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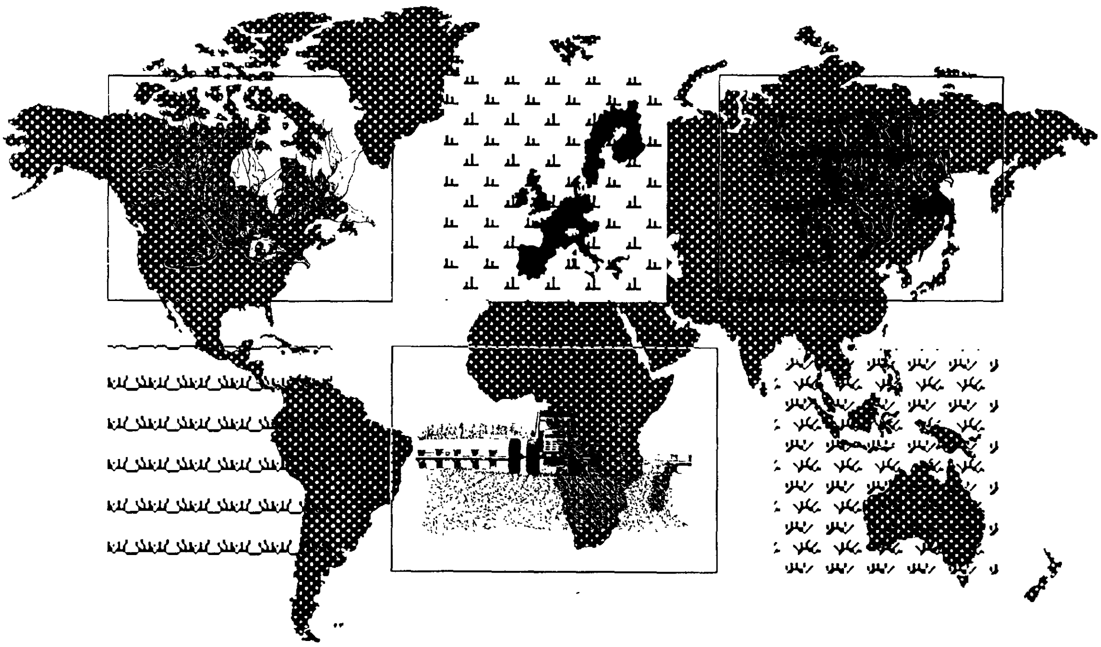

GATT
AND EUROPEAN AGRICULTURE

DIRECTORATE-GENERAL FOR AGRICULTURE
Reports, publications, studies and documentation

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(Manuscript completed in April 1994)

Main abbreviations in this text

AMS	Aggregate Measurement of Support
CAP	Common Agricultural Policy
CCT	Common Customs Tariff
COGECA	General Committee for Agricultural Co–operation in the European Community
COPA	Committee of Agricultural Organizations in the European Community
GATT	General Agreement on Tariffs and Trade
OECD	Organization for Economic Co–operation and Development
WTO	World Trade Organization

INTRODUCTION

Radio and television have been buzzing with talk about the GATT for years, the papers have been filled with articles on the subject and the 'Uruguay Round' was making headlines regularly until its completion with the signing of the Final Act in Marrakesh on 15 April 1994. Yet, many people do not know what it is all about and what actually lurks behind the household acronym. At the very best, the worries that the Uruguay Round have sparked among Europe's farmers have made people aware of the fact that the GATT negotiations involved high stakes for our agriculture.

What is the GATT? What are the principles upon which it is founded? What are its aims? What rounds of negotiation has the GATT weathered since its creation in 1947? What, exactly, did the Uruguay Round consist of, especially its important agricultural chapter? What were the various steps in this lengthy round and why did it involve a clash between the United States and the European Community? Finally, what are the terms of the agreement that was reached in December 1993 and signed at an official ceremony in Marrakesh four months later? In the next few pages we shall try to answer all these questions, then wrap up with some brief comments about the GATT's successor, the new World Trade Organization.

This summary document is intended to explain the general course of developments that led to the Uruguay Round's successful conclusion. This entailed summarizing a complex subject without dwelling at length upon the many exceptions to the Agreement's general principles. Readers who are keen to examine the specific details are urged to consult the appropriate specialized texts.

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I. The GATT: aims and principles

GATT stands for 'General Agreement on Tariffs and Trade'. This is a 38–article treaty that was signed by 23 countries in 1947 and went into effect in 1948. The number of signatory states has risen steadily since then to stand at 114 in 1994. These 114 countries account for about 90% of world trade.

The GATT's main objective is to liberalize international trade and set it on stable foundations so as to contribute to economic growth, development and the well–being of peoples. This agreement, which was drawn up to ensure the security and predictability of international trade, is the only multilateral instrument that sets international trade rules through a procedure of international consultation and debate. It offers the Contracting Parties a forum for conducting their trade negotiations to a successful conclusion.

The GATT has a secretariat in Geneva. The role of this secretariat is to monitor national trade policies, check that the treaty is implemented properly and arbitrate any disputes that may arise. The latter are examined by special arbitration boards called 'panels'.

The main means of achieving the increasing liberalization of world trade is notably a 'substantial reduction in customs tariffs and other impediments to trade'. To achieve this, the GATT relies on a few basic principles, as follows:

1. Most–favoured–nation clause: A concession made by one Contracting Party to another Contracting Party must be extended to all the others. Thus, no country may give an advantage to or discriminate against any other country. All signatories benefit from the advantages that any reduction in impediments to trade may produce.

2. National treatment principle: Products imported into a given market may not be treated less favourably than similar domestic products.

3. Tariffication: All protective measures at the border must be converted into customs duties (tariffs).

4. Tariff bindings: The 'binding' (setting) of tariff levels that are negotiated between the Contracting Parties constitutes a stable basis for trade and thus trade's predictability.

5. Prohibition of quantitative restrictions (quotas): Import quotas are one of the main barriers to international trade. Although they are much less widespread today than in the past, such practices continue to hamper trade in various goods, especially agricultural commodities.

6. Antidumping code: This code sets forth various rules under the GATT to combat unfair trade practices such as dumping and export subsidies. ('Dumping' occurs when a product is sold on an importing country's market below the price at which it is sold on the producer's domestic market.)

7. Safeguard clause: This clauses authorizes the signatory countries, when their economic or trade situation justifies such action, to apply import restrictions or suspend tariff concessions in the case of products that are imported in such quantities and under such conditions that they cause or threaten to cause severe harm to domestic producers.

