

## Special Article

## Uruguay Round Agreement on Agriculture: The Record to Date

During the 3 years since initial implementation of the Uruguay Round Agreement on Agriculture (URAA), the record is mixed. The Uruguay Round's overall impact on agricultural trade can be considered positive in moving toward several key goals, including reducing agricultural export subsidies, establishing new rules for agricultural import policy, and agreeing on disciplines for sanitary and phytosanitary trade measures. The URAA may also have contributed to a shift in domestic support of agriculture away from those practices with the largest potential to affect production, and therefore to affect trade flows. However, significant reductions in most agricultural tariffs will have to await a future round of negotiations.

The Uruguay Round of Multilateral Trade Negotiations, completed in 1994 with the signing of the Uruguay Round Agreements at Marrakesh, created the World Trade Organization (WTO) to replace the General Agreement on Tariffs and Trade (GATT) as an institutional framework for overseeing trade negotiations and adjudicating trade disputes. The Uruguay Round extended GATT/WTO rules of trade to new areas, such as intellectual property and services. Among the most significant accomplishments of the Uruguay Round was the creation of new disciplines on agricultural trade policy, to be implemented over the period 1995-2000 (1995-2004 for developing countries).

Until the Uruguay Round, agriculture had received special treatment under GATT trade rules through loopholes, exceptions, and exemptions from most of the disciplines that applied to manufactured goods. As a result, the GATT had allowed countries to use measures such as agricultural export subsidies, which were disallowed for other sectors, as well as a multitude of nontariff barriers that restricted trade in agricultural products.

Because of the predominance of nontariff barriers in agricultural trade, trade in agricultural products was largely unaffected by the previous rounds of cuts in tariffs on industrial products. Participants in the Uruguay Round continued the GATT's special treatment of agricultural trade by agreeing to separate disciplines on agriculture in the Agreement on Agriculture (URAA), but initiated a process aimed at reducing or limiting agriculture's exemptions and bringing it more fully under GATT disciplines.

Under the URAA, countries agreed to reduce agricultural support and protection substantially by establishing disciplines in the areas of market access barriers (trade restrictions facing imports), domestic support (subsidies and other programs that raise domestic agricultural prices and farm income), and export subsidies. These three sets of disciplines on agricultural policy are sometimes referred to as the "three legs of the stool" which, in an interdependent and mutually reinforcing way, support the liberalization of agricultural trade sought in the URAA.



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In addition, the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) established rules to prevent countries from using arbitrary and scientifically unjustifiable health and environmental regulations as disguised barriers to trade in agricultural products. And a new process for settling disputes among WTO members, agreed to during the Uruguay Round, holds promise for improvements in the resolution of trade disputes involving agricultural products. The SPS Agreement and the new Dispute Settlement Understanding have brought formerly insoluble trade disputes under the WTO's umbrella and may generate unilateral reform, although problems with compliance may continue, as under previous agreements.

Despite the Uruguay Round's radical revision of the rules governing agricultural imports, the new rules have achieved only limited reduction in effective protection. The guidelines for establishing new tariffs, tariff reductions, and tariff-rate quotas were sufficiently general to allow members considerable latitude in their implementation, and many countries have manipulated details of the agreement to limit the implications of the new rules for their own agricultural sectors.

### *Market Access—Room To Maneuver*

Under the market access disciplines of the URAA, all nontariff barriers (NTB's) were banned, including quantitative import restrictions, variable import levies, and all other border measures other than ordinary customs duties. NTB's were converted to ordinary tariffs (a process called "tariffication"), and all

preexisting and new tariffs were to be bound—i.e., set through a GATT/WTO negotiation, with the country subject to a penalty if raised—and subjected to a schedule of reductions. Tariffs created by conversion of NTB's were constructed based on the difference between internal market prices and world market prices for each product. This process resulted in very high tariffs, or “megatariffs,” for some products.

