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**AGRICULTURE IN THE URUGUAY  
ROUND OF GATT NEGOTIATIONS:**

**THE FINAL STAGES**

**Proceedings of a Conference Jointly Sponsored By:**

The George Morris Centre, University of Guelph

and the

Economics and Policy Coordination Branch  
Ontario Ministry of Agriculture and Food

**UNIVERSITY  
of GUELPH**

**Department of Agricultural Economics and Business  
University of Guelph  
Guelph, Ontario**

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RESEARCH REPORT IN THE FIELD OF  
THEORY OF QUANTUM MECHANICS

THEORY OF QUANTUM MECHANICS

This report is a contribution to the theory of quantum mechanics.

The author is indebted to the following persons for their assistance:

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## **Preface**

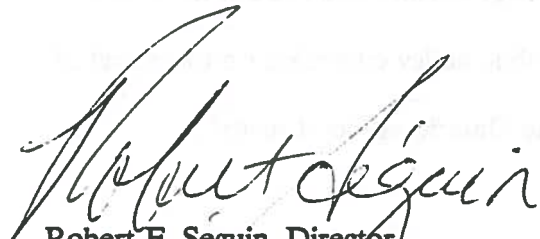
The **George Morris Centre on the Future of Agriculture** at the University of Guelph and the **Economics and Policy Coordination Branch of the Ministry of Agriculture and Food** of the Province of Ontario are conducting a joint program of research and public policy education on the effect of the Uruguay Round GATT negotiations on agriculture on the Ontario agrifood sector.

The proceedings of a first conference on **Agriculture in the Uruguay Round of GATT Negotiations** were published in July 1989. This present report contains the papers that were presented and discussed at a second conference, held at the University of Guelph on 20 February 1990, which was timed to follow the tabling in Geneva, in the period October-December 1989, by the major countries and country groups, of comprehensive proposals on how agriculture should be negotiated.

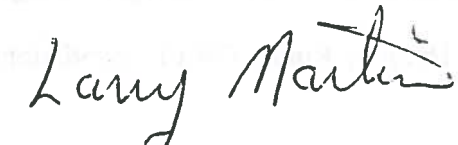
The objectives of this conference were to familiarize the 100 or so farm and agribusiness leaders who were invited to the conference with the various negotiating proposals, to identify the issues that are crucial to Canada and to Ontario, and to share preliminary views on the possible content of a final global accord on agricultural policy and trade reform. Other conferences will be held as the negotiations proceed and after their completion.

We wish to acknowledge the contributions of the many people who were involved in mounting the conference. Our gratitude to the persons who prepared and presented papers knows no bounds. George Brinkman and Brigid Pyke chaired the sessions and directed the discussion of

the issues raised in the papers. Stanley Young, Coordinator of Extension, Cathy MacLean and Sheila Hamilton of the Extension Service of the Ontario Agricultural College were responsible for the logistical aspects of the conference. Richard Caine and T.K. Warley had overall responsibility for organizing the conference. Sharon Sinclair typed the papers for publication. T.K. Warley edited these proceedings.



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## **AGRICULTURE AND THE LINKAGES IN THE MTNs: AN OVERVIEW**

**G.A. Denis**

This is the year when we should know whether or not there will be a fairer and more open international trading environment for agriculture during and beyond the 1990s. When Ministers from all GATT participants meet in Brussels next December, their decisions will be crucial for the prospects for meaningful longer-term agricultural trade reform and for the GATT system itself.

The final stages of the Uruguay Round are taking place in an environment of accelerating changes internationally. These changes add to the complexity of the negotiating process. They certainly make it difficult to predict how the various elements or linkages will play out when it is time to strike the hard, bottom-line, trade deal. However, these changes also provide new opportunities for achieving a more open and market-oriented multilateral trading system.

We all know that the significance and the fairness of a major trade deal depends on the specific terms of market access conditions opening up new trade opportunities in individual sectors in different markets. They also depend on the fairness of the rules on subsidies and trade remedy measures, as well as on the effectiveness of the international dispute settlement and trade enforcement procedures. These are issues that are important for the agricultural trade deal. They are also central to the overall agenda of the GATT negotiations.

### **The Strategic Context for the Round**

When governments decided some four years ago to launch the current Round of global trade talks, their fundamental preoccupation was to halt and to reverse protectionist trends in international trade relations. Nowhere were trade restrictions and distortions in global markets more pronounced than in the agricultural sector. However, traditional tariffs and non-tariff barriers are also important in sectors like fisheries, forest products, metals, minerals, petrochemicals, telecommunications and

transport equipment, to name but a few sectors.

Another major preoccupation of governments in launching the new Round was the poor health of the multilateral trading system itself and the serious problems created by inadequate or ineffective trade rules. Nowhere were these deficiencies more evident than in the field of agriculture, which was suffering the adverse implications of the export subsidies competition between the United States and the European Community. The management of agricultural trade relations was threatening to get out of hand. Indeed, about half of GATT trade disputes in the last five years have been in the field of agriculture. Many anti-dumping or countervailing duty cases have been in the agricultural sector.

The global trade talks therefore have as an important objective the shoring up of the GATT system by undertaking a systematic review of all the basic rules governing both fair and unfair international trade competition. They also seek to strengthen the GATT as an institution in terms of its functioning, its dispute settlement procedures, and its role in managing the international trade and payments system. They are about building a new GATT, with agriculture as an integral element of the new framework.

A third major preoccupation leading to this Round was the absence of an international legal trade framework for rapidly-growing areas of international commerce. For example, about one-quarter of all international transactions currently are in the area of services, whether they be communications, software, consulting, engineering, professional and business services, financial services or transportation. These areas involve high levels of technology and skill for both exporters and importers. They also play a major role in enhancing the competitiveness of agricultural, resource-based and manufacturing industries. This preoccupation with the scope of the GATT also extends to the issue of providing adequate protection to intellectual property rights, including patents and trade marks.

Finally with the emergence in the global economy of newly industrialized economies such as Korea, The ASEAN countries, and Mexico and Brazil, it was becoming imperative to bring those countries more fully within the balance of rights and obligations in the trading system. The Uruguay Round was the best means at hand to do that. Indeed, the urgency of the task was accentuated by the serious protectionist threats in major import markets and the temptation to look for bilateralist or discriminatory "fixes". In the process, it would, of course, be necessary to address the particular concerns of developing countries in areas like agriculture, tropical products, resource-based products and textiles.

Given the diversity of participants, the complexity of the negotiating agenda, and the difficulty of envisaging how individual participants could achieve their legitimate national objectives, it was agreed that the only realistic approach to the Uruguay Round would be to look at it as a single comprehensive undertaking. This meant that mutual advantages should be sought from the overall negotiations, and that the work of its 15 different negotiating groups should be concluded within the same time-frame.

What does all this mean for Canadian agricultural interests?

### **Market Access**

First, let me examine the important question of the market access negotiations. After all, expanding trade opportunities through a gradual and substantial reduction of tariff and non-tariff barriers is what trade negotiations traditionally are all about. I said "substantial" reduction despite the initial views of some major participants that the Uruguay Round should effectively seek to achieve global free trade in agriculture. This is simply not realistic and we are not going there. However, substantial progress in that direction is negotiable and is probably within reach.

With an efficient and competitive agricultural economy, Canada is well placed to supply a larger share of growing world markets for food products in different forms. In seeking to advance

Canada's opportunities to compete in the markets of the Asia/Pacific region, Europe and the developing countries, we are adopting an integrated approach by dealing with both non-tariff barriers and tariffs, and with both import access and export competition. We are looking to ensure that for major agricultural sectors the conditions of global access to the markets of the European Community, Japan, the United States or Canada will be equitable and broadly equivalent. We are seeking to enhance the predictability of access to the markets of both developed and developing countries through the binding of the new trade regimes against future barriers. In sectors like grains, oilseeds, alcoholic beverages, tobacco, corn, pork or beef products, we are alert to the risks of Canadian suppliers being faced with competitive disadvantages in the markets of, say, Japan or Korea vis-a-vis American or European suppliers.

If we are to be successful in negotiating a substantial reduction in foreign barriers to Canadian exports, we will need to seek to maximize Canada's negotiating leverage by working with other partners with whom we have common interests. This includes the Cairns Group of agricultural exporters as well as the USA. We also need to ask ourselves what will make other countries accept that Canada's specific objectives and interests are reasonable and should be responded to positively.

While they have interests in the agricultural sector, some of the major food importers like Japan or Korea do not necessarily have a major export interest in the food sector. We thus need to maintain flexibility in the negotiating approach, and must bring to bear the whole agenda of the Uruguay Round if we are to be successful at the end of the day. This is also necessary because most of our trading partners include fish and fish products when they talk about agriculture in the context of the GATT. Japan and Korea even include wood products. So we need to maintain as broad a base to the negotiation as possible.

#### **Subsidies and Unfair Trade Remedies**

For Canada, an essential element of a reasonable agricultural market access liberalization

package will need to include new and equitable trade rules on subsidies and trade remedy measures. There will need to be rules equally applicable to all countries in order to bring agriculture fully within a reformed GATT system. This means that we need to bring an end to the US agricultural waiver and bring the Common Agricultural Policy of the European Community within agreed rules internationally.

We know how the complexity of various government subsidy and support programs to agriculture in different countries makes it difficult to see clearly how domestic and trade policies interact. A basic public policy challenge in all countries is to ensure that domestic agricultural and trade policy imperatives are reconciled and go hand in hand. In a very real sense, the challenge facing GATT negotiators is to protect the basic safety net programs which farmers value for their income stability while disciplining those subsidies that are most trade distorting and which are costing agricultural producers so much in terms of depressed market prices or lost sales opportunities.

As a practical matter, the GATT subsidy negotiations, whether for agricultural or industrial products are focussed on three major issues. First there is the question of how to seek the elimination of export subsidies so as to avoid a repeat or, worse, an escalation of a costly trade war between national treasuries. Second, there is the question of how to reduce, and by how much, the trade distorting effects of domestic subsidies. Third, there is the question of how to introduce greater disciplines in the application of countervailing duty measures. In terms of the negotiating structure in Geneva, the export and domestic subsidy disciplines for agriculture are being dealt with in the Negotiating Group on Agriculture, while countervail is being dealt with in the horizontal Negotiating Group on Subsidies and Countervail.

Canada was instrumental in ensuring the adoption of a comprehensive negotiating framework to address subsidies and countervail issues at the time of the GATT Ministerial meeting in Montreal in December 1988. This overall framework has been reflected in recent Cairns Group proposals.

Last year, we also submitted a proposal to address such matters as the standing of countervail complainants; the definition of countervailable agricultural subsidies; and the conditions under which programs generally available to the whole agricultural sector (as well as infrastructure, research, and regional development aids) should not be countervailable.

Anti-dumping problems are similarly under negotiation horizontally in the Negotiating Group on Anti-Dumping duties. At issue in this negotiation are such matters as the definition of an agricultural industry; the standing of complainants; the causality criteria for an anti-dumping injury finding; and various other standards and procedural matters. Canada has also a major proposal in play in respect of anti-dumping duties. I should add that the GATT ground rules on countervail and anti-dumping duties continue to apply fully to our bilateral trade with the United States under the Canada-US Trade Agreement. Any progress we make in the Uruguay Round will help any further talks with the United States under the CUSTA.

The clarification and strengthening of existing rules under GATT Article XI in respect of border measures in support of effective domestic supply management programs is also an area to which Canada attaches importance in the context of the agricultural trade reform package. This will be a complex and difficult task, but it is necessary in order to bring more predictability to the operation of existing trade rules and more stability in the trading environment for the product sectors concerned.

Of course, we will seek to reform the operation of Article XI in a balanced way in terms of both Canadian import and export interests. We will also be mindful that a major aspect of the task facing us is to remove international inequities in sectors like dairy products arising from the fact that the United States and Europe are effectively operating their dairy policies outside the GATT system altogether. Our domestic consultations are well advanced on the preparation of an Article XI proposal and we hope to circulate it to other MTN participants soon.



Another area of trade rules negotiations actively underway in the Uruguay Round which has an important bearing on the agricultural sector concerns the emergency safeguard regime under GATT Article XIX, which Canada has used from time to time in the past to provide temporary protection against fair but disruptive imports. The development of a comprehensive safeguard arrangement that will apply across the board, including matters like export restraints, is progressing. Whether special safeguards will be necessary for agricultural sectors such as exist under the meat import legislation of both the United States and Canada will depend on the shape of the final agricultural trade reform package.

As well, the development of new rules to prevent the use of health and sanitary measures as disguised barriers to agricultural trade is underway in the agriculture negotiations group. This work is closely linked to the more general GATT agreement on technical barriers to trade where similar issues in terms of production process, certification arrangements and the like also arise for non-agricultural products.

### **Dispute Settlement**

Because any trade agreement on agriculture - or any other sector - can only be as effective as its enforcement procedures and its dispute settlement system. The overall GATT dispute settlement system is under systematic review in the Uruguay Round. Improvements to the establishment and functioning of independent and timely panels have already been achieved as a result of the Montreal GATT Ministerial Meeting in December 1988.

The development of better ground rules on matters such as subsidies, trade remedies and technical barriers are of course essential to a more solid and smoothly functioning dispute resolution system. However the negotiations need to address the sensitive questions of adoption and implementation of panel reports, including compensation/retaliation procedures. These issues are important for all sectors of trade and for all countries, particularly the smaller ones. The challenge

in this negotiation is to find how much governments are prepared to constrain their freedom in respect of unilateral actions in the trade field in favour of multilaterally agreed disciplines and procedures.

### Conclusion

You have heard Canadian speakers say before me that agriculture is a central element on the agenda of this GATT negotiation. It is indeed crucial to its success. It is equally clear however, that a successful agricultural negotiation also needs a successful GATT negotiation overall. This is essential if there is going to be sufficient pressure and momentum to produce a meaningful and equitable agricultural package.

For its part, Canada needs a substantial package that responds to the opportunities and sensitivities of its agricultural, resource-based, manufacturing and services sectors and regions. This is not an easy task, but it can and it has to be done. We have big stakes in a successful Round. We have even bigger stakes in ensuring that world agricultural trade relations are no longer facing an environment where, because of the absence of trade rules equally applicable to all, the only disciplines are the size of national treasuries and the strength of the muscles conferred by the size of the domestic market.

We have nine months to reach agreement before GATT Ministers meet in Brussels next December. We shall continue to work closely with our private sector advisory groups, various producer groups and the provinces to ensure that we get the best possible agricultural trade deal for Canada.

## A STATUS REPORT: THE COMPREHENSIVE PROPOSALS

M. N. Gifford

### Introduction

When I was at Guelph last spring I indicated how the impasse on agriculture which had developed at the December 1988 Montreal mid-term review had been unblocked at the April 1989 Geneva meeting of the Trade Negotiating Committee.<sup>1</sup>

You will recall that at that time I indicated that the April agreement provided a good framework within which the agricultural negotiations could proceed. Of key importance was the agreement on objectives - specifically the commitment to substantially reduce agricultural support and protection and to negotiate strengthened and more effective GATT rules which were equally applicable to all participants. Also important were the agreements on what the negotiations should cover and how they should proceed.

The scope of the agricultural negotiations is deliberately comprehensive - it covers all measures which directly or indirectly affect trade in farm and food products. This decision recognizes that in order to be successful the agricultural negotiations must be treated as an integrated whole given the obvious linkages between the individual elements, i.e., market access, internal support, export competition, rules and health and sanitary regulations.

You will recall too that the April 1989 agreement also recognized that countries have widely differing agricultural structures and hence have developed over the years a multitude of different support and protection measures. For this reason, much of the early stages of the negotiations was spent in exploring the possible use of a common measuring stick, the so-called "aggregate measure of support" (AMS). All countries share an interest in being able to judge whether the commitments

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<sup>1</sup> Gifford, M. N. "Current Status of the Agricultural Negotiations in the MTN and the Positions of the Major Players", in proceedings of a conference on Agriculture in the Uruguay Round of GATT Negotiations: Implications for Canada's and Ontario's Agrifood Systems, AEB89/6, University of Guelph, July.

they are being asked to take are in fact comparable to the commitments of other countries.

While the April agreement clearly indicated the objectives, scope and general direction of the agricultural negotiations, it did not indicate the precise number of miles we are to travel, or how fast we are to proceed, or what mode of transport we are to use. What does a substantial reduction in support and protection mean in specific policy terms? What kind of negotiating techniques are we to use to get from A to B? Countries agreed last April to provide by the end of 1989 their answers to these questions.

