

# **The WTO agricultural trade negotiations after Seattle**

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## **Abstract**

The WTO Ministerial Conference meeting in Seattle, USA in November/December 1999 failed to launch a further round of trade negotiations. However, negotiations on further liberalisation of agricultural trade were mandated in the Uruguay Round Agreement on Agriculture and must still be anticipated. This paper reviews the issues which the agricultural negotiators will grapple with under the headings of market access, export subsidies and domestic supports as well as some more generic negotiating issues of relevance to agricultural trade.

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## I The road to Seattle

Article 20 of the Uruguay Round Agreement on Agriculture (URAA) mandated the initiation of further negotiations to reduce agricultural support and protection to begin not later than the end of 1999 and set out some parameters for these negotiations. Article 20 states:

*"Recognizing that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, Members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account:*

*(a) the experience to that date from implementing the reduction commitments;*

*(b) the effects of the reduction commitments on world trade in agriculture;*

*(c) non-trade concerns, special and differential treatment to developing country Members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this Agreement; and*

*(d) what further commitments are necessary to achieve the above mentioned long-term objectives."*

The preambular paragraph suggests some ambitious objectives – “substantial reductions” and “fundamental reforms” - but these are later qualified, in particular, by sub-paragraph (c). While non-trade concerns are not elaborated further in this Article, the preamble to the URAA indicates that these include food security and the need to protect the environment. Other objectives and concerns mentioned in that preamble include the establishment of a fair and market-oriented agricultural trading system (repeated in Article 20) and the need to take into account the particular needs and conditions of developing countries and the “possible negative effects of the implementation of the reform programme on least developed and net food importing countries”. The special and differential treatment to developing country Members is also referred to in the URAA preamble where it says that such treatment “is an integral element of the negotiations”.

Several of the other Uruguay Round Agreements (services and TRIPS) also contained commitments to launch further negotiations. Together with agriculture, these three areas are referred to as the WTO *built-in agenda* for further negotiations. In addition to this built-in agenda, reviews and other work were mandated under many of the other Agreements or Understandings which made up the overall Uruguay Round outcome. These reviews have raised issues which could lead to negotiations on amendments to these Agreements. A number of new issues have also been raised as possible subjects for a new round of negotiations.

The First WTO Ministerial Conference which took place in Singapore in December 1996 agreed to a process of analysis and exchange of information on the built-in agenda, to allow Members to better understand the issues involved and to identify their interests before undertaking the agreed negotiations and reviews. It also added to the WTO negotiating agenda work in a number of areas: trade and investment; trade and competition policy; transparency in government procurement practices; and trade facilitation. Within the Committee on Agriculture, a new WTO Committee set up to oversee the implementation of the URAA, a wide-ranging Analysis and Information Exchange process took place in which over sixty papers were presented by Members raising issues of concern.

The Second Ministerial Conference held in Geneva, May 1998, in addition to initiating work on the new area of electronic commerce, mandated the WTO General Council to prepare for the Third Ministerial Conference, which was expected to launch new negotiations. In particular, it authorised the WTO General Council to meet in special session in September 1998 and periodically thereafter to formulate recommendations concerning the scope and modalities of the new negotiations.

However, considerable work to agree the scope and timetable of new negotiations remained to be done when the Third WTO Ministerial Council convened in Seattle, USA at the end of November 1999. In the event, the Conference failed to reach agreement and broke up in disarray, to the professed disappointment of major trading countries such as the US and the EU<sup>1</sup>, and to the apparent satisfaction of many developing countries which felt they were being

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<sup>1</sup> See the US-EU Summit Statement on the WTO issued on 17 December 1999, available at <http://www.usia.gov/wto/pp1217.htm>.

pressurised into participating in another round of trade negotiations before they had digested the implications and obligations of the previous one. Another feature of the Conference was the thousands of protestors representing a wide variety of, often conflicting, concerns but united by a general distrust of the consequences of globalisation and a concern for greater accountability of decision-making in a body whose rules were having far-reaching consequences for many aspects of domestic life.<sup>2</sup>

Various explanations for the failure of the Seattle meeting have been advanced, some of them procedural and internal to WTO, others more broad-ranging.<sup>3</sup> The internal wrangling and long delay in agreeing the appointment of a new WTO Director-General certainly weakened the organisation and reduced its preparedness. Decision-making procedures which had been adequate in the past were no longer appropriate or acceptable in an organisation with a greatly increased membership. By all accounts, the decision of the US Trade Representative both to try to chair the meeting while at the same time leading the US delegation was ill-advised. The system of inviting small groups of arbitrarily selected countries to meet to try to hammer out an agreement while the majority of the membership, principally developing countries, waited passively outside led to huge frustration and annoyance.

But there were also more fundamental political reasons behind why agreement was not reached. These included unresolved differences over the scope of the negotiations (with the US holding out for a narrowly-focused agenda and the EU calling for a comprehensive round<sup>4</sup>) and differences within particular sectors, including agriculture. The broader political climate was not auspicious. A number of high profile trade disputes (bananas, GMOs) may have soured relationships between the US and the EU. A key ingredient in the success of previous GATT trade liberalisation rounds has been the commitment and leadership role of the US. On this occasion, the US commitment was much less visible. It is an election year in the US, and

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<sup>2</sup> An insight into the views of some protestors can be found by looking at one anti-WTO web site at <http://www.gatt.org>. The use of this domain name brought a sharp rebuke from the WTO Director-General Mr Mike Moore.

<sup>3</sup> See the article by Guy de Jonquieres and Frances Williams, 'All at sea since Seattle storm', in the *Financial Times*, 20 January 2000.

<sup>4</sup> The EU position on the Millennium Round can be found on the European Commission website at [http://europa.eu.int/comm/trade/2000\\_round/index\\_en.htm](http://europa.eu.int/comm/trade/2000_round/index_en.htm). The US position can be found at the US Information Agency WTO home page <http://www.usia.gov/wto/homepage.htm>.

traditional Democratic labour and environmentalist constituencies are hostile to further trade liberalisation. Many of these constituencies were prominent in the protests outside the conference hall. Developing countries too were reluctant participants in the negotiations. Many of them felt that they had made substantial concessions in the Uruguay Round, for example, on services and intellectual property rights, while seeing little immediate improvement in developed country market access for the commodities of most interest to them, such as textiles and agriculture. They were also wary of some of the demands being made by developed countries looking for a more comprehensive round to cover issues such as labour rights and environmental standards.

Subsequent meetings of the WTO General Council in Geneva earlier this month have not been able to clarify how talks might be restarted. Many developing countries which have not been able to implement all of their commitments under the Uruguay Round argue that they should now have more time to meet these obligations. There is a sense that more fundamental reflection on procedures may be needed before attempting to relaunch the round, and that anyway political circumstances will not be propitious until after the US Presidential election in November 2000. Nonetheless, it is reasonable to assume that the follow-up negotiations mandated in Article 20 of the URAA will resume, albeit after some delay, and that the pursuit of fundamental reform of trade in agriculture will be continued.

The purpose of this paper is to reflect on the issues which have been raised for negotiation with respect to agricultural trade. There is a widespread view that the UR achievement in agreeing on a framework to discipline agricultural support and protection makes a subsequent round to liberalise agricultural trade conceptually, and thus practically, easier. But numerous options remain