To avoid any negative impact on trade related to tariffication, quotas were set to assure that historical trade (current access) levels were maintained, and minimum import opportunities (minimum access) were established where trade had been minimal. These current and minimum access levels were accomplished by instituting tariff-rate quotas (TRQ's). A TRQ applies a lower tariff to imports below a certain quantitative limit (quota), and permits a higher tariff rate on imported goods after the quota has been reached.

These new disciplines, however, provided for flexibility in implementation, and many countries have found ways to limit impacts on their own agricultural sectors. Latitude in selecting which domestic or world prices to use in constructing new equivalent tariffs from NTB's frequently led to tariffs set at levels that provided greater protection than had previously existed, including some at very high levels.

Guidelines for tariff cuts also provided considerable flexibility to minimize actual cuts in protection. Members agreed to reduce all preexisting and newly created tariffs by a simple average of 36 percent across all tariff lines, but no less than 15 percent for any tariff. By making large cuts in tariffs for commodities that do not compete with domestic production or large percentage cuts in already-low tariffs, the 36-percent average reduction could be achieved with minimal cuts in tariffs on products more sensitive to competition.

Some countries calculated the quota at a broad level of product aggregation, such as “meat” or “dairy products,” and then allocated the total TRQ rather arbitrarily among the sub-products, minimizing trade in import-sensitive commodities. Still others delayed allocating the aggregate TRQ's to individual commodities until the implementation period, which left them the flexibility to set allocations based on market conditions.

In some cases, countries may have adopted within-quota tariffs too high to allow trade to reach the full quota amount. In other cases, countries used relatively large cuts in within-quota tariffs to meet the overall 36-percent reduction requirement. If an original within-quota tariff is already relatively low, allowing the full quota amount to be imported, then such a reduction of the within-quota tariff would not necessarily expand trade.

Distortions produced by disparities among tariffs, among commodities, among countries, and between primary and processed products have also caused concerns about URAA implementation. For example, tariffs for processed products are commonly higher than tariffs for primary products. Such “tariff escalation” can be a significant bias against trade in processed products.

### URAA Calls for Reductions in Ag Sector Support And Protection

Commitments	Developed countries (1995-2000)	Developing countries (1995-2004)
	Percent	
<b>Tariffs*</b>		
Average cut for all agricultural products	36	24
Minimum cut per product (base period 1986-88)	15	10
<b>Domestic support</b>		
Total agricultural support cut (base period 1986-88)	20	13
<b>Export subsidies</b>		
Cut in value of subsidies	36	24
Cut in subsidized quantities (base period 1986-90)	21	14

Membership in the WTO requires that member countries annually provide information on their compliance with commitments, a process called “notification.”

\*Includes nontariff barriers converted to tariffs.

Source: World Trade Organization.

Economic Research Service, USDA

### New Mix of Domestic Policies Reducing Potential Trade Effects

The Uruguay Round recognized that domestic agricultural programs contributed to a large share of the distortions in world agricultural markets. Domestic policies encouraged production beyond levels that would occur otherwise, resulting in displacement of lower cost imports. High support prices, set above world prices, led countries to dispose of excess production on the world market through use of export subsidies or dumping.

The URAA required countries to reduce outlays on programs and policies that provide direct economic incentives to producers to increase resource use or production, such as administered price supports, input subsidies, and producer payments that were not accompanied by limitations on production. Support reductions were implemented by agreed reductions to a country's Aggregate Measure of Support (AMS), a numerical measure that quantifies the economic benefits from those policies considered to have the greatest potential to affect production and trade (AO October 1997).

Under the domestic support provisions of the URAA, governments can continue assisting their agricultural sectors and rural economies through those programs presumed to have the smallest effects on production and trade—the “green box” policies. These include domestic food aid, certain types of income support, research, inspection, natural disaster relief, and other programs like crop insurance, environmental programs, and rural assistance. To be eligible for inclusion in the green box, policies must not act as an effective price support, must “have no, or at most minimal, trade-distorting effects or effects on production,” and must meet other specific criteria that apply to individual programs.

