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INTERNATIONAL TRADE IN AGRICULTURE: WHERE WE'VE BEEN, WHERE WE ARE, AND WHERE WE'RE HEADED

Kevin C. Kennedy[*]

INTRODUCTION

Agricultural trade was probably the most contentious issue of the Uruguay Round. As the Uruguay Round negotiations progressed, the issue of agricultural trade and government subsidies to the agricultural sector came dangerously close to wrecking the Round. Agricultural products had always been covered under GATT as a formal matter. As a practical matter, however, agricultural trade had departed so far from regular GATT disciplines that the effort to restore those disciplines to this sector, if only partially, proved nearly hopeless for the negotiators.

I. WHERE WE'VE BEEN

The original GATT rules for agricultural trade were written largely by the United States to accommodate U.S. domestic agricultural policy. This accommodation permitted the proliferation of a wide range of non-tariff barriers to and distortions of agricultural trade in the form of import quotas and export subsidies. Even with this considerable concession to U.S. demands, GATT disciplines in agricultural trade were eroded further with the 1955 GATT waiver for U.S. agricultural trade. The door to GATT disciplines in the agricultural sector was now wide open. The upshot is that in the years leading up to the Uruguay Round, the agricultural sector became insulated from the trade liberalization processes of GATT.

During the 1965 Kennedy Round, the EC proposed capping subsidies on agricultural products using a calculation called the margin of support, the precursor of the Aggregate Measurement of Support adopted in the Uruguay Round Agreement on Agriculture. The United States rejected this proposal because it did not include any reductions in existing subsidy levels. The United States countered with the concept of "tariffication," that is, converting all non-tariff barriers to agricultural trade into tariffs and binding them in the contracting party's Schedules

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of Concessions. Again, another concept that was to be eventually embodied in the Agreement on Agriculture. Unable to close the gap in their widely divergent positions, the parties failed to reach agreement.

The "soft" GATT discipline on the use of export subsidies contained in GATT Article XVI was hardened partially in 1979 under the Tokyo Round Subsidies Code. Article 9.1 of the Tokyo Round Subsidies Code obligated the signatories "not [to] grant export subsidies on products other than certain primary products," primary products meaning ag products. Once again, virtually no progress was made on ending the use of subsidies to promote exports of agricultural products. As of 1986, when the Uruguay Round was launched, neither GATT 1947 nor the Subsidies Code had returned GATT disciplines to the grant of export subsidies on primary products. If agricultural trade was to be liberalized, GATT had to be reformed.

The United States and the 18-member Cairns Group[1] were anxious to add agricultural trade to the Uruguay Round agenda. The EU was unenthusiastic about multilateral negotiations that would require it to make politically difficult changes to the Common Agricultural Policy (CAP). For the EU, the CAP is a highly charged subject that in many respects is the "third rail" of EU politics. In the end, the EU relented.

The hot button issue during the Uruguay Round that split the Quad Members down the middle, with Japan and the EU aligned against Canada and the United States, was trade in agricultural products. The United States, joined by the Cairns Group, began the negotiations with a "zero-zero" position, *i.e.*, all agricultural subsidies and quotas were to be eliminated over a ten-year period. In the face of stiff opposition from the EU, the United States backpedaled to a position that called for a reduction of domestic farm subsidies by 75 percent and of export subsidies by 90 percent over ten years. The EU, with 10 million farmers, refused to budge from a 30-percent reduction in domestic subsidies.

After repeatedly failing to meet deadline after deadline for concluding the Uruguay Round negotiations, in November 1992, the United States and the EU were able to compromise on the major stumbling blocks to

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1. The Cairns Group, named after a 1986 meeting held in Cairns, Australia, was 14 agricultural exporting countries that supported liberalization of agricultural trade. Its members were Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

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an agricultural agreement. The Blair House Accord broke the negotiation logjam.

II. WHERE WE ARE: THE WTO AGREEMENT ON AGRICULTURE

The Agreement on Agriculture has three main features or pillars: (1) increased market access for agricultural products, (2) commitments to reduce domestic subsidies on agricultural products, and (3) commitments to reduce export subsidies on agricultural products. The long-term objective of the WTO Members is to establish a fair and market-oriented agricultural trading system that includes substantial reductions in agricultural support and protection.