II. The negotiating rounds: a historical overview

The Contracting Parties have met around the table a number of times since the Agreement's signing in 1947 to negotiate the gradual liberalization of international trade. These discussions, which have come to be called 'rounds', and the highlights of their achievements, especially in the field of agriculture, are listed below.

1. Geneva (1947)

- Twenty–three countries sign the GATT treaty.
- The tariff reductions that are adopted immediately affect half of world trade right away.

2. Annecy (1949)

- Ten more countries join the GATT.
- 5,000 additional tariff concessions are adopted.

3. Torquay (1951)

- Four new members.
- 8,700 additional tariff concessions are approved. At this stage, the average reduction in tariffs compared with those in effect in 1948 (the year the GATT went into effect) is roughly 25%.

4. Geneva (1956)

- Japan joins the GATT.
- Further drop in tariffs.

5. Dillon Round (1960–61)

- 4,400 additional tariff concessions.
- The Customs Union and common agricultural policy (CAP) instituted in Europe in the wake of the EEC's creation (see boxed text) prompt negotiations within the GATT.
- A 6–7% average reduction in the EEC's Common Customs Tariffs (CCT), including lower duties on fruit and vegetables and binding of the zero tariff on oilseeds.

Landmarks

The Common Agricultural Policy

25 March 1957: signing of the Treaty of Rome creating the European Economic Community (EEC).

– The operation and development of the common market for agricultural products must be accompanied by the establishment of a common agricultural policy among the Member States.' (Article 38)

– 'The objectives of the common agricultural policy shall be:

  a) to increase agricultural productivity ....;

  b) thus to ensure a fair standard of living for the agricultural community.....;

  c) to stabilize markets;

  d) to assure the availability of supplies;

  e) to ensure that supplies reach consumers at reasonable prices.' (Article 39)

– '...a common organization of agricultural markets shall be established.' (Article 40)

1958: adoption of the basic principles of the common agricultural policy (CAP) at the Stresa conference:

– **single market** (a single agricultural market within which agricultural products circulate freely and benefit from stable, guaranteed prices);

– **Community preference** (preference given to commodities and goods produced inside the Community); and

– **financial solidarity** (Community financing of the CAP).

The principle of Community preference entailed keeping the prices of Community products below those of imports onto the European market. This led to the institution of two basic mechanisms of the CAP:

– *import levies* (import duties were levied on imported goods that made the latter more expensive than comparable domestic products) and

– *export refunds* (subsidies for exported Community products to make them competitive on world markets).

1962: first common market regulations.

1968: application of common prices.

1979–88: a number of measures were taken to curb rising production, namely,

– co–responsibility levies, guarantee thresholds,

– milk quotas,

– the dismantling of the monetary compensatory amounts scheme,

– stabilizers regime, and

– budget discipline.

1992: reform of the CAP.

6. Kennedy Round (1964–67)

- Average tariff reduction of 35%.
- Creation of the Antidumping Code.
- Institution of a preferential mechanism for developing countries.
- EEC binds 'zero rate' duty to manioc (cassava) and specific cereal substitutes.
- Negotiations on the organization of the major common markets spawned by the CAP, *i.e.* cereals, dairy products and beef. The GATT did not take a stand on the system of levies (see boxed text about the CAP) and their compatibility with the rules of the General Agreement. The refund scheme, for its part, would be applied in accordance with Article XVI of the GATT, which stipulates that if a Contracting Party grants an export subsidy '...such subsidy shall not be applied in a manner which results in that Contracting Party having more than an equitable share of world export trade in that product, account being taken of the shares of the Contracting Parties in such trade in the product during a previous representative period...' (Article XVI, Section B, paragraph 3).
- Wheat arrangement.

7. Tokyo Round (1973–79)

- Participation of 99 countries.
- 34% average reduction in duties. All in all, the mean level of customs duties had dropped from 15% at the time of the GATT's creation to 4.7% at the conclusion of the Tokyo Round.
- Revision of the Antidumping Code.
- Improvement of the legal framework for international trade.
- Agreement on non–tariff measures (subsidies and compensatory measures, technical barriers to trade, public procurement, customs valuation, and import licences).
- Arrangements concerning beef and the dairy sector.

8. Uruguay Round (1986–1993)

The Uruguay Round was the eighth round of multilateral negotiations under GATT since the Agreement's creation in 1947. The Uruguay Round opened in Punta del Este (Uruguay) on 20 September 1986 and ended with an agreement reached by 117 countries (113 of the 114 signatories to the GATT plus four observers, including China) in Geneva on 15 December 1995. The official signing of this document, called 'The Final Act', took place during the Ministerial Conference that was held in Marrakesh, Morocco, on 12–15 April 1994.

The various stages in the Uruguay Round and the basic subjects it covered are outlined in the following chapter.

III. The Uruguay Round

A. The objectives

The Declaration issued by the 105 trade ministers who met in Punta del Este in September 1986 consisted of two parts, namely:

a) negotiations about trade in goods; and
b) negotiations about trade in services.

Together these two parts cover fifteen negotiating areas, of which fourteen concern trade in goods. This is something new compared with the previous rounds, which covered primarily tariffs.

The fourteen negotiating areas related to trade in goods are as follows:

1. Customs duties
2. Non–tariff measures
3. Tropical products
4. Products derived from natural resources
5. Textiles and clothing
6. Agriculture
7. Articles of the General Agreement on Tariffs and Trade
8. Safeguards
9. Agreements and arrangements reached by the Tokyo Round
10. Subsidies and compensatory measures
11. Settlement of disputes
12. Intellectual property
13. Investment measures
14. The GATT's operation

The general goals are:

- to allow the greater liberalization and expansion of world trade,
- to reinforce the GATT's role and improve the multilateral trade system,
- to reinforce the cohesion of trade policies and other economic policies affecting growth and development.

Fuller liberalization obviously calls for further reductions in customs duties, especially the highest ones. Indeed, although many customs duties had been lowered considerably during previous rounds, a certain number of developed countries continued to have large numbers of 'tariff peaks'. These are rates of 15% or more, the effect of which is to throttle imports. One of the Uruguay Round's priorities was to cut these duties by at least one third.

Another barrier to liberalizing world trade is created by non–tariff measures (already subjected to negotiation during the Tokyo Round), including quotas. There, too, one of the main objectives of the Uruguay Round was to reduce, even do away with such measures, if possible.

B. Agriculture

1. Principles and orientations

All of the participants in the September 1986 ministerial meeting in Punta del Este agreed to take on the ambitious task of reincorporating agriculture into the GATT.