In the original WTO agreement, 26 countries made commitments to reduce domestic support. As of May 1998, 24 countries had

## Special Article

### Reductions in Government Support of Agriculture Exceeded URAA Commitments in 1995

AMS* as percent of 1995 commitment levels	Reporting countries**
<i>Percent</i>	
0 - 19	Canada, Colombia, Czech Republic, Hungary, Mexico, Morocco, New Zealand, Poland
20 - 39	Australia, U.S.
40 - 59	Slovak Republic, Venezuela
60 - 79	Cyprus, European Union, Iceland, Japan, Norway, South Africa, Thailand
80 - 100	Brazil, Korea, Slovenia, Switzerland, Tunisia

\* The AMS (Aggregate Measure of Support) is a numerical measure of the support provided to producers from both budgetary outlays and revenue transferred from consumers as a result of policies that affect market prices.

\*\* As of June 1998, Costa Rica and Israel had not yet notified. Papua New Guinea and Bulgaria joined the WTO after the Agreement on Agriculture was signed and were not required to notify on their 1995 domestic supports.

Source: World Trade Organization.

Economic Research Service, USDA

notified the WTO of their compliance with these commitments. An analysis of these notifications shows that all countries reporting their 1995 support levels are meeting their commitments to reduce trade- and production-distorting subsidies from the 1986-88 base level agreed to in the URAA. Most countries reduced this support by more than the required amount.

Among the countries notifying the WTO about their 1995 domestic support, the value of support, as measured by the AMS, has decreased significantly. Total value of support from these policies in 1995 was \$115 billion, about 60 percent of the level in the 1986-88 base period. However, countries could exempt production-limiting programs that base payments on fixed rather than actual production. Including these payments would show a smaller decline in domestic support.

How did compliance move so rapidly? Although some of the decline in the AMS has occurred simply because the domestic support levels in the 1986-88 base period were high, some has also been the result of policy changes undertaken by several countries since 1986-88. There is now less reliance on price support and more reliance on direct payments and green box policies. The European Union's (EU) reform of its Common Agricultural Policy (CAP) from 1992 to 1995, for example, reduced support prices and increased producer payments that are linked to production-limiting programs; Japan has reduced administered prices or held them constant since 1986-88; and the U.S. undertook important reforms under both the 1990 and 1996 Farm Acts that reduced the amount of direct payments included as part of the AMS and increased the amount of direct payments counted as part of the green box policies.

While support from policies believed to have the greatest effects on production and trade has declined in many countries, support from green box policies has increased by 54 percent from 1986-88 to 1995. Most of the \$127 billion in expenditures on green box policies went for domestic food aid, infrastructure services, other general government service programs, and investment aids for disadvantaged producers. These expenditures can be consid-

ered to have a relatively small effect on agricultural production and trade.

Changes in the mix of domestic policies away from reliance on AMS policies and toward more green box policies might lead to expectations that related effects on production and trade may also have become smaller. However, in order to guarantee increased world market orientation, complementary reforms in trade policies must also take place. And the question of whether all programs reported in the green box have no significant production effects bears further investigation.

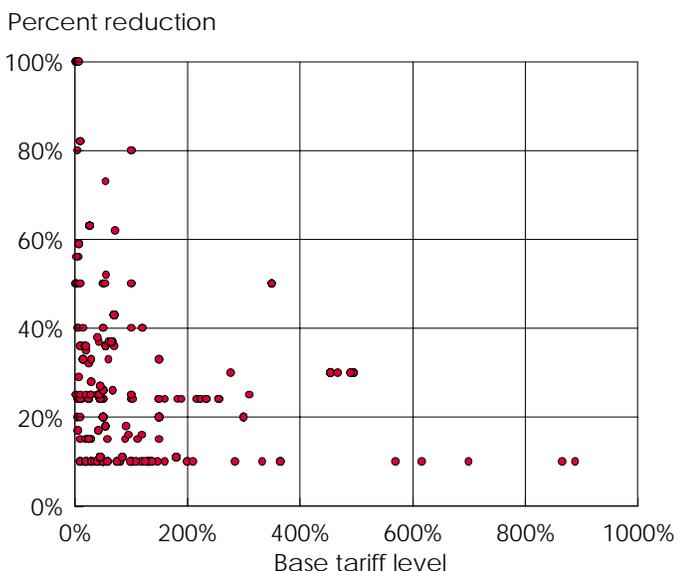
#### *Meeting Commitments To Reduce Export Subsidies*

