Bringing Agriculture into the GATT:

*REVIVING THE GATT NEGOTIATIONS ON AGRICULTURE*

Commissioned Paper No. 8
Reviving the
GATT Negotiations
On Agriculture

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On

Reviving the GATT Negotiations on Agriculture

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Preface

The International Agricultural Trade Research Consortium (IATRC) is a group of more than 125 economists from thirteen different countries interested in agricultural trade, representing the academic community, governments, and private institutions. Founded in 1980, the Consortium has the following objectives:

(1) to facilitate and stimulate improvement in the quality and relevance of international agricultural trade research and policy analysis;
(2) to facilitate collaborative research among its members;
(3) to facilitate interaction among researchers and analysts in different countries engaged in trade research; and
(4) to improve the general understanding of international trade and trade policy issues among the public at large.

To further these objectives, the Consortium has analyzed a number of trade issues and problems associated with the current round of international negotiations under the General Agreement on Tariffs and Trade. The first efforts were presented at the Symposium on "Bringing Agriculture into the GATT" held in August 1988 and published as a series of Commissioned Papers:

(1) Assessing the Benefits of Trade Liberalization
(2) Designing Acceptable Agricultural Policies
(3) Negotiating a Framework for Action.

Subsequently, a number of additional issues were identified and the analysis published as a continuation of the Commissioned Paper series:

(4) Tariffication and Rebalancing
(5) Potential Use of an Aggregate Measure of Support
(6) Reinstrumentation of Agricultural Policies.
(7) The Comprehensive Proposals for Negotiations in Agriculture
(8) Reviving the GATT Negotiations on Agriculture

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Executive Summary

At the beginning of the Uruguay Round governments agreed to bring all measures affecting import access and export competition in agriculture under stronger GATT rules and disciplines. They further agreed that internal farm policies, and not simply border measures, should be addressed in the negotiations. This commitment was strengthened at the Round’s mid-term review, when governments agreed to negotiate "substantial and progressive reductions in agricultural support and protection" in order to establish a "fair and market-oriented agricultural trading system." In the final months of the negotiations a framework emerged which identified three main areas for action: internal support, import access and export competition.

The United States and the Cairns Group have proposed specific commitments in each of these areas. The European Community, however, has agreed to the reduction of internal support levels, but not to specific commitments in the other two areas. The EC proposal was unacceptable to most of the nations at the Brussels talks in early December. They felt that the EC's unwillingness to accept specific commitments did not satisfy the agreements reached earlier in the negotiations. In their view, the level of reduction in internal support was negotiable, but specific commitments in the three areas were essential for the talks to continue. Late in the meeting, a suggested compromise (known as the Hellström paper) was put forward in an attempt to provide a basis for continued negotiation. It received limited support from the United States and the Cairns Group. But the EC was unwilling to accept it as a basis for further negotiations. Hence, the Brussels meeting ended without an agreement and with the United States and the Cairns Group insisting that the EC must improve its proposal.

Efforts are underway to revive the negotiations. At this juncture, it is important to remember that the costs of failure of the negotiations are high, and that for an agricultural package to be meaningful it must contain certain essential elements. The Hellström paper provides a useful starting point to determine the flexibility needed to revive the negotiations and to result in a meaningful agreement for agricultural trade.

Costs of Failure

Failure in the negotiations will lead to a deterioration in international economic relations. Failure will likely lead to a resurgence of unilateral action to settle trade disputes. This unilateralism possesses particular problems for developing nations and the "new market economies" of Eastern Europe. Failure will give a push to regional solutions to trade problems. Participants in regional trade pacts are likely to discriminate against those outside the region, and in doing so jeopardize the multilateral trading system. Developing nations and the newly emergent market economies would be hardest hit by a transformation of the trading system into regional trading blocs. Failure in the negotiations will complicate the process of meeting the unprecedented challenges of restructuring the economies of Eastern Europe and the Soviet Union, of resolving the crisis in the Middle East, and of bringing the rapidly growing trade in goods, services,
entrepreneurship and technology within the GATT. Continued skirmishes in agricultural trade will make agreement in these other areas more difficult to reach. It is a distraction that is unneeded, and, moreover, it is avoidable.

Failure in the negotiations could lead to an intensified agricultural trade war. Nations could place large costs on themselves and other nations by intensifying the agricultural trade war, but they would gain little in international market share. As there is limited room for the United States to retaliate if it acts only on EC agricultural exports, the trade war could escalate to include non-agricultural trade, at great cost to all involved. And even if a trade war does not take place, the developed countries will continue to place unneeded costs on their treasuries and consumers and developing countries will continue to be seriously harmed.

