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SHORT-TERM MEASURES IN THE
GATT NEGOTIATIONS

by

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PREFACE

This paper was first prepared as a background paper for the symposium "Bringing Agriculture into the GATT" sponsored by the International Agricultural Trade Research Consortium. An international task force was assigned the responsibility to develop alternative negotiating frameworks for the GATT Negotiations on Agriculture. The task force determined that identifying actions to be taken by contracting parties in the short (1-2 years), intermediate (3-5 years) and long run was the essential first step. Alternative frameworks that might lead to those actions was the logical next step. This paper identifies key issues, reviews negotiating proposals, and develops alternative negotiating frameworks for short-run negotiations and actions.

SHORT-TERM MEASURES IN THE GATT NEGOTIATIONS

Maury E. Bredahl*

I. Introduction

The objectives of negotiation of early relief and short-term actions should be:

- to strengthen the standstill/freeze provisions of the Punta del Este declaration;
- to provide "early relief" for international commodity markets;
- to obtain a firm commitment of the good intentions of participants through a "down payment" of immediate policy reform.

Short-term has two meanings in this context: the negotiations are to take place early in the Round and are meant to arrive at actions that will be taken before the completion of the Round. In particular, some agreement on short-term actions is seen as a necessary outcome of the midterm Review to be held in Montreal in early December.

Short-term negotiations are to be conducted simultaneously with those addressing long-term reform. Moreover, short-term negotiations must be consistent with the negotiation of country plans, interim rules, and long-term reform of GATT Articles for agriculture.

Standstill. The standstill provisions of the Punta del Este Declaration commit nations not to take any trade restrictive or distorting action that is inconsistent with GATT, nor any action

that is consistent with GATT beyond that needed to "remedy specific situations." Nations are also committed not to take any action that would improve its negotiation position. That a number of countries have brought GATT actions alleging violations of the standstill agreement is taken as evidence of the need for a more explicit agreement. Some have speculated that since the standstill provisions were not explicitly mentioned in the agricultural section of the Ministerial Declaration they do not apply to agriculture.

Early Relief. The early relief proposals reflect the concern of nations with the depressed price levels in international commodity markets. Proposals call for various actions to bring supply more in line with effective demand. Of course, the concerns of many nations have their roots in the high level of government expenditures caused by the fall in international prices. However, these negotiations on short-term actions must be preceded by a strengthening of the standstill provisions that served as the basis for the initiation of the Round.

Some of the urgency placed on early relief may have been relieved by the strengthening of dairy product, oilseed and cereal prices since the start of the negotiations. That a major negotiating issue could be defused by weather indicates that the GATT is simply not an appropriate forum for efforts of such a short-term nature.

Down Payment. Proposals call for a firm commitment of good intentions to be evidenced by immediate policy actions. These actions would be taken in addition to any unilateral policy reforms

that have taken place since the start of the negotiations. Credit for those unilateral actions would become an important part of the country plans to be negotiated to implement long-term policy reform.

II. Initial Proposals and Negotiations

Initial negotiating positions have been tabled by major developing country participants: United States, European Community, the Cairns Group, Japan and the Nordic countries. (The elements of the proposals are summarized in Figure 1.) These proposals indicate the negotiating goals of the negotiating parties, a successful negotiating framework must be developed to facilitate progress toward a compromise of the conflicting goals. This review is limited to the proposed short-term measures within the context of each nation's overall proposal.

Initial Proposals. The United States position calls for the elimination of all production- and trade-distorting subsidies and barriers to market access over a ten year period.¹ No mention in the original proposal or in subsequent submissions is made of short-term measures to address international market imbalances. It seems that the United States will put all its negotiating chips into the long-term adjustment basket. Many believe that any reduction of pressure in international markets will lead to a reduction in the support of other nations, particularly the European Community, for fundamental long-term reform. In addition, the export expansion bent of the Congress will prevent any meaningful short-term action that might reduce U.S. export subsidies and agricultural exports.

The European Community proposes a two stage negotiation process with the first stage, "based on existing policies," to "initiate the process of restoring healthy market conditions" by taking "efforts to ease the situation on worst-affected markets" and "a concerted reduction of support aimed at halting the rising trend in existing imbalances."² The negotiation of the fundamental changes proposed by the United States are to be conducted in the second stage. This second stage would be directed toward "a lasting reversal of the present trends towards structural disequilibria and permanent instability."

The first stage would seek agreement on "short-term actions" directed first toward "easing the strain in certain markets," and second toward bringing about "a concerted improvement in the balance between supply and demand." These actions are to be taken in a "parallel and complementary" manner.