### **The Comprehensive Proposals**

Not surprisingly the negotiating proposals submitted by the United States (US) last October, the Cairns Group and Japan last November, and the European Community (EC) and the Nordic countries last December contain differences. However, there are also important areas of overlap and indications of possible future convergence. I will leave to Professor Tangermann the task of speculating on the options and prospects. My role today is to indicate where the major players have positioned themselves as we move into the last nine months of the Uruguay Round.

Let me first start with the position of the United States which is clearly the most ambitious and radical of the major proposals. On market access the US proposes to convert all non-tariff barriers to tariffs, or tariff-rate quotas, and then to reduce the tariffs. This proposal specifically envisages the phasing-out of all import quotas - including those currently provided for in Article XI:2(c)(i) - and replacing all variable import levies and other forms of minimum import price systems with fixed tariffs. The US envisages a transition period of 10 years, and has suggested that there be a special safeguard mechanism (similar to the fresh fruit and vegetable "tariff snap-back" provision in the Canada-US Trade Agreement) which would be triggered if there were import "surges" during the transition period.

The US position on export subsidies is very clear - phase them out over five years.

As regards internal subsidies, the US proposal appears on the surface to be equally clear: divide programs into three categories - banned, subject to discipline, and permitted (the so-called "traffic light" approach). However, on closer examination the proposal raises some crucial questions. For example, the US proposal on internal support suggests that the most trade distorting policies should be phased-out over 10 years while other trade distorting policies would be reduced and subjected to GATT disciplines. Reducing support could involve the use of some form of an aggregate measure of support. Only policies which are regarded as having minimal trade effects would be exempt from commitments to reduce support. In explaining this proposal to US farmers, US officials have emphasized that it does not mean the US will give up farm income safety-nets. However, US officials have not yet explained in Geneva what kinds of safety-net programs would replace the existing set of programs, apart from indicating that they should not be linked to production or marketing.

Although the US ideas on farm income safety-nets have not yet been spelled-out in detail, it is evident that the US shares the view of most other countries that the provision of public goods, such as research, inspection and extension, as well as such programs as disaster relief and conservation, are not trade distorting and hence should be permitted. However, the US proposal is silent on the question as to whether programs falling into the "green-light" category would be free from countervail.

The proposal of the European Community also contains a number of areas which are vague, and which EC negotiators, like their US counterparts, say can only be clarified through negotiation. Of key interest to Canada and the other agricultural exporters is the Community's proposal to modify the variable import levy system so that there is a fixed import tariff and a variable component which triggers when world prices fall below some reference price. The EC also wants the variable

component to trigger in response to exchange rate movements. The value of the Community's proposal to other exporters will vary in direct proportion to the extent to which the fixed tariff is reduced and the triggering of the variable component is minimized. For its part the Community is clearly linking tariffication to "re-balancing", i.e., increasing protection on oilseeds and grain substitutes while reducing protection on grains, dairy, sugar and beef.

Of particular interest to Canada is the European Community's position that if countries have internal supply control programs an appropriately formulated Article XI will have to be retained. (This view is also shared by Japan, Austria, Switzerland, the Nordic countries, Israel, South Korea and Canada).

The EC's position on export subsidies is to say that the export subsidy should be the mirror of the fixed tariff on imports plus the variable component, i.e., the amount granted to exports could not exceed that levied on imports.

Since tabling their proposal, EC spokesmen have been careful to note that the Export Enhancement Program (EEP) used by the US is not equivalent to the Community's export subsidy system. In the EC's view comparability of export assistance between the EC and US on grains, for example, would require taking into account the deficiency payments paid on US grain exports, as well as the direct export subsidies under the EEP.

The European Community's views on internal support also differ markedly from those of the United States. The EC sees a major role for the aggregate measure of support in the agricultural negotiations. The EC certainly envisages its version of the AMS - the so-called support measurement unit (SMU) - being the primary vehicle for reducing internal support, rather than being used in conjunction with new rules. The Community would clearly prefer to have commitments on internal support expressed in SMU terms rather than as specific policy commitments, e.g., commitments on individual commodity price support levels and instruments. SMU commitments, bound in the GATT,

are seen by the EC as providing Community policy makers with flexibility as to how various policy instruments are to be adjusted. From an exporter's point of view, however, a GATT binding expressed in SMU terms does not provide any assurance about the terms of access to the European market.

The proposal of the Cairns Group falls between the two extremes represented by the American and European proposals.

On import access the Cairns group, like the US, envisages the elimination of all waivers and exceptions from existing GATT rules. The Cairns group proposal does not directly address Article XI, but clearly leaves the issue open by proposing that all non-tariff barriers not in conformity with the new GATT rules would be phased-out and tariffed.

On export subsidies the Cairns Group proposes a freeze and a progressive phase-out over 10 years or less.

As regards internal subsidies the Cairns Group envisages a combination of a rules approach and an approach based on an aggregate measure of support. With respect to rules, a three-category approach as suggested: (1) prohibited; (2) permitted but subject to discipline; and (3) permitted. Unlike the US, however, the Cairns Group also addresses the need for improved rules and disciplines on countervailing measures. So far, the Cairns Group has not been specific as to the criteria which should be used to categorize internal support measures.

The Cairns Group suggests that an AMS could be used as a complementary technique to policy specific commitments, and explicitly acknowledges the need to provide governments with some flexibility in achieving agreed reductions in trade-distorting support. However, the group has major difficulty in relying on SMU commitments exclusively. As noted earlier, we must also have specific commitments on access and export subsidies. The Cairns group thus suggests a role for the AMS which falls between that of the US and the EC.

## **Canada's Particular Interests**

As a member of the Cairns Group, Canada supports fully the proposal tabled by the Group last November. However, it is evident that, although the members share a common goal of achieving a fundamental reform of the agricultural trading system, there are differences regarding specific issues. For example, some Cairns Group members would prefer to see all non-tariff barriers phased-out, including import quotas in support of supply control programs. Canada's position on Article XI is clear - it should be retained, but clarified and strengthened. We believe this can be done in ways which maintain a balance between our export and our import interests. Obviously, we do not want to see Article XI opened-up in a way which would lead to its abuse. However, we must have a clear understanding of our international rights and obligations. We must know what we may do at the border when we have effective government programs which restrict domestic output.

We are currently consulting with all segments of the agrifood system - producers, processors and the provinces - on Canada's Article XI position. We hope to complete these consultations soon and to table a paper in Geneva before the next meeting of the agricultural negotiating group in early April.

Canada clearly has the most diverse agricultural trade interests of all the Cairns Group members. This diversity is reflected, for example, in our position on Article XI, as well as in our particular interests in the relationship between internal supports and countervailing duties. Sitting next door to the US, we have a major interest in clarifying under what conditions countervailing duties may be imposed. We also have a major interest in ensuring that all US and EC support programs which stimulate exports or replace imports are brought under effective international disciplines.



## **The Final Stages**

Now that the major players have tabled their proposals, how will the negotiations proceed? Most countries recognize that time is running short and that much remains to be done if we are to have a successful conclusion at the Ministerial Meeting in Brussels in December. Last week in Geneva there was agreement that the Chairman of the Negotiating Group on Agriculture should set-up an informal negotiating process. Clearly, it is impossible to move rapidly in a plenary group of ninety or so countries. Equally clear is the reality that the Chairman must be sensitive to the need for transparency when he consults with smaller groups.

The challenge is to proceed quickly through the process of clarifying the details of the country proposals to arrive at a stage where participants can begin to explore possible areas of convergence and to delineate more clearly the areas of difference. Ultimately what the Chairman must do is to prepare a "synthesis paper" before the summer so that countries can get a good idea of the likely contents of an agricultural package. It is certainly Canada's intention to press hard for the development of a single negotiating document by the early summer. Such a document will, of course, have many square brackets, and in some cases major options will still be open. Nevertheless, it is difficult to envisage how we can conclude by December unless the elements of the agricultural package are discernable by the summer.

There is one area of the agricultural negotiation where earlier progress could be made. It is evident from the negotiating proposals tabled last year that there is a fair measure of convergence already in the health and sanitary negotiations. Thus it may be possible to reach an agreement in principle on the elements of a health and sanitary package by the summer. This would leave the fall of 1990 to narrow the differences on access, subsidies and rules, with Ministers being asked to forge the final compromises and to agree on the key numbers in the final fateful meeting in the first week of December.

## OPTIONS AND PROSPECTS: A FEASIBLE PACKAGE\*

Stefan Tangermann

### Introduction

The human mind likes to think the unthinkable, and it is the professional mission, burden and pleasure of university professors to go beyond common practice and think the even more unthinkable. The task of outlining a feasible package for agriculture in the Uruguay Round, however, goes far beyond even a professor's ability to engage in speculative thinking. In any case it certainly exceeds this author's capacity to imagine the unimaginable.

This is not because it appears impossible to think of some type of an accord in the Geneva talks. On the contrary, a positive result of agricultural negotiations in the GATT has never been as thinkable as it now is in the Uruguay Round. There are lots of blueprints around for how to deal with agriculture in the GATT, and all the major participants in the negotiations appear to be determined to make some significant progress beyond what has been done for agricultural trade in earlier rounds of GATT negotiations. Negotiating positions are still far apart, and the remaining nine months until the planned conclusion of the Uruguay Round are enough to beget a child, but they may not be sufficient to complete the far more complicated process of finding a compromise among agricultural negotiators. Yet, it is not at all unthinkable that a constructive and progressive solution for agriculture will be agreed, at least in bold outline, before the end of this year.

What is impossible, though, at least for this author and at this point in time, is to design a feasible package for agriculture in the Uruguay Round, feasible in the sense of being actually acceptable for all negotiating partners. At the end of the day there will be no more than one feasible package of agreements - the package adopted by the Contracting Parties at the close of the Uruguay

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Round. All other conceivable solutions will then have turned out to be infeasible because it was impossible to agree on them. Hence the task of designing a feasible package is equivalent to that of predicting the outcome of the negotiations. This author's crystal ball is muddy when asked to disclose the text which will be signed in Brussels this coming December. Hence the present paper cannot really do what its title suggests.

It will rather attempt to argue that the negotiating positions of some major proponents of the agricultural negotiations are less far apart than they appear to be and that, therefore, a compromise should be possible. In particular, the paper will try to make the point that a number of central issues which may appear to be matters of principle can now be treated as matters of degree, and that it is more fruitful to do so. In particular, the negotiating positions of some participants have changed considerably since the beginning of the Uruguay Round, and not always in a constant direction. If it is true that some countries' negotiating positions at the end of 1989 were significantly different from what they were a year before, when they were already surprisingly different from those of 1987, then it cannot possibly be true that the current positions are non-negotiable.

In any case, with the last round of comprehensive proposals tabled between October and December 1989, it appears that the chances of talking about degrees rather than principles have been greatly enhanced in the three central areas of import access, export competition and internal support. Moreover, the difficult issue of rebalancing the Community's agricultural protection may have to be seen in a different light now that the GATT soybean panel has issued its report. The present paper will discuss these four areas in turn. Because of space limitations it will not deal with the negotiations on sanitary and phytosanitary regulations and on special and differential treatment for developing countries.<sup>1</sup> For the same reason it concentrates on the proposals tabled by the United States, the Cairns Group and the European Community.

### Import Access

As far as import access is concerned, it appears that over time the negotiating position of the United States has become more demanding in qualitative terms and more conciliatory in quantitative terms. The initial US proposal of July 1987 requested a complete phase-out of all import barriers over a ten year period, without suggesting that their nature had to be changed during that period. The November 1988 US proposal for the Mid-Term Review introduced the concept of tariffication and thereby added an important qualitative element to the initial proposal. The comprehensive US proposal of October 1989 maintains that qualitative element but softens the quantitative request by suggesting that not only zero but also "low" levels of tariffs could remain after the ten year period. It also adds another twist, this time again more demanding than the earlier proposals, by suggesting the establishment of tariff quotas on January 1, 1991, such that within-quota tariffs would be immediately cut while the gradual reduction of tariffs over the ten year adjustment period (from the level of 1986-1988 tariff equivalents of the original non-tariff measures) would be applied to above-quota tariffs. At the same time the tariff quotas would be gradually expanded during the transition period.

The Cairns Group's proposals have moved in a similar direction, though more steadily and in ways that are slightly less demanding. The initial proposal of October 1987 and the Mid-Term proposal of July 1988 had tariffication (implicitly) only as an element of the long-term framework, i.e. after the adjustment period. In its comprehensive proposal of November 1989, the Cairns Group "favours" tariffication during the adjustment period (though not necessarily on January 1, 1991).<sup>2</sup> Moreover, continued emphasis throughout all Cairns Group proposals on the need to do something about "measures not explicitly provided for in the GATT" may implicitly suggest that Article XI quotas would be accepted even in the long run.

The European Community has from the beginning of the Uruguay Round maintained that levels of support and protection should be substantially reduced, but that they would not have to come down to zero. Moreover, the Community has continuously emphasized that the choice of instruments should be left to each individual government. The closest that anything in the initial EC proposal of October 1987 came to tariffication was that the Community envisaged negotiations "with a view to later GATT bindings, taking into account world price and currency fluctuations, of the maximum levels of support, protection and export compensation".

The comprehensive EC proposal of December 1989, however, is a remarkable departure from this earlier position. The respective section of that proposal begins with a lengthy philosophical critique of tariffication, which culminates in the colorful doomsday picture that this approach would lead "to trade in agricultural products on a totally free and chaotic basis", "to a cycle of crises", and "to an abrupt, ill thought out, and consequently dangerous resurgence of the intervention of public authorities". After the reader has at this stage already given up any hopes, the Community then suddenly turns around to say that it "is prepared to consider including elements of tariffication ... given that the problem of rebalancing can be solved" in that context. The EC proposal then continues to outline the Community's approach for what could be called a "modified tariffication".

The significance of this latest move of the EC can hardly be overestimated. In essence it means that the EC is now willing to consider fundamental changes to the way in which it operates its agricultural market regimes. In particular, the variable levy system as such is no longer sacrosanct. The EC has thus left its long-held negotiating corner and moved a very considerable step towards the centre of the negotiating positions of the different parties. Indeed, one can argue that by doing so the EC has, in effect, in spite of all the rhetoric of its latest proposal, shown more willingness to reach a compromise than any of the other major negotiating partners, some of whom have not softened but rather hardened their initial negotiating positions.

The novel EC approach to tariffication requires some elaboration here in order to see better how it compares with the more traditional concept of tariffication.

According to the EC proposal, variable levies (and other non-tariff measures) would be replaced by a tariff which would consist of a "fixed component" and a "corrective factor in order to take into account exchange rate variations and world market fluctuations which went beyond certain limits to be agreed". Such a modified tariff in any year  $t$ ,  $MT(t)$ , could be calculated according to a formula like

$$(1) \quad MT(t) = FC(t) + \alpha * DIF(t) ,$$

where  $FC(t)$  is the "fixed component" in year  $t$ ,  $DIF(t)$  is the extent to which the actual world market price is below the "limit to be agreed" and  $\alpha$  is a parameter ( $0 \leq \alpha \leq 1$ ) which determines the extent to which downward variations of the world market price (in ECU) would lead to an increase in the tariff.<sup>3</sup>

The separate mentioning of "world market fluctuations" and "exchange rate variations" in the EC proposal for "modified tariffication" obviously means that EC negotiators consider mechanisms by which changes in world market prices would be decomposed into (a) price changes in US dollar and (b) changes of the ECU exchange rate against the dollar.<sup>4</sup> The reasoning may be that exchange rate fluctuations "have nothing to do with agricultural support" (as argued in the section on the Support Measurement Unit (SMU) in the EC proposal; note also Europe's Green Money philosophy) while changes in world market conditions (supposedly reflected in dollar price variations) could be allowed to influence, to some extent, domestic market developments.

This could be done if the variable element in the modified tariff,  $DIF(t)$ , was defined by an

equation like

$$(2) \quad \text{DIF}(t) = \beta * [\text{PR}\$ - \text{PW}\$(t)] * \text{XR} \\ + [\text{XR} - \text{X}(t)] * \text{PR}\$ \\ + [\text{PW}\$(t) - \text{PR}\$] * [\text{XR} - \text{X}(t)] .$$

In this equation, the first term on the right hand side is the difference between the reference price in dollars, PR\$, and the actual dollar world market price PW\$(t), multiplied by the reference exchange rate XR (defined as ECU per dollar), in order to be expressed in ECU terms. The second term on the right hand side is the difference between the reference exchange rate and the actual exchange rate X(t) again defined as ECU per dollar, multiplied by the reference price in order to express the exchange rate effect on the product price. Moreover, in order to add up to the actual difference between the ECU reference price and the ECU world market price, the cross term of the two differences has to be included too.