The ministers declared there was an urgent need to improve the discipline and predictability of world agricultural trade by correcting and preventing restrictions and distortions, especially those linked to structural surpluses, so as to reduce the uncertainty, imbalances and instability that plague world agricultural markets.

They agreed that the negotiations should strive to liberalize agricultural trade further and have all measures concerning market access for imports and export competition governed by 'strengthened and more operationally effective GATT rules and disciplines'.

These orientations were backed up at a subsequent meeting (in Montreal in December 1988) by an agreement providing for a gradual, significant reduction in agricultural support and protection measures.

It is possible to pick out from the two main chapters of the negotiations, that is, the internal and external chapters, three major topics that remained present throughout the Uruguay Round and could be considered the true triple stakes of seven years of discussion. Agreement thus had to be reached on the following three subjects:

a) domestic support policies
b) export subsidies
c) market access.

In the following pages we shall examine the course of the negotiations by following the thread of proposals that, despite their divergences, all revolved around these three fundamental subjects.

However, the round was marked right from the start by the head–on clash of two important partners. Indeed, efforts to get these partners to see eye to eye occupied centre stage right to the conclusion of the Final Act in December 1993. Their names? The United States of America and the European Community.

2. The US and European positions

The starting position of the United States, which is the country that had called for the launch of a major round of negotiations on agriculture, was to eliminate all agricultural policy measures by the year 2000. This 'zero option' position, as it was called, was first taken in July 1987, then reasserted in 1989 and, with just slightly more flexibility, in 1990. It can be described as follows in connection with the three major subjects mentioned above:

a) an end to all domestic production aid within 10 years (1990 proposal: 75% reduction in domestic support);
b) an end to all export subsidies within 5 years (1990 proposal: 90% reduction in export subsidies);
c) an end to all protection measures at the border within 10 years.

This extreme position, which went well beyond the objectives stated in the Punta del Este Declaration, got the backing of the countries forming the Cairns Group[1] but was rejected immediately by the European Community, followed by Japan and the Scandinavian countries. The United States and the Cairns Group stuck to their guns, declaring that agreements in the other negotiating areas (see page 13) were contingent on an agreement on agriculture.

The European Community for its part felt that, while the aim of the negotiations was to reduce domestic support, the reduction should not exceed the level required to restore market equilibrium. In the Community's opinion, such a reduction had to go hand in hand with a parallel drop in export subsidies. The gradual lowering of these two types of support, it argued, had to occur in tandem, for if export subsidies were reduced faster, stocks would definitely pile up. What is more, given the variety of support policies in use, the commitments to reduce support had to be expressed as reductions in aggregate measurements of support[2] rather than as specific policies. In a word, the European Community refused to discuss separate commitments, but demanded comprehensive negotiations.

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1 Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay.

2 The aggregate measurement of support (AMS) is a composite indicator designed to express and compare various forms of support policies that affect production and trade. The AMS is equal to the difference between the domestic and world price multiplied by volume of production.

The Community's position can thus be summed up by the following three points:

a) taking aggregate measurements of support into account;
b) reducing the AMS for a series of main products (cereals, rice, sugar, oilseeds and animal products) by 30% over 10 years starting in 1986; and
c) rebalancing external protection by 'tariffication' (the institution of customs duties on imports imports of oilseeds and cereal substitutes, which were unprotected products, whereas the sectors that were subject to variable duties and charges were well protected).

The United States and Europe tried to narrow the gap in a compromise, called the 'Hellström compromise' proposed at the Heysel Conference in Brussels in December 1990. However, their respective points of view proved irreconcilable and the Heysel Conference, which was supposed to have wrapped up the Uruguay Round, ended in failure.

3. The Dunkel compromise

On 20 December 1991 Arthur Dunkel, the then Secretary–General of GATT, presented a 'Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations'. When it came to agriculture, this draft final act was actually another attempt at reaching a compromise. The broad lines of this proposal can be summarized as follows:

a) a 20% reduction in the AMS compared with their 1986–88 levels (these reductions concerned both CAP and US aid, but not income support that was not linked to production);
b) a 24% reduction in volume and 36% reduction in budgetary terms in export subsidies compared with their 1986–90 levels;
c) better market access for imports through a tarification scheme (with a conditional safeguard clause), reductions in customs duties of the order of 36%, and a minimum access right of 5% of the consumer market, taking 1986–90 as the reference period.

The Dunkel document also contained a text on animal and plant health measures (often used improperly for protectionist ends) which defended the principle that all such measures must be founded on scientific proof.

The Community could not accept Mr Dunkel's proposals for the following reasons, broken down by the now well–known three major areas of negotiation:

a) Domestic support

While supporting the general idea of the proposal with regard to domestic support, the Community could not accept that the measures designed to compensate for losses of income that were included in the CAP reform measures then under discussion (see point 4) be included among the categories of support due for the axe.

b) Export subsidies

The Community was willing to make a specific commitment with regard to subsidized exports, but deemed the 24% reduction to be too high.

c) Market access

While it is true that the Community could accept the general direction of tarification, the Dunkel paper's failure to contain any provisions aimed at restoring market balance (that is to say, measures to stabilize the imports of cereal substitutes) was unacceptable.

In addition, the Community felt it was vital that the utilization of the CAP's various instruments be protected from challenge within the GATT once an agreement on the three negotiating areas was reached. Mr Dunkel's proposals did not give such a guarantee. The Community also considered it indispensable to settle the dispute over its oilseed support system that had flared up in bilateral discussions with the United States (see the boxed text on page 18).

4. The CAP reform

The negotiations had reached a stalemate and the Community was increasingly isolated within GATT, with more and more non–EC countries criticizing its price support policy. This price support policy was the result of the growing imbalances between internal supply and demand for a series of products and the build–up of surpluses linked to these imbalances. The various measures that had been taken in the 1980s to check this tide (milk quotas, stabilizers, etc.) had fallen short of the mark. Farmers' incomes and consumer demand were down, whereas the budget expenditures required for price support were rising. Little by little, the idea that the common agricultural policy had to be overhauled if the Community was to come out of the impasse gained ground.

For more about this reform, the reader should consult the CAP Working Notes on "The CAP Reform and its Implementation". Let us simply recall that the reform adopted in May 1992 rested on the following three main pillars:

a) lowering agricultural product prices;

b) compensating producers for losses of income due to lower prices through direct payments; and

c) controlling production by measures limiting the use of means of production (set–aside policy for arable crops, stocking densities for livestock on grazing land).