Failure in the negotiations will frustrate needed domestic agricultural policy reform. All nations recognize the need to reform policies but are limited by the actions of other nations. This is the significance of collective action through a GATT agreement.

Critical Elements of an Agreement

To contribute to easing problems of world agricultural trade, an agreement must have the following critical elements.

On internal support:

✓ Governments should agree on a list of acceptable domestic policy measures.
✓ There should be an agreement to place a ceiling on current levels of trade-distorting internal support, preferably by commodity sector, as measured by an agreed aggregate measure of support. These levels would then be subject to a reduction comparable with that agreed for border measures and export subsidies.
✓ A mechanism should be established within the GATT to monitor national policy adjustments, to provide for an ongoing process of verification and review, and to settle disputes about the implementation of the commitments.

On market access:

✓ Countries should agree on the objective of tariffication of all non-tariff import barriers, and a start should be made on this process, subject to safeguards.
✓ Market access should be increased by reducing new and existing tariffs by an agreed percentage over a specified period of years. Minimum access commitments, expanding over time, would ensure that agreed reductions in import barriers have the intended effects. Such agreements could be substituted for trade barrier reductions in particular situations.
✓ The degree of market orientation of domestic prices should be seen to increase over time.
✓ There should be no increases in trade barriers as part of the agreement.
On export competition:

- Countries should commit to reducing their use of export subsidies.
- Export subsidies should be limited in their operation to those commodities currently being subsidized. Current levels of export subsidies should be frozen and then reduced over time at a rate at least comparable to that for import barriers and internal supports.
- Export subsidies per unit should not exceed the level of import tariffs for the same commodity.

Toward A Meaningful Agricultural Agreement.

It is generally agreed that the European Community must make the next move. The United States and the Cairns Group, though certainly not completely happy with the Hellström proposal, have indicated that it could be the basis for continued negotiations. The EC, on the other hand, has had great difficulty in moving away from its original position. Hence, a good starting point is to look at the differences between the Hellström paper and the original EC offer and to consider how they can be bridged and a meaningful agreement developed.

**Internal Support.** A possible compromise would be to stick to a 30 percent reduction by 1995, but to set the base period to 1988 if some negotiating credit must be given for adjustments made to domestic farm programs. As a *quid pro quo*, the EC could then make a commitment to review the agreement in 1994 or 1995, with the objective of continuing the process of farm and trade policy reform through to the end of the century.

**Market Access.** The obligation to tariffy non-tariff barriers must be confirmed explicitly in the final agreement. The EC could turn back to the original Commission proposal to reduce the fixed tariffs that would replace its current variable levies by 30 percent, to start from a more recent base period, and should treat fluctuations in exchange rates and in world commodity market prices equally in any modifications meant to buffer against large world price changes. Finally, tariff equivalents should be calculated from the prices EC producers actually receive rather than from official support prices.

Hellström proposed a 5 percent minimum access commitment, as had Canada and the Cairns Group. Expanded quantitative access and the willingness to phase-out exports of the commodities concerned would be a possible contribution to reducing trade distortions for Canada and other countries appealing to their use of supply control to justify their retention of import quotas.

One of the more troublesome aspects of the negotiations on market access has been the EC’s demand to "rebalance" protection as a condition for its agreement to tariffification of the variable levy. If the Community insists on revoking zero tariff
bindings it should do so by invoking Article XXVIII of the General Agreement and negotiate an appropriate level of compensation to its trading partners. If, however, rebalancing of protection is a political imperative for the EC, then the negotiations should seize on the EC’s indication that it is prepared to limit rebalancing to non-grain feeds. This would avoid an increase in protection on oilseeds and their products. The present level of market access for non-grain feeds could be safeguarded with tariff quotas. As tariff levels decline over time to provide improved market access the tariff rate quotas should be gradually removed.

**Export Competition.** The opposition of the EC to any specific constraint on export subsidies has been the most difficult problem facing the negotiators until now. However, the EC has indicated that it might be prepared to limit the quantities of subsidized exports it puts on the world market. The Hellström proposal suggests a reduction of subsidized export quantities by 30 percent over five years. Entering into commitments on export assistance expenditures should be preferred. A significant reduction of such outlays over a five-year period from 1990 levels would be a constructive complement to reducing internal support and access barriers over the same period.

