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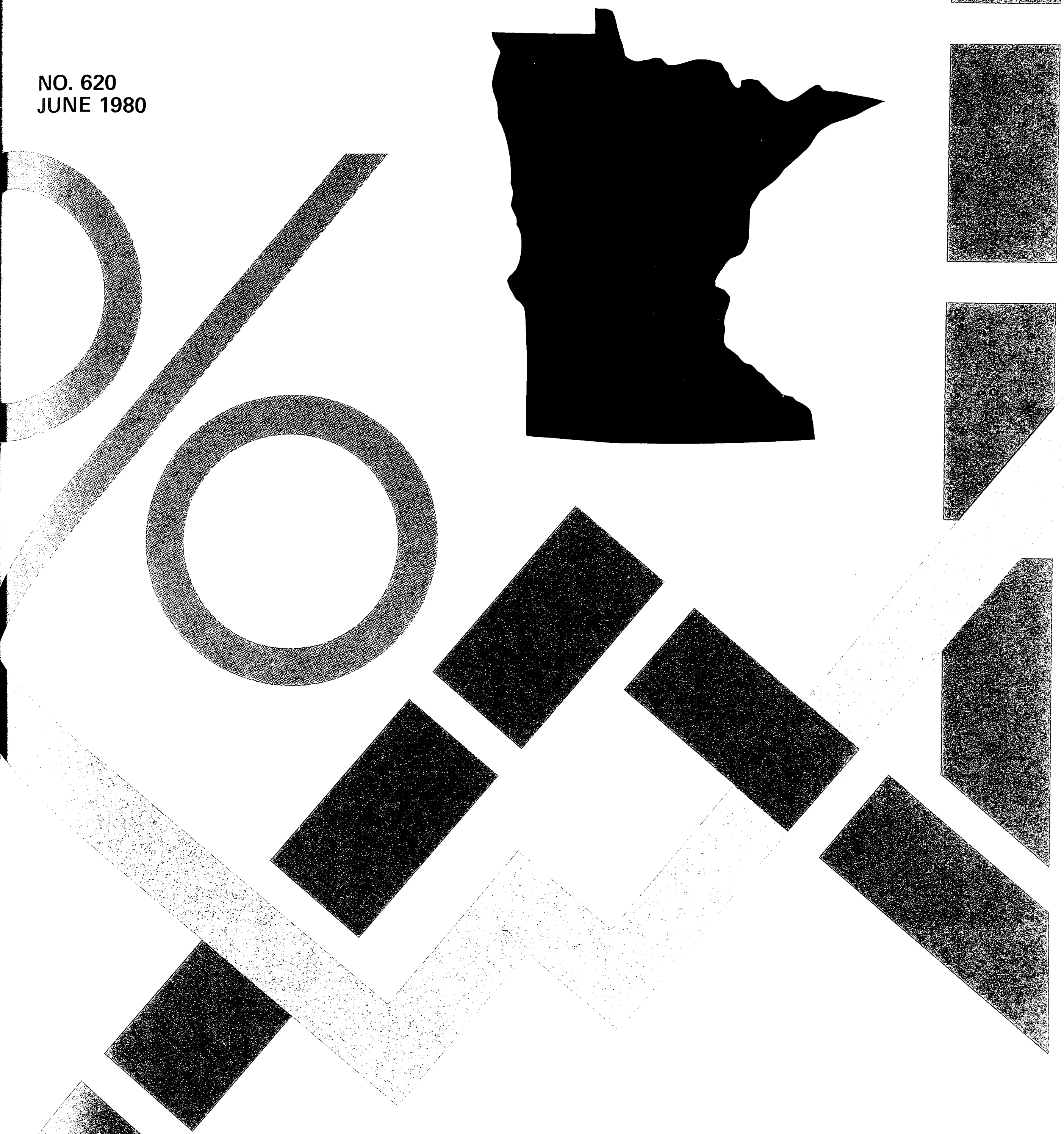

