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Report Coordinator
Mary Anne Normile
(202) 694-5162

Authors
Karen Z. Ackerman
Kevin J. Brosch
Gene Hasha
David R. Kelch
Susan Leetmaa
Peter Liapis
Mary Lisa Madell
Frederick J. Nelson
Donna Roberts
Randall Schnepf
Mark Simone
David Skully
Constanza Valdes
John Wainio
C. Edwin Young

Technical Editor
Diane Decker

Production/Design
Wynnice Pointer-Napper
Victor Phillips, Jr.

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Summary

Uruguay Round Results Set Stage for Further Agricultural Trade Liberalization

The Uruguay Round of Multilateral Trade Negotiations continued the process of reducing trade barriers achieved in seven previous rounds of negotiations. Among the Uruguay Round's most significant accomplishments were the adoption of new rules governing agricultural trade policy, the establishment of disciplines on the use of sanitary and phytosanitary (SPS) measures, and agreement on a new process for settling trade disputes. The latest round also 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. Agricultural trade concerns that have come to the fore since the Uruguay Round, including the use of genetically engineered products in agricultural trade, state trading, and a large number of potential new members, illustrate the wide range of issues a new round may face.

During the 3 years since initial implementation of the Uruguay Round agreements, the record with respect to agriculture 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 Uruguay Round Agreement on Agriculture 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.

Prior to the Uruguay Round, trade in many agricultural products was unaffected by the tariff cuts that were made for industrial products in previous rounds. In the Uruguay Round, participating countries agreed to convert all nontariff agricultural trade barriers to tariffs (a process called "tariffication") and to reduce them. However, agricultural tariffs remain very high for some products in some countries, limiting the trade benefits to be derived from the new rules. To ensure that historical trade levels were maintained, and to create some new trade opportunities where trade had been largely precluded by policies, countries instituted tariff-rate quotas. A tariff-rate quota applies a lower tariff to imports below a certain quantitative limit (quota), and permits a higher tariff on imported goods after the quota has been reached.

The Agreement on Agriculture required countries to reduce outlays on domestic policies that provide direct economic incentives to producers to increase resource use or production. All WTO member countries are meeting their commitments to reduce these outlays, and most countries reduced this type of support by more than the required amount. However, support from those domestic policies considered to have the least effect on production, such as domestic food aid, has increased from 1986-88 levels.

In the Agreement on Agriculture, 25 countries that employed export subsidies agreed to reduce the volume and value of their subsidized exports over a specified implementation period. To date, most of these countries have met their commitments, although some have found ways to circumvent them. The EU is by far the largest user of export subsidies, accounting for 84 percent of subsidy outlays of the 25 countries in 1995 and 1996. Despite substantial progress in reducing export subsidies, rising world grain supplies and falling world grain prices will make it difficult for some countries to meet future commitments unless they adopt policy changes.

The Uruguay Round's SPS Agreement imposed disciplines on the use of measures to protect human, animal, and plant life and health from foreign pests, diseases, and contaminants. The Agreement can be credited with increasing transparency of countries' SPS regulations and providing improved means for settling SPS-related trade disputes, including some important cases involving agricultural products. The Agreement has also spurred regulatory reforms in some countries. The SPS Agreement and the Agreement on Technical Barriers to Trade could provide a framework for disputes over genetically modified organisms (GMOs) brought to the WTO for arbitration.

Changes made to the multilateral dispute resolution process in the Uruguay Round may be as important to agricultural trade as the improvement in the substantive rules governing trade in agricultural goods. Initial evidence indicates that the WTO dispute settlement system is a significant improvement over its GATT predecessor. For example, a single country can no longer block the formation of a dispute resolution panel, or veto an adverse ruling by blocking the adoption of a panel report. These improvements have led to a number of important agricultural trade cases being adjudicated before the WTO. The outstanding question for the WTO is whether members whose practices have been successfully challenged under the new dispute settlement procedures will live up to their obligations.

Other agriculture-related issues, including a large and diverse group of potential new WTO members, the challenge of dealing with state trading enterprises within WTO disciplines, and the issues particular to developing countries, will shape the agenda for future agricultural trade liberalization discussions. Thirty-two countries are currently seeking membership in the 132-member WTO. Countries seeking WTO membership accede under conditions negotiated with WTO members. Acceding countries benefit from WTO membership through privileged trade status with WTO members, but may incur adjustment costs in reforming their trade policies and reducing tariffs to meet WTO requirements. Current WTO members gain greater access to the markets of acceding countries.