**Conclusion.**

The Brussels talks injected a sense of realism and urgency into the Uruguay Round that had been lacking in the preceding months. The EC can now see that the other nations were serious when they said that without a meaningful agreement in agriculture there could be no agreement in other areas. The United States and the Cairns Group countries, on the other hand, now better appreciate the political difficulties that the EC faces in further reforming its agricultural policies. The crisis may have created a better understanding of each others’ positions and of possible compromise.
Reviving the GATT Negotiations on Agriculture

Introduction

In early December, the 108 countries participating in the Uruguay Round of GATT trade negotiations convened in Brussels to draw the talks to a successful conclusion. On the table were workable approaches for further liberalizing trade in manufactures, for regulating the rapidly growing trade in services, for protection of intellectual property rights, and for strengthening GATT’s dispute settlement mechanisms. The enactment of these agreements has been put in jeopardy by the failure to reach a compromise on rules and disciplines to govern agricultural trade. The United States and the members of the Cairns Group of agricultural exporters refused to accept a weak agreement on agriculture, even if it would facilitate agreements in the other areas of the negotiations. The European Community, Japan, and the Republic of Korea, on the other hand, were not willing to contribute to a substantial commitment in agriculture, even to save the Round.

At the beginning of the Uruguay Round of trade negotiations, governments agreed to bring all measures affecting import access and export competition for agricultural products under stronger GATT rules and disciplines. They further agreed that internal farm policies, and not just border measures, should be addressed in the negotiations. This commitment was strengthened by the April 1989 Mid-Term Review agreement to negotiate "substantial and progressive reductions" in agricultural support and protection in order to establish a "fair and market-oriented agricultural trading system."

This agreement on the aims of the negotiations, however, masked an underlying difference in the extent and nature of commitments to policy reform. This shows up in particular in the degree to which domestic policies would be subject to international disciplines and the extent to which trade in agriculture should be governed by the GATT’s normal rules. The United States and Cairns Group’s proposals would have gone far toward fully integrating agriculture into the international trading system. The EC and Japan, by contrast, sought to preserve the essentials of their current agricultural policies (and the trade arrangements that accompany these) while somewhat reducing their policies’ trade distorting effects both by international agreement and by continuation of their internal efforts to adjust domestic farm policy. Canada proposed reforms that would benefit agricultural trade in all sectors but sought to retain the quantitative import controls that underpin its supply management programs.

The negotiations proceeded on the basis of a framework proposed by the Chairman of the Agricultural Negotiating Group. This identified three major areas for action:

- internal support;
- import access; and
- export competition.
It also proposed negotiations on reduction targets, sanitary regulations, rules, and surveillance. The expectation was that nations would offer significant commitments in each of these areas to attain "substantial and progressive" reductions in support and protection.

The United States, Canada, and the Cairns Group did propose specific commitments in each area, including the binding and reduction of tariffs (as well as new tariffs adopted to replace non-tariff barriers), significant reductions in trade-distorting internal support and a more rapid reduction in export subsidies. The U.S. proposal extends domestic policy changes already enacted in the 1990 Agriculture, Food, Conservation and Trade Act and the Omnibus Budget Reconciliation Act and would commit other nations to similar actions. Canada stressed the dismantling of export subsidy programs, reduction of tariffs and cuts in expenditures on domestic subsidies. But because of its insistence on retaining import quotas in agricultural trade, Canada’s commitment to substantial and progressive reduction in support and protection is correspondingly less than that of the United States and of the other members of the Cairns Group.

The proposal of the European Community placed emphasis on the reduction of overall support levels, rather than on action in the three areas of support and protection. The reduction in overall support levels suggested by the Community would underpin domestic reforms, in particular through the lowering of support prices. Though less convinced of the need to change policy instruments, the EC has proposed its own version of tariffication to take the place of its variable levies. This would include price-triggered safeguards to dampen the extent to which world price and exchange rate changes would be translated into import price changes. Internal EC policy reforms would be facilitated by limiting market access for non-cereal feeds and oilseeds. Accordingly, the EC’s offer to reduce overall internal support and tariffy its levies is conditional on the "rebalancing" of protection on these products. This would imply increasing tariffs that are currently bound at zero or very low levels.

The EC proposal was unacceptable to most other nations, who reasoned that the unwillingness to accept specific policy commitments on market access and export subsidies did not satisfy the commitments laid down in the April 1989 agreement. In their view, the level of cuts was negotiable, but commitments must be made on all elements of the already agreed framework of the negotiations. The EC, by contrast, could not offer the type of assurances on export subsidies that were regarded as essential by other countries. An attempt by the Swedish Agriculture Minister, Mats Hellström, to forge a compromise at the Brussels meeting found some support, but the EC was unable to accept it as a basis for negotiations. The session failed when many nations judged that no further progress was likely to be made at the Brussels meeting.

