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# **A Profit in Our Own Country**

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# After GATT—What Now?

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Over the last seven years the major focus of agricultural trade economists has been on the Uruguay Round negotiations: analysing the policy issues and building quantitative models which could be used to estimate the distribution of benefits from various degrees of agricultural trade liberalisation. Much has been learned but there are new issues emerging which will require further analysis.

In this paper, I will first highlight the role played by Australia in shaping the agenda for the agricultural component of the negotiations; second, describe the possible benefits to Australian agriculture of the outcome; and third, in trying to answer the question 'After GATT—what now?', indicate where I think some serious issues remain to challenge us.

## **Australia's Proposals for Agricultural Policy Reform in the Uruguay Round**

The scope of the agenda for agriculture in the Uruguay Round was influenced to a considerable degree by the Cairns Group and by Australia within it. In the four years following Australia's petulant behaviour at the GATT Ministerial Meeting in 1982, a much more positive attitude was adopted towards international diplomacy in the area of agricultural trade policy.

The Cairns Group proposal, which was submitted to GATT in 1987, contained a comprehensive set of ideas which included: targets for reduced levels of domestic farm income support that would be monitored by an aggregate measure of support (AMS); the removal of the special status enjoyed by agriculture in relation to export subsidies (under Article XVI) and special waivers (Article XXV); the harmonisation of sanitary and phytosanitary regulations; and the encouragement of decoupled income support as a substitute for price support

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measures. The main thrust was the reduction in domestic support, improved market access, the removal of export subsidies, harmonisation of sanitary and phytosanitary regulations and, of critical importance, the strengthening of and adherence to the disciplines imposed by the Articles of GATT.

### **Australia's Gain from the Uruguay Round**

At first sight, the provisions contained in the Agreement on Agriculture in the *Final Act* seem to be consistent with the Cairns Group proposal. Over a six-year period beginning in 1995, domestic support on average will be reduced by 20%; barriers to imports will be converted to ad valorem tariffs and rates then reduced by 36% on average with a minimum of 15% for any one item; and the value of subsidised exports will be reduced by 36% and the volume reduced by 21%. However, the base periods against which these reductions are to be effected are 1986–88 for domestic and import support and 1986–90 for export subsidies. In some cases, a proportion of these reductions has already been achieved and credit granted. Therefore, in quantitative terms, the gains to Australian agriculture will not be dramatic and will not be realised fully until the end of the decade. The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that the annual increase in exports by volume will range from less than 0.5% for sugar and sheep meat, to 7% for beef, to 10% for dairy products; also, that world prices will increase from 1% for sugar, to 6% for beef to 20% for cheese; and finally, that the increase in the total annual value of agricultural exports is estimated to be \$950 million.<sup>1</sup>

The outcome of the negotiations for agriculture was again dominated by bilateral deals between the United States and the European Union, the very situation which the Cairns Group had been established to prevent. The Blair House Accord of November 1992 weakened in crucial respects the content of the *Draft Final Act* of December 1991. Perhaps one of the most important was the decision to apply the 20% reduction in domestic support to the total of agricultural production rather than to apply it, as intended by Dunkel, to each product. This change will allow governments to avoid making reductions in politically sensitive sectors, such as dairy and sugar, where trade distortions are greatest. Another important difference between the *Draft Final Act* and the *Final Act* is that the compensatory payments of the European Union and the deficiency payments of the United States have been exempted from the 20% reduction in domestic support because, it has been argued, these measures are decoupled.<sup>2</sup>

On the positive side, while it is obvious that farm lobbies remained powerful in the United States, the European Union and Japan, it is also obvious that public opinion had shifted during the course of the Round. At the same time that governments were becoming more sensitive to the budgetary costs of agricultural policies, urban-based lobby groups were becoming more influential in questioning the wisdom of the continued intensification of agriculture which price support programs encouraged. The major concerns of these groups revolved around the link between intensive farming technologies and the rural environment, and around the link between the quality of foodstuffs and human health. Together, these lobbies have provided a brake on the previously unfettered influence of farm lobbies on governments. Therefore, while the percentage changes agreed to in the *Final Act* appear modest, especially when compared with total liberalisation of agricultural policies, these additional lobby groups may enable governments in the future to be more radical in disengaging from intervention in their respective agricultural sectors.

In addition to the Agreement on Agriculture, there will be other positive changes emerging for the conduct of agricultural trade. For example, the establishment of the World Trade Organisation and, with it, enhanced powers for the Dispute Settlements Procedures should have a substantial effect on governments which are reluctant to abide by the Articles as they affect agricultural policies. The experience with Dispute Panels which have been established to adjudicate in agricultural matters has been most unsatisfactory: sometimes clear-cut decisions have not been forthcoming and when they have been, governments have often ignored the ruling and continued with their illegal behaviour. Under the new procedure, an appeal is possible but, if that is lost, then adherence to the original decision of the Panel is required because the 'defendant' no longer has an effective power of veto.