Disciplining export subsidies, which are used by countries to bridge the gap between high domestic prices and lower world market prices, was one of the URAA's most significant accomplishments. Export subsidies distort agricultural trade by contributing to weakness in world market prices, by interfering with the advantage of low-cost producers competing in export markets, and by raising the market share of high-cost producers.

In the URAA, countries agreed to cuts in both the volume of subsidized exports and the expenditures on export subsidies. Of the 25 countries that have commitments to cut export subsidies, the EU by far employs the most. The EU accounted for nearly 84 percent of the \$7.6 billion of export subsidies reported to the WTO for 1995 and roughly the same share of the \$8.4 billion reported for 1996. The U.S. ranked ninth overall in export subsidy expenditures in 1995 and fourth in 1996, following the elimination of export subsidies by a number of other countries and higher U.S. dairy export subsidies.

Nearly all of the 25 WTO member countries with export subsidy commitments have submitted notifications for 1995 and 1996. High world grain prices kept most countries' use of export subsidies well below their WTO commitments in both years, in volume and in value. The EU even imposed taxes on grain exports.

### Countries Agreed To Cut Lowest Tariffs More, Higher Tariffs Less



Grain tariffs for selected countries.  
Source: World Trade Organization.  
Economic Research Service, USDA

Among countries that exceeded their commitments in 1995, export subsidies generally were well within commitment levels in 1996. Two of the three countries exceeding volume commitments in 1996 claimed the right to carry over “unused” portions of their 1995 commitments to make up for the 1996 overrun. In response, other countries argued that flexibility provisions in the agreement were meant only to allow a country to pay back when it exceeded its limits, not as an opportunity to “bank” unused subsidies.

Despite the relatively satisfactory record of compliance with export subsidy commitments, the waivers and circumventions that may undermine the substantial export subsidy disciplines of the URAA are a concern to many WTO members. Hungary, for example, obtained a waiver from its export subsidy commitments, which it argues were miscalculated, and some members believe the EU and Canada instituted export marketing policies that allow them to circumvent their subsidy commitments. The EU, for example, claims the right to export processed cheese that would otherwise exceed WTO commitment levels by applying export subsidies available for component ingredients—skim milk powder and butterfat—that are well below WTO commitment levels.

Canada’s two-tier price system for milk, established in 1995, prices milk cheaper when used in exported manufactured dairy products than when used domestically. Canada’s milk pricing system has drawn complaints that it allows circumvention of export subsidy commitments because exports under this program have not been reported to the WTO. The U.S. and New Zealand are challenging Canada’s policy through the WTO’s dispute settlement mechanism.

So far, very few countries have changed their policies substantially to conform with their export commitments. The combination of strong grain markets in the years thus far reported, and the high base levels from which cuts were required, have permitted most countries to accommodate required reductions under their current policies. However, as export subsidy allowances decline in later years of the agreement and as market prices decline, some countries may have to adopt policy changes to comply.