Efforts are underway to revive the negotiations. The United States and the Cairns Group, however, insist that the EC must improve its proposal. At this juncture, it is important to remember that the costs of failure of the negotiations are high, and that
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for an agricultural package to be meaningful, it must contain certain essential elements. The Hellström paper provides a useful starting point to determine the flexibility needed to revive the negotiations, and to arrive at a meaningful agreement for agricultural trade.

Costs of Failure

Economic growth in the world has been well-served by the multilateral trading system based on agreed rules, and by a steady reduction in trade barriers in manufactured goods. At a time when recessionary economic conditions are generating protectionist tendencies, and when many developing countries and most of the erstwhile centrally-planned economies are reforming their domestic economic policies, preservation of an open, stable and transparent world marketplace is more essential than ever. The Uruguay Round of trade negotiations was designed to strengthen the liberal economic order by further opening markets and by incorporating into the GATT several areas of trade that had escaped effective international discipline, such as services, agriculture, and textiles, and by addressing the trade tensions arising from different national rules for foreign investment and intellectual property rights. Along with this, the GATT's dispute settlement mechanisms were to be enhanced. This entire process is threatened by a breakdown in the Uruguay Round negotiations.

Deterioration of International Economic Relations

In addition to the construction of desirable trade rules, periodic GATT negotiations also serve to counter the natural tendency for governments to yield to demands for protection from domestic interest groups. Such protectionist forces can only gain strength from a failure of the Uruguay Round. In the 1930s, by enacting high tariffs to protect jobs in domestic industries, the United States and other nations dramatically reduced trade and exacerbated the economic collapse of the Great Depression. Some commentators foresee a similar outcome if the current negotiations fail. Beggar-thy-neighbor tariff warfare of the type seen in the 1930s seems unlikely today. More probable is the prospect that countries will use the "remedy" provisions of their trade laws to exclude imports with anti-dumping and countervailing duties or will provide subsidies to their domestic industries. There will nevertheless be significant costs to the global economy of a failure in the GATT negotiations.

One such cost is likely to be a resurgence of unilateral action to "solve" trade disputes. Many in the United States will argue for the EC to be targeted for unfair trade practices. The EC itself will find it more convenient to take shelter behind its own trade barriers and keep at home the benefits of the expanded internal market. Unilateralism poses particular problems for the smaller developed countries and the developing countries, whose lack of a large internal market makes it difficult either to grow without trade or to participate in a trading system based on power rather than multilateral rules. The "new market economies" also will find increasing difficulty in reorienting their
domestic production to world markets if market access is at the whim of the major trading nations.

Failure in the Uruguay Round will also give a push toward regional solutions to trade problems. Such regional trade arrangements can have a constructive place in a multilateral trade system, and can be consistent with the letter of the GATT. But in the absence of global trade liberalization within a strong multilateral framework, participants in bilateral and regional trade pacts are likely to succumb to the temptation to discriminate against those outside their region. The trading system could in essence break into competing trade blocs, with serious implications for living standards. Once again, the developing and new market economies would be hardest hit by such a development.

The challenges facing the international community are unprecedented. The restructuring of the economies of Eastern Europe and the Soviet Union will place enormous demands on economic and political resources. The crisis in the Middle East demands international cooperation and united efforts to find a lasting solution. The expanding integration of markets for goods, services, technology, and entrepreneurship requires an accepted set of international rules to prevent an increase in protectionism and reduced economic growth. If the international atmosphere is negatively charged by continued skirmishes in international agricultural trade, agreement in these other areas will be more difficult to reach. It is a distraction that is unneeded, and, moreover, it is avoidable.

Agricultural Trade Warfare

In addition to the unfortunate impacts on international trade relations in general, failure to reach an agreement in agriculture could have a substantial negative effect on agricultural markets. The two most likely outcomes are the expansion of the ongoing contest among the major exporters to maintain market shares, and the disruption of the process of putting domestic farm policies on a stable economic footing. Loss in momentum toward trade and domestic policy reform would represent a serious setback for world agriculture. Besides perpetuating costly subsidies and denying markets to efficient producers, this also would distort the emerging market economies, which would have to choose between competitive subsidization of agriculture or accepting the sale of domestic supplies at depressed prices on world markets.

The subsidized production and exports of the developed nations depress international prices for agricultural commodities. The total outlays from taxpayers and consumers on agricultural subsidies in the major developed countries has been estimated at about $250 billion per year. Some $60 billion of the expenditures on direct subsidies and the cost to consumers merely offset the subsidy policies of other nations. In the neighborhood of $15 billion of that amount is transferred to U.S. farmers to offset the support provided to farmers in the EC and other developed nations, while about $12
billion is transferred to EC farmers to offset support in the United States and other countries.