### **After the Uruguay Round**

The ratification of the *Final Act* ends one extremely important chapter in international trade negotiations on agricultural protectionism. The Uruguay Round was the first in which domestic agricultural policy instruments were subject to negotiation and effective bounds placed on the use of those instruments which distort international trade. Nevertheless, there remain a number of significant issues in agriculture that will have to be resolved.

First, agricultural protectionism has not been abandoned and once the percentage reductions are achieved by the year

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2000, further changes in agricultural policies will be required. The forms of change will depend on the experience with decoupled income support, on the levels and volatility of prices in international markets, on the state of world food security, and on the continued influence, relative to that of the farm lobby, of those groups concerned with the issues of environment and of human health.

Second, because there was concern at various stages throughout the Uruguay Round that the negotiations would fail, a number of countries moved to develop regional trading blocs as a form of insurance against failure of the multilateral trading system. These moves towards free trade areas and other forms of trading blocs have now developed a momentum of their own. As a consequence, the international trade patterns which are predicted on the basis of a less distorted multilateral trading system may prove to be distorted in different ways by regional trade groupings. Therefore, from the Australian perspective it is not yet obvious what may happen to exports of Australia's agricultural products to its developing markets in Asia and particularly those in the ASEAN countries.

Third, towards the end of the Round it became apparent that a coalition of environmental and development interests viewed the prospect of economic growth which is stimulated by international trade liberalisation as a bad outcome rather than a beneficial one. As a consequence, this coalition became hostile to the GATT and to its successor, the World Trade Organisation (WTO). However, as a number of economists have argued, the link between environment, environmental policy and trade policy is an extremely complex one and one which will only be handled successfully through a strong international institution such as the WTO. As far as agriculture is concerned, the reduction in farm-gate prices, which is brought about by lower levels of income support in the major regions of the United States and the European Union, will lead to less intensive forms of food and fibre production by making intensive agricultural technologies less profitable. Therefore, there will be gains in terms of reduced pressure on the rural environment.<sup>3</sup>

While the position in the industrialised countries is relatively clear, that in the developing world is more complicated. The complication arises because some countries tax the agricultural sector rather than subsidise it, thus breaking the link between international and domestic market prices. For these countries, changes in such policies are not covered by the outcome of the Uruguay Round. For the developing countries which subsidise agriculture, they will be bound by the

outcome of the Round but they will be given 10 years rather than six to make reductions by two-thirds of the rates applying in the developed economies.

Finally, there is the link between the liberalisation of agricultural trade and the state of food security in the developing countries. It is to be expected that reductions in farm income support will lead the major donors of food aid, namely, the United States and the European Union, to reduce their donations. At the same time, poor food-importing countries may lose from higher world prices, although the evidence from quantitative economic modelling is contradictory. In particular, since many of these countries tax rather than subsidise agriculture, this greater vulnerability to world market conditions may force policy changes which will lead to an increase in domestic production.

In these circumstances, the gains to agricultural research will be enhanced and it could be possible to persuade the developed and newly industrialising countries to contribute some of the budgetary savings from their reduced agricultural support to the additional funding of agricultural research in developing countries through the CGIAR system. Given long-run projections of world supply-demand balances for foodstuffs, such additional research will be crucial to ensuring food security through its effects on enhancing the rate of economic growth in the developing world.

## Conclusion

The outcome of the Uruguay Round for agriculture was less dramatic in qualitative terms than had been proposed by the Cairns Group and the United States in 1987. However, in qualitative terms the outcome of the Round marks a turning point in the long post-war development of agricultural protectionism. Governments have at last signalled they accept that the status quo is no longer a feasible option. As a consequence, the mechanisms used to support farm incomes will change to ones which are less distorting of international markets, and those which continue will be used more sparingly, i.e. once reduced, they are bound against any increases. There will be gains in economic efficiency in all countries which have agreed to alter their agricultural policies.

Nevertheless, there remain some important issues which will require further analysis before solutions are forthcoming. These include: what will happen after the year 2000 when the transition to greater liberalisation is completed; the trade-and food-balance effects that will be generated by the newly forming trade blocs; the international actions which will be

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taken to ensure that trade policies are not used to pursue domestic environmental objectives; and the effect that reduced agricultural protectionism will have on world food security.

Of these four issues, in my opinion the last two are the most serious and will be the most difficult to solve. In the context of this seminar, the last is the most important and will only be solved through a combination of successful agricultural research in developing countries and through the implementation of sensible economic policies everywhere. In both of these elements, Australia has an important part to play in providing scientific expertise and economic philosophy.

### **End Notes**

<sup>1</sup> ABARE 1994. World Commodity Markets and Trade. The Outlook Conference, Canberra, 1–3 February, p. 70.

<sup>2</sup> The difference between the Dunkel proposal and the Blair House Accord for the Australian farm sector has been estimated by agricultural economists at ABARE to amount to US\$132m per annum.

<sup>3</sup> This was certainly one of the objectives for the reformed Common Agricultural Policy as of 1992 and it has become an increasingly important component of United States farm legislation.