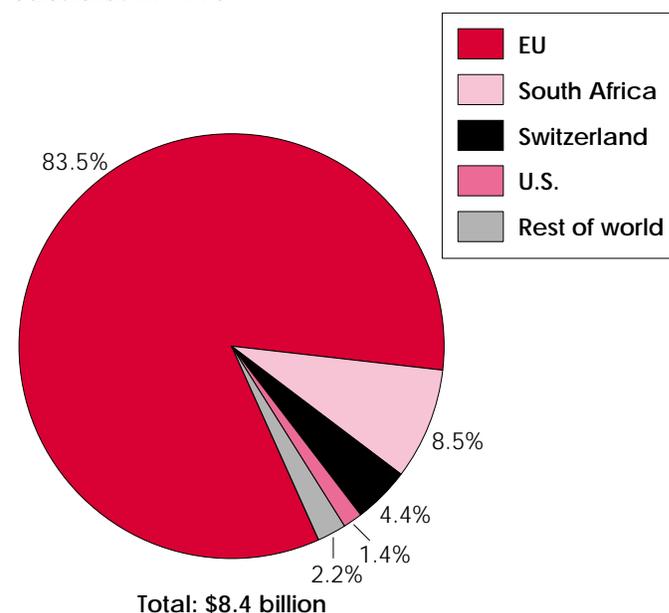
### SPS Agreement— Protection from Risk, Not Obstruction of Trade

Some of the most important new disciplines affecting trade in primary and processed agricultural products are found in the WTO’s SPS Agreement. Sanitary and phytosanitary measures regulating the movement of products across international borders are necessary to protect the public health and/or the environment from pests, diseases, and contaminants. However, these measures can also be used to obstruct trade opportunities created by other trade liberalization policies.

In the Uruguay Round, separate disciplines were negotiated for SPS measures for the first time. Prior to the Uruguay Round, disciplines on the use of SPS measures were ineffective—no SPS measure had been successfully challenged before a GATT dispute settlement panel, and several prominent disagreements over SPS measures in the 1980’s remained unresolved.

The SPS Agreement recognizes the sovereign right of WTO members to adopt SPS measures to protect the life or health of humans, animals, or plants, but requires these measures to be based on a risk assessment. Measures based on international

### European Union Accounted for Most Ag Export Subsidies in 1996



Source: World Trade Organization.  
Economic Research Service, USDA

## Special Article

## New Dispute Settlement Process: Early Reviews Favorable

The Uruguay Round addressed a shortcoming of the GATT dispute settlement process that had presented serious problems for agricultural trade—the weakness of the process in enforcing existing rights and obligations. Under the old GATT system, any country could “block” the creation of a dispute resolution panel by refusing to agree on its formation. Similarly, even when a panel had been formed and the parties had litigated the dispute before the panel, a single country could “block” the adoption of the panel report. This gave the losing party the power to veto an adverse ruling.

Dispute panels were also not necessarily obliged to make a decision. They could simply hold that they did not know how to interpret a particular provision of the GATT or how to apply a particular provision in the circumstances presented. As a result, a panel could avoid holding whether the complainant was right or wrong. These and other weaknesses seriously undermined confidence in the dispute settlement system and therefore in the GATT agreements themselves.

The new WTO Understanding on the Rules and Procedures Governing the Settlement of Disputes (DSU) addressed these weaknesses. A single WTO member may no longer block the formation of a panel. The DSU now requires consensus to block panel formation, making dispute settlement effectively automatic upon the filing of the complaint, since there can be no consensus not to establish a panel without the complaining party. Similarly, a single party can no longer block panel reports. Adoption of a panel report is automatic within 60 days of the date of the circulation of the report unless a party

has appealed. In cases of appeal, adoption of the appellate decision is automatic after completion of the appeal process. The DSU makes it clear that the function of panels is to decide, not to avoid, difficult issues presented in disputes.

The improved dispute settlement mechanism has enabled the WTO to adjudicate cases based on presumed violations of the SPS agreement, as well as other agricultural trade disputes. The EU Banana Import case—a challenge to the EU’s system of import preferences given to former European colonies—has been fully adjudicated, although not yet implemented to the satisfaction of the U.S., and a panel has heard a challenge by Brazil to EU market access for poultry. A significantly greater number of agriculture-related disputes has been brought and adjudicated within the past 3 ½ years than during any comparable period in the past.