This situation will only worsen with an intensified trade war between the United States and the EC. The negative effects on world markets and the cost of policies would be increased further as other nations respond to domestic political pressures to step up their subsidy levels. Canada, Australia, and other developed-country exporters will face pressure to provide increased domestic and export subsidies. And so the costs placed on all countries' taxpayers, consumers and economies will increase, with little benefit for their agricultural producers.

But, even with increased subsidization of agricultural exports, the ability of the United States to change policies in the EC is very limited. The impact of the Export Enhancement Program (EEP) has not been enough to drive the EC to reform their Common Agricultural Policy (CAP). Indeed, much of the cost of EEP has been borne by Canada, Australia, other agricultural exporters in the Cairns Group and some developing country exporters.

As attempts to penalize the EC through increased agricultural export subsidies achieve predictably limited results, pressure will mount to place tariffs on U.S. imports from the EC. This could have some significant sectoral impacts, such as effectively closing the U.S. market to Danish pork imports, which would likely force the EC to intervene massively in that market for the first time. Ironically, many of the retaliatory options open to the United States would adversely impact the efficient agricultural producers and proponents of freer trade in the EC, such as Denmark and the Netherlands. Nevertheless, restrictions on EC agricultural exports to the United States are unlikely to force the desired changes in the CAP. The EC has more opportunities for such retaliatory actions: the member countries import about $6.6 billion of agricultural products from the United States compared with about $4.2 billion of agricultural exports to the United States. So a trade war would be bound to spill over into trade in industrial goods and services. In the neighborhood of $75 billion flows each way in these products, so the opportunity for retaliatory actions is large indeed.

Two conclusions emerge. First, nations can place large budgetary, consumer and economic welfare costs on themselves and other nations by participating in an agricultural trade war, but will gain little in international market share. Second, as there is limited room for the United States to retaliate if it acts only on EC agricultural imports, the trade war could escalate to include non-agricultural trade at great cost to all involved. And even if a trade war does not take place, the developed countries will continue to place costs on their treasuries and consumers and developing countries will continue to be seriously harmed.
Frustration of Needed Domestic Policy Reform

The United States, European Community, Canada, Australia, New Zealand, and many other nations are undertaking needed farm policy reforms. Logically, governments and farm groups in those nations link the reform of their domestic policies to reduced agricultural subsidization and trade liberalization in other nations. It will be more difficult to sustain this process of reform without the collective will of countries acting together to undertake mutual disarmament in their contending farm subsidy and trade policies.

In some cases, recent policy changes have included an explicit link to the trade talks. For instance, in the United States, the recently enacted 1990 Agriculture, Food, Conservation and Trade Act and the Omnibus Budget Reconciliation Act aim to move U.S. farm policies toward less trade-distorting policies while meeting domestic objectives by production-neutral means. Lack of an agreement could trigger a sharp expansion of U.S. export subsidy programs, lead to a reversal of the spending cuts mandated in the budget package, require a marketing loan program for wheat and feed grains, and suspend the area reduction provisions in grain programs.

Farm groups in other nations will follow a similar course if the negotiations fail, leading to a further deterioration of the international trading environment. And so a circle of vicious counteractions is formed: all nations recognize the need to reform policies but are limited by the actions of other nations. This is the significance of collective action through a GATT agreement.

Critical Elements of an Agreement

While the first priority is to revive the GATT negotiations as a whole, the objective should still be to achieve a useful and credible package of agricultural trade reforms. Expectations can be adjusted to account for political constraints but the negotiations must lead to meaningful improvements in the way in which the agricultural trade system operates. To make a constructive contribution to easing the problems of world agricultural trade, an agreement must have at least the following three key components:

- **The agreement must begin the process of moving agriculture toward the normal disciplines of the GATT.** It may be that a period of specific rules is needed to accomplish this, but countries should avoid the temptation to write a separate code for agriculture which exempts that sector from the general rules of the GATT, i.e., tariff-only, transparent border protection; trade without the use of export subsidies; and strict disciplines on domestic subsidies to prevent their being used as back-door trade protection. Current waivers and exceptions to GATT rules should be removed, and the rules should apply equally to all countries.
• The agreement must support and encourage the ongoing process of domestic policy reform. Countries have made some progress in changing their farm income support policies away from open-ended price guarantees toward more targeted, limited, and less market-distorting forms of assistance. This change has occurred in developing as well as developed countries. A trade agreement should provide incentives to continue this trend and penalties for backsliding. For this reason, the agreement should include explicit GATT rules and bindings to discipline the particular elements of domestic support programs that distort trade.