MINNESOTA AGRICULTURAL ECONOMIST

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Agricultural Trade and the Tokyo Round: Who Got What From Whom

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The official record shows the 79-month Tokyo Round trade negotiations, concluded in April 1979, were the lengthiest formal trade negotiations under the General Agreement on Tariffs and Trade (GATT). The previous recordholder was the 1963-67 Kennedy Round of 54 months.** Legislation implementing the Tokyo Round and assuring the United States' participation was passed in July 1979, three months after the conclusion of the talks. The five GATT negotiating sessions before the Kennedy Round were comparatively short because major issues were limited to tariff cuts and bindings. Nontariff trade barriers were largely bypassed.

However, many agricultural trade issues center around nontariff barriers. These have formed a large part of recent negotiations. Such discussions are not completed quickly or easily. The lengthy Tokyo Round produced some rather important changes in the GATT's basic legal and institutional framework. These included difficult negotiations on codes of conduct through which basic trade agreements actually are implemented. Nontariff barriers will be attacked in the future principally through these new codes. In addition, a series of more or less traditional tariff-cutting, tariff-binding, and quota-relaxing agreements were concluded with many of the agricultural trading partners of the United States. These will modestly enhance the large positive balance of trade displayed by U.S. agriculture. Now to evaluate how the various Tokyo Round agreements will affect U.S. agriculture.

AGREEMENTS IMPORTANT TO AGRICULTURE

From the U.S. viewpoint, the Tokyo Round agreements bearing most directly on agriculture can be considered under three main headings. First are the specific tariff and trade barrier agreements similar to those at the heart of previous rounds. These were achieved within the traditional, bilateral "offer and request" framework. Second are the behavioral codes, the two most important for agriculture being the "export subsidies/countervailing duty" code and the "standards" code. The former seeks to tighten international responsibility and restraint in the use of export subsidies and tariff retaliation; the latter is designed to discourage the use of various standards, product certification, requirements, and testing as trade barriers. Third are international consultative agreements for dairy products, beef, and general agricultural policy.

The following sections focus on the specific agricultural agreements reached with U.S. trading partners, large and small. In particular, the annual economic value of the tariff and quota agreements obtained on U.S. agricultural exports and the concessions granted on imports are estimated. In addition, the general impact on the United States of the other agricultural agreements and codes is assessed. However, there is no attempt to measure the specific economic impact of these latter agreements. They will affect future agricultural trade indirectly, their importance depending heavily on the seriousness with which they are applied by the signatories (signers of the agreement) and the precedents established in coming months and years.

ANALYSIS OF AGRICULTURAL TARIFF AND QUOTA AGREEMENTS ON U.S. EXPORTS

In the negotiations, three major bilateral packages with Japan, the nine-national European Community (EC-9), and Canada were achieved. In addition, lesser agreements involving about 30 other nations were signed covering both tariff and nontariff items. On the export side, the three main packages will be considered separately and then the others considered as a single group. On the import side, U.S. agricultural concessions will be considered as a group.

The "new trade" estimates in this analysis were computed by multiplying (1) the proportional price change implied by various tariff cuts, times (2) the national price elasticity of demand for the product in question (gleaned from various research studies), times (3) the ratio of national total consumption to imports of the particular product. This computation is suggested by economic theory and provides an estimate of the percentage increase in sales of the product. This estimate is then applied to annual trade value figures on the plausible assumptions that the tariff cuts will not alter world free on board or cost insurance and freight (f.o.b. or c.i.f.) prices and that the U.S. will maintain its recent share of all markets. This generates an annual new trade value. (Trade data for 1976 were used in these calculations because negotiators on all sides adopted 1976 figures for bargaining purposes.) The annual new trade value of quota changes was estimated by assuming that the quota increases would be filled at world prices by U.S. suppliers. All calculations focus on the full negotiated adjustments without considering the intermediate staging that actually will occur beginning in 1980.