Furthermore, since the WTO Agreements came into force, there have been satisfactory settlements of several trade disputes without having to resort to the formal dispute settlement process—e.g., in disputes over Hungarian export subsidies, Philippine pork and poultry tariff-rate quota administration, and Korean shelf-life rules. Under the old GATT system, these types of agricultural disputes—involving export subsidies, market access, and SPS issues—often dragged on for years. Initial evidence indicates that the WTO dispute settlement system is a significant improvement over its GATT predecessor.

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standards are presumed to be in compliance with the agreement. Countries may adopt stricter measures that provide a higher level of health or environmental protection than international standards, but scientific evidence must support the claim that the alternate measures actually do so. Countries must allow imports from countries with different SPS rules if the exporters demonstrate their measures are equivalent to those of the importers.

The SPS Agreement also includes a transparency provision that requires countries to notify WTO trading partners of changes in SPS measures that affect trade. SPS notification requirements have contributed to improved transparency and more reliable information on other countries’ SPS measures among WTO member countries.

The SPS Committee, established by the SPS Agreement, has been used as a forum to air grievances over SPS measures. When bilateral exchanges through the SPS Committee fail to resolve differences, formal WTO consultations, which may lead to negotiated settlements, have in some instances obviated the need for referring the matter to a WTO dispute resolution panel, which ends in a judgment. An example in which formal consultations led to a negotiated settlement was the resolution of the U.S. dispute with South Korea over the latter’s shelf-life requirements. Formal consultations may also successfully

resolve the 1996 complaint by the U.S. against some of South Korea’s numerous inspection measures that result in excessive port delays.

To date, three SPS disputes have advanced to WTO dispute settlement panels: the EU-U.S./Canada *Hormones* dispute over the safety of hormonal growth stimulants used in U.S. and Canadian beef cattle production, and the Australia-Canada *Salmon* and the Japan-U.S. *Varietals* disputes over measures applied by Australia and Japan to protect fish stocks and orchards, respectively, from exotic pathogens. In all three disputes, WTO panels found the SPS measures in question were inconsistent with these countries’ obligations under the SPS Agreement.

The SPS Agreement legitimizes SPS complaints, which could not even be registered under previous trade agreements, and the increasing number of formal complaints in the first 2 years since the agreement took effect suggests that the prospects for disciplining the use of SPS measures impeding agricultural trade may have improved since the Uruguay Round. But beyond the high-profile WTO disputes, the past 2 years have seen a number of unilateral and negotiated decisions to ease SPS trade restrictions. As WTO members review SPS regulations to determine whether they and their trading partners are in compliance, regulatory authorities in several instances are either unilaterally modifying

regulations to comply with the SPS Agreement or voluntarily modifying regulations after bilateral exchanges.

The SPS Agreement may be credited with being an important contributing factor in inducing some countries to revise especially conservative measures. Regulatory changes resulting from the SPS Agreement include U.S. actions allowing imports of uncooked beef from disease-free regions of Argentina and the replacement of the ban on Mexican avocados with a limited import program. Similar examples include the lifting of a 46-year-old ban on U.S. tomatoes by Japan, acceptance of Canadian salmon by New Zealand, and Australia's acceptance of cooked poultry meat.

### ***New Round To Target Further Reform***

As part of the URAA, member countries agreed to begin negotiations for a continuation of the agricultural reform process in 1999, one year before the end of the URAA implementation period (1995-2000). The world agricultural trading system is now well positioned for further trade liberalization, having

undergone the process of revising the rules that apply to agricultural trade, bringing new disciplines to bear on the use of trade-distorting domestic policies, cutting export subsidies, disciplining the use of SPS measures, and putting in place a dispute settlement mechanism better equipped to bring difficult trade disputes to resolution.

Tightening countries' leeway in implementing the rules adopted in the Uruguay Round could be a fruitful area for further negotiations. The challenge for the next round will be to extend the progress made in the Uruguay Round toward bringing agriculture more fully under the WTO disciplines that have applied to goods in other sectors.

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