State trading enterprises (STEs), governmental and nongovernmental entities that have been granted special rights or privileges through which they can influence trade, continue to be important to the trade of agricultural commodities because many countries consider them an appropriate means to meet domestic agricultural policy objectives. Continuing concerns about the trade practices of state trading enterprises in some WTO member countries, and the potential accession of China and other countries where STEs are prominent, will keep STEs on the WTO agenda.

Developing countries received special treatment in the Uruguay Round, including less stringent disciplines in reforming their trade policies than those that apply to developed countries. In the next round of multilateral agricultural trade negotiations, developing countries will continue to have special interests in the areas of special and differential treatment, export restraints, price stability, food security, food aid, and stock policies. As developing countries identify their positions, coalitions of countries with common trade interests may emerge.

Agriculture in the World Trade Organization—Introduction

The Uruguay Round of Multilateral Trade Negotiations was completed in 1994 with the signing of the Uruguay Round Agreements at Marrakesh. The Round produced a number of important achievements, including replacing the General Agreement on Tariffs and Trade (GATT) as an institutional framework for overseeing trade negotiations and adjudicating trade disputes, with the World Trade Organization, and extending GATT/WTO rules of trade to new areas such as intellectual property and services. Among the most significant accomplishments of the Uruguay Round was its focus on the treatment of agricultural trade under the GATT and the resulting new disciplines on agricultural trade policy.

Until the Uruguay Round, agriculture received special treatment under GATT trade rules through loopholes, exceptions, and exemptions from most of the disciplines applying to manufactured goods. As a result, the GATT allowed countries to use measures disallowed for other sectors (e.g., export subsidies), and enabled countries to maintain a multitude of non-tariff barriers that restricted trade in agricultural 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 the exemptions and bringing agriculture more fully under GATT disciplines.

Under the Agreement, countries agreed to substantially reduce agricultural support and protection by establishing disciplines in the areas of market access, domestic support, and export subsidies. Under market access, countries agreed to open markets by prohibiting non-tariff barriers (including quantitative import restrictions, variable import levies, discretionary import licensing, and voluntary export restraints), converting existing non-tariff barriers to tariffs, and reducing tariffs. URAA signatory countries also agreed to reduce expenditures on export subsidies and the quantity of agricultural products exported with subsidies, and prohibit the introduction of new export subsidies for agricultural products. Domestic support reductions were realized through commitments to reduce an aggregate measure of support (AMS), a numerical measure of the value of most trade distorting domestic policies. The agreement is implemented over a 6-year period, 1995-2000.

In addition, the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) established rules to prevent countries from using arbitrary and unjustifiable health and environmental regulations as disguised barriers to trade. And a new process for settling disputes among WTO members, agreed to during the Uruguay Round, promised improvements in the resolution of trade disputes. As part of the URAA, member countries agreed to begin negotiations for a continuation of the agricultural reform process 1 year before the end of the URAA implementation period.

The 3 years of implementation since the Agreement's entry into force in 1995 have provided some evidence from which to evaluate the impact of the Uruguay Round on agricultural trade. This report evaluates the progress to date in implementing the various Uruguay Round agreements and disciplines, and addresses emerging issues that will have a bearing on agricultural trade in the context of the WTO. It offers an interim assessment of the effects of the Round on agricultural trade and considers the future direction of agriculture in the WTO. Given the limitations of space, the scope of the report, while attempting to be comprehensive, is not all-encompassing. Other topics of importance to agriculture, such as the Agreement on Technical Barriers to Trade, and tariff reductions in processed products and agricultural inputs, are not covered.

This report also does not address one of the most important outcomes of the Round: the expected expansion in world income and economic activity and its effect on demand for agricultural products, which could far outweigh the direct effect of reductions to barriers on agricultural products. And a formal assessment of the benefits of the URAA itself awaits further investigation. It is hoped, nonetheless, that a comprehensive picture will emerge of the institutional and practical environment in which agricultural trade takes place that will also provide a perspective from which to anticipate future agricultural trade negotiations.