These results are approximations —not predictions—because no attempt is made to isolate the pure effect of negotiated tariff and quota changes. Moreover, these are lower bounds on estimated change since no domestic supply responses to induced price changes were considered.

Japan

The U.S.-Japan agricultural settlement has three major components: tariff bindings, tariff reductions, and increases in import quotas of a few tightly controlled items. These agreements cover items with a 1976 trade value of about $1.4 billion.

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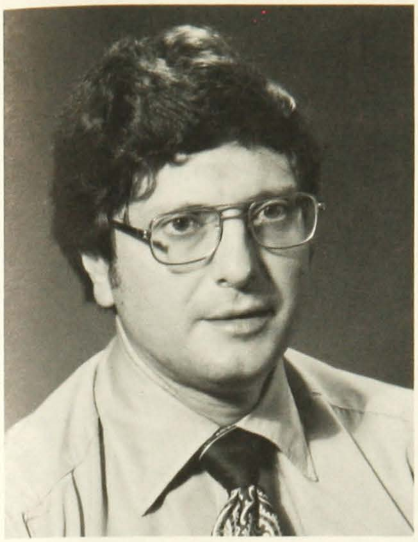
**The Kennedy Round (named for President Kennedy) and the Tokyo Round (site of the early organizing meetings) are the most recent major, multi-nation trade negotiations in a series that dates back to 1947.



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Tariff Bindings. Tariff bindings are formal agreements not to increase tariffs on particular products above current levels. These bindings covered some 14 items with a 1976 trade value of $809 million. They are scattered over a number of product groups. However, the free binding on soybeans alone accounts for $770 million, or 95 percent of this total. It is impossible to calculate or predict the future value of these bindings, but most observers highly value this concession. They feel that a similar free binding on soybeans obtained from the European Common Market during the 1962 Dillon Round has been partially responsible for that market's huge growth.

Tariff Cuts. Excluding bound items, new agricultural tariff reductions average 35 percent across the board on about 67 categories of items with a 1976 trade value of $444 million. These reductions are assumed to exert downward pressure on retail and wholesale prices inside Japan. The economic value of a tariff reduction occurs because the total market for the general product expands *and* because the market share of imported items grows due to the relative price reduction.

Table 1 summarizes the estimated trade effects of negotiated tariff and quota changes. The totals show that annual trade with Japan increases by an estimated $92 million due to the tariff cuts. Almost 40 percent of the estimated trade increase is concentrated in the pork market. The calculation assumes that the price of imported pork actually will fall because of the negotiated settlement. However, Japanese imports of pork also are subject to a complex duty formula which resembles a variable levy. Consequently, a large part of this gain could be nullified if the relative price of imported pork is not permitted to decrease despite the nominal tariff cut. Other major products affected by tariff reductions are fruits, vegetables, and poultry.

Quota Increases. The U.S.-Japan settlement contained modest import quota relaxation for four commodities in which the U.S. has a direct interest: high-quality beef, oranges, orange juice, and grapefruit juice. Table 1 shows the estimated trade value of the negotiated quota increases.

Japan Summary. Estimated values of the tariff changes and the quota adjustments by Japan are $215 million annually: about 6 percent of the 1976 value of U.S. farm exports to Japan. To this must be added the unknown, but possibly large, future value of new tariff bindings, especially on soybeans. Also, the quota adjustments are changes in significant nontariff barriers. The precedent-setting value of these concessions may be important despite the relatively small dollar values.

The European Community (EC-9)

The EC-9 agreement covers about $960 million worth of 1976 agricultural trade. About $19 million involves a "free" tariff binding on peanut imports, and $8 million reflects a tariff reclassification on some poultry items. The balance, about $933 million, involves trade affected by tariff cuts and by a new import arrangement for high-quality beef.

EC-9 Tariff Cuts. The tariff cuts by EC-9 span about 30 products, an estimated $102 million annually to expanded U.S. trade. Major items are tobacco, rice, offals, fruits, vegetables, and pharmaceutical products made from livestock.