Since any deviation of the actual exchange rate from its reference value would, according to the EC proposal, probably be allowed to be more fully compensated (through an increase in the tariff) than a variation in the dollar world market price, a parameter  $\beta$  ( $0 \leq \beta \leq 1$ ) has to be included in the definition of DIF(t) in order to be able to give different weights to price variations and exchange rate fluctuations. In equation (2), this parameter is applied to the first term on the right hand side.<sup>5</sup>

According to the EC proposal for "modified tariffication", the fixed component of the tariff "would be reduced at a similar rate as the SMU". In essence the reduction of FC(t) would probably mirror the reduction of domestic support prices which the EC would have to implement in accordance with its SMU commitment.<sup>6</sup> If this reduction of the domestic price level would have to take place in equal annual steps of  $\delta$  ECU per unit, the development of FC(t) over time could be described by a formula like

$$(3) \quad FC(t) = FC(0) - \delta * t ,$$

where  $FC(0)$  is the fixed component in the base year.

A final formula would probably have to deal with an issue which is not mentioned in the EC proposal, nor in other proposals for tariffication. In periods of rising world market prices it could well happen that the "old" variable levy system of the EC would lead to a lower import tax than a "new" fixed tariff. This would become the more likely the higher are the domestic price cuts which result from the negotiations. One way of dealing with this issue would be to subtract any excess of the actual world market price in ECU,  $PWE(t)$ , over an upper limit level in ECU terms,  $PUE(t)$ , from the fixed component. The tariff actually applied,  $TA(t)$ , would then be calculated according to

$$(4) \quad TA(t) = \min \{ MT(t) ; FC(t) - [PWE(t) - PUE(t)] \} .$$

The interesting feature of such formulae is that in their general form they can be used to describe all sorts of different import taxes. For example, the current variable levies of the EC result if  $FC(t)$  is set to zero,  $PR\$ * XR$  is set to the EC threshold price, and  $\alpha$  and  $\beta$  are set to one. On the other hand, a fixed per unit tariff results if  $\alpha$  and  $\delta$  are set to zero, and  $FC(0)$  is given the proper value.

From this perspective, negotiations on the matter of tariffication need no longer be concerned with principles. They can now move to details. Essentially what needs to be negotiated now is how the parameters in the equations presented above should be set. The US and Cairns Group's proposals for an immediate conversion of variable levies and other non-tariff measures into tariffs and for a gradual reduction of the resulting tariff levels, would require that  $\alpha$  is set to zero,  $FC(0)$  is fixed



as the tariff equivalent of the non-tariff measures in the base year, and  $\delta$  is calculated such that the target tariff results after ten years. For example, if the target level for a given tariff is ten percent of the tariff equivalent in the base year, then  $\delta$  has to be equal to nine per cent (i.e. ninety per cent over ten years) of  $FC(0)$ .<sup>7</sup>

The EC has not yet specified the parameters it would like to adopt. It might want to reduce the fixed component less rapidly, say by only five percent of its base value in each year. Moreover, the EC may want to shield domestic markets completely against currency fluctuations, which would require an  $\alpha$  value of one. On the other hand, the EC may be prepared to let one quarter of any drop in world market prices in dollars be reflected in the landed price of imports into the EC, such that a  $\beta$  value of 0.75 may be acceptable. Finally, the EC approach of "modified tariffication" would require that a reference level of world market prices and exchange rates is agreed which would trigger the addition of a "corrective factor" to the fixed tariff according to equation (1) above. The EC might want to set this level relatively high such that the chances of being able to invoke the "corrective factor" are higher. However, there is certainly also some trade-off between the level of the reference prices and exchange rates on the one hand and the parameter values for  $\alpha$  and  $\beta$  on the other hand. Moreover, an important issue to be negotiated with the EC is the extent to which the EC is prepared to reduce its "Community preference", i.e. the extent to which the landed price of imports exceeds the level of the intervention price in the EC. In its September 1989 paper on GATT rules and disciplines the EC indicated that it is prepared to negotiate about this matter.

The room for manoeuvre in the negotiations is even larger if it is accepted that some decisive parameters need not be kept constant over time but that they can be adjusted according to an agreed time schedule. For example, one could agree on an  $\alpha$  value of, say, 0.7 at the beginning of the adjustment period and then reduce this value in steps to 0.3 after some years, thus gradually getting

closer and closer to a fixed tariff.

What the outcome of different ways of setting the parameters would be will also depend on the future development of world market prices. In that sense all negotiating parties have to act under uncertainty, and the outcome of alternative formulae may turn out to rather different from what their proponents may think. For example, with high world market prices a fixed tariff can result in higher domestic prices (and hence less market access) than a variable tariff. In the appendix to this paper some examples of different parameter sets for the tariff formulae presented above are examined under an assumed future development of EC prices and a synthetically constructed time series of future world market prices for wheat. The results of this exercise illustrate that the effects of tariffication depend very much on the development of world market prices. They also underline the point that there is ample room for negotiating a compromise once it is accepted that negotiations need no longer deal with matters of principle but can now turn to the details of a modified tariffication system.

If it is true that a constructive compromise with the EC on the matter of tariffication is now much closer, then it should be possible to settle other issues regarding import access also. Of course, tariffication should apply not only to variable levies, but to other non-tariff measures as well. The concept of "modified tariffication" may make it easier for some contracting parties to give up their non-tariff measures. In particular, it should now be possible to agree to the elimination of all waivers and derogations, protocols of accession and grandfather clauses as far as they relate to access barriers.

A remaining contentious issue appears to be Article XI:2(c). The United States argues for elimination of that provision, the Cairns Group does not mention it explicitly (but implicitly appears to argue for maintaining it), and the EC wants to retain "an appropriately formulated Article XI". It is not clear why it would be necessary to retain Article XI:2(c) in a tariffication setting if the countries concerned are allowed to establish sufficiently high initial tariffs as a substitute for their

import quotas, if these tariffs can be adjusted at least marginally to changing world market conditions (according to the "modified tariffication" approach), and if the gradual reduction of these tariffs moves in parallel with the reduction of domestic support. In such an environment, the only reason why countries might still want to maintain import quotas would be that they would like to reduce domestic support through a decrease in domestic supply quotas rather than through a reduction of support prices. Such a strategy would not be in the interest of a better allocation of world agricultural resources, and serious attempts should therefore be made to eliminate this agricultural exception from the GATT.

### Export Competition

In the area of export competition, the US negotiating position has also become more demanding during the Uruguay Round. The initial US proposal of July 1987 envisaged a phase-out of export subsidies over a ten year period. The 1989 comprehensive US proposal now requests a phase-out in five years. The Cairns Group has consistently argued for the phasing out of export subsidies during a transition period of "ten years or less". Both the US and the Cairns Group have recently made their subsidy proposals more specific by suggesting particular types of constraints that should be imposed on export subsidization during the transition period - limits to government expenditure or to quantities of subsidized exports in the case of the United States, and limits to both per unit and total outlays on export subsidies in the case of the Cairns Group.

The Community has never said very much about export subsidies as such. The only vague reference to export subsidies in the initial proposal of October 1987 was contained in the statement cited above about possible negotiations "with a view to later GATT bindings" in the context of import access. The EC paper on GATT rules of September 1989 explicitly said that the Community does not want a prohibition of export subsidies, but it suggested some limited improvements to Article

XVI:3 concerning definition of the reference period and elimination of the "special factors" clause. The comprehensive EC proposal even hides the one extremely short statement it has to make about export subsidies under the heading of tariffication, where the reader is informed that "the same arrangement would apply to exports; the amount granted to exports could not exceed that levied on imports". The "same arrangement" obviously refers to "modified tariffication".

It is not clear (to this author and to others) whether the two parts of this cryptic statement are independent or not. If they are not independent, then only the second part, i.e. "the amount granted to exports could not exceed that levied on imports", is relevant, while the first part of the statement only reminds the reader that commitments regarding import levies have been specified a few sentences above. In this case no new and separate discipline on export subsidies is envisaged in the EC proposal. Indeed, no sensible policy maker would ever grant export subsidies which exceeded the level of import levies because otherwise arbitrage would be triggered. Moreover, the relevant EC regulations for the individual market regimes already require that export subsidies do not exceed import levies. Hence it is not clear why the Community negotiators felt that such a suggestion should be made in their comprehensive proposal (and also earlier in the September 1989 EC paper on GATT rules). The only message conveyed by this statement then is the not-unimportant point that a gradual reduction of import barriers automatically forces governments to bring export subsidies down as well. Indeed, comprehensive tariffication and a sufficiently rapid reduction of tariffs would go a long way to imposing discipline on export subsidies.

A more interesting interpretation of the EC proposal would be that the first part of the statement regarding export subsidies suggests the establishment of explicit commitments for export subsidies, such that the same basic procedure suggested by the EC for import tariffs would be applied to export subsidies as well. This would mean that there would be bindings on export subsidies per unit, with a fixed component and a variable corrective factor as in the case of import taxes, though

possibly with different parameters and certainly at a lower level.

Even from a Community point of view this second interpretation would make more sense, because it would easily fit into EC thinking about using an aggregate measure of support. If the EC is prepared to bind and reduce its SMU - which in the case of the EC essentially means to bind and reduce domestic support prices - it can readily accept corresponding commitments regarding export subsidies, and by doing so it could expect the same from its competitors on world markets. After all, the EC is now a very large agricultural exporter, and it has a strong interest in making sure that there is discipline in export competition.

If the EC is prepared to consider some type of binding of export subsidies, possibly in a manner analogous to "modified tariffication" on the import side, then the argument advanced above regarding the nature of negotiations applies to this issue, too. Negotiations could now fruitfully turn to the details of an approach towards limiting export subsidies, rather than getting stuck in a confrontation regarding principles. In particular, negotiations could concentrate on the annual rate of reduction of existing export subsidies (equivalent to parameter  $\delta$  in the tariff formulae) and on the extent to which export subsidies could vary with variations in world market prices and exchange rates (equivalent to parameters  $\alpha$  and  $\beta$  in the tariff formulae).

The major advantage of binding export subsidies (in whichever way) would be that revision of Article XVI:3 would become much easier. With effectively bound and gradually falling export subsidies, Article XVI:3 could simply be eliminated, and for the period until export subsidies are eliminated it could be replaced by an understanding that any country which exceeds its bound export subsidies violates its GATT obligations (possibly subject to a safeguard clause).

Two other issues which require careful consideration are the definition of export subsidies and the treatment of processed products. Among the three proposals, only the US proposal contains an

explicit definition of export subsidies, in the form of the Illustrative List of Export Subsidies contained in the Subsidies Code annexed to the US proposal. The Cairns Group proposal says only that "the subsidy practices involved will need to be clearly identified and defined". The EC proposal is silent on the definition of export subsidies.

The Illustrative List is certainly a good starting point, but it may have to be elaborated and extended by identifying some specific agricultural export assistance practices. The more difficult question probably will be to find an appropriate treatment of domestic subsidies which would ensure that former export subsidies are not re-instrumented into domestic aids.

In addition, both the US and the Cairns Group proposal recognize the difficulties involved in distinguishing between subsidized exports and food aid. The Cairns Group seeks to overcome these difficulties by proposing that all food aid should be provided on a grant basis. The US proposal is less restrictive and only speaks of "new rules (which) may need to be developed to govern the granting of food aid". The EC proposal, in its section on special and differential treatment, explicitly favours food aid "not only in the form of donations, but also in the form of concessional sales with an important grant element".

Agreement on this issue may give negotiators quite a headache. It is not certain that the commercial imports of food aid recipients would be less affected if all food aid were provided on a grant basis, and agreement to allow only zero-priced food aid would not impose any limits on the quantities of food aid shipped. A continued negotiating and monitoring process in the Committee on Surplus Disposal or in similar bodies will therefore be unavoidable, and it could be left to that process to determine the maximum price at which shipments can be considered to be food aid.

None of the comprehensive proposals deals explicitly with export subsidies for processed products. The EC proposal, in its section on the SMU, says vaguely that "processed products should also be covered", but provides no suggestions as to how this should be done. However, in its

September 1989 proposal regarding GATT rules the EC made the suggestion that "the obligation to limit subsidies applied to exports of commodities which are incorporated into processed agricultural products to the difference between the price of the commodity on the domestic market and the price on the world market should be emphasized and clarified". This suggestion is slightly surprising because there is so far no explicit GATT rule which establishes such an obligation. On the contrary, Article XVI (and a note to that Article) explicitly restricts export subsidies to unprocessed commodities; i.e. such that export subsidies on processed agricultural products are prohibited rather than being subject to an obligation of the type referred to by the EC.<sup>8</sup> On the other hand one can argue that (properly limited) export subsidies for processed products make economic sense as long as there is protection in the raw materials sector. Moreover, such subsidies play an important role in the practice of agricultural and food trade. Hence there is good reason to look at them in the negotiations, possibly along the lines suggested by the EC.

#### **Internal Support and the Aggregate Measure**

The latest round of comprehensive proposals has added interesting features to the negotiations concerning internal support and an aggregate measure, and flexibility has been shown on all sides. In its initial proposal and in its paper for the Mid-Term Review, the United States argued flatly for a complete elimination "of all agricultural subsidies which directly or indirectly affect trade" over a ten year period. The only category of subsidies which would have been permitted after that period were "direct income or other payments decoupled from production and marketing". In the comprehensive US proposal of October 1989, a new category of domestic subsidies is introduced which may appear to fall in between these two classes, though in effect it would subsume part of those aids which had earlier been classified as prohibited. Subsidies of this "middle" type would not need to be eliminated, but they would be disciplined and reduced under a bound and progressively

falling aggregate measure of support. During the ten year transition period, when the more trade distorting subsidies would not yet be prohibited, the major difference between them and the "middle" category would appear to be the annual rate of reduction.

The position of the Cairns Group has developed in a similar way. In their initial and Mid-Term proposals, the Cairns Group envisaged a complete phase-out of all trade affecting subsidies during the transition period. In their comprehensive proposal of November 1989, the Cairns Group has also adopted a three-tiered approach to domestic subsidies. Regarding the use of an aggregate measurement of support (AMS), the Cairns Group has consistently maintained that it would help to define the target of support reductions and to monitor progress, but that commitments and bindings should be defined in terms of policy and program parameters rather than in terms of the AMS as such. However, some passages of the text on internal support in the 1989 comprehensive Cairns Group proposal are less clear in this regard. In particular, it is now suggested that "countries may be accorded flexibility in choosing the policy mix they would use to achieve the agreed reductions in trade-distorting support". On the other hand, the Cairns Group also suggests that target support reductions should include "annual commodity-specific cuts to producer prices and (to) an AMS expressed in total value terms". The "and" in this passage, as well as the fact that it refers to the total value AMS (rather than the per unit AMS) could indicate that the Cairns Group would like to make sure that the volume of supported production is brought under control. However, this would involve the danger that governments would choose to subject more and more of agricultural production to domestic supply quotas.

An interesting development has also taken place in the US position on the AMS. In its initial proposal, the US favoured the use of an AMS as the overall yardstick for all forms of support and protection and as the measure of their phase-out during the transition period. At that time the US position was that "in general, governments shall retain flexibility in the choice of the means to fulfill



their commitments". In its later proposals, the US position has become more demanding in the sense that it now requests specific bindings on access barriers (as converted into tariffs and bound in that form) and export subsidies (bound in the form of limits to government expenditure or quantities of subsidized exports). Moreover, for the category of domestic subsidies to be completely eliminated the United States now proposes commitments "by policy and, in most cases, by commodity as well". With this change towards policy-specific bindings for all these categories of instruments it is logical that the only use which remains for an AMS in the US view is to govern the reduction of the "middle" category of domestic subsidies. The specific form of an AMS to be used for this limited purpose would, however, be a rather pale shadow of the original Producer Subsidy Equivalent.

The European Community, by contrast, has stuck consistently to its position, expressed in its initial proposal of October 1987, that all trade affecting policies should be treated in the same way, that governments should retain some flexibility in choosing among different instruments, and that an aggregate measure of support was therefore the best means of expressing and binding commitments. The Community favours the use of its special variant of an AMS - the SMU - which is essentially the PSE as used by the OECD, stripped of some policy instruments which have only marginal effects on trade, and calculated against a fixed external reference price expressed in domestic currencies (the ECU in the case of the EC).