In the first case, the proposal calls for "emergency measures" including:

- "price discipline for cereals and corresponding arrangements for cereal substitutes;"
- "disciplines aimed at reducing the quantities of sugar put on the world market and at least maintaining present access to traditional import markets;" and
- "compliance by non-member contracting parties who are significant exporters of the products concerned with the discipline of the International Dairy Agreement."

The first emergency measure could require negotiation of minimum export prices and the reduction or elimination of the export

subsidy program of the United States. It could also introduce elements to regulate international trade in cereal substitutes. The final measure may be largely directed at the United States which withdrew from the International Dairy Agreement soon after its implementation. Precedents for the type of actions proposed by the EC are the various bilateral quantity restrictions and multilateral commodity agreements that were reached in the Tokyo Round of negotiations.

"Other measures" would be negotiated to "prevent the exacerbation of existing imbalances" in markets "where the problems are particularly serious: cereals, rice, sugar, oilseeds, dairy products and beef/veal." The proposal calls for actions of "equivalent scope" and "equitable burden-sharing." Clearly the EC is proposing the negotiation of arrangements such as of market sharing, voluntary import/export restraint, and other actions to directly control quantities placed in export markets. The short-term nature of the measures is evident by the provision that the arrangements would be reviewed annually.

The reaction of the United States to the proposal was fairly predictable.³ While praising the negotiations to be undertaken in the second stage of the negotiations, a joint statement of Ambassador Yeutter and Secretary Lyng called much of the EC proposal "disappointing." Noting the goals of the Uruguay Round negotiations, they stated "the EC proposal appears to be a list of schemes to increase the role of governments in setting prices and controlling production, to expand the scope of export subsidies by

legitimizing subsidies for processed products and to carve up the world market place between the big players."

The proposal of the Cairns Group (Australia, Canada, New Zealand and "low cost" developing country exporters)⁴ calls for "three interrelated phases:"

- "the full application of the long-term framework of revised and strengthened rules and disciplines for agriculture;"
- "the systematic reduction of aggregate support" to be "supported by interim rules which govern during the reform period;" and
- "the achievement of immediate steps for early relief from the severe distortions affecting agricultural trade."

Although a good deal more inclusive and daring than the proposal of the EC, the two stage approach is endorsed by the Cairns Group.⁵ However, in contrast to the proposal by the Community which is couched in terms of products causing it difficulties, the Cairns proposal calls for a "freeze" and a "cutback." The proposal calls for a "freeze" on:

- market access, on quantitative restrictions, and extension of any "measures not explicitly provided in the GATT" to additional commodities;
- all export and production subsidies;
- introduction of new sanitary or phytosanitary regulations "operating as a disguised barrier to trade;" and
- disruptive stock disposal.

The "cutback," to be implemented from the end of 1988, would involve:

- "an across the board reduction of X percent of all export and production subsidies affecting directly or indirectly world agricultural trade;" and
- "a commitment to increase access opportunity."

The proposal does not embrace the minimum export pricing and market sharing that seems to be the heart of the EC proposal.

The Japanese proposal acknowledges the problem of structural surpluses in world agricultural production and proposes under the title "Emergency Measures":

"As a first step, it is necessary that major exporting countries implement standstill, on emergency basis and in concrete terms, by freezing export subsidies at current levels."⁶

No counterpart action is proposed for importing countries. The Japanese view the problem as one of the agricultural exporters, and attempts to bring Japan into the solution neglect of the "specific characteristics" of their agriculture. However, the Japanese have never tabled a proposal in previous agricultural negotiations. Their proposal in the current negotiations is taken as evidence of the changing role of agriculture in the negotiations and of Japan in the global economy.

The Nordic⁷ proposal has elements of standstill and rollback agreement although the terms are not explicitly used. The standstill element calls for:

- "bindings of the trade effects of supply management programs;"
- "bindings of reduced levels of direct or indirect subsidies affecting trade;" and
- "bindings of aggregate ceilings of direct or indirect subsidies either for the totality of a country's agricultural exports or for agreed sectors."⁸

They also propose immediate measures to prevent a worsening in agricultural markets such as reduction in guaranteed prices, quantitative restrictions or any other means that might be mutually agreeable.

Initial Negotiations. The United States views its proposal as providing both a framework and the goals for the negotiations. Since the proposal does not address the concerns of other nations, some compromise must be reached with respect to an agreed set of goals or to a neutral negotiating framework. Initial negotiations have not addressed either of those objectives.