The Soya Panel

The oilseeds dispute began in 1988, when the United States lashed out in a GATT panel against Community aid for oilseeds, arguing that the production aids granted to Community oilseed growers cancelled out or reduced the tariff concessions (zero duty on oilseeds) that the Community had accepted in 1962 during the Dillon Round. Given the fact that the United States felt that the reform of the Community's oilseeds scheme that had been enacted in 1991 and according to which the aid was henceforward to be based on acreages and paid directly to the grower, not to the mill, was not enough to put an end to this situation, the US demanded that the panel be reconvened to re–examine the oilseed problem. This panel recommended that the Community correct the situation:

– either by changing its regime for oilseeds;

– or by launching negotiations under Article XXVIII of the GATT (renegotiation of tariff bin–dings).

In June 1992 the GATT Council authorized the Community to start negotiations with all interested countries under Article XXVIII.4. The United States accepted this approach while insisting that, from the US point of view, some changes had to be made to the oilseeds scheme if the dispute was to be settled to everyone's satisfaction.

The main advantages of the reform decisions are as follows:

– The considerable cuts in price incentives for intensive production should lead to decreases in the volumes produced. The gap between internal EC and world prices should narrow, especially for cereals. In the case of oil seeds and protein crops, the internal market prices will be completely tied to world market prices.

– The Community's agricultural products will become more competitive compared with imports. This is vital when it comes to reliance on cereal substitutes in particular.

– The direct income support scheme makes it possible to take account of the social problems plaguing the agricultural sector and maintain a certain level of production, especially in disadvantaged rural areas.

– Together with the social measures that are an integral part of the reform package, the door is open to major environmental and structural improvements in European agriculture.

Finally, if we look at the reform's impact on external relations, which is of major interest to us here, the lower prices and production levels will enable the Community to meet possible commitments in the Uruguay Round's three areas of negotiation, namely, domestic support, market access and export competition. The greater competitiveness of the Community's cereal products, for example, may help to stabilize imports of cereal substitutes.

5. The Blair House Agreement

Although CAP reform was introduced without waiting for the results of the Uruguay Round, it nevertheless changed the thrust of the negotiations. European farmers' main concern was now to obtain the assurance that the direct compensatory payments scheme would not be challenged under the GATT. This meant two things:

a) the exemption from reducing support that was granted to the aid created under the reformed CAP also had to be extended to US deficiency payments (a similar scheme of direct aid for farmers);

b) the only commitment that still had to be got from the Community concerned reductions in its exports.

With the goals now clear, discussions were launched between the United States and the European Community to hammer out a bilateral agreement as a prelude to a final agreement binding all the GATT's Contracting Parties. These discussions culminated in the Blair House Agreement (named after the building in Washington D.C. near the White House where the negotiations took place) that was reached on 20 November 1992.

The substance of the agreement, which included commitments covering a six–year period starting in 1995, may be summed up as follows:

a) Domestic support

The two parties agreed to exempt the direct aid paid by the Community under the reformed CAP from the commitment to reduce the AMS. This made it possible to compensate the Community's farmers for the full amount of the income lost as a result of the planned price reductions.

b) Export competition

The two parties agreed to cut subsidized export volumes by 21% instead of the 24% set forth in the Dunkel compromise. It would thus become possible to meet the commitments that would derive from the eventual conclusion of the Uruguay Round within the framework of the reformed CAP.

c) Market access (fairer market share distribution)

The two parties agreed to launch consultations if imports of cereal substitutes rose to such a point as to jeopardize the results of the cereal market reform.

In addition, the two parties agreed on a text stating that the instruments applied under a country's agricultural policy would not be contested on the grounds of GATT Articles XVI and XXIII (protection of concessions and advantages) as long as the disciplines resulting from the Uruguay Round in the three areas of negotiation were fully observed. This came to be known as the 'peace clause'.

Finally, the Blair House Agreement put an end to the oilseeds dispute. The Community would henceforward apply the set–aside rate resulting from the Community's yearly decision in this respect, based on a total acreage of 5,128,000 ha, with the proviso that the set–aside rate applicable to oilseed crops would not, however, be less than 10%.

Contrary to the United States' initial demands, there would not be any additional ceiling on oilseeds expressed in terms of tonnes of total production. Under the Blair House Agreement, the Community would offer a tariff concession for the import of 500,000 tonnes of maize. The production of oilseed crops for non–food uses (such as bioethanol) on land set aside would be allowed up to a certain level corresponding to a ceiling on by–products from such crops (one million tonnes of meal expressed in soybean meal equivalents, which is the traditional formula for calculating the feed value of various oilseeds). It thus became possible to put an end to a conflict that had plagued the Uruguay Round for four years and, which, in its final phase had brought the two partners to the brink of a trade war.

6. Compatibility?

The Blair House Agreement, bilateral and limited in time as it was, was nevertheless objected to within the Community itself, notably by France and the associations of producers and agricultural co–operatives grouped under COPA/COGECA. Their opposition to the Blair House Agreement can be summed up by one key question, namely, was the agreement compatible with CAP reform?

This was not certain, they argued, notably because the peace clause was not limited in time and the agreement did not include any safeguard measures or any specific provisions to restore market balance (see point 3). They claimed that any GATT agreement that was based on the Blair House Agreement would in the long run weaken external protection and lead to the dismantling of the system of Community preference, and that Community market organizations that had not yet been reformed such as the wine and fruit and vegetable sectors, would be particularly hard hit. Consequently, they argued, such an agreement would require more stringent production limits than those expected under CAP reform, which would have to be tightened up accordingly.

The result was a lengthy, often arduous, highly technical debate between those who felt the terms of the Blair House Agreement were compatible overall with CAP reform and those who adamantly deemed them irreconcilable with CAP reform. Friends and foes made forecasts, calculated long–term incidences, and examined myriad hypotheses. Finally, the Council of Minister's Special Agriculture Committee meeting convened in March 1993 concluded that the two would be compatible if a certain number of assumptions made by the Commission were borne out, namely:

- if the definition of aggregation for purposes of calculating market access that had been proposed by the Commission was adopted;
- if cereals' harvests remained stable or increased by no more than 1% a year;
- if the use of Community grain in animal feeds increased by 12 million tonnes;
- if 15% of the Community's arable land was taken out of production ('set aside') for the entire period;
- if the quotas in the milk sector were reduced by 2%;
- if the safeguard clause in the sugar sector was applied without limitations, provided that the conditions for its application were met;
- for the application of the peace clause, if the level of support chosen in 1992 for granting aid, including in the sectors that had not yet been reformed, was respected;
- if meat other than red meat could be exported without export refunds; and
- if a significant amount of the Community's existing stocks could be disposed of before the agreement went into effect.