• To facilitate these reforms and to achieve balance and credibility, an agreement should contain commitments on each of the three elements of internal support, market access, and export competition. These elements were identified in the Mid-Term review and subsequently agreed by the majority of countries as constituting the framework for negotiations. Though these commitments are closely linked, and indeed one policy change can satisfy more than one requirement, a coherent and verifiable reform package must be expressed in terms of each of these three areas.

The critical elements that would fall under each of these components are listed below.

Internal Support

✓ Governments should agree on a "green light" list of acceptable domestic measures, which are allowed on grounds that they are only minimally trade-distorting. Such policies could be agreed to be not countervailable. The remaining "non-green" policies would be subject to reductions and would continue to be countervailable under the Subsidies Code.

✓ There should be an agreement to place a ceiling on current levels of trade-distorting internal support, preferably by commodity sector, as measured by an agreed aggregate measure of support. These levels would then be subject to a reduction comparable with that agreed for border measures and export subsidies. The reductions must be effective in reducing the trade-distorting effect of domestic support policies from the start of the period of the agreement. The agreement should cover support given by sub-national levels of government (and national levels in the case of the EC) where such support would be considered distorting if offered at the national (or EC) level.

✓ A mechanism should be established within the GATT to maintain surveillance of national policy adjustments, to provide for an ongoing process of verification and review, and to settle disputes about the
implementation of internationally bound commitments to change specific policies and programs. This mechanism also should be used to exchange information about the operation of less-trade-distorting policies, and to coordinate, where appropriate, their introduction to replace "non-green" programs and instruments.

Market Access

✓ Countries should agree on the objective of tariffication of all non-tariff import barriers, and a start should be made on this process, subject to safeguards to the importer against import surges and sharp price drops and to the exporter against loss of access in the process of policy reinstrumentation.

✓ Market access should be increased by reducing new and existing tariffs by an agreed percentage over a specified period of years, based on a negotiated reference period. Minimum access commitments, expanding over time, would ensure that agreed reductions in import barriers have the intended trade-expanding effect. Such agreements could be substituted for trade barrier reductions in particular situations. Countries would have to provide effective market access and demonstrate when requested that the reduction of import barriers under the agreement could be expected to increase access to the market in question (e.g., where state trading is involved).

✓ The degree of market orientation in domestic prices should be seen to increase over time. This could be done by reducing the buffering effect of any agreed safeguards against world market price movements over a transition period. Exchange rate movements should be considered a normal aspect of international trade and should not trigger separate and additional safeguard-type protection.

✓ There should be no increases in trade barriers as part of the agreement, though normal GATT mechanisms could still be used by countries wishing to unbind previous commitments.

Export Competition

✓ Countries should commit to reduce their use of export subsidies. The ultimate objective should be to eliminate such subsidies altogether (as is already the case for trade in manufactures). However, it should be recognized that a phase-out of export subsidies will be more difficult for some countries than others.
Export subsidies should be limited in their operation to those commodities currently being subsidized. Current levels of export subsidies should be frozen and then reduced over time at a rate at least comparable to that for import barriers and internal supports. This could be implemented by an agreement on quantities eligible for subsidy, amount of per unit subsidy, total expenditure on such subsidies, or some combination of these. The exact modality is of less significance than the fact that such subsidies would be progressively reduced by international agreement.

Export subsidies per unit should not exceed the level of import tariffs for the same commodity. This would ensure that such subsidies fall in line with import barriers.

All of these elements are on the negotiating table in some form or other. Discussion of the technical feasibility of such actions has been going on for at least two years. The ingredient lacking is the willingness to compromise long-held positions so as to allow a package to be put together. The possible shape of such a compromise is outlined below.

Toward a Meaningful Agricultural Agreement

There is not much point in arguing about who was at fault in the failure at Brussels. All parties will have to show flexibility if a substantial agreement is to be reached. Some movement forward was made in Brussels. However, much more will have to be done to bridge the remaining gap and to negotiate a meaningful agreement. One possible direction has been indicated by the chairman of the Brussels agricultural negotiations, Sweden’s Minister of Agriculture, Mats Hellström, in the "non-paper" he tabled on the last full day of the meeting.

It is generally agreed that the European Community must make the next move. The United States and the Cairns Group, though certainly not completely happy with the Hellström proposal, have indicated that the paper can be the basis for continued negotiations. The EC, on the other hand, has had great difficulty in moving away from its original position. Hence, a good starting point is to look at the differences between the Hellström paper and the original EC offer and to consider how they can be bridged.