Rather discussions have been, if anything, counter productive. The United States has defended the moral integrity of its proposal: that the elimination of all trade-distorting subsidies is a desirable goal and provides the necessary framework. The European Community, constrained by its agricultural support agreement reached in February 1988, cannot accept that position. The elements of its internal compromise, reached only after prolonged and acrimonious negotiations, are a cap on budget expenditures for agriculture, supply control and modest mandated guarantee-price reductions for cereals. These reforms, seen as a substantial

achievement by the Community, are viewed by other negotiating parties, and particularly by the United States, as modest first steps on the road to policy reform.

The acrimonious interchanges between the United States and the European Community has led other participants to table proposals meant to bridge the gap between the positions of the European Community and the United States. Canada, individually and as a member of the Cairns Group, has attempted to play a conciliatory role. To some extent, Canadian negotiations have been motivated by the need to placate strong internal political pressures from agricultural special interest groups.

III. Issues and Options

The United States does not propose negotiations to strengthen the standstill provisions nor to provide early relief in international commodity markets. An agreement early in the Round to eliminate subsidies in ten years, as the United States proposes, is in itself evidence of good intentions and provides the necessary down payment. The European Community proposes immediate actions to stabilize international commodity markets, but like the United States does not call for a strengthening of the standstill agreement. It does not call for a down payment but clearly believes significant credit should be given for its unilateral policy reforms.

A freeze or standstill could be accomplished with a binding of an aggregate measure of support as suggested in the Nordic Proposal. However, the difficulties in defining and implements an AMS suggest that an ad hoc approach could compliment the AMS in

explicitly defining the freeze and standstill. The Nordic and Cairns Group Proposals provide several options that could be pursued in ad hoc negotiations. Participants should agree to freeze levels of trade-distorting subsidies such as export subsidies, the trade effects of supply control programs, and/or the level of expenditures. These agreements should be made within the context of the interim or transition rules that will be developed to implement the country plans and long-run reduction in trade-distorting policies.

The freeze and standstill agreement could be followed by ad hoc negotiations to address some of the major concerns with imbalances in international commodity markets. These negotiations could seek to implement some of the provisions of the Cairns Group and the EC Proposals. Agreement to responsible and nondisruptive stock disposal and disciplines in international marketing could be reached within the context of the transition rules that will guide the implementation of the country plans that detail long-run policy reform. The agreed reduction of export subsidies could be an important part of the efforts to address market imbalances while contributing to the transition to a trading system in line with the long-run obligations of participants.

The negotiation of transition rules or those for early relief could address the down payment needed to indicate the good intentions of participants. Of importance is the negotiation of credits for unilateral actions as part of the country plans. Additional mutually agreed actions to be taken within the context of existing national legislation and GATT rules is the objective of

these negotiations. Such actions are seen as essential to continuation of the negotiations. These actions and the corresponding credits must be considered in the negotiation of transition rules and the scope of the changes in the permanent rules that will govern agricultural trade at the completion of the Round.

End Notes

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¹U.S. Government. United States Proposal for Negotiations on Agriculture. The White House, Office of the Press Secretary, July 6, 1987.

²GATT Secretariat. European Communities Proposal for Multilateral Trade Negotiations on Agriculture, October 26, 1987.

³Office of the United States Trade Representative. "Statement by Ambassador Yeutter and Secretary Lyng on the European Community's Proposal for Trade Reform in the Uruguay Round, October 26, 1987.

⁴The members of the Cairns Group are Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay.

⁵GATT Secretariat. Cairns Group Proposal to the Uruguay Round: Negotiating Group on Agriculture, October 26, 1987.

⁶Government of Japan. Japanese Proposal for Negotiations on Agriculture, December 1987.

⁷The Nordic Group includes Norway, Sweden, Iceland and Finland.

⁸GATT Secretariat. Proposal of the Nordic Countries: Negotiating Group on Agriculture, December 1, 1987.

Figure 1. Proposals for Standstill, Early Relief and Negotiations

Proposal of	Freeze/ Standstill	Early Relief	Commitment/ Good Intentions Down Payment Credits
United States	None proposed	None proposed	None proposed
European Community	None proposed	Cereals-min. export prices & market sharing Sugar-freeze import levels; reduce export level Dairy-comply with min export prices of IDA	Reduction of internal and external measures to prevent current "imbalances" Credits are implicit in the call for "equitable burden sharing" and "equivalent scope"
Cairns Group	Freeze Access barriers Subsidies affecting trade Nontariff barriers based on sanitary regulations	Stocks Responsible management Nondisruptive release	Reduction of an agreed percent in all export and production subsidies Commitment to increased market access
Nordics	Bind Trade effects of supply management programs Reduced or eliminated direct and indirect subsidies affecting trade Aggregate ceilings on subsidies	None proposed	Reduction in guaranteed prices, quantitative restrictions, or other agreed actions
Japanese	Freeze export subsidies	None proposed	None proposed