High-Quality Beef Concession. A new tariff line for high-quality restaurant and hotel beef will cover an import volume of 10,000 metric tons (22.1 million pounds) or less. The traditional EC-9 variable levy system will not apply to this line. At a per-unit value of $3 per pound, this concession will gain nearly $66 million in new trade for the U.S.

EC-9 Summary. The EC-9 settlement shows an estimated $102 million annual tariff-related trade increase and $66 million in new beef trade for a total of $168 million. The trade value of the tariff-category reclassification for poultry is uncertain as is the future value of the free peanut tariff binding.

Canada

Canada's agricultural trade concessions to the U.S. involve mainly the reduction and binding of existing tariffs. The 1976 trade coverage is $423 million, of which $413 million is accounted for by commodities with reduced tariffs. About $10 million reflects official binding of tariffs on some prepared cereal foods. Less than $1 million is accounted for by Canada's agreement to open the importation of canned turkey for general licensing.

Table 1 shows the estimated new trade value of the Canadian agreement as $56 million annually. Livestock, meat, and tobacco trade are the main beneficiaries.

Other Nations

The U.S. reached tariff and access agreements with about 30 other nations. This covers tariff bindings and reductions as well as some adjustments in nontariff trade barriers at an annual new trade value of $24 million.

Tariff Bindings. Approximately 60 individual tariff bindings were achieved on products the U.S. exported. Twenty nations offered these bindings with a total trade coverage of almost $450 million yearly: 60 percent concentrated in soybeans and soybean oil. Although reflecting no new trade, bindings represent insurance against future duty increases.

Tariff Reductions. Approximately 90 individual tariff reductions were achieved with 18 nations on agricultural exports worth $47 million. These duty cuts vary from large to very small. The estimated annual value of new trade generated by these tariff cuts taken together is $9 million, table 1. Major beneficiaries are vegetable oils and soybean meal.

Nontariff Barriers. About 15 new agreements on nontariff trade barriers are in hand. They include quota increases, licensing procedures changes, and bindings on import mixing regulations. Three are large enough to warrant analysis. The first two are import quota increases on high-quality beef by Austria and Switzerland. The third is a duty cut and mixing regulation

Table 1. Estimated annual value to the United States of agricultural agreements: tariffs and quotas

Item		Net change in trade	New trade as percent of total
		(million dollars, 1976)	
Export agreements			
Japan		215	6%
Tariffs	(92)		
Quotas	(123)		
EC-9		168	3%
Tariffs	(102)		
Quota (beef line)	(66)		
Canada (tariffs)		56	4%
Other countries		24	0.2%
Tariffs	(9)		
Quotas and barriers	(15)		
Export total		463	2%
Import concessions			
Dairy products (cheese quotas)		66	
Other products (tariffs)		40	
Import total		106	1%
Net change (export total - import total)		357	

binding on tobacco imports by Australia. The annual value of these three nontariff concessions is approximately $15 million, table 1.

U.S. AGRICULTURAL IMPORT CONCESSIONS

The U.S. offered two main classes of specific agricultural trade concessions. The first was an enlargement and rearrangement of Section 22 import quotas on cheese. The second was a variety of tariff reductions on agricultural imports ranging from wool to canned pineapple. The estimated total new trade value is $106 million.

U.S. Dairy Imports

The proposed agreement on dairy imports enlarges U.S. quotas on foreign cheese, eliminates the current "price break" system, and brings all "price break" cheeses under new quotas. If the new quota system had been in effect in 1978, approximately 15,000 metric tons of additional cheese could have been imported into the U.S. on an annual basis. This is the equivalent of 275-300 million additional pounds of milk on the domestic market, approximately one-quarter of 1 percent of total annual U.S. milk production and slightly less than 0.9 percent of total U.S. cheese production.

University of Minnesota research indicates that this potential increase in imports could depress milk prices by at most 5.4 cents per hundred weight (cwt) at the farm level. The annual cost of this trade concession to U.S. dairy farmers is $66 million or about 0.5 percent of the farm value of milk production.

