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D R A F T

"The GATT Agreement: Impact on EU-US Trade"

The signing of the Agreement on Agriculture under the General Agreement on Tariffs and Trade (GATT) marks the first time that trade in Agriculture products has been brought fully under multilateral disciplines. The agreement will reduce agricultural trade distorsions by limiting the use of export subsidies, and by replacing non-tariff import protection with bound tariffs.

The European Community (EC) and the United States (US), as major agricultural producing and trading nations, played important roles in drawing up the agreement. The long and difficult process of negotiating agricultural trade liberalization resulted, to a great extent, from differences in approach between the two. A bilateral EC-US agreement in December 1993 detailed among other things how export subsidy reductions were to be implemented. It provided the final impetus to bring the 7-1/2 years of negotiations to a successful conclusion.

I. The provisions of the Agreement

The goal of the agriculture negotiations was to create more effective GATT rules governing trade in agriculture, improve the conditions of international competition through better market access and reduced subsidies, and reduce the adverse trade effects of sanitary and phytosanitary regulations. The negotiations focused on four areas: reduction of internal support to agriculture, improvement of market access, reduction of export subsidies, and establishment of multilateral rules governing all sanitary and phytosanitary measures that affect international trade.

The new GATT agreement entered into force on January 1, 1995. The commitments in the agricultural sector will be phased in over a 6-year implementation period for industrial countries. The developing countries will implement their commitments over a 10-year period.

Internal support

The Agreement on Agriculture requires contracting parties to reduce support to agriculture by 20 per cent from the levels prevailing in 1986-88. Support to the sector will be measured by a total aggregate measure of support (AMS), which itself is the sum of individual AMSs for each commodity (or equivalent measures if an AMS cannot be calculated). The AMS essentially measures the difference between the world market price and the supported internal price of a given agricultural product for the total quantity of product eligible to receive this internal price, plus production-linked payments to producers. AMS calculations exclude support that does not directly affect farmer's production decision, such as disaster assistance, marketing and inspection programs, and domestic food assistance.

Market Access

The most important commitment in the market access area is comprehensive tariffication of all non-tariff barriers. Non-tariff barriers include variable levies, licensing requirements and minimum import prices. Such measures will be converted to equivalent tariffs, which will be bound under the GATT, and reduced an average of 36 percent (minimum of 15 percent for each tariff line item) over the 6-year implementation period.

The contracting parties agreed that current market access would be maintained, on terms at least as favorable as those existing.

Export subsidies

According to the agreement, budget expenditures for export subsidies have to be reduced by 36 per cent over the six year implementation period (10 years for DCs) from a 1986-90 base. No reduction is to be made by the least developed countries. Quantities exported with subsidies have to be reduced by 21 per cent (14 per cent for DCs) over six years (10 years for DCs) from a 1986-90 base. Reductions are to be made in equal instalments on a commodity -specific basis from the 1986-90 base or from average 1991-92 levels if higher than in the base period.

Sanitary and phytosanitary commitments

The sanitary and phytosanitary (S&P) agreement reaffirms contracting parties rights to adopt measures necessary to protect human, animal or plant live or health. However, these measures must not constitute a disguised barrier to trade, or discriminate between countries where the same condition prevail.

The S&P agreement establishes that a) S&P measures should be harmonized on as wide a basis as possible, relying on international guidelines or standards; b) S&P measures must be based on scientific principles; and c) contracting parties should accept other parties' S&P measures as equivalent if it can be demonstrated that they achieve the same level of protection.

II. Reducing the internal support

According to the bilateral agreement between the EC and the US reached in late 1993 direct payments under production-limiting scheemes were excluded, under certain conditions, from the domestic support reduction commitments during the implementation period. Measures such as the compensation payments introduced in the context of the CAP reform and the US deficiency payments, as operated since the 1985 Farm Bill, were thus exempted from the domestic support reduction commitment- although they were not considered as "green measures". Finally, a significant change in the AMS discipline was agreed whereby aggregation was allowed. The Blair House Agreement also led to the conclusion of a bilateral agreement concerning oilseeds between the US and the EC, which is part of ECs commitments under the GATT.

The commitment entered into by the United States requires it to reduce its total AMS from base period level of US $ 24.1 million to a final bound level at the end of the implementation period of US $ 19.1 million. Deficiency payments accounted for almost US $ 10 million during the base period and have been included in the base and final bound commitments. However, they are excluded from the annual total AMS calculation. The result is a drop in the current total AMS of an important magnitude that the US will not have to operate fundamental changes in policy in order to meet its AMS commitments.

The base period total AMS from the EC amounts to ECU 75.5 billion to be reduced to a final bound level of ECU 61.2 billion by the year 2000 (Excluding the new member states). The EC has undertaken in 1992 an important reform of the CAP, which will allow the EC to meet to a great extend its commitments under the GATT. With the reform of the CAP

- a substancial reduction in the prices of agricultural products was made, in order to make them more competitive,

- a full and on-going compensation for the price reduction through compensatory amonts and premiums not related to the quantities produced, is provided and

- the control of production by the implementation of measures to limit the use of the factors of production (set-aside of arable land , number of animals per hectare of forage area, etc) alongside the retention of more drastic rules, such as quotas is foreseen.