The Community would thus have to continue to negotiate firmly with the United States to get all the guarantees it required for a final agreement on tariffs and trade that would not be detrimental to European agriculture.

In September 1993 the joint 'jumbo' Council of EC Foreign and Agriculture Ministers asked the Commission to clarify – without reopening the entire Blair House package – certain points with the American negotiators with a view to wrapping up the GATT negotiations on agriculture. These included the peace clause, the safeguard clause, cereal substitutes, assessment of commitments at the end of the agreed period, aggregation, disposing of stocks, and world market growth. In asking for these clarifications the jumbo Council also reasserted the CAP's founding principles, namely its permanent character, Community preference and the need to uphold the Community's role as an exporter.

Following discussions between the EC Commissioner for Agriculture, René Steichen, and his American counterpart, Mike Espy, the Community made significant progress on all of these issues. (These breakthroughs are reflected in the results of the Final Act, which are described in the next section.) The United States accepted, in particular, the extension of the six–year term of the safeguard clause set out in the Blair House Agreement by another three years. In addition, the principle of the peace clause's continuation in the event of an agreement to revise the new provisions in the GATT Agreement on Agriculture was confirmed. It is perhaps worthwhile remembering that the peace clause protects the Community from actions taken under the GATT that try to undermine the CAP's foundations. Such an achievement was thus a great victory, since it was the first time that the GATT recognized the CAP's mechanisms and granted them legal protection at the same time as indispensable international security.

At the end of this last round of negotiations with the United States the Commission felt that the overall result, which was clearly more favourable than the improvements over the Dunkel compromise that had already been won in the Blair House Agreement, was balanced and likely to satisfy the Community. What is more, it was compatible with CAP reform.

The reform's basic assumptions as to a lowering of production and greater reliance on domestic cereals were starting to be borne out. The EC's total cereals harvest in 1993 was less than 165 million tonnes, that is, more than a million tonnes below that forecast when the reform was adopted. This figure should be compared with the 181 million tonnes harvested in 1991. The acreage under cereals was 32.7 million ha, also below the reform's target of 33.3 million ha for the first year. What is more, roughly an additional 5 million tonnes of Community cereals would be incorporated into animal feed by the end of the year, whilst Community imports of grain stabilized at around 3.5 million tonnes.

In actual fact, the forecast figures that had been produced to try to pursuade everyone that the amount of land set aside would have to be doubled as a result of the GATT agriculture provisions were based on the expected failure of the reform and the equally mistaken assumption that the Commission would bow to US market access demands. But the opposite happened, since the Commission managed to consolidate Community preference and keep the reform on track.

A multilateral agreement based on the breakthroughs achieved by the Commission in its discussions with the US will not require any additional efforts by European farmers beyond the reform's demands.

7. The Agreement

After seven years of thorny negotiations, the Uruguay Round ended in Geneva on 15 December 1993 with an agreement involving 117 countries (113 of the 114 signatories to the GATT and four observers, including China). This agreement, called the 'Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations', was signed officially at the Ministerial Conference in Marrakesh on 15 April 1994. It is to be implemented over a six–year period starting no later than 1 July 1995.

In this document we shall consider only the agricultural provisions of the Final Act, called the 'Agreement on Agriculture'. This agreement contains some forty pages of legal – that is, complicated – text, including the appendices. We shall try to sum up its provisions according to the three main themes that have run through the entire round.

7.1. *Domestic support*

Domestic support for agriculture, calculated in aggregate measurements of support (see page 15) will drop by 20% compared with the 1986–88 reference period. The support granted under the reformed CAP is excluded from the total AMS (see point (b) below). Moreover, by lowering intervention prices for cereals and beef, the CAP has already brought the Community's total aggregate AMS below this reduction target (see Table 1 in the appendix). (There is a risk that intervention prices will rise due to an agrimonetary effect, but this risk has been lessened by the Council decision of December 1993 making intervention price rises less dependent on changes in 'green' currency rates.)

Some types of support (most direct payments) are not covered by reduction commitments. In the following list we have put them into either the 'green box' (aid that has no effect on trade or production and is totally exempted from reductions) or the 'blue box' (aid linked to limiting production and thus exempted under certain conditions[1]).

a) Green box

- research,
- pest and disease control,
- training services,
- extension and advisory services,
- inspection services,
- marketing and promotion services,
- infrastructure services,
- public storage for security of food supply,
- domestic food aid,
- decoupled income support, that is, income support not tied to production and yields,
- income insurance and income safety–net programmes,
- natural disaster relief payments,
- cessation of activity,
- adaptation of agricultural structures,
- payments under environmental programmes,
- payments under regional assistance programmes (for less–favoured regions).

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1 The so–called "yellow box" consists of price supports, that is, aid that has an effect on trade. That is the type of aid that is targeted by reduction commitments. (Some price supports are nevertheless exempted from reductions in the case of developing countries.)

b) <u>Blue box</u>

- acreage– and fixed–yield–related aid,
- aid not exceeding 85% of the baseline production level,
- livestock aid granted for a fixed number of livestock units.

The direct compensatory payments devised under CAP reform very clearly meet the 'blue box' criteria and are thus exempted from all commitments to reduce support under the GATT. If the reformed CAP aids comply with these criteria and do not, for a given product, exceed the support granted to this product during the 1992 marketing year, they will be protected from attack under GATT rules for nine years (the six–year implementation period that starts in 1995 plus three years). This is the famous 'peace clause' mentioned earlier (see pages 20 and 21).

7.2. *Export subsidies*

Export subsidies will be reduced by:

- 21% by volume and
- 36% *ad valorem.*

These reductions must be effected over six years and will be calculated with regard to the 1986–90 reference period. However, there is a certain amount of leeway in choosing the reference period since, while the targeted 21% reduction by volume holds fast, 1991–92 may be used as the reference period if the mean level of subsidized exports over this period is higher than that of 1986–90 (for beef, which reached exceptionally high export levels in 1991 and 1992, the baseline amount for calculating the reduction will be the mean for 1986–92). Choosing a more recent reference period allows one to make smaller reductions in exports at the start of a period. The advantages of such a 'frontloading' arrangement for the European Union are not negligible. It will enable the European Union to export the following additional amounts over the implementation period compared with the amounts that would have been authorized under the Blair House Agreement:

– wheat and wheat flour	8,116,000 tonnes
– cheese	102,000 tonnes
– other dairy products[1]	44,000 tonnes
– beef and veal	362,000 tonnes
– poultry	253,000 tonnes
– eggs	16,000 tonnes
– tobacco	156,000 tonnes

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1 Except for butter and skimmed milk powder.