The flexibility which the EC has now shown in its 1989 comprehensive proposal is twofold. On the one hand, in addition to SMU bindings, the Community is now prepared to consider more specific bindings on border instruments, in the form of "modified tariffication" of variable levies, and (possibly) equivalent bindings of export subsidies. Secondly, the Community is prepared to reconsider its preference for fixed external reference prices in the SMU definition. Again this important departure from earlier negotiating positions of the Community is couched in cryptic words. The relevant text in the EC comprehensive proposal says that "the movement towards a reduction in

support must be clear; the scale of this movement should relate, to a certain extent to the world market situation. ... A mechanism needs to be developed on this point. It should specify the period for which world market prices are taken into account and the proportion of the commitment to reduce support which would be adjusted by the development of these prices".

In other words, the Community is now prepared to consider a modified SMU arrangement which would require larger reductions of support when world market prices go down. In essence this says that the Community is prepared to establish a link between its domestic price support (which is by far the largest element in its AMS) and the development of world market prices. Technically this could be achieved by adjusting the external reference price for SMU calculations (and thereby the target for annual support price reductions) whenever there is a change of the world market price. However, external reference prices would not necessarily be fully adjusted to the movement of world market prices. A drop in the world market price by ten percent could lead to a reduction of the external reference price by, say, five percent. Moreover, the Community may again want to distinguish between fluctuations of world market prices and fluctuations in the exchange rates. In effect the same types of formulae which have been presented earlier as a description of "modified tariffication" could be used for SMU calculations, such that parameters like  $\alpha$  and  $\beta$  would determine the extent to which world market price and exchange rate variations would affect the level of permissible domestic support, and a parameter like  $\delta$  would determine the speed of support reductions. Indeed, in order to secure consistency among the different policy instruments it would make sense to use the same set of formulae and the same parameters for binding import taxes, export subsidies and domestic support.

It has to be emphasized again that the importance of these Community offers cannot be overestimated. After all, the nature of the Common Agricultural Policy would change very significantly if the Community would establish such direct - though buffered - links between the world

market situation and domestic farm prices. In the Community the term "market orientation" has so far meant - at best - attempts at controlling domestic surplus production in the EC. With the mechanisms now suggested in the EC comprehensive proposal, a genuine and direct orientation to international market developments would for the first time be introduced into the major domestic agricultural markets of the Community.

Given the flexibility which the major participants have shown, it should be possible to continue fruitful negotiations. As argued above, it appears to make sense to circumvent a debate about principles and concentrate pragmatically, instead, on details and parameters. The difference between the US and Cairns Group position on the one hand and the EC position on the other hand can, as long as the issue of final elimination is left to later negotiations, usefully be described as a difference regarding the speed of the reduction of domestic support. The Community is prepared to accept commitments to reduce support, but it has not yet said what rates of reduction it could live with. The debate should now, therefore, concentrate on the annual rate at which support is to be reduced. Moreover, a debate can begin immediately regarding the extent to which domestic prices should be affected by variations in world market prices and exchange rates.

Whether support is measured and bound in the more comprehensive way for which the Community has a preference or in the more partial way which the United States has now suggested, should not be too important as long as all sides are agreed that, in addition to either the binding of overall support or the binding of domestic support, there will be effective bindings regarding border measures. As long as there is agreement on some type of tariffication and on some type of binding on export subsidies, it is largely irrelevant whether domestic support is bound under a wider or a more narrow form of an aggregate measure.

A potentially much more contentious issue is the definition of domestic support which is trade neutral. This issue is relevant during the transition period since trade neutral policies would probably

be left unrestricted during that period. All parties are agreed that for the longer term policies which have only marginal effects on production and trade should not be covered by AMS calculations and commitments. However, they may have different policies in mind. The wording of the US description of "permitted policies" reads as if US deficiency payments for grains are supposed to fall in that category because in their current form they can technically be described as being "not tied to current production" i.e. that they are "decoupled". However, in the eyes of many observers, the history of these deficiency payments and their current practical management are such that US grain farmers have enough reason to believe that they are at least potentially better off if they preserve a high yield and acreage record, and that therefore their production decisions are in effect not guided by what in technical terms is their current low marginal revenue but by a price expectation which is closer to the existing target price. Moreover, as long as government payments are based on the difference between a target price and the actual market price, farmers will feel that this payment is supposed to protect them against market instability, even if it is not related to their current volume of production.

It would therefore be preferable if the definition of "permitted policies" would include the criterion that payments must not in any way be related to the production of specific commodities, even if the basis for payments is a fixed historical volume of production, and that payments must not be based on the difference between the current market price and a target price for any particular commodity.

### **Rebalancing**

When it comes to the issue of rebalancing, it is difficult to detect any flexibility in recent developments in the negotiating positions. The Community is still determined to do something about imports of cereal substitutes and oilseeds, and in its comprehensive proposal it has made its willingness to consider some type of tariffication conditional on progress towards rebalancing. The

United States and the Cairns Group, on the other hand, have not so far shown any sign of being prepared to make significant concessions on this matter.

In this situation, the November 1989 report of the soybean panel has added a new twist to the debate about rebalancing. In its well reasoned report the panel has argued that the Community should modify its oilseeds market regime for two reasons. First, it is possible that EC deficiency payments in their current form (i.e. as they are paid to processors) are higher than is needed to compensate processors for high EC oilseed producer prices. According to the panel this would violate Article III:4 of the GATT under which imported products must be treated no less favourably than like domestic products.<sup>9</sup> Second, EC deficiency payments for oilseeds, which are paid to implement a fixed domestic target price, protect EC farmers against the movement of world market prices and therefore make it difficult or impossible for US producers to compete with EC farmers. According to the panel this impairs the benefits accruing to the United States under Article II in respect of the zero tariff binding for oilseeds in the Community.<sup>10</sup>

The panel has not indicated the specific ways in which the EC should modify its oilseeds market regime. However, ironic as it may be, there is one particular way of re-instrumenting the EC oilseeds policy that would cure both of the problems identified by the panel at the same time - tariffication! If the EC could replace the deficiency payment by a bound tariff, (though at a lower level), there would no longer be the possibility that payments overcompensate EC processors and domestic EC oilseed prices would move in parallel with world market prices. Of course, this is not the only way in which the EC oilseeds market regime could be modified in order to take the arguments of the panel into account. A fixed per unit subsidy paid directly to EC oilseed producers would also do the trick. However, given the farm size structure in the Community such a subsidy paid directly to farmers would be difficult to administer and to control.

In that sense the panel report may, inadvertently, have mildly strengthened the EC case for

tariffication in the oilseeds sector. It cannot, though, affect the necessity for a balance of concessions to be reached in the negotiations. Before a compromise (rather than a complete surrender of either side) can come into sight two things will have to happen. First, the Community's negotiating partners will have to be prepared to consider EC offers of concessions in exchange for rebalancing (rather than turning down completely any negotiations on this matter). Second, the Community will have to make such offers. The close link which the Community has tried to establish between (modified) tariffication and rebalancing appears to indicate that the Community considers its willingness to participate in tariffication to be a concession which is "worth" as much as the US willingness to forgo its right to a zero tariff on oilseed imports into the EC.

The Community's negotiating partners may want to see whether the Community is prepared to go further. One important parameter must be the level of the oilseeds tariff to be introduced. There is some tariff level at which the volume of EC imports equals that under the current deficiency payment regime, and it remains to be seen whether the EC is prepared to approach that level. Another important parameter is the rate of reduction in support levels for EC cereals, and again there must be some rate which compensates the Community's trading partners for any losses in the oilseeds sector. Yet another element in the deal is the treatment of cereal substitutes. Given the strong need to do something about its oilseeds market regime as a result of the panel report, EC preferences may change and it may be possible to convince EC negotiators that they should be content to leave the substitutes situation unchanged if they can make progress on the oilseeds front.

In passing it may be worth noting that the soybean panel report has implications far beyond the EC oilseeds regime. If the panel's rather convincing argument is accepted that deficiency payments based upon a fixed target price severely limit the scope for international competition, then any case in which a country grants such payments for a product where it has bound a tariff is now a problem, irrespective of the level of payments. The panel report may, therefore, open up a

pandora's box of GATT complaints. It would be useful if a general solution to this issue could be found in the Uruguay Round so that it will not have to be pursued through a multiplicity of individual complaint procedures.

Finally, the panel's important economic argument regarding fixed domestic prices implies that variable levies and export subsidies also severely limit the scope for international competition. Economists have made this point repeatedly, but it appears that it has now for the first time been taken up in a GATT panel. In a purely legal sense the panel finding on this matter relates only to cases where the country concerned has bound a tariff (because in the absence of a binding the issue of impairment/nullification is irrelevant). However, the "spirit" of the panel finding is certainly relevant far beyond the matter under dispute.

#### Conclusions

In the last round of comprehensive proposals for agriculture in the Uruguay Round, negotiating positions of some participants have moved significantly. In some cases the requests have become more demanding, and this has certainly not made negotiations easier. However, it appears that in more cases there has been a remarkable degree of flexibility, and gaps among negotiating positions have narrowed. Indeed, there should now be the basis for a far-reaching agreement on agricultural policy and trade reform.

As far as market access is concerned, the tariffication approach has gained ground. In particular, the European Community has shown a willingness to consider a movement in this direction by adopting an approach which can be described as a middle course between traditional variable levies and fixed tariffs. In the area of domestic subsidies, the United States and the Cairns Group have been forthcoming by proposing a new category of subsidies which would not have to be completely eliminated, though they may have some production and trade effects. With regard to the aggregate measure of support, the Community has shown a willingness to consider a revision of its

preference for a completely fixed external reference price. In the area of export competition, it is less easy to register progress. The United States has reduced the proposed period for elimination to five years, and the Community has not been very explicit regarding any sensible disciplines it may be prepared to accept. With respect to rebalancing it is not clear whether the recent soybean panel report has made things easier or not. The Community has been put in a quandary regarding its oilseeds regime. This places EC negotiators in a defensive position. On the other hand, the easiest way out for the EC would be the introduction of tariffs for oilseeds.

In spite of the flexibility which has been shown in the comprehensive proposals, the major parties are still far from a compromise. In order to keep the negotiations fruitful, it would appear that the time is now ripe for switching from a debate about principles to negotiations on details and parameters. In its section on market access, this paper has attempted to show that major elements of the different positions regarding tariffication can be represented in one common set of formulae, such that differences can be expressed in terms of concrete numerical parameters to be negotiated rather than in the form of abstract principles to be endlessly debated. The same is equally true for a number of other issues in the negotiations.

In particular, it would appear useful at this point to avoid a debate about whether certain types of policies shall be completely eliminated or not. Given the extent to which agricultural policies affect and distort domestic markets and international trade, it will not be possible to abandon these policies without some adjustment period. Consequently, no country argues for their complete elimination on the first day after the close of the Uruguay Round. Even those governments which argue for the eventual complete elimination of certain measures envisage a transition period. During this transition period, the level of protection and support resulting from these policies will have to be gradually reduced. It is the extent of this reduction, and the speed at which it takes place, which will determine the development of agricultural trade over the years to come. Hence rates of



reduction of support and protection should be negotiated, and not the principle of final elimination which as such does not affect trade before the end of the transition period. After all, any rate of reduction, if continued long enough, will finally lead to elimination. What is important for the years to come is whether the annual rate of reduction will be five percent or ten percent, not whether governments have agreed to eliminate a given category of measures after twenty years or ten.

An additional degree of freedom which might help to concentrate on details rather than on principles would be gained if the period for which fixed commitments are made is not too long. A five to seven year initial period for which the agricultural commitments accepted in the Uruguay Round would be valid would be long enough to gain experience with the way in which the new approaches for agriculture will work, and it is short enough to avoid the necessity of negotiating on the permanent long term solution for agriculture in the GATT.

Another criterion which should be kept in mind in the coming months is what can be called the "justness of equal pain". Some governments will have to overcome some severe domestic opposition to what may be decided in Geneva and, if it can be avoided, the agreements reached should not impose levels of pain on different governments that are too different. In particular, if some countries depend more on certain types of policy instruments, it would more equally distribute pain if they are all treated in a similar way. For example, the elimination of export subsidies (on which the EC depends heavily) within five years, while full market access (which is a US problem in the milk and sugar sectors) is created only in ten years, would not distribute pain equally.

Moreover, governments have to remember when they read each other's statements that the domestic political process works differently in different countries. For example, in the US it is possible for the Administration to issue relatively rigid statements which at the time do not necessarily have to be fully balanced in terms of all political groups within the country. A look at the difference between the Administration's proposal for the 1985 Farm Bill and the bill as finally adopted is

instructive in this regard. It will be interesting to watch the process of preparing the 1990 Farm Bill in parallel with the Uruguay Round negotiations. The recently issued Administration proposal for that bill certainly does not lend credibility to the US negotiating position in Geneva. In the European Community, on the other hand, governments usually have to be much more guarded in what they propose because they are more directly identified with the political basis which they represent. Actual policies on both sides may, therefore, be less different than what government representatives feel they can say about them in public.

Progress in agricultural trade has never before been as much in reach as it now appears to be in the Uruguay Round. However, a successful conclusion of the agricultural negotiations by the end of this year still requires much flexibility on all sides, and it will hinge on the determination to reach a compromise. To show this will, to defend it at home, and to bring it to bear on the negotiations is a matter of true statesmanship. The participants in the agricultural negotiations now have the chance to demonstrate that they possess that virtue.

## Endnotes

<sup>1</sup>These two areas, as well as other issues discussed in this paper, are covered, in much more detail in B. Hartwig, T.E. Josling and S. Tangermann, **Design of New Rules for Agriculture in the GATT**. Study prepared for USDA and USTR. Gottingen and Stanford, September 1989. Since that larger study also relates the subject extensively to the existing literature, the present paper does not contain references.

<sup>2</sup>Tariff quotas are envisaged, in the Cairns Group proposal, only "where necessary", and there is no suggestion that within-quota tariffs would have to be reduced in one big step at the beginning of the adjustment period.

<sup>3</sup>From the text of the EC proposal it is not clear whether the EC might consider an  $\alpha$  value below one or whether it wants to compensate fully for all world market price drops below a certain level. Moreover, the EC proposal can also be read as suggesting that there is not a given level but a given **rate of change** of the world market price which would trigger the addition of a 'corrective factor' to the fixed element. However, interpreted appropriately, equation (1) can accommodate all of these variations on the theme.

<sup>4</sup>The EC proposal does not specify the currency against which the ECU exchange rate is to be measured and in which world market prices are recorded. However, it is likely that the relevant currency would be the US dollar.

<sup>5</sup>The same result could have been obtained if such a parameter had been applied to the second term on the right hand side, though the parameter  $\alpha$  would then have to be set in a different way. Note that with  $\beta = 0$  equation (2) yields exactly the difference between the reference price in ECU and the actual price in ECU.

<sup>6</sup>Note that the new SMU proposal of the EC also opens up the possibility of having a "soft" variation of the external reference price.

<sup>7</sup>The formulae presented here do not cover the tariff quota element in the US proposal. The US proposal for a tariff quota has two disadvantages. First, since tariff quotas result in rents (as long as they are effectively binding) there would need to be a mechanism which allocates imports to different countries of origin. Such a mechanism could severely interfere with market forces. Second, to the extent that within-quota tariffs are significantly below over-quota tariffs (which would be the only reason for adopting this approach), domestic prices in the importing countries could come under a considerable and sudden pressure, and that pressure would increase in ways that are difficult to predict as quotas are expanded. Such difficult-to-predict price changes would not occur, if the US proposal were followed, where countries originally relied on high tariffs, export subsidies or domestic subsidies. Hence, rates of (price) adjustment could differ significantly between different countries and commodities depending on the types of policies which were used before the transition period.

<sup>8</sup>The reservation in regard of processed agricultural products which the United States made when it signed the declaration giving effect to Art. XVI:4 is valid only for the United States but not for other countries.

<sup>9</sup>From an economic point of view this argument is not without difficulties. If the deficiency payments as paid to processors are actually too high, one of two consequences can result. Either processors compete with each other for the purchase of EC oilseeds because there is a potential rent in processing them. In this case they would bid the price for EC oilseeds up until the rent disappears. The deficiency payment would then end up fully in the hands of EC farmers, and the matter would not have to be dealt with under Art. III:4 but under subsidies and nullification/impairment. Alternatively, there could be a lack of competition among processors and they retain (part of) the rent. In this case, processors do not buy more EC oilseeds, and as a consequence there is no advantage for EC oilseeds over imported products, and hence no violation of Art. III:4. However, in the latter case the EC **processing industry** is subsidized and one might want to examine whether that is consistent with GATT subsidy rules. The panel has not addressed this issue in its report.