The market access commitments of the Agreement on Agriculture are threefold. First, WTO Members agree to a guaranteed minimum access level for all agricultural products of 5% of domestic consumption. Second, Members agree to the "tariffication" of non-tariff barriers into tariff equivalents, i.e., converting non-tariff measures into ordinary customs duties, and (3) the use of tariff-rate quotas to ensure that the market access commitments are honored. Agricultural tariffs are to be reduced 36 percent by 2000 in the case of developed countries. For developing countries, the average reduction is 24 percent over a ten-year period ending in 2004. The simple average quota fill rate by principal administration methods for the period 1995-1999 has been approximately 63 percent, that is, about one-third of all quotas are not filled in any given year.

The Agreement on Agriculture's provisions dealing with domestic subsidies falls short of the U.S. and Cairns Group's goal of eliminating all such subsidies. WTO Members put domestic subsidies into three categories or "boxes": an amber box category (permissible but countervailable if they cause injury), an exempt green box category (permissible and non-countervailable), and an excluded blue box category (permissible, countervailable if they cause injury, but not subject to reduction commitments). There is no red box category for domestic subsidies. Annex 2 lists twelve types of exempt subsidies that WTO members are free to provide without limit, including the following:

- generalized government service programs in the areas of research, pest and disease control, and training;
- domestic stockpiling for food security and domestic aid purposes;

- direct payments to producers in the form of decoupled income support (support that is not tied to production);
- government financial participation in income safety net and crop disaster insurance;
- structural adjustment assistance provided through producer retirement programs;
- structural adjustment assistance provided through resource retirement programs;
- structural adjustment assistance provided through investment aids; and
- payments under environmental and regional assistance programs.[2]

In addition to the green box subsidies exempted under Annex 2, Article 6 excludes from the reduction commitment calculation three types of so-called "blue box" domestic subsidies: (1) certain developing-country subsidies designed to encourage agricultural production, (2) certain *de minimis* subsidies, and (3) certain direct payments aimed at limiting agricultural production. This last provision covers EU set-aside schemes and was part of the 1992 US-EU Blair House Accord.

Regarding commitments on export subsidies, developed countries committed to budgetary outlay reductions of export subsidies on agricultural products of 36 percent from 1986-90 base levels over a six-year period ending in 2000. They also made export quantity reduction commitments by reducing the volume of exports receiving export subsidies by 21 percent. The commitments by developing countries are 24 percent by value and 14 percent by volume over a ten-year period ending in 2004. Least-developing countries made no reduction commitments, but did agree to a standstill by binding their export subsidies.

III. WHERE WE'RE HEADED: FUTURE NEGOTIATIONS

Recognizing that the WTO's long-term objective is a substantial reduction in trade protection of the agricultural sector, WTO Members agreed in Article 20 to continue the reform process by reinitiating negotiations in 2000. What are the prospects for a successful conclusion of the latest WTO negotiations on agricultural trade?

2. *Id.* Annex 2.2-2.13. Examples of U.S. green box programs include agricultural extension services, agricultural research, marketing services, and crop disaster assistance programs.

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CONCLUSION

The positions of the WTO members reveal a sharp divide over many key issues. Many countries, developed as well as developing, are reluctant to forego domestic subsidies for their farm sectors. The road to successfully concluding a new agreement on agricultural trade will be long and bumpy. Probably the best chance for a successful negotiation of new liberalization measures in the agricultural sector will be created if a new round of comprehensive and wide-ranging trade negotiations is launched that gives the parties bargaining chips with which to negotiate concessions in the agricultural sector. With the joint, and often conflicting, demands of producers and consumers on governments, the challenge of reforming agricultural trade has proven formidable. Farm lobbies, behind the banner of food security, wield tremendous power in the EU, Japan, and the United States. But the gains to be achieved by shifting to a market-driven model of farming are no less impressive. If the law of comparative advantage is allowed to operate, farming will occur where production costs are lowest. Consumers, taxpayers, and the environment would be the immediate beneficiaries.

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