The Commission managed to get exports of Spanish and Portuguese wines included in the 1986–90 base period calculation, thereby increasing the Community's authorized subsidized wine exports over six years by 4.4 million hl above the Blair House figure.

It should be noted that the additional volumes of wheat and wheat flour amount to one third of the Community's current cereal stocks. In the case of beef and veal, the increase amounts to close to 65% of current stocks.

A similar system will apply to budget outlays with regard to the choice of the reference period and level of commitment at the end of the implementation period, the ultimate goal being to reduce budgetary outlays for export subsidization by 36% (taking the 1986–90 period as the reference).

The following points also deserve to be highlighted:

a) The reductions will be made in a linear fashion, i.e., line by line by year and by product category. This means that the reductions will be made:

– *year by year*, albeit benefiting from an annual tolerance of 1.75% in terms of volume and 3% *ad valorem* over the target level; however, the cumulative commitments over the years must be kept; and

– *category by category*, agricultural exports being divided into twenty categories, so that reductions will concern butter, skimmed milk powder, cheese and other dairy products separately rather than all dairy products as a whole (see Table 2 in the appendix);

b) *processed products* will escape the obligation of reduction in budget terms only;

c) *developing countries* are committed to reducing subsidized exports by 14% in terms of volume and 24% in terms of budget outlays, instead of 21% and 36%, respectively, for all other countries;

d) *food aid* is exonerated from subsidized–export reduction commitments, provided that it is not linked to commercial exports;

e) current *stocks* must be disposed of on the world market before the Final Act goes into force. After that, their release onto the market will be considered subsidized exporting and thus subject to the terms of the Final Act; and

f) *unsubsidized exports* are not concerned by the Final Act.

The commitments to reduce subsidized exports apply to the following types of export subsidization:

- direct subsidies (including payments in kind) paid to a company, branch of production, producers of agricultural products, an association of such producers or a sales office and that are contingent on export results;
- exporting of non–commercial stocks at prices below domestic market prices (dumping);
- export subsidization of a product that is financed by a levy on the product or its derivatives;
- product subsidies that are contingent on the products being incorporated into exported products;
- subsidies designed to reduce the marketing costs of exports; and,
- domestic transport and freight rates for shipping goods for export that are more favourable than the terms applied to domestic market shipments.

During the implementation period developing countries are not bound to reduce the last two types of subsidies.

7.3. *Market access*

We have already seen that the key to market access is the *tariff* system. Just as a reminder, tariffication (one of the basic principles of the GATT) consists of converting all mechanisms of protection at the border into fixed tariffs (customs duties). For European farmers this means that the current system of variable duties and charges will be replaced by a tariff system. Up until now, the combination of import levies and export refunds has been the lynchpin of the Community preference system, which itself is one of the pillars of the Common Agricultural Policy (see the boxed text on page 10). Thus, the market liberalization aimed at by the GATT means that the entire philosophy of Community preference must be rethought.[1] In other words, the European Union had vital interests at stake and had to fight determinedly throughout the Uruguay Round.

This determination paid off and, as we shall see, the European Union, far from abandoning the principle of Community preference, has simply adapted it to the new rules of international trade and can feel satisfied about the Agreement on Agriculture overall.

The GATT's market access rules consist of various elements that we shall examine one by one below.

1 The levy on non–EC imports was paid by the importer and was equal to the difference bet ween the entry price at the border (threshold or reference price, which was set annually) and the world market price for the product. It was said to be 'variable' because it rose when the world market price fell and decreased when the world market price rose.

a) <u>Tariffication</u>

All measures of protection at the border will be turned into fixed customs duties called 'tariff equivalents'. These tariff equivalents will be reduced by 36% over six years (24% over ten years for the developing countries). This rate of reduction is the mathematical mean for the entire set of tariff equivalents; the product–specific reductions will vary, with the minimum set at 15% (see Tables 3 and 4 in the appendix). The reference period is 1986–88.

For the European Union, the tariff equivalents for 1995 correspond to the difference between the mean entry prices at the border and mean world market prices in 1986–88. We thus see that the only difference with regard to the variable levies is that the tariff equivalents are fixed. This is where the safeguard clause comes into play (see the graph in the appendix).

b) <u>Safeguard clause</u>

The safeguard clause (see Chapter I, Point 7) may be applied if the import volume exceeds a specific threshold level or import prices fall below a certain level. In each case, which will be described below, additional duties may be applied.

Rise in the volume of imports:

The threshold that triggers application of the safeguard clause is:

– 125% of the mean volume of imports (1986–88) when a product's market access possibilities[1] are less than or equal to 10%;

– 110% of the mean volume of imports (1986–88) when a product's market access possibilities are greater than 10% but less than or equal to 30%; and

– 105% of the mean volume of imports (1986–88) when a product's market access possibilities are greater than 30%.

Any additional duty will be maintained only until the end of the year in question and may not exceed one–third of the customs duty normally applied.

---

1 Defined as the volume of imports as a percentage of domestic consumption over the previous three years.

Falling import prices:

The safeguard clause may be applied if the import price drops below the trigger price, that is, the mean reference price for 1986–88. In this case, an additional duty may be applied as follows:

- if the difference between the import price and the trigger price is less than or equal to 10% of the trigger price, no additional duty will be applied;
- if this difference is greater than 10% but less than or equal to 40%, the additional duty will be equal to 30% of the portion above the 10% cutoff;
- if the difference is greater than 40% but less than or equal to 60%, the additional duty will be 50% of the portion above the 40% cutoff plus the duty authorized in the preceding indent;
- if the difference is greater than 60% but less than or equal to 75%, the additional duty will be 70% of the portion above the 60% cutoff plus the duties authorized in the two preceding indents;
- if the difference is greater than 75%, the additional duty will be 90% of the portion above the 75% cutoff plus the duties authorized in the three preceding indents.

The case of cereals is special in that the difference between the import price and intervention price may not exceed 55% of the intervention price. As the tariff equivalents in the cereals sector are sufficiently high and intervention prices have been sufficiently reduced by CAP reform, the differential remains great. In this way Community preference is preserved.

c) Minimum access

With a view to greater opening of markets, the agreement provides that each signatory country must open up market shares for third countries. The market shares made available for imports in this manner will be 3% of reference period consumption for each group of products (reference period = 1986–88). This figure will be raised to 5% by the end of the six–year implementation period.

This is not an obligation to import, but the granting of a reduced customs duty – 32% of the basic duty, which is itself subject to reduction (see point a) above) – for this quantity of imports. It should be added that the minimum access does not apply to the sectors that are not subject to tariffication, such as fruit and vegetables and wine in the case of the European Union.