At the same time, the EC decided to strengthen measures disigned to protect the environment or improve links between agricultural activities and the protection of nature and the countryside, encourage certain categories of elderly farmers to cease farming and transfer their land to other holdings and promote the use of agricultural land for other purposes, such as forestry or leisur activity.

The CAP reform implies major changes:

- first of all, support for the agricultural sector are no longer provided solely or mainly through price support but through assistance to producers in the form of compensatory payments or premiums;

- the EC, which is self-sufficient in the main agricultural foodstuff products, no longer needs to seek increased production.

Even if the GAP reform will enable the EC to fulfill to an important extend its GATT commitments, a reform of sectors which were not reformed in 1992 seems to be necessary to meet the GATT commitments.

Finally, the commitment to reduce internal support limits the freedom of contracting parties to increase support to individual commodities. Under the "Peace Clause" agreement, direct payments like the CAP reform payments, the deficiency payments and domestic support subject to reduction will not be subject to nullification or impairment or serious prejudice actions under the GATT. However, the exemption does not apply if the measures grant support to a specific commodity in excess of that decided during the 1992 marketing year.

III. Tariffication and tariff reduction

In the case of the EC, a wide range of sectors have been subject to tariffication. The EC has applied the required average 36 per cent cut almost uniformly accross the commodities, the major exception being sugar and skim milk powder. Tariffs applying to these sectors will be reduced by 20 per cent. For some products like tropical products, the tariff reductions are larger than 36 per cent.

In the case of the US, the tariffication means that the US waiver has to be given up. The US waiver freed it from its obligations under the GATT Article II and XI allowing quantitative import restrictions on any commodity for which a domestic stabilisation or price support policy existed. Furthermore, the relatively low tariffs applicable to cereals and oilseeds have been bound by the US, and with the exception of the tariff on durum wheat, will be cut during the implementation period by between 36 and 74 per cent. The tariff on durum wheat is to be reduced by 16 per cent. The sectors which have been tariffied are sugar, dairy, beef and sheepmeat.

With respect to commodities to which tariffication applies, quantitative access commitments under the GATT agreement have been made under two headings. Firstly, countries are expected to maintain current market access opportunities based on the volume of imports during 1986-1988 for individual products. Secondly, if a country's import of a specific commodity were not already above 5 per cent of domestic consumption between 1986-1988, countries were asked to provide a minimum access opportunity of 3 per cent of the base period domestic consumption starting in 1995, rising to 5 per cent per the year 2000.

The EC will open a number of tariff-rate quotas for a number of products. Current access quotas maintained by the EC cover corn and sorghum, sugar, cheese and butter, beef and sheepmeat. The EC import quotas for sheepmeat and butter will in fact allow imports to increase above current levels. The EC has agreed to open minimum access quotas for wheat, corn, cheese, pork, beef, poultry, nonfat dry milk and eggs.
As part of the EC-US agreement of December 1993, the EC made important concessions to the US. For example, the EC agreed to maintain the terms of the Spanish Accession agreement as a minimum purchase agreement covering 2 million tons of corn and 300.000 tons of sorghum (less imports of non-grain feed ingrediens into Spain). The EC's commitment to allow the import of 500.000 tons of corn into Portugal will also operate as a minimum purchase agreement.
The EC agreed to expand its minimum access offer for pork from 36.000 tons. An additional tariff rate quota of 39.000 tons will be opened for tenderloins, boneless loins, and boneless ham. The EC will also establish a 5.000 ton mozzarella cheese quota with a within-quota rate of 130 ECU ($ 159) per ton, and will set its in-quota duty rate for cheddar cheese quota at 280 ECU ($342) per ton rather than the 830 ECU ($ 680) per ton tariff equivalent. Finally, the EC will reduce tariffs on a number of items of interest to the US. By the end of the implementation period, the following tariff reductions will be effected: processed turkey: tariff reduced by 50 per cent, almonds and walnuts: tariff reduction of 36 or 50 per cent, grapes and apples: tariff reduced by 36 or 50 per cent, potatoe chips: tariff reduced by 50 per cent, beef and swine livers: tariffs are eliminated.

The US has granted some increased access for dairy products and for beef and the access opportunity is deemed to exist for other commodities which were already subject only to tariffs. In the case of beef the restoration of base period access is highly beneficial for Australia and New Zealand. Access to the US market is unchanged for sugar.

