outcomes of these two experiments relative to the *status quo*, it is possible to gauge how much was achieved in the Round for Australia and New Zealand as far as agriculture is concerned.

Table 1 Regions and Commodities in the GTAP Aggregation

| Regions | Traded Commodities |
|---|---|
| Australia | Wheat |
| New Zealand | Other grains |
| Canada | Wool |
| Japan | Rice |
| United States | Meat products |
| European Union | Milk products |
| Rest of the World | Other agricultural/food products |
| | Manufactures & Services |

## 4. Results

Before discussing the results, it is important to accept that these simulations are fairly crude, first-shot approximations of the Cairns Group proposal and the final agreement. For example, no attempt was made to liberalise agriculture in regions other than the United States and the European Union. Moreover, the solution procedure used was the Johansen method which is not as accurate as some others available, e.g. Euler and Gragg. However, these more accurate methods require much greater amounts of computer time to generate solutions. Therefore the numbers presented below should be treated with considerable caution.

The results presented below are only a very few of those available. For example, changes in the direction of bilateral trade flows and in prices for all regions are ignored, while the welfare effects and production changes in regions other than Australia and New Zealand are not presented. For Australia and New Zealand changes in production and in welfare are presented for Experiment 1 in Table 2. For **Australia**, the most significant percentage increases in output occur for wheat (34%), other grains (26%) and milk products (15%). The output of wool declines (-0.6%). Surprisingly, there is little increase in the output of meat products (0.6%). Overall, per capita welfare rises (0.41%) which amounts to an equivalent variation of $1128 million in 1990 US dollars. For **New Zealand**, the same products experience the largest percentage increases, namely, wheat (14%), other grains (12%) and milk products (55%). Again, the response for meat products is mall (3.9%). The welfare effects are more significant for New Zealand than for Australia as is to be expected given the different structures of the two economies. Per capita utility rises by 1.29% or an equivalent variation of $554 million in 1990 US dollars.

**Table 2 Results from Experiment 1**

| | Australia | New Zealand |
|---|---|---|
| *Production* | *(% changes)* | |
| Wheat | 33.5 | 13.9 |
| Grain | 25.7 | 12.0 |
| Wool | -0.6 | -0.9 |
| Rice | 3.1 | -6.5 |
| Meat products | 0.6 | 3.9 |
| Milk products | 15.1 | 55.3 |
| Other ag/food | 2.2 | 9.7 |
| *Welfare* | *(% changes)* | |
| Per capita utility | 0.41 | 1.29 |
| | *($m 1990 US)* | |
| Equivalent variation | 1128 | 554 |

Selected results for Experiment 2 are shown in Table 3. For Australia the greatest percentage increases occur in the output of wheat, other grains and milk products. The output of wool is the only product for which production contracts. There is a small percentage increase in per capita household utility of 0.12 per cent which converts to an equivalent variation of $314m in 1990 US dollars. For New Zealand, the largest percentage increase occurs in the output of milk products (19.6%). There are small reductions in the output of wool. Per capita household utility increases by 0.38 per cent, i.e. an equivalent variation of $164m in 1990 US dollars.

**Table 3 Results from Experiment 2**

| | Australia | New Zealand |
|---|---|---|
| *Production* | *(% changes)* | |
| Wheat | 9.7 | 3.9 |
| Grain | 6.6 | 3.3 |
| Wool | -0.3 | -0.3 |
| Rice | 0.4 | -2.8 |
| Meat products | 0.3 | 1.4 |
| Milk products | 5.3 | 19.6 |
| Other ag/food | 0.6 | 2.8 |
| *Welfare* | *(% changes)* | |
| Per capita utility | 0.12 | 0.38 |
| | *($m 1990 US)* | |
| Equivalent variation | 314 | 164 |

## 5. Conclusions

The purpose in this paper was to compare the Cairns Group proposal to the GATT in 1987 with the final outcome in December 1993. Qualitatively, it would appear that the Group achieved several of its aims. However, quantitatively, it did not. The results from the policy simulations suggest that Australia and New Zealand each achieved approximately one half of the income increase which would have accrued under full agricultural liberalisation by the United States and the European Union. Of course, such a degree of liberalisation in agriculture was never a realistic possibility given the strength of the farm lobby not only in the European Union but also in the United States. The agreement by the Contracting Parties to use an aggregate measure of support will be crucial in ensuring that liberalisation to the extent agreed actually takes place. Relative to the meagre outcomes for agriculture in earlier negotiating rounds, and relative to the content of the Cairns Group proposal both qualitatively and quantitatively, the journey from Cairns to Geneva via Uruguay can be judged as a success.

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