Other U.S. Agricultural Concessions

No other U.S. concessions in agriculture approach the value of the cheese agreement. These are mostly tariff reductions across a wide spectrum of products, including coconut oil, lamb, apparel wool, canned pineapple, canned beef, barley, and some tobacco items. Together, these tariff cuts will generate additional imports with an annual value of about $40 million.

The U.S. also agreed to cut tariffs on several products covered by the Meat Import Law of 1964 and Section 22 import quotas. Since the quotas were not adjusted, estimates were not calculated for new trade. Items in this group include meat (mainly beef), butter, cream, and two staple lengths of cotton. Cheese tariffs will be cut 20 to 25 percent with the new quota system.

NET CHANGE IN U.S. AGRICULTURAL TRADE

The *net* change in overall agricultural trade due to the Tokyo Round agreements is an increase of $357 million in 1976 terms. A plausible estimate of this net annual value in 1979 terms is about $400 million. Making a further adjustment for value added, this increase in trade corresponds to the annual value of sales of about 6,500 average-sized farms in the U.S.

AGRICULTURAL TRADE AND THE NEW CODES

Some limited progress in dismantling nontariff barriers was achieved in the drafting of several new behavioral codes, though results were not revolutionary. These codes, which come into force in 1980, do not provide highly specific guidelines or detailed rules of behavior. These will need to emerge as experience accumulates and as precedents are established by the signatories. Each new code has some role to play in agricultural trade, but three should be singled out for discussion: safeguards, export subsidies and countervailing duties, and standards.

Safeguards

The proposed, but not adopted, safeguards code was probably the most controversial of all. The draft provisions of this code deal with the phasing in and out of trade restrictions on a nonpermanent basis when domestic industries are being injured by a sudden or unexpected surge in imports. A major goal of this proposed code is to make safeguard actions more open, fair, circumscribed in application, and specific in time limits. No final agreement was achieved on this code in the Tokyo Round although negotiations continued to the very end of the session. It is possible that further negotiations on a safeguard code may be held later in the 1980s.

Subsidy/Countervailing Duty Code

Without doubt, the new subsidy/countervailing duty code is the most important to U.S. agriculture. As adopted in the Tokyo Round, this code attempts to deal with a major nontariff distortion to trade—the export subsidy. The code imposes a flat prohibition of export subsidies on nonprimary products and primary mineral products. It recognizes and permits export subsidies (and certain domestic subsidies affecting trade) for agricultural products under conditions which are, at the moment, rather vague. When export subsidies which do *not* meet these conditions are applied, affected importers and competing exporters may retaliate economically, provided they can show injury to a domestic industry.

This new code defines the term "export subsidy" more fully than previous GATT documents. It provides that nations should not use subsidies to displace others' exports or significantly undercut prices in foreign markets. The specific language of the code is very carefully framed for acceptance to a wide spectrum of nations and interests. It is sufficiently vague so that only experience and legal precedent can establish the code's ultimate strength. For example, to be eligible for countervailing protection, industries must show "material injury" from subsidized imports at home or subsidized exports in third-country markets. Price-cutting by subsidizers must not result in market prices "materially below" those of nonsubsidizers at home or in third markets. Otherwise retaliation is acceptable. Nations must not, under the language of the new code, subsidize exports so as to capture "more than an equitable share" of world trade in a given product. No one can really tell how these and other definitions will be interpreted and practiced.

Acceptance of the injury test in this code is a substantial concession made by the U.S. within the context of the current antidumping and countervailing duty legislation. In this connection, the dispute settlement process in the new code is designed to produce results within 150 days of filing a complaint and to improve the international consultation and notification processes for countervailing measures.

Standards Code

Health and safety regulations of both importing and exporting nations are crucial in today's international agricultural trade. All nations have developed technical standards for both domestic and imported food products. Such standards, applied for impeding trade or protecting domestic growers or processors, become significant nontariff barriers to trade. Previously no GATT mechanism has dealt with this widespread problem.