Finally, the tariffication constitutes a major change in the policy environment for the agricultural sector and bring transparency concerning market access instruments. The commitment to open tariff quotas in order to garantee current access or to open a minimum access should lead to increase agricultural trade. New opportunities (essentially concerning the processed agricultural products and dairy) will be possible on the US market. New market opportunities will also be given in Japan and Corea. This new market access opportunities are dued to a major transparency in the dairy and pork sector and to the reduction of tariffs in the wine sector. Finally, the zero for zero option for certain spirits will also benefit to firms in the US and in the EC.

IV. Commitments concerning export competition

In the agreement reached in November 1992 between the US and the EC a smaller reduction in the volume of export subsidies (21 per cent instead of 24 per cent) was agreed. The "front-loading" mechanism whereby, if the volume of subsidized exports during 1991 and 1992 was higher, on average, than in the 1986-1990 base period for export subsidies, countries were allowed to use the later period as the starting point for reductions was agreed in late 1993 in the context of a further bilateral agreement between the US and the EC. The impact of this will be to allow more flexibility in the first years of the implementation period concerning the reduction of the subsidised exported quantities and the correspondant budgetary outlays.

What does the implementation of the commitments concerning the exports imply for the EC. Firstly, the degree of the constraint will depend on the evolution of the production, the growth of yields, the world market price and the consumption.

For the EC, of the export commitments, the quantity reduction is a constraining one. Including some 2.5 million tons of food aid (the current level), the allowed exports will be at 25.9 million tons at the end of the implementation period. It must be added that any additional needs in food aid which could arise in future can be met without any GATT contraints.
The projected cereals supply balance at the end of the implementation period (2000) shows that with a 1 per cent annual yield growth, the exportable surplus is very close to the figures fixed in the GATT Schedule of the EC. (Surface: 32 million ha or somewhat less, taking into account the possibility of voluntary set-aside; yield close to 5.5 t/ha; production around 175 million tons; consumption around 153 million tons; surplus : close to 25 million tons). The assumption is that the EC will still need a refund to close the remaining gap between internal and world prices. If the latter rise significantly, no refunds would be needed to export and the quantitative restrictions would obviously not apply.

In The livestock sector, intervention stocks dropped in 1993 from 1.1 million tons to less than 160.000 today and the market prices have been surprisingly firm. Despite those positive elements, important rises in production are expected under the influence of a fairly favourable development of producer prices. In recent years, The EC's imports have stood at around 450.000 tons and the EC's exports at about 1.2 million tons. In the year 2000, projected imports will rise to 500.000 tons, and the subsidized exports must go down to 817.000 tons. In other words: the beef sector clearly will have to be kept under close scrutiny.

As far as poultry and pigmeat are concerned, the drop in cereal prices is expected to raise consumption and production. In order to meet the GATT commitments, the share of unsubsidized exports in total exports will have to rise by 10 per cent, which should be feasible since the prices for cereals will be further reduced at the begining of the marketing year 1995/1996.

The dairy sector is characterized by a structural surplus of production over consumption. This surplus finds outlets thanks to subsidies both on the internal and the external markets. The susidized exports will of course by affected by the GATT Agreement. It must however be stressed that for most individual dairy products, the GATT commitments tend to pose no problem. Thus, butter exports are projected to stay well bellow the GATT ceiling as is the case for skimmed milk powder exports. For cheese, the reduction in subsidized exports could cause some concern, because of the possibility of an increase in imports under the miminum access rules (104.000 tons by the end of the GATT period).
However, the foreseeable increase in internal consumption should soften the impact of the new GATT limitations.

Perspectives

The Round took seven years to complete and has resulted in a further liberalization of international trade. Not only have there been substantial reduction in tariff levels, there has also been an expansion of the coverage of the system; GATT rules now extend to a greater extend than was previously the case to agriculture. In addition, the developing countries are more firmly integrated into the system.

There have been various estimates of the potential economic impact of the Uruguay Round, starting from an extra ECU 180 billion of global income per year. The estimates are based on general equilibrium models that seek to quantify the effect of tariff reductions on the volume of trade in goods, including agriculture. Like all such models, the results depend upon the initial assumptions and their accuracy is open to doubt.

Even if it is impossible to put a precise figure on the impact of the Urugay Round, what we can say with some confidence is that all existing estimates almost certainly underestimate the potential benefits since they ignore the direct and indirect liberalization effects of changes in aereas other than tariffs.

For The EC, being the first importer and exporter of agricultural products in the world, the Round will give new market opportunities. Concerning the bilateral trade relations between the EC and the US the agreement on agriculture constitutes a strong basis for bilateral trade; the improved liberalization of trade will be an oppotunity for the EC to reduce its deficit of the agricultural trade balance to the US (1993:- 1.6 billion ECU).

Finally, the degree by which the Uruguay Round will lead to an effective liberalization of world trade in agriculture will also depend on the implementation of the commitments undertaken by each contracting party. The newly created WTO will have to play here an important role. Therefore, the EC advocates that the WTO needs a strong structure and the necessary instruments in order to enable the WTO to act with effectiveness and to secure to that Organisation the authority it needs on the international level.