<sup>10</sup>By concentrating in this way on the **variability** of the EC deficiency payments the panel has completely circumvented a ruling on the level of that subsidy. It is interesting and important that the panel has drawn attention to the negative effects of insulating domestic producers against movements of world market prices. The panel has in this way strengthened the case for "recoupling" domestic prices to world market prices. However, the equally important issue of how far a government can go in terms of the level of subsidies it grants to domestic producers has been left completely unresolved.

## Appendix: Illustration of Tariff Formulae

The purpose of this appendix is to illustrate the possible consequences of using different tariff formulae under the EC approach of "modified tariffication". The case chosen for this illustration is the EC import regime for soft wheat. As a basis for tariff calculations, synthetically constructed future time series of prices have been used. Of course these time series are purely illustrative and not at all intended to provide a forecast of actual prices developments. Assumptions used in constructing these future time series include the following.

World market price: Projections are essentially an extrapolation of actual developments in the period 1976/77 to 1989/90. From monthly data for the EC cif price of common wheat (EC threshold price minus variable import levies) in ECU/t and for the exchange rate ECU/US\$, quarterly averages of the ECU price and the exchange rate, and on that basis of the EC cif price in US\$/t, have been calculated for the period July 1976 to September 1989. Then exponential trends have been estimated for the price in US\$/t and for the exchange rate. The trend in the US\$ price is slightly downwards (- 0.36 % per year), the trend in the ECU/US\$ exchange rate slightly upwards (+ 0.42 % per year). Relative deviations of price and exchange rate from those trends have been calculated for that base period. Price and exchange rate projections have been constructed by extrapolating these trends and superimposing on them the same deviations which have occurred in the base period. The first quarter for which these projections are calculated is the first quarter of the 1989/90 crop year. Hence, deviations from trend in that quarter are those observed in the first quarter of 1976/77, and so on. From the projected series of wheat prices in US\$/t and of the exchange rate, the projection of the price in ECU/t has been calculated. Actual and projected prices and exchange rates are shown in graph 1.

EC intervention and threshold price: Prices until the end of the 1989/90 crop year are actual prices. Projected EC intervention and threshold prices can be thought of as what might happen in the absence of any change in the EC regime, but with the EC stabilizer scheme for cereals remaining fully effective throughout the projection period. Hence, the future intervention price in ECU/t has been projected by reducing the price in the first quarter of any crop year by three percent against the intervention price of the preceding crop year. The seasonal pattern has been kept as it was in 1989/90. The threshold price has been reduced in parallel (in terms of ECU/t, not in percentage terms) with the intervention price, and the seasonal pattern of the threshold price has also been kept as it was in 1989/90. In year ten of the projection period, EC prices are thus around 43 ECU/t lower than in 1989/90. For comparison: according to the OECD estimates, the unit PSE for common wheat in the EC was 98 ECU/t on average in 1986-1988, and 69 ECU/t on average in 1984-86.

Tariff: Tariffs under the different tariff formulae have been calculated according to equations (1) to (4) in the paper, with different parameter sets. The "fixed component" for tariff formulae A,B and D has been set as the tariff equivalent for the average of the 1986-1988 period. However, rather than taking the actual variable levy or the actual domestic EC price in that period, the middle of the threshold and the intervention price has been taken in calculating that tariff equivalent. Hence it is assumed that "Community preference" (i.e. the gap between the threshold and the intervention price) is reduced by fifty percent. In tariff formula C, the "fixed element" has been set such that the same landed price in the first quarter of 1991 results as under formulae B and D. Beginning from its base value in the first quarter of 1991, the "fixed component" [FC(t)] has been reduced in parallel (i.e. by the same amount of ECU/t per year) with the EC intervention price. In years with a world market price (in ECU) above the reference price (in ECU, assumed to be the same as the reference price

used for calculating the "corrective factor" according to equation (2)), the tariff has been reduced by the full excess of the actual world market price over the reference price, in line with equation (4). However, the tariff is assumed to be non-negative. Under tariff formula A, i.e. fixed tariff, no reductions have been made in high-price years. The landed price has been calculated as the cif price plus the tariff.

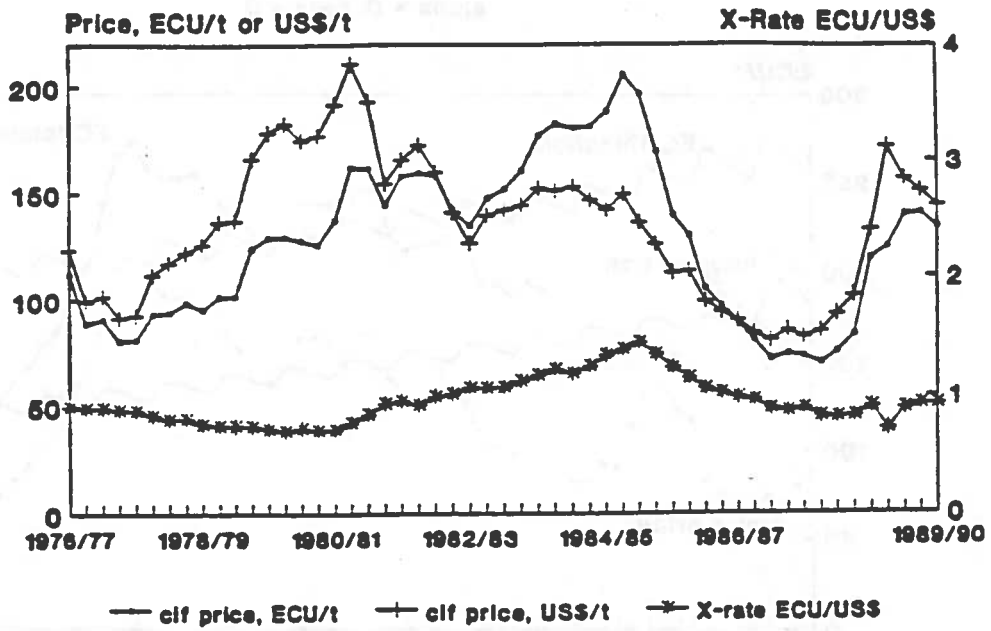
The following observations can be made.

Graph 2: Fixed versus variable tariff. Formula A: fixed tariff; formula B: one half of any decrease of the actual world price below the reference price is compensated by a tariff increase, irrespective of whether the drop is due to price or exchange rate variations. In years with high world market prices, a fixed tariff leads to higher landed prices than a variable tariff which in such years is assumed to behave like a variable levy. On the other hand, in years with low world market prices, i.e. towards the end of the projection period, the landed price is lower when the tariff is fixed.

Graph 3: Low versus high reference price. Formula B: see graph 1; formula C: reference price equals average world price in the period 1984-86. In years with high world prices, a high reference price results in a higher landed price, and vice versa.

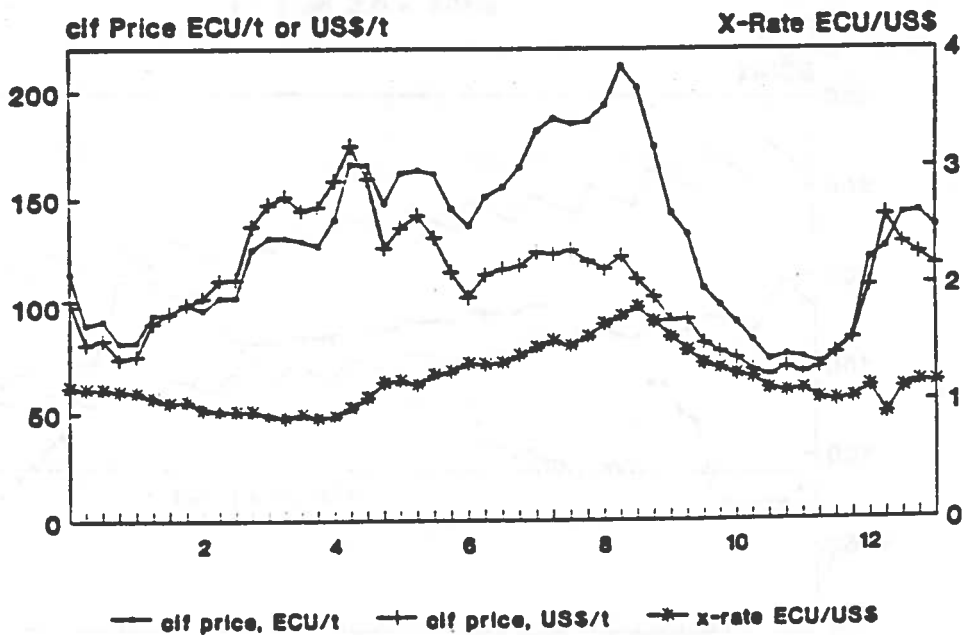
Graph 4: Compensating for price variations versus compensating for exchange rate fluctuations. Formula B: see graph 1; formula D: only one half of downward price variations is compensated through tariff increases, while downward variations of the exchange rate are fully compensated. The result depends on the way in which price and exchange rate variations happen to be combined. In the case at hand, tariff formula D results in lower landed prices towards the end of the projection period.