The new standards code does not attempt to set product standards or prescribe specific guidelines for standards-setting. Nor does it provide any nation with veto power over the standards of another nation. The code's objective is to make the standards-setting process more transparent and open than ever before. It also encourages nations to use the available international standards and existing standards-setting bodies.

In addition, this code establishes international procedures by which signatories may complain of code violations by others through GATT, obtain reviews of their complaints, and, in validated cases of violation, take retaliatory action. As with the other codes, experience and precedent over the coming months and years will determine both the economic and political value of this agreement.

INTERNATIONAL CONSULTATIVE AGREEMENTS

Three agreements negotiated within the Tokyo Round provide for regular meetings of cooperating nations on an official level to exchange information and to discuss trade and policy issues for dairy products, bovine meats, and farm/food policies. The rules for discussion of such matters and which govern recommendations to member governments make it unlikely that any controversial issues will be settled or that strong recommendations ever will be forwarded to governments through these agreements. The wide diversity of views about commodity agreements and international coordination of *domestic* agricultural and food policies limit these agreements to relatively innocuous consulting forums.

Still, they will provide a neutral setting for airing current and potential trade problems, induced by political and economic changes. No specific economic evaluation can be made for these agreements, but it is reasonable to think that their existence will not add disruptive elements to world agricultural trade and may help to manage or to avoid future trade conflicts.

The Dairy Arrangement

This agreement creates the International Dairy Products Council which is to meet at least semiannually for information exchange and consultations. Signatories to the arrangement will provide up-to-date information on dairy production, consumption, prices, trade, and changes in domestic policies likely to affect trade. Any Council recommendations to member governments must be unanimous. Moreover, member governments are not obligated to follow or implement recommendations.

Within the dairy arrangement, there are protocols establishing minimum prices for world trade in milk powders, milkfat, and cheese. These prices are far below both current international levels and U.S. market and support rates. They serve only as potential barriers to huge export subsidies by surplus-producing nations.

The dairy agreement begins in 1980 and remains in force 3 years with an extension of another 3 years, unless the Council decides otherwise.

The Bovine Meat Arrangement

This agreement establishes the International Meat Council with a commitment to meet at least semiannually. Signatories will provide information and consult with each other on a basis similar to the Dairy Arrangement. The commodities covered are live bovine animals and fresh, chilled, frozen, and otherwise processed bovine meats and offal.

Any official policy statements or recommendations of the Meat Council must be unanimous and member governments need not accept them. As with the Dairy Arrangement, the Meat Arrangement will remain in force 3 years with an automatic extension unless otherwise decided by Council action.

Multilateral Agricultural Framework

This framework agreement establishes an International Agricultural Committee Council for regular official consultations within GATT on farm and food policy. This central idea is to provide a neutral forum for nations to discuss issues and possibly head off problems growing out of national agricultural policy shifts. A similar group meets under the auspices of the Organization for Economic Cooperation and Development (OECD), but the GATT setting clearly has a broader basis for trade-related issues. This Council probably will meet once or twice each year.

CONCLUDING COMMENTS

In the Tokyo Round, the U.S. placed high priority on achieving improvements in agricultural trade through multilateral agreements. As with previous rounds, major breakthroughs in protectionist agricultural trade policies were not obtained, even though the Tokyo Rounds lasted 5½ years. However, a series of agreements were achieved that should modestly enhance the highly favorable balance of trade displayed by U.S. agriculture.

The various tariff and quota agreements negotiated between the U.S. and its trading partners should increase U.S. net agricultural trade by about $400 to $500 million annually. This is about 2 percent of the current value of net farm trade.

Evaluation of the ultimate effects of the new codes and the international consultative agreements is completely subjective at this time. Potential value lies in an ability to reduce and help nations manage the conflicts that accompany agricultural trade. No one can argue that the Tokyo Round agreements will be a bonanza for U.S. agriculture, but its positive results should not be ignored.

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