Internal Support

Agreement on the reduction of internal support is within reach of the negotiators. The main issues outstanding have to do with the base period used and the extent of the reduction. Hellström adopted the EC figure of a 30 percent reduction by 1995, but shifted the base to 1990. Under this proposal the EC, whose offer used 1986 as a starting point, would not receive "credit" for the support reductions made in the last four years. According to the EC’s own calculations, this credit amounted to around one-third
of the reduction that the EC offered, so it would have had to reduce internal support by only 20 percent between 1991 and 1995. The Hellström proposal would require the EC to increase the extent of support reductions by roughly one-half. It would, in this way, bring the level of "allowed" internal support pretty close to that implied in the U.S. proposal for 1995, though it would not require a continuation of internal support reductions beyond 1995 as proposed by the United States and the Cairns Group.

From this perspective, a possible compromise would be to stick to a 30 percent reduction, but to set the base period to 1988 if the EC, and other countries, must receive some negotiating credit for the adjustments they have already made to their domestic farm programs. As a quid pro quo, the EC could then make a commitment to review the agreement in 1994 or 1995, with the objective of continuing the process of farm policy reform through the end of the century.

**Market Access**

Agreement on improving market access may prove somewhat more troublesome, but could still be accomplished with some flexibility in the EC's position. The Hellström paper was not explicit about tariffication. The obligation to tariffy non-tariff barriers must be confirmed explicitly in the final agreement. The EC position on market access could be made more acceptable in three ways. First, the EC could turn back to the original Commission proposal to reduce the fixed tariffs that would replace its current variable levies by 30 percent (rather than only in parallel with domestic prices as the current EC offer suggests), and to start from a more recent base period (rather than the average of 1986-88 as suggested in the EC offer). Second, the EC should treat fluctuations in exchange rates and in world commodity market prices equally in any modifications to buffer against large world price changes (rather than keeping the reference exchange rate completely fixed). Third, base-period tariff equivalents should be calculated from the prices EC producers actually receive rather than from official support prices.

The EC has indicated that it might accept a minimum access commitment of 3 percent of domestic consumption for all agricultural products. The Hellström draft proposed a more acceptable 5 percent minimum access commitment, as had Canada and the Cairns Group. Access commitments in terms of quantities traded have a number of economic drawbacks, as they can lead to new trade distortions. Hence, to support the development of a liberal trading system, it would be far preferable to achieve an overall reduction of access barriers. However, expanded quantitative access and the willingness to phase-out exports of the commodities and products protected by import quotas would be a possible beginning for Canada and other countries appealing to their use of supply control to justify their retention of quantitative import restrictions.

One of the more troublesome aspects of the negotiations on market access has been the EC's demand for permission to "rebalance" protection as a condition for its agreement to tariffication of the variable levy. Ideally, rebalancing by increasing
protection should have no place in a trade agreement designed to reduce it. If the Community insists on revoking zero or low tariff bindings it should do so by invoking Article XXVIII of the General Agreement and negotiate an appropriate level of compensation to its trading partners. If, however, rebalancing of protection is a political imperative for the EC, then the negotiations should seize on the EC's indication that it is prepared to limit rebalancing to non-grain feeds. This would avoid the increase in protection on oilseeds and their products to which the United States, the Cairns Group and many developing nations object. The present level of market access of the other products (mainly corn gluten feed, citrus pulp and manioc) could be safeguarded with tariff quotas. These tariff rate quotas should be gradually removed as tariffs decline to provide improved market access for non-cereal feeds. With the extent and significance of rebalancing thereby much reduced, the replacement of the EC's variable levy system with falling tariffs would be a major accomplishment of the Uruguay Round.

Export Competition

The opposition of the EC to any specific constraint on export subsidies has been the most difficult problem facing the negotiators until now. However, the EC made a significant, though tentative, move in Brussels by indicating that it might be prepared to limit the quantities of subsidized exports it puts on the world market. The Hellström proposal took this up and suggested, as one possible alternative, a reduction of subsidized export quantities by 30 percent over five years (starting from a 1988-90 average base).

As in the case of market access commitments, there are compelling economic and policy reasons to avoid using trade quantities as a basis for commitments. Hence, the possibility envisaged in the Hellström paper of entering into commitments regarding budgetary outlays on export assistance should be preferred. A significant reduction of such outlays over a five-year period from 1990 levels would be a sensible complement to significantly reducing internal support and access barriers over the same period.

Conclusion

An agreement along the lines suggested above would require all parties to make significant concessions regarding both their original negotiating positions and, more importantly, regarding the reforms of their domestic and trade policies in agriculture that they would have to undertake in the years immediately ahead. But given the process of reconsidering agricultural policies, which has taken place over the four years of the Uruguay Round, it should now be possible to accept such commitments. The essentials of an agreement have been identified in this paper.