### Actual Prices and Exchange Rate cif Price Soft Wheat, EC Border



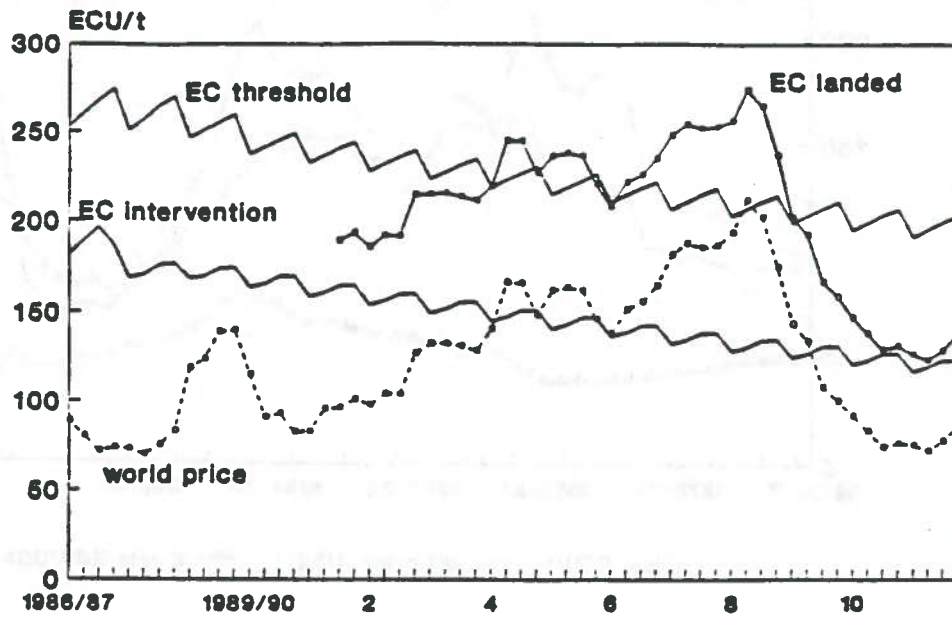
Source: EUROSTAT

### Projected Prices and Exchange Rate cif Price Soft Wheat EC Border

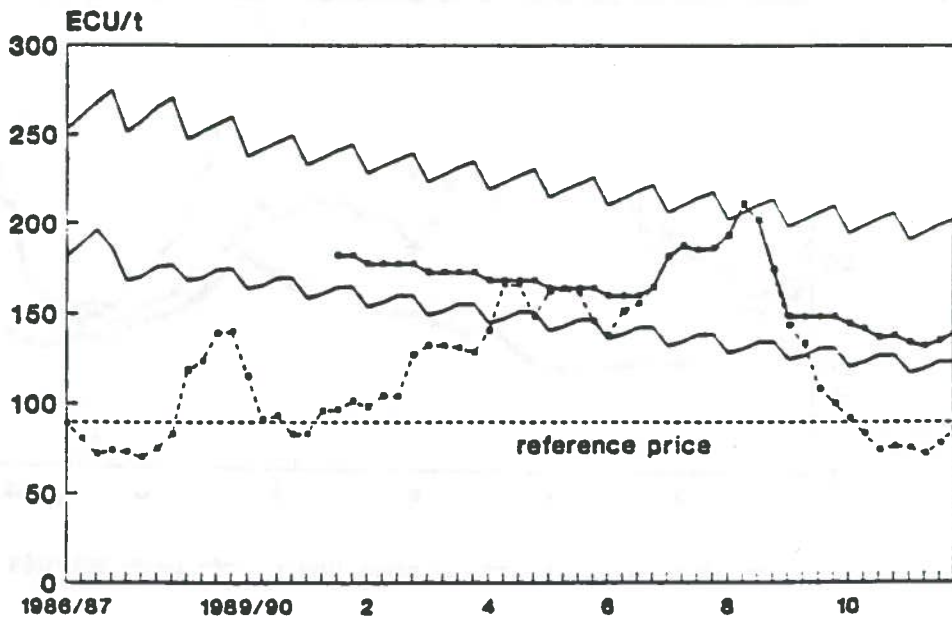


Source: Own Projection

**Tariff Formula A**  
 Fixed Tariff, Reference Period 1986-88  
 alpha = 0, beta = 0

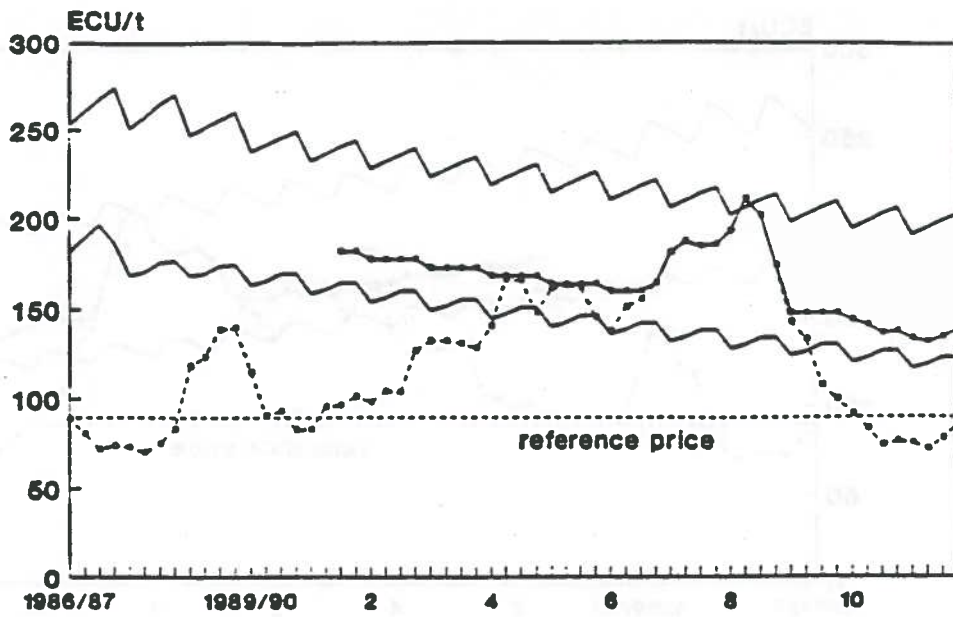


**Tariff Formula B**  
 Reference Price: Avg. 1986-88  
 alpha = 0.5, beta = 1

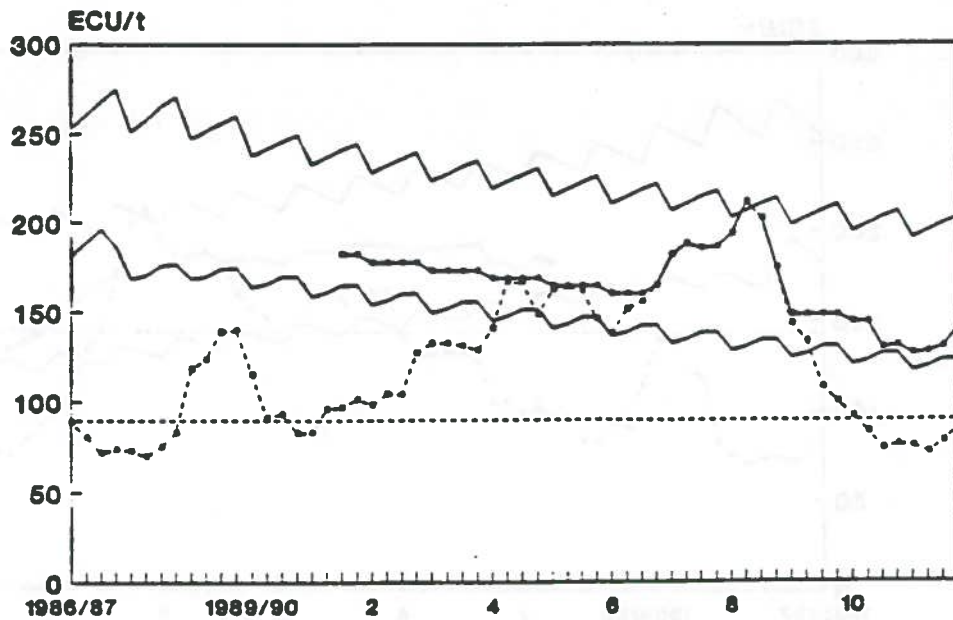




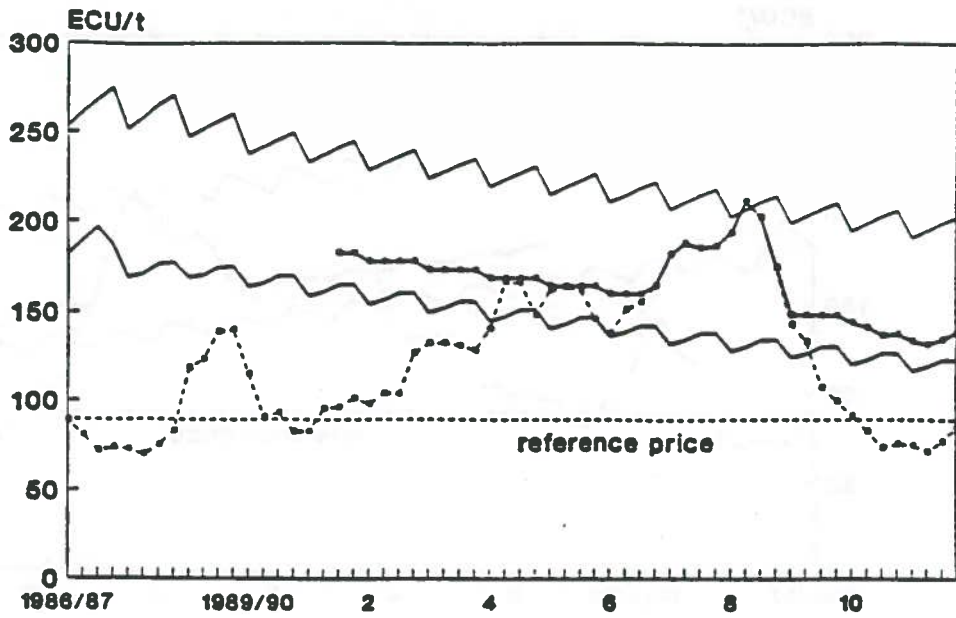
**Tariff Formula B**  
 Reference Price: Avg. 1986-88  
 $\alpha = 0.5, \beta = 1$



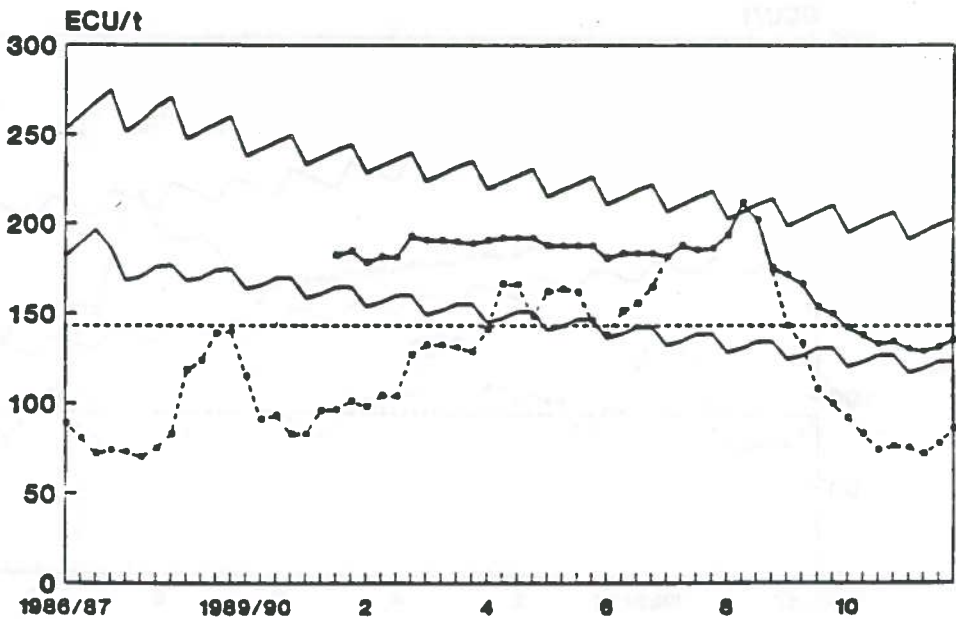
**Tariff Formula D**  
 Reference Price: Avg. 1986-88  
 $\alpha = 1, \beta = 0.5$



**Tariff Formula B**  
 Reference Price: Avg. 1986-88  
 $\alpha = 0.5, \beta = 1$



**Tariff Formula C**  
 Reference Price: Avg. 1984-86  
 $\alpha = 0.5, \beta = 1$



## AN ONTARIO PERSPECTIVE

David Ramsay

This is the second conference on GATT sponsored by my Ministry and the University of Guelph - and a very important one as we enter the final year of these negotiations. Just one year from now we will be face-to-face with the outcome of the negotiations.

If they are not as successful as some hope, we could be faced with trying to trade with nations that will have quickly taken a strong protectionist stance. With an agri-food industry whose revenue depends so heavily on exports, Ontario, indeed Canada, would be faced with a difficult situation should GATT fail. If the negotiations should be successful, in terms of completion, but not from Canada's point of view, 1991 could see us scrambling to adjust our rules and regulations to new global trading demands. On the other hand, should the negotiations be successful all round for Canada, there will not be much time for celebrating. We'll all be working overtime to take full advantage of the situation. Of course, there is yet another scenario and that is the extension of negotiations.

It is evident that the outcome of the GATT cannot be predicted with any certainty. The only certainties we have at this point are:

- 1) the knowledge that whatever the outcome - success or failure - the current GATT negotiations will have a profound effect on Canada's, and Ontario's, future, and,
- 2) the knowledge that Canada must enter these negotiations with a very clear policy statement.

We have been fortunate today in bringing together some key players who have a substantial influence in the development of Canada's policy stance for the GATT negotiations. This morning, we heard the national point-of-view from Germain Denis and Michael Gifford, as well as an international outlook from Stefan Tangermann. This afternoon, we will hear from Thorald Warley, Karl Meilke and Brigid Pyke, President of the Ontario Federation of Agriculture. The purpose of this conference is to provide you, the leaders of Ontario's agri-food sector, with up-to-date information on the current status and likely future course of the negotiations. This is an excellent

opportunity to learn what the key players are thinking and their analysis of the negotiations. It's also an opportunity to convey your thoughts and concerns through open discussion and debate.

As we contemplate the GATT, we are also adjusting to many other changes and challenges - the Canada-US Trade Agreement, changing consumer demands, the "green" movement, and the approach of a more liberalized European market in 1992. As we enter this new decade, we are also entering the global marketplace - a larger and more competitive market than could have been imagined just twenty years ago. I believe Ontario can compete successfully on many fronts in this international marketplace. But all these new changes and challenges must be taken into account as we determine the strategies which will ensure the long-term viability and sustainability of the Ontario agri-food industry. As Ontario's Minister of Agriculture and Food, I can see no reason why our agriculture and food industry cannot compete in many products and markets - as long as we are aware that the food production business is uniquely different from other industries.

I believe that international trade agreements should allow for those domestic food marketing policies that effectively control domestic production but do not distort the international marketplace. Our system of marketing boards and supply management works well, and, for the future, I believe we can meet the challenges of the new trade environment within the framework of our existing marketing board structure. With regard to Canada's position in Geneva, we have to be clear and we have to be tough. It is imperative for Canada to state its demand that Article XI of the General Agreement be strengthened and clarified. It is important that Canada not only state this intention but ensure that the tactics undertaken to achieve this goal are realistic and understood by all affected parties. A precise action plan will be a critical component of any such tactics. This should be developed and stated publicly so that Canadian producers are assured of the Federal Government's commitment to supply management. And equally important, Canada must go to the GATT negotiations with a strong negotiating strategy well in hand.

On a recent trip to Washington, I gained some insight into how the Americans intend to deal with the GATT negotiations. I would like to share that with you. I went because the United States is our largest trading partner, and because recent US trade actions such as those imposed on our pork and ice cream and yoghurt industries will do nothing for continuing a positive trading climate between our two countries. I wanted our American neighbours to understand the effects of their aggressive farm policies on our legitimate, and defensible, farm and food policies. While there, I met with three different levels of key farm policy participants. And I learned that the Americans believe every internal domestic program has to be on the table at GATT. They object to any system that restricts a market. The Americans are above-board on this: they are not being underhanded. They fully intend to use all their policy tools to win their case. Like us, they are working for the good of their farmers and their food industry. What was interesting was the variance of opinions I heard from the different groups I met. Obviously, the Administration gave us the party line - that they expected major changes in the GATT and that the talks would conclude on time. To listen to their politicians, one would almost suspect them of taking lessons from the famous US film producer, Samuel Goldwyn. At one point, when Goldwyn and another studio chief both wanted a certain big star at the same time, someone suggested the dispute be settled by arbitration. Apparently Goldwyn agreed, reluctantly, with one stipulation. "Okay", he said, "as long as it's understood that I get the star". No doubt the Americans will be tough negotiators at the GATT. But I sense that beneath the rhetoric, there is a more pragmatic viewpoint. In talking to the industry, and some of the folks on Capitol Hill, I had the impression they believe change will come incrementally. It was obvious to me that despite their rhetoric, the US government and US Congress are no more willing than we are to trade off their food processors or their farmers.

Given such a negotiating strategy - and it is a negotiating strategy - by our largest trading partner, I believe we too should go to the table with a strong negotiating stance. But we must be aware that some changes may have to be made. We must match the fervour and firmness of the

American position while we work toward a more rational global marketplace. I recently read a very succinct paper on "Domestic and International Policy Challenges for Canadian Agriculture" by Professor George Brinkman of this University. With regard to defending our supply management system, Professor Brinkman has recommended what I believe to be a wise negotiating stance. "We have to deal with both fair trade and fair trade-offs", he wrote. "However, we must be careful not to trade-off concessions that we do not need to make and not make concessions until we get something in return". Of course, before going into negotiations, we as Canadians have to know what our bottom line will be, and what we are willing to negotiate for that bottom line. If we are not able to achieve everything, what are we willing to give up?

To determine Canada's best response, it is imperative that Government and industry work together. I am pleased with the Federal Government's openness on this issue and its willingness to listen to the comments and counsel of the agri-food industry and the provincial governments. I urge the Federal Government to step up this consultation process as the negotiations progress. I am also encouraged by Mr. Mazankowski's tit-for-tat retaliation stance regarding the recent US meat inspection difficulties. Even more encouraging is Ottawa's decision to gather data on US subsidies. This "arsenal of information" will be an asset in our direct dealings with the US and during the GATT negotiations.

The future long-term success of Canada's agri-food trade policy requires cooperation and dialogue among all the key players - producers, processors and government. Today's conference is a good opportunity for all of us to seek out and listen to each other's views. As well, many of you are aware that staff at my Ministry have been consulting with the agri-food industry and I can assure you these consultations will continue. For my part, I intend to continue pressing Ontario's case with our Federal Government. And I am encouraging my provincial counterparts to make their views known to Ottawa. I also encourage each of you to make your opinions known - not just today, but directly to Ottawa, through every channel open to you. Don't take the risk of assuming your views

are already known. Make sure. The count is on. Just one year from now we shall be dealing with the results of the Uruguay Round of GATT negotiations. The legitimate interests of Ontario's and Canada's agri-food industry must not be lost due to inaction by any of us.

## **IMPLICATIONS FOR CANADIAN AGRIFOOD AND FOR POLICY**

**T.K. Warley**

It will be apparent from the previous papers that it is still too early to be specific about the effects of the Uruguay Round of GATT negotiations on Ontario's and Canada's agrifood systems. With nine months to go in the negotiations, the international community is still far from reaching a compact on agricultural policy and trade reform. To be sure, the tabling of new comprehensive negotiating proposals is a giant stride beyond the statements on general objectives and modalities which were the tangible product of the first three of the four-year long negotiations. However, the participating countries have still to decide such key matters as:

- . the numerical targets for the depth and time-frame of cuts in trade-distorting support and protection;
- . whether such key policy instruments as administered pricing, export aids and import barriers are to be phased out and replaced, or merely disciplined;
- . what aggregate measure of support and protection is to be employed and in what manner;
- . the role of specific policy commitments; and
- . the relationship between formula-based obligations on support, rules changes and requests and offers;

Or, expressed in another way, there are still large differences between countries on:

- . whether import access should be improved by tariffication or by disciplining import levies and quotas;
- . whether export competition should be curbed by banning export subsidies or by reducing and capping them;
- . whether domestic subsidy reductions should be accomplished by using a proxy quantitative indicator of their trade effects or by binding commodity- and program-specific policy



changes;

- . whether countries will be allowed to increase support and protection for some commodities while reducing overall support;
- . whether the exceptional treatment of agricultural trade within the GATT should be ended or whether special rules for food and agriculture should be retained but given greater legal precision.

The general positions of the participating countries and groups are also fundamentally different. The European Community - which has a strong bargaining position - is agreeable to reducing support but seeks to maximize policy flexibility by avoiding specific policy commitments. It appears willing to accept disciplines and caps on its import levies and export restrictions but not to abandon them. Japan is almost totally unhelpful insofar as it wants the burden of adjustment to be borne primarily by the exporters, and it wants exemptions for its import barriers and internal subsidies on food security grounds. Like Europe, Japan wants no truck with specific policy commitments. The US Administration's position on phasing out export subsidies and most of the commonly-employed domestic subsidies, disciplining other assistance, and tariffing most import barriers is probably too radical for its own legislative branch. The Cairns Group's position is somewhere in between the US and the EC and Japanese proposals, but tilted well towards the ambitious goals of the US so long as the Group can continue to finesse its internal differences on administered pricing schemes and their accompanying import controls.

Having said this, it is important not to lose sight of the commonalities. As we have heard, all the major countries have these things in common:

- . all have made a political commitment to reduce support and protection and to subject farm and food trade to stronger rules and disciplines;
- . all wish to put an agreement in place that would avoid a re-run of the competitive subsidization and dangerous political tensions that characterized the mid-1980s;

- . there is a shared interest in using international negotiations to catalyse internal reforms in national agricultural policies, and a perception that shared adjustments will reduce the economic and political costs borne by each;
- . all have an interest in ensuring that failure in agriculture does not jeopardize progress in other areas of the negotiations, nor threaten the Uruguay Round as a whole and thereby the future of the GATT system and of international economic and political relations.

The presumption at this moment must be that a compact on agriculture will be reached. The issue then is what the content of the accord will be, and what will be its impact on participants in the agrifood system and on policy.

### **Export Competition**

Perhaps because of the understandable tendency of public policy discussion to focus on "concessions", and the propensity for those who will be adversely affected to dominate the debate, the benefits to Canada of an accord on export subsidies have not received the attention they deserve.

Given Europe's strong bargaining position, an agreement to phase out export subsidies in entirety is likely not in the cards. However, an agreement to reduce and to cap them (in terms of total or per unit expenditures, or the volumes of exports that may be assisted) may well appeal to all the major participating countries. It would provide the multiple benefits of limiting the frictions between the two major protagonists in their grains trade, attenuating the economic damage done to the grain exporting members of the Cairns Group, and reducing the damage done to Australia's, New Zealand's and Argentina's exports of beef and Oceania's exports of dairy products and sugar by the European Community's subsidies. For Canada, an agreement on export subsidies would confer the benefit of allowing our competitive grains, oilseeds and red meats sub-sectors to reach their potential in world markets, reduce the need for costly government payments under regular safety net and ad hoc programs, and lower the dependence of agriculture on government payments.

Moreover, because we make little use of direct export subsidies, this is not an area where major changes in Canadian agricultural policy would be necessitated by an international accord.

The exception is the "Crow Benefit" provided under the Western Grains Transportation Act (WGTA). This is rightly perceived by our trading partners as acting as an incentive to produce and ship prairie grains for export. This perception would not be affected by switching the freight subsidy payment from the railways to producers.