In the case of minimum access, like the case of export subsidization, the US (followed by most of the other negotiating parties) finally acceded to the Community's insistent demand with regard to *aggregation*, i.e., considering groups of products rather than isolated products (see Table 5 in the appendix).

d) Current access

The import tariff concessions granted before the agreement's entry into force must be maintained at least at their 1986–88 levels.

e) Rebalancing the market

The consultation clause that applies if Community imports of cereal substitutes rise has been improved. Such consultations will take place with a view to finding a mutually acceptable solution if the level of cereal substitute imports rises above the 1990–92 mean.

*

Agriculture was definitely the trickiest area of negotiation for the European Union throughout the Uruguay Round. The outcome is nevertheless satisfactory, as the Union has achieved two of its main objectives, namely:

– a better balance of supply and demand on the world agricultural commodities markets; and

– compatibility of the GATT rules with the EU's reformed CAP structures.

The results of the Uruguay Round give the European Union enough room for manoeuvre to manage its own internal policies. Its market access commitments do not infringe on the principle of Community preference and new possibilities have been opened up to European exporters. Its export commitments are compatible with the 1992 CAP reform, whilst the peace clause puts the European Union out of danger of any attacks that non–EU countries may make on its agricultural policy.

So, an important result of the Uruguay Round is that, for the first time, the principle mechanisms of the CAP are safe from bilateral attack and if concessions are withdrawn, this will be done in accordance with multilateral rules.

IV. The World Trade Organization

The Final Act that was signed in Marrakesh also includes an 'Agreement establishing the World Trade Organization'. This World Trade Organization (WTO) is supposed to replace GATT and strengthen the institutional framework that presides over world economic relations. The WTO's creation is testimony that the European Union and the Organization's other members are committed to having a multilateral trade system that is both more open and more regulated. The aim is to get its members to settle their trade differences multilaterally within the WTO rather than bilaterally, or even unilaterally.

The WTO will provide a single institutional framework encompassing the GATT, all of the agreements reached under its auspices and the complete results of the Uruguay Round, including the General Agreement on Trade in Services (GATS), the Agreement on Trade–Related Aspects of Intellectual Property Rights (TRIPs) and, obviously, the Agreement on Agriculture. It will be headed by a Ministerial Conference that must meet at least once every two years. Its members will have to abide by the results of the Uruguay Round in accordance with the principle of the single package ('all or nothing').

The agreement establishing the WTO also contains a binding provision whereby its members must align their national legislation with the agreements that constitute the WTO's structural components. This also limits the possibilities of unilateral action.

The result is an institutional framework that will guarantee that the dismantling of trade barriers will be followed by real, lasting market access.

This agreement also enhances the world trade system's status, enabling the WTO to co–operate with the International Monetary Fund and World Bank. The result will be a more consistent approach to international economic policy.

CONCLUSION

The signing of the 'Final Act Embodying the Results of the Uruguay Round' by the participants in the Ministerial Conference in Marrakesh on 15 April 1994 formally marks the end of the most ambitious undertaking of liberalization in the history of world trade. The 2643–day Uruguay Round came to a close with agreement over reducing customs duties, opening up markets and extending international rules to new areas of cross–border economic activity. As in the case of the earlier GATT rounds, the European Union was a key player.

GATT and OECD experts calculate that eliminating trade restrictions will cause a surge in world trade worth ECU 240 billion. According to the European Commissioner responsible for External Economic Relations, Sir Leon Brittan, the overall impact of this move will be considerable. There is no question that any improvement in world trading conditions will have a major effect on the European Union's economy, given that the European Union is now the world's leading trading partner.

The European Union accounts for 20% of world exports of goods and 30% of world exports of services. Exports of goods and services account for about 25% of the European Union's gross domestic product (GDP). According to Sir Leon, the European Union can expect a one–time boost in GDP as a result of the Uruguay Round's achievements of the order of ECU 65 billion that should lead directly to the creation of several hundred thousand jobs across the European Union.

Sir Leon listed six major achievements of the Uruguay Round, namely:

1) establishment of the primacy of the open market;

2) reinforcement of the multilateral rules and procedures for dispute settlement;

3) the inclusion of new economic sectors, such as services, in world trade;

4) the creation of a new body, the World Trade Organization, to take over from the GATT and take on a stronger international trade monitoring role;

5) the reaching of a consensus in favour of major reductions in the import duties on industrial goods, which should be cut some 40% on average (37% in the case of the European Union); and,

6) a system of international agricultural trade that is both more responsive to the laws of supply and demand and compatible with the European Union's Common Agricultural Policy.

All the participants in the Marrakesh Ministerial Conference agree that we have crossed the threshold of a new era in international trade co–operation.

APPENDIX

Tables of European Union commitments

Table 1

Aggregate measurements of support for the main sectors

(in million ECU)

	Base year 1986–1988 (a)	Budget spent since 1986 (b)	Reduction – 20% (a – 20% + b)	Price drop due to CAP reform
Total AMS cereals	31,611	237	25,526	11,101
Total AMS livestock	27,266	1,263	23,076	19,698
Total AMS other products	20,422	152	16,490	20,422
Total AMS all products	79,299	1,652	65,091	51,221

Source: CEC

Table 2

Reductions in subsidized exports(1)

	Subsidized Exports			Reduction 1991–92/2000 % (2)
	1991–92	1995	2000	
Wheat and flour	20,255	19,118	13,436	– 34%
Feed grains	12,199	12,183	9,973	– 18%
Rice	173	177	145	– 16%
Rapeseed	–	97	79	–
Olive oil	112	143	117	–
Sugar	1,299	1,560	1,277	– 2%
Raw tobacco	205	190	128	– 38%
Fresh fruit and vegetables	1,039	1,108	907	– 13%
Processed fruit and vegetables	190	194	166	– 13%
Wine	2,954	2,980	2,433	– 18%
Alcohol	1,185	1,407	1,147	– 3%
Skimmed milk powder	254	297	243	– 4%
Butter and butteroil	273	447	366	–
Cheese	427	407	305	– 29%
Other milk products	1,208	1,161	938	– 22%
Beef and veal	1,324	1,119	817	– 38%
Pigmeat	490	491	402	– 18%
Poultrymeat	470	440	291	– 38%
Eggs	112	107	83	– 26%
Processed products	No reductions in volume but reductions in budget outlays			

Source: CEC

(1) Figures are in thousand tonnes with the exception of wine and alcohol where they are in thousand hectolitres.

(2) 1986–90/2000 = – 21%.