Since the GATT meeting, the EC has continued to reconsider its position. The Commission has brought forward new proposals to reduce policy prices, to provide income compensation for smaller farmers, and to reduce farm output by introducing compulsory set-asides and tightening existing supply controls. Such a significant reform
of its domestic agricultural policies would improve international trading relations over time, and be enough to convince others that the EC is at last on the road to genuine internal policy reforms.

Other countries must also be prepared to show flexibility in the agricultural discussions, in particular with respect to their own domestic farm policies. The United States will need to assure the EC that it is prepared to cut trade distorting support for cereals. Though always "on the table," there has been a suspicion abroad that the United States might try to avoid cuts in its deficiency payments for grains. Japan should realize that some opening of access to its domestic rice sector would contribute enormously to the satisfactory conclusion of the Round. In this particular case, a quantitative access commitment might be the most appropriate modality. Canada's desire to obtain improved market access for its export products while simultaneously maintaining permanent protection for its supply-managed sectors has been widely perceived as inconsistent. Canada will need to concede increased import access for dairy and poultry products.

The Brussels talks injected a sense of realism and urgency into the Uruguay Round that had been lacking in the preceding months. The EC can now see that the United States and the Cairns Group were serious when they said that without progress in agriculture there could be no progress in other areas. The United States and the Cairns Group countries, on the other hand, now better appreciate the political difficulties that the EC faces in reforming its agricultural policies and food trade practices. If the Brussels meeting, and the crisis that it provoked, have created a better understanding of each others' positions and of possible compromise, it was a productive meeting even though an agreement was not reached. The critical elements of a meaningful, yet attainable, agreement have been identified in this paper.
### Appendix Table 1. Summary of Selected Key Elements of Selected Proposals in the GATT Negotiations on Agriculture.

<table>
<thead>
<tr>
<th>United States</th>
<th>Cairns Group</th>
<th>European Community</th>
<th>Canada</th>
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<tr>
<td><strong>Internal Support</strong></td>
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<td>Reduction of 75% over 10 years in support directly linked to the production or price of a specific commodity.</td>
<td>Reduction of 75% over 10 years from a 1988 base using a commodity-specific AMS.</td>
<td>Reduction of 30% in support for major commodities using an aggregate measure of support, with credits given for policy actions taken since 1986.</td>
<td>Identify &quot;green&quot; policies which would not be subject to support reductions and countervail duties. Government expenditures on other policies to be reduced by 50 percent over 10 years. If an AMS is used as a measure of equivalence, credit to be given for effective supply management.</td>
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<tr>
<td>Reduction of 30% in other trade-distorting support. Commitments implemented with a commodity-specific AMS.</td>
<td>Policies meeting agreed criteria would be exempt from reductions but subject to monitoring.</td>
<td>Comparable commitments taken for other commodities.</td>
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<td><strong>Market Access</strong></td>
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<td>Convert all non-tariff barriers to bound tariffs, then reduce all tariffs by 75% over 10 years. Establish minimum access commitments and expand access by 75% over 10 years for products currently subject to non-tariff barriers by use tariff rate quotas. These quotas to be eliminated in 10 years.</td>
<td>All tariffs, including non-tariff measures converted to tariff equivalents; these to be reduced by 75% on a trade weighted basis. Current market access to be maintained through tariff quotas which are to be expanded in step with reductions in tariff equivalents.</td>
<td>Conditional tariffication of certain border measures, with a concomitant reduction in a fixed element but with the application of a corrective factor. Rebalancing: zero bindings on oilseeds and non-cereal feeds raised to levels commensurate with feedgrain tariffs; lower tariffs to apply within tariff quotas set at recent import levels.</td>
<td>All existing tariffs reduced, using an harmonization formula by one-third over ten years or to no more than 20%. Conversion of non-tariff measures to tariffs, these to be reduced by 50% or to no more than 20% at the end of 10 years. Continue to allow quantitative import restrictions to support domestic supply control policies.</td>
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<td><strong>Export Subsidies</strong></td>
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<td>Reduce export subsidies on primary agricultural products by 90% over ten years. Export subsidies on processed products to be phased out over six years. Negotiate specific commitments on export quantities and budget outlays.</td>
<td>Total budget outlays, per unit assistance, and/or exported quantities to be reduced by at least 90% from 1987-89 levels. Export subsidies can not be introduced where such assistance does not exist.</td>
<td>Export restitutions to be less than the difference between the internal price of imports and the world price, and not to exceed the import charge on the commodity. Enforce the GATT &quot;equitable market share&quot; disciplines. Prohibit introduction of new export subsidies.</td>
<td>New export subsidies prohibited and existing programs phased out over 10 years. During transition there would be an upper limit on export subsidies, and their use to achieve a market share greater than that in 1986-88 would trigger additional disciplines.</td>
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