An internationally imposed obligation to reduce the grain freight subsidy would reinforce the existing national desire to make changes in the WGTA because of the need to eliminate its negative effects on Western agricultural diversification and to terminate escalating Crow-offset subsidies. A Crow buy-out program, grain acreage-linked, and adjusted for the dilution effect, would meet both Canada's international requirements and its national interests. Ontario's livestock and meat packing industry would continue to shrink with removal of the Crow distortion, but probably at a less rapid pace than that created by the Crow-offset subsidies recently paid by the governments of the Prairie provinces.

### **Domestic Subsidies**

This too is an area where, in a global agreement on agricultural policy and trade reform, Canada has much to gain and, compared with many other countries, relatively little to lose. This is because Canadian agriculture has had its comparative advantage frustrated by the high level of subsidization provided by governments to the farmers of other countries while itself not providing a high level of subsidy support to its own producers. To be sure, the degree of support provided to the Canadian grains and oilseeds industries (as evidenced by "producer subsidy equivalents" and direct payments) soared after the mid 1980s, but this was necessitated by the actions of other governments. Such aberrant support would not be required if a global compact led the habitual subsidizers to reduce the level of their trade-distorting domestic subsidies (and to curb their use of export aids).

And, of course, the Ontario grains and oilseeds industries would garner even larger gains than those in the West.

The two areas where there are clearly difficulties for Canada under this heading are in the administered pricing arrangements for the supply-managed commodities and in the safety net programs provided for most other farm products.

Other countries claim that Canada's supply management schemes are trade distorting because: they support high cost production in Canada; they suppress consumption by increasing prices to consumers; imports are restricted by rigid import quotas (which is an aberrant instrument of protection under the GATT); and we add to international price instability by insulating the Canadian market from changes in supply and demand conditions and by dumping our structural surpluses of skim milk powder and evaporated milk on world markets.

In international councils Canadians argue in defense of supply management that whilst such schemes might appear at first blush to be trade distorting insofar as they provide admittedly high levels of income support (as evidenced by international support price comparisons and the calculated AMS) and require tight import controls for their successful operation, they have features which render them essentially trade-neutral. These include: the production response to incentive prices is limited; given the elasticities involved, consumption suppression is minimal; quantitative import restrictions are legal under the GATT and will be employed by more countries as they make wider use of supply controls; foreign suppliers either have their historic shares of the Canadian market ("feathers") or Canada is a historic exporter that has been driven back into the domestic market by the production and export subsidies of other countries (dairy).

These contrasting views of our administered pricing-with-supply management arrangements will be vigorously debated and we shall have to wait and see whether our trading partners can be persuaded to our view. Supporting Canada's position will be the European insistence that credits be

given for supply controls through the use of the proposed "support measurement unit" and the proposals by the EC, Japan and others that Article XI be retained. Though unwelcome to producers and the Minister of Finance, it should also be noted that our supply management systems could be adapted to constitute a "producer entitlement guarantee" under which high administered prices implemented by direct payments might be internationally acceptable for some level of output so long as resource allocation and consumption at the margin were determined by competitive market prices.

The status of the economic safety nets provided to Canadian producers of red meats, grains, oilseeds and some other crops is a key issue for Canada. It has attracted surprisingly little public debate. Nor is the term or concept explicitly included in any of the proposals, including Canada's and Cairns. And yet it is certain that all governments will want to be able to continue to share the downside risks of markets with their farmers. Indeed, US Secretary of Agriculture Yeutter has stated "There is nothing in our proposal that precludes any nation from having a safety net for its farmers". The policy task is to reach an accord on the attributes of safety net programs that would ensure that they are production and trade neutral, or, at least, well within any reasonable de minimus standard.

Current stabilization programs are almost invariably commodity-centred. Those that are could be required to have the following characteristics

- . The level of the economic safety net (the target variable) should be no more than [ ] percent (where [ ] < 100) of the mean value of its observed [ ]-year moving average values.
- . The absolute level of the safety net should be market-driven, e.g., by its value being the same percentage of the observed moving average market-determined values regardless of market experience.
- . The program should be generally available to agriculture and provide the same level of assistance across commodities.
- . Where feasible, production neutrality should be enhanced by the economic safety net being

slung under a bundle of farm products (as in the Canadian Western Grains Stabilization Act).

- . The program should be jointly funded by producers and government(s), with the governments' share of premiums being no more than [ ] percent.
- . The stabilization fund should be actuarially sound; payments should be sporadic not continuous, and the drawn-down of reserves should be accommodated by lowering the level of the safety net or by increasing farmer levies and government contributions rather than by government write-downs.
- . The number of years from which the moving average is calculated should be fewer rather than more, and in any event not more than [ ].
- . The stabilization plan should be transparent, with the level of the safety net being calculated according to a pre-specified formula.
- . Farmer participation should be voluntary.
- . Subordinate levels of government should not be permitted to "top-load" on the benefits provided by national programs.

In some schemes of this character there are ceilings on the amount of output that can be enrolled, on the payout per producer, and on the proportion of industry gross receipts that can be provided by stabilization payments. Such add-on features may be desirable for both financial and trade reasons.

From time to time proposals have been made to replace commodity-linked stabilization schemes with programs that focus directly on reducing the down-side fluctuations in individual farmer's net farm incomes. Such farm income insurance schemes would replace crop insurance and commodity-specific price and margin stabilization programs. They would operate by making up [ ] percent of the amount by which an enrolled farmer's current net income from farming operations fell below the previous [ ] years' moving average figure. The individual income insurance funds would be jointly

financed by farmers and government and there would be ceilings on both the funds accumulated in individual accounts and on the annual payouts. Optional add-on features could include regional disaster relief, individual minimum income guarantees, and the accumulation of retirement savings.

From a domestic policy standpoint, schemes of this character have the advantages of being focused directly on the income variable and being targeted to assist farm family units in need. Additionally, such schemes would force a market-orientation and entrepreneurial management on producers, and be equitable between products and regions. From a trade policy perspective, income insurance schemes would meet the test of production and trade neutrality even more surely than commodity-specific stabilization programs. It can be anticipated that the GATT negotiations will lend urgency to the examination of "decoupled" income insurance schemes of this type.

This is but one illustration of a process that will be an inevitable component of an agreement that seeks to define and circumscribe acceptable domestic programs so that they do not have or develop harmful trade effects.

Closely related to the subject of domestic subsidies is that of imposing international disciplines on the use of countervailing duties by countries under their national trade remedy laws against the assistance provided to producers elsewhere. Agreement in GATT that safety net programs (with specified attributes) are not trade distorting subsidies would do much to remove the uncertainties that bedevil Canada's agrifood trade with the United States. More generally, the Canadian agrifood sector badly needs the Uruguay Round to provide a revised subsidies-countervail code that contains stronger rules and standards on, inter alia: standing; general availability; causation; pass through; standards of proof; de minimus levels; net subsidization; impartial adjudication of disputes; and the conformity of national trade remedy legislation and procedures with internationally-agreed codes.

### **Import Access**

Because of the threat to established institutional arrangements and to uncompetitive firms and

sectors, the prospect of having to open our borders to efficient foreign suppliers is the feature of the Uruguay Round that has caused the most anxiety in the Canadian agrifood sector.

The matter is usually discussed in terms of the consequences for our supply management schemes, but it is much wider than that. For instance, the prospective reduction in tariffs on food products will have consequences for raw product pricing by all marketing boards, for the pace of modernization and consolidation in food processing industries, and for the sustainability of interprovincial trade barriers. Similarly, dismantling Canada's licensing, tariff and technical import barriers will have consequences for such disparate but important matters as the Canadian Wheat Board's control of the domestic market, competition with food analogues, and assuring the health of plants, animals and humans.

Perhaps these matters have not received much attention in the context of debate on the Uruguay Round because we have already encountered them in the Canada-US Trade Agreement. Nonetheless, it is necessary to be aware that the myriad matters affecting import competition that have arisen from the CUSTA will all have their counterparts in an agreement on agricultural import access in the GATT. In spades!

On the impact of the Uruguay Round on Canada's supply management systems, the worst case scenario has them succumbing to a combination of being caught up in a formula-based approach to cutting the level of support and the replacement of quantitative import controls with (falling) tariffs. This prospect, together with the uncertainties created by the GATT ruling on ice-cream and yogurt, has led the supply-managed industries to demand that: commodities under supply controls be excluded from formula-based cuts on the grounds that "price wedges" are not evidence of trade distortions; tariffication be rejected and the legality of quantitative import restrictions be reaffirmed when used in support of supply controls; and that Article XI: 2(c) of the GATT be re-written so as to permit the surer control of imports of processed products and blends. The Government has



affirmed its willingness to defend the integrity of the supply-managed systems, and in the GATT Canada has stressed the importance of clarifying Article XI:2(c). However, the Government is clearly in a dilemma for, while it may genuinely believe that Canada's supply management programs are not harmful to the trade interests of other countries, it does not want a revised Article XI to provide "cover" for a widening set of import control measures used by a lengthening list of countries. Additionally, the matter is divisive within the Cairns Group and reduces the negotiating leverage that Canada seeks through membership in that alliance.

Be that as it may, at this distance, there seems a very good chance that the import controls that underpin Canada's supply management programs will survive with their major features intact. This has less to do with the legitimacy of Canada's view that its formula pricing and supply management systems have no negative trade effects than with the fact that both the EC and Japan have rejected full tariffication and proposed that Article XI:2(c) be retained. Indeed, these countries appear to want the Article loosened to provide GATT-legal cover for their own import restricting policies and instruments. Additionally, the EC's proposal for the use of a support measurement unit envisions credits being given for the supply controls it has in place (and for those it may increasingly employ if difficulties in meeting support reductions through price cuts are encountered and limits on export subsidies are embraced). Finally, when put to the test, it is by no means sure that the US Congress will accept tariffication of US quantitative restrictions on imports of dairy products, sugar and bovine meats.

This optimistic interpretation of the survivability of the import controls that underpin our national supply management schemes is called into question by the analysis provided today by Dr. Tangermann of the European Community's most recent proposals on import access. If the Community is indeed willing to replace its cherished variable import levies with some form of tariff system then the ability of Canada to avoid the tariffication of our import quotas for supply managed

products by hiding behind Europe's skirts is obviously greatly diminished.

Moreover, even if Article XI agricultural import quotas do not suffer a cataclysmic termination in the Uruguay Round, the possibility of supply management's structures being "nibbled away" is very real. Such gradual erosion might result from a combination of such factors as: the inability to increase future support; the need to provide enlarged minimum access for efficient exporters; the necessity of pricing raw products so as to keep Canadian food processors competitive; the inability to exclude milk analogues from the Canadian market; and the need to cease dumping structural and sporadic surpluses into world markets. And this gradual external under-mining of the status quo will, of course, be accompanied by the need to adapt supply management systems in response to mounting domestic discontents with the manner in which they are now being operated.

### Concluding Observations

It is no accident that throughout the 1980s Canada has been in the van of those advocating fundamental agricultural policy and trade reform. Reducing the import barriers and domestic and export subsidies of other countries is a necessary condition for achieving the value-adding, export-led growth that the comparative advantage of our agrifood system promises. And global negotiations offer the possibility that each country can go further in mutual policy disarmament and internal policy reform than they could contemplate if acting alone.

To be sure, policy adjustments will be required for Canada. But, whilst unwelcomed by those who bear the cost, the changes required of Canada are less far-reaching than those required of Europe, Japan and the United States, simply because (for most commodities and in normal circumstances) we do not habitually make heavy use of domestic and export subsidies, our safety nets set a pattern that may be emulated, many of our import barriers are destined to be dismantled under the CUSTA anyway, and those that are not (the import quotas on dairy and poultry products) have a fair chance of surviving the Uruguay Round because of their link to supply control programs.

In few countries is the agrifood system as well placed to flourish if its members are allowed to compete with the producers of other countries instead of having to compete with their treasuries. Our industry should be demanding the right to compete!

Alas, the prospect of a "big" result for agriculture in the Uruguay Round has been receding throughout 1988 and 1989. This is natural, for the decision to attempt an ambitious result for agriculture was taken in 1986, when available supplies pressed upon weak effective demand and when competitive subsidization was at its height. In 1990, markets are in better balance, national farm policies are less costly, and changes in national agricultural policies undertaken for domestic reasons are moving in directions that will make them less damaging to other countries' interests and to the world trading system for farm and food products. Furthermore, the Uruguay Round process has brought the international community to the point where no country dare now ignore the external effects of its farm programs.

Notwithstanding these diminished expectations, there is a real prospect of an important result for agriculture, which could encompass the following elements:

- . agreement to reduce trade-distorting support by somewhat more than would have been attempted for national reasons alone;
- . acceptance of caps on export subsidies, either on total expenditures or per unit rates, or on the volume of exports or market shares;
- . the provision of minimum access guarantees to low cost exporters by importing regions in the form of enlarged import quotas, tariff or levy free quotas, or tariffication of some import barriers;
- . clarification of Article XI's "like product" provisions and extension of its minimum access commitments to markets now protected by variable levies and by waived or grandfathered quantitative restrictions;

. agreement on the identity and attributes of internationally acceptable interventions which would not attract obligations in multilateral trade reform nor countervailing duties in bilateral trade.

A result with these elements would fall well short of the US and Cairns Groups' original goals (and economists' prescriptions!). But it would offer huge benefits to Canada's and Ontario's agrifood systems and to the larger economy. And it would accomplish far more for the rationalization of world agricultural production and trade than has been possible in seven previous GATT rounds.

## OVERVIEW AND CONCLUSIONS

**Karl D. Meilke**

The debate on the merits of freer trade, particularly in agricultural products, is an old and honorable one as illustrated by the following quote from Sir Robert Peel, the Prime Minister of Great Britain, arguing in favour of abolishing the Corn Laws. (Stigler and Friedland, p.17).

In ingenuity - in skill- in energy - we are inferior to none. Our national character, the free institutions under which we live, the liberty of thought and action, an unshackled press spreading the knowledge of every discovery and of every advance in science - combine with our natural and physical advantages to place us at the head of those nations which profit by the free interchange of their products. And is this the country to shrink from competition? Is this the country to adopt a retrograde policy? Is this the country which can only flourish in the sickly, artificial atmosphere of prohibition? Is this the country to stand shivering on the brink of exposure to the healthful breezes of competition?

- Sir Robert Peel, Feb. 9, 1846

Although the discussion of freer trade is an area in which emotions can run high and where reasonable individuals can engage in heartfelt and heated discussions few would argue that agricultural trade hadn't fallen into a desperate quagmire of competitive subsidization by the time of the Punta del Este Declaration, which opened the Uruguay Round of trade negotiations. This is best illustrated by the estimate that 40 percent of the \$250 billion (US) that industrial market economies provided to agriculture in 1986 was necessary to simply offset the price decreasing effects of our own and others' policies (Roningen and Dixit).

Nevertheless, the increase in grain and oilseed market prices resulting from the drought of 1988, and the limited unilateral policy actions taken by the industrial market economies since 1986, have caused some to question the need for, and the possibility of obtaining, a significant result for agriculture in the Uruguay Round. Following the adjournment of the Mid-Term Review in Montreal in December of 1988 many felt that the Uruguay Round had lost all of its momentum. However, the

Geneva Accord of April 1989 reaffirmed governments support for, not free trade, but a fairer and more market-oriented trading system - one in which all countries, large and small, would be treated equally and fairly within the GATT. As such, the Geneva Accord set the framework for the remainder of the Uruguay Round and invited member countries to put forward proposals on how to achieve the agreed upon objectives. As a result the United States, the EC, Japan and the Cairns Group tabled new negotiating proposals late in 1989. It is these proposals, described in earlier conference papers, which give renewed hope for a significant result in the agricultural negotiations.

Canada's negotiating goals in the Uruguay Round have been few and consistent (Gifford; Meilke and Warley). They include:

- i) a substantial reduction in tariff and non-tariff import barriers;
- ii) a substantial reduction in trade distorting production subsidies and the elimination of export subsidies;
- iii) improved GATT rules covering trade in agriculture and their uniform application to all countries; and
- iv) a system that will minimize the adverse effects on trade of national technical regulations, starting with health and phytosanitary measures.

The main message of this Conference is that there are a number of reasons to be optimistic about the prospects of finding meaningful solutions to the problems plaguing agricultural trade. Those, including myself, who had lost all hope that the EC would be willing to consider fundamental changes in the CAP - an idea easily reinforced by a surface reading of the EC negotiating proposal - must be encouraged by Stefan Tangermann's "reading between the lines" to highlight the important concessions the EC is willing to consider.