Table 3

Tariff reductions

Products	6–year reduction compared with 1986–1988 reference period
Sugar, beet pulp, olive oil, wine and tobacco	– 20%
Skimmed milk powder	– 20%
Processed foods containing sugar or skimmed milk powder	– 20%
Asparagus, grapes and apples	– 36%
Other fruit and vegetables	– 20%
Potatoes	– 20%
Turkey	– 50%
Beef liver and pork liver	– 100%
All products subject to a maximum tariff of 4% (except fruit and vegetables)	– 100%
Other products	– 36%

Source : National Farmers' Union (NFU Briefing International 1/94).

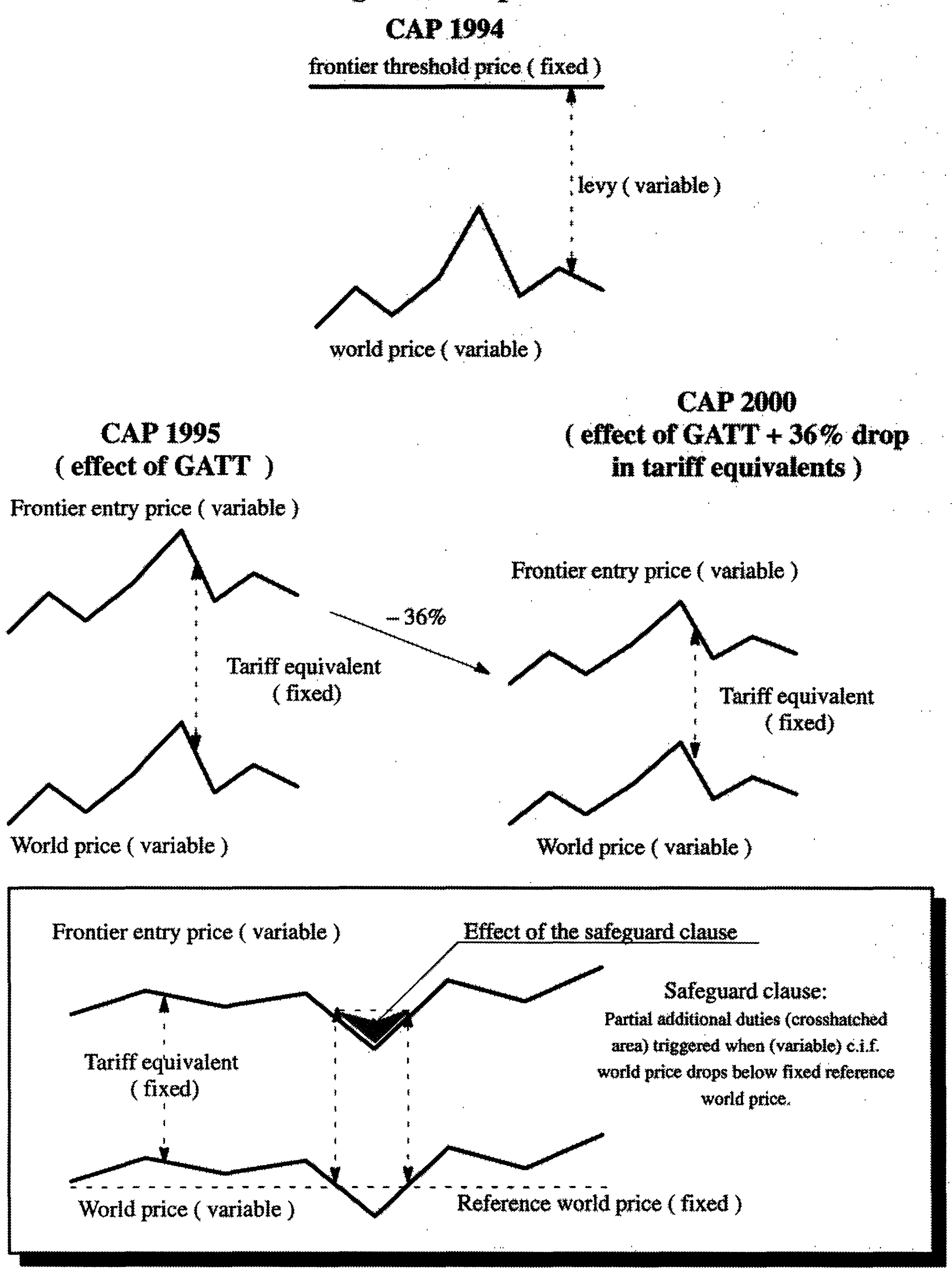
Table 4

Basic tariffs for some agricultural products (slated for a 36% decrease over 6 years)

Products		Basic tariffs in % + ECU/tonne
Live animals		16 + 1,454
Bovine carcasses, fresh and frozen		20 + 2,763
– Fore quarters		20 + 2,210
– Hind quarters		20 + 3,454
Pig carcasses		838 ECU/tonne
Sheep carcasses:	– fresh or chilled	20 + 2,677
	– frozen	20 + 2,013
Live poultry		0.081 ECU/bird
Fresh chickens:	– 83%	410 ECU/tonne
	– 70%	467 ECU/tonne
	– 65%	508 ECU/tonne
Butter:	– less than 85% fat	2,692 ECU/tonne
	– other grades	3,614 ECU/tonne
Cheddar cheese		2,611 ECU/tonne
Sweet potatoes and manioc (cassava)		6 + 148 ECU/tonne
Wheat		149 ECU/tonne
Barley		145 ECU/tonne
Wheat flour		268 ECU/tonne

Source: National Farmers' Union (NFU Briefing International 1/94).

Transformation of the customs mechanisms governing agricultural products



Source: APCA (supplement to No 818 of "Chambres d'Agriculture", January 1994).

Table 5

Market access commitments

(tonnes)

Products	Current access	Minimum access
Wheat	–	300,000 (1)
Maize, sorghum	2,300,000	500,000 (1)
Brans	475,000	–
Sugar (cane or beet)	1,565,000	–
Mushrooms	62,660	–
Sweet potatoes and manioc	6,857,390	–
Bananas	2,000,000	–
Citrus fruits	45,000	–
Cheeses	15,250	104,000 (2)
Butter	76,667	10,000 (2)
Skimmed milk powder	–	69,000 (2)
Live cattle	194,000 head	–
Beef and veal	151,050	20,000 (2)
Pigmeat	–	75,600 (2)
Live sheep and goats, sheep– and goatmeat	319,875	–
Poultry	–	29,000 (2)
Eggs	–	208,000 (2)

Source: CEC

(1) Quota applicable as of the start of the implementation period under the oilseeds agreement.

(2) Quota applicable at the end of the implementation period.

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