If Michael Gifford's goal of having a draft agreement on agriculture (albeit with some square brackets) ready by early summer is to be achieved, it is crucial for the contracting parties to heed Tangermann's advice to concentrate on the details of the negotiations, and on the common ground

in the negotiating proposals, rather than on issues of principle and areas of disagreement. It also highlights the limited time available to inject new ideas into the negotiating process.

In order to provide an overview of the major ideas covered in the previous papers I have organized my comments under the three headings which identify the major issues facing the Uruguay Round negotiators: (i) export subsidies, (ii) import access, and (iii) domestic subsidies.

### Export Subsidies

The reduction or elimination of export subsidies is an area where Canada has much to gain and little to lose because we make only minor use of explicit export subsidies. Conversely, we feel that we have been particularly hard hit by the Export Enhancement Program of the United States (which has been focused primarily on our major agricultural export commodity wheat) and the export restitutions of the EC. It is also an area where you would hope that Ministers might apply some common sense since export subsidies harm exporting nations, both those that grant them and those that don't, and help importers. For grains and oilseeds - the commodities for which export subsidies are most widely used - this means that the Soviet Union, Eastern Europe and China have been the major beneficiaries of the competitive subsidization practised by the industrialized market economies.

Professor Warley argued that an agreement on export subsidies might be the centrepiece of the Uruguay Round negotiations. But it seems unlikely that export subsidies will be completely eliminated during this Round because of the EC's heavy reliance on this particular policy instrument. Nonetheless, an agreement to reduce total expenditures or per unit expenditures on export subsidies, plus an agreement not to target export subsidies, or allow them on processed agricultural products would be an important step down the road towards their total elimination. As world prices increase as a result of this and other policy reforms, additional liberalization measures will become easier.

The major potential loss to Canadian agriculture in the area of export subsidies is the subsidized transportation rates provided under the Western Grain Transportation Act (WGTA) which

have the same effect as export subsidies and which are likely to be targeted for elimination by our competitors. However, it seems likely that there will be major changes in the WGTA for domestic reasons, thus the potential "loss" in the negotiations may not be as important as it first seems. From the perspective of eastern Canada it is important not to block progress on changing the "Crow" since it may be an important bargaining chip in the negotiations and its elimination or modification may be less harmful to Eastern livestock interests than the current Crow "offset" programs.

### Import Access

Rewriting the rules of the GATT so that they cover measures currently outside GATT disciplines, such as variable import levies and voluntary export restraints, and getting rid of the waived and grandfathered import restrictions enjoyed by some countries, appears to be an area in which there is general agreement on needed reforms. It hardly seems fair for Canada's import controls on dairy products to be judged GATT-incompatible when similar import controls in the United States are protected by a GATT waiver.

The most specific proposal for improving import access is some form of tariffication or modified tariffication as described by Tangermann.<sup>1/</sup> The idea of tariffication was not included in any of the initial negotiating proposals tabled by the major participants in 1986/87. Its emergence at this time results largely from the success of the United States in negotiating the liberalization of Japanese beef trade using this instrument. If the EC is willing to embrace some form of modified tariffication as suggested by Tangermann, and hence change one of the fundamental features of the CAP (ie. the variable import levy system) it represents a major concession. As a consequence, it may leave Canada very much alone in arguing for the retention of Article XI: 2(c) which provides GATT-legal coverage for the import controls that underpin our supply managed commodities. This may not be all bad if the alternative is an expanded Article XI that would allow for GATT-legal use of import quotas to protect the EC's and Japan's domestic agriculture programs in their most sensitive import sectors.



With regard to Canada's supply managed commodities, unlike Tangermann, I do not believe that tariffication will be satisfactory to either Canada or our trading partners. If tariffs are set relatively high, for example equal to the historical price difference between our domestic price and the world price, then they will be completely prohibitive and importers will have less access to our domestic market than is currently the case. Conversely, if tariffs are set low enough to guarantee exporters their historic shares of Canada's market, Canada's producer prices may fall substantially and hence be unacceptable to Canada.<sup>21</sup> There are other alternatives, but these too seem problematic. Tariff rate quotas could be used to provide exporters their historical import shares, within a tariff-free quota, while charging relatively high tariffs on additional imports. Alternatively, higher minimum access commitments could be built into a rewritten Article XI. The final outcome with respect to Article XI and Canada's negotiating position on tariffication are clearly tied together. Little more can be said except that it will be Canada's most sensitive issue domestically.

### Domestic Subsidies

The negotiations on domestic subsidies are likely to be the most difficult because progress on border measures must be linked to progress on domestic subsidies. In addition, the GATT, which has until now limited its attention to border measures, will be moving into uncharted waters in trying to reduce and discipline domestic subsidies. However, all of the negotiating proposals envisage some type of categorization of domestic policies. Using the traffic light analogy, "red light" policies would be prohibited, "amber light" policies would be disciplined and subject to countervailing duty action, and "green light" policies would be permitted and excluded from any countervailing duties. The United States, the Cairns Group and Japan agree that there would be three policy types but disagree on the policies included in each group, while the EC would foresee only amber and green light policies.

Agreement might be easiest to reach on green light policies, although I would be surprised

if the definition was wide enough to encompass safety-net programs, even with the stringent rules suggested by Warley. Instead, safety-net programs might be put into the amber light category and capped or reduced using an aggregate measure of support (AMS) as a negotiating device. In fact, this might provide a negotiating link to other areas, with export subsidies, import barriers and domestic subsidies (as measured by an AMS) being reduced by equivalent amounts. Even if agreement is reached on using an AMS to measure domestic subsidies important unresolved issues remain.

- Which AMS would be used?
- How deep and over what time frame would policy changes have to be made?
- Will countries have to commit themselves to specific policy changes, or simply meet an AMS target reduction?
- Will "rebalancing" or increases in border protection for some commodities be allowed while support for others is being reduced?
- Will the United States deficiency payments on cereals and other commodities be considered green policies as is implied in the U.S. proposal?

The conference participants seemed to agree on answers to the final three questions. United States deficiency payments will have to be subject to reduction in order to get the EC to seriously negotiate changes in the CAP. Suggestions for rebalancing should not be rejected out-of-hand since domestic policies can be just as trade distorting as border measures. Finally, whatever agreement is reached must commit countries to specific policy changes although an AMS may be a useful negotiating and monitoring device. The ability of a small group of economists to agree on these three points will not diminish the potential difficulty of reaching an agreement on even these elements within the formal negotiations!

### Conclusions

Let me conclude by briefly addressing four additional issues.

First, rewriting and strengthening the GATT subsidies and anti-dumping codes probably has

a higher priority in Canada than in any other country because of the continuing harassment of our agricultural exports by the United States. The importance of having input from the agricultural sector into the negotiating committees dealing with (i) subsidies and countervail, (ii) anti-dumping and (iii) safeguards was highlighted by Denis and Warley.

Second, all of the studies of multilateral agricultural trade liberalization suggest that there would be large enough gains to Canadian consumers and taxpayers to fully compensate Canadian producers for any losses resulting from trade liberalization (Meilke and Larue). However, we have done little work on the issue of adjustment assistance even though the major questions are obvious. How should losses due to trade liberalization be identified, measured and compensated? Can payments "decoupled" from production be used to compensate for the loss of "coupled" payments? Should losses resulting from the decline in the value of policy-created assets (eg. quota) be compensated differently than the losses resulting from declines in real asset values. As economists we must be ready to provide guidance on these questions by the time the Uruguay Round concludes.

Third, since some governments will want to continue payments to producers to meet income and other social objectives above the level required to provide economic safety-nets, can minimally trade distorting methods of doing this be identified? Tangermann has questioned the use of production entitlement guarantees (PEGs) when applied on a national basis, but do they provide a workable solution if the entitlement quantities are bound within the GATT? (Blandford, et al, IATRC (1988))

Fourth, I'd argue that there are few who have more to gain and less to lose from a successful completion of the Uruguay Round of agricultural trade negotiations than Ontario farmers. Ontario's levels of protection in the livestock and red meat sector are low, and the safety-net programs currently in place could be adapted to meet any new international rules. Our meat production and processing sector is world class and would benefit from a clarification of countervailing duty and anti-dumping rules. In the grains and oilseeds sector our rates of protection are approximately one-half

of the level in Western Canada and we have no "Crow Benefit" to worry about losing. There may be problems in Ontario's poultry and dairy sectors but it is too early to identify the reforms that will be required in these sectors following the Uruguay Round. Potential economic impacts range from minimal to significant. In any case, the price increases following multilateral trade liberalization and a potential ten-year transition period would serve to cushion any adjustment problems.

Finally, I am heartened as a result of today's discussion that the Uruguay Round will lead to a significant result for agriculture and keep the industrial world from falling back into the morass of the mid-1980s. I am convinced that a successful conclusion of the Uruguay Round is necessary to provide a fairer trading system and greater prosperity for Canada's and Ontario's agrifood sectors.

## Endnotes

- 1/ For additional background information on tariffication see Moschini; Moschini and Meilke and IATRC (1989).
- 2/ See Moschini and Meilke for additional details on this point in the context of the Canadian broiler market. The magnitude of the price changes in Canada depends on the extent to which world market prices increase following multilateral trade liberalization. It is possible that free trade price levels would be above the current "protected" price levels in Canada (Meilke and Larue; Roningen and Dixit).

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APPENDIX

The following comparison of the comprehensive proposals on negotiating agricultural and trade policy reform was prepared by Ann Tutwiler and G. E. Rossmiller of the National Center for Food and Agricultural Policy, Resources for the Future, Washington, D.C. It is reproduced here with permission.

A COMPARISON OF THE COMPREHENSIVE PROPOSALS  
ON AGRICULTURE IN THE URUGUAY ROUND

	UNITED STATES	EUROPEAN COMMUNITY	CAIRNS GROUP	JAPAN
<b>MARKET ACCESS</b>	<p>Convert all NTBs to bound tariffs</p> <p>Reduce or eliminate bound tariffs over 10 years</p> <p>Use reduced-tariff quotas and safeguards during transition</p>	<p>Combine fixed tariff, subject to reduction, with variable levy to protect domestic prices from exchange rate and price fluctuations subject to certain limits</p> <p>Rebalance methods and levels of support</p> <p>Convert deficiency payments into tariffs</p>	<p>Convert all NTBs to bound tariffs</p> <p>Reduce or eliminate bound tariffs over 10 years</p> <p>Use reduced-tariff quotas and safeguards during transition</p>	<p>Exempt border measures aimed to achieve food security in "basic foods"</p> <p>Allow variable border measures to compensate for temporary surpluses</p>
<b>EXPORT POLICY</b>	<p>Prohibit new and eliminate existing export subsidies over five years</p> <p>Prohibit export restrictions and taxes</p> <p>Monitor food aid</p>	<p>Limit export subsidies to level of import protection</p>	<p>Prohibit new and eliminate existing export subsidies over 10 years</p> <p>Prohibit export restrictions and taxes</p> <p>Dispense all food aid through grants, under FAO guidelines</p>	<p>Reduce and eliminate existing export subsidies</p> <p>Limit export restrictions to clear cases of domestic shortage</p>
<b>INTERNAL SUPPORT</b>	<p>Eliminate the most trade-distorting subsidies</p> <p>Discipline the less trade-distorting subsidies</p> <p>Reduce the less trade-distorting subsidies through AMS reductions</p> <p>Monitor the non trade-distorting subsidies</p>	<p>Reduce internal support through SMU reductions</p> <p>Give credit for supply controls</p> <p>Institute some "decoupled" programs, but retain price stabilization mechanisms</p>	<p>Eliminate or reduce the most trade distorting subsidies through AMS reductions</p> <p>Reduce the less trade-distorting subsidies through AMS reductions</p> <p>Monitor the non-trade distorting subsidies</p> <p>Allow flexibility in meeting targets</p> <p>Harmonize support levels across countries</p>	<p>Retain domestic policies that meet important non-economic objectives</p> <p>Discipline trade distorting subsidies</p> <p>Monitor non trade-distorting subsidies</p> <p>Exempt products with high import ratios</p>

	UNITED STATES	EUROPEAN COMMUNITY	CAIRNS GROUP	JAPAN
<b>RULES AND DISCIPLINES</b>	<p>Eliminate exceptions, waivers and derogations to import access rules</p> <p>Prohibit variable levies and other NTBs not covered under GATT</p> <p>Eliminate article XI, 2(c) and revise article XVI(b) on export subsidies</p> <p>Remove permission to restrict/tax exports</p>	<p>Retain special rules for agriculture</p> <p>Discipline through SMU</p> <p>Strengthen rules by including excluded measures/waivers</p> <p>Give credit for all means of output restraint</p> <p>Retain, but possibly restrain variable levies</p>	<p>Eliminate exceptions, waivers and derogations to import access rules</p> <p>Prohibit variable levies and other measures not covered under GATT</p> <p>Revise article XVI governing export subsidies</p> <p>Include food aid rules</p>	<p>Place excluded QRs, NTBs under new and clarified GATT rules</p> <p>Revise article XVI(b) on export subsidies</p> <p>Retain article XI 2(c)i to allow import restrictions in cases of temporary surpluses</p> <p>Give credit for all means of output restraint</p>
<b>AGGREGATE MEASURES OF SUPPORT</b>	<p>Producer Subsidy Equivalent or substitute</p> <p>Use, with new rules, to reduce internal support</p> <p>Current year external reference price</p> <p>Covers remaining trade distorting subsidies</p>	<p>Support Measurement Unit</p> <p>Use, alone, to reduce internal support</p> <p>Fixed external reference price, adjust when needed</p> <p>Covers price supports, payments tied to production and commodity specific input subsidies</p> <p>Allow for supply controls</p>	<p>Aggregate Measure of Support</p> <p>Use, with new rules, to reduce internal support</p> <p>Covers most trade distorting subsidies</p> <p>Adjust for inflation</p> <p>Use multi-year average external reference price</p>	<p>Aggregate Measure of Support</p> <p>Use, alone, to reduce internal support</p> <p>Fixed external reference price, moving average of production</p> <p>Covers only measures distorting trade, exempt infrastructure policies</p> <p>Allow for supply controls</p>
<b>SANITARY AND PHYTO-SANITARY REGULATIONS</b>	<p>Harmonize regulations and barriers</p> <p>Base on scientific evidence and equivalency</p> <p>Rely on CODEX, IPPC, OIE to establish and enforce standards</p> <p>Evaluate need for technical aid to LDCs</p> <p>Different processes ensuring equal standards are equivalent</p> <p>PPM issues should be brought under GATT rules</p>	<p>Seek mutual acceptance of national standards</p> <p>Seek common scientific understanding, but temper with economic/political realities</p> <p>Allow some countries to maintain higher standards</p> <p>Rely on international standards organizations to establish and enforce standards and strengthen GATT rules</p> <p>Provide technical aid to LDCs</p> <p>Address PPMs</p>	<p>Harmonize regulations and barriers</p> <p>Base on scientific evidence and equivalency</p> <p>Allow regional variation in standards</p> <p>Enhance role of international standards organizations to enforce standards</p> <p>Provide technical help to LDCs exporters</p> <p>Address PPMs</p> <p>Recognize principle of equivalency when harmonization not possible</p>	<p>Harmonize regulations and barriers</p> <p>Base on scientific evidence and equivalency</p> <p>Allow some countries to maintain higher standards</p> <p>Rely on international standards organizations to enforce standards</p> <p>Clarify principles of equivalency</p>



	UNITED STATES	EUROPEAN COMMUNITY	CAIRNS GROUP	JAPAN
<b>SPECIAL AND DIFFERENTIAL TREATMENT</b>	<p>Graduate NICs, net exporters and LDCs with well developed agriculture</p> <p>Allow flexibility and longer phase-in for LDCs</p> <p>Allow subsidies for long term agricultural development</p>	<p>Graduate NICs and net exporters</p> <p>Allow flexibility and longer phase-in for LDCs</p> <p>Restrict commitments to list of limited products</p> <p>Compensate for higher food prices with food aid and grants</p>	<p>Allow flexibility and longer phase-in for LDCs</p> <p>Allow subsidies for agricultural development</p> <p>Compensate net food importers for higher prices</p>	<p>Allow flexibility and longer phase-in for LDCs</p>

Glossary

QRs	Quantitative restrictions
NTBs	Non tariff barriers
Article XI	GATT article governing import barriers
Article XVI	GATT article governing export subsidies
AMS	Aggregate Measure of Support
SMU	Support Measurement Unit
PSE	Producer Subsidy Equivalent
CODEX	Codex Alimentarius
IPPC	International Plant Protection Convention
OIE	International Office of Epizootics
PPMs	Production and processing methods
NICs	Newly industrialized countries
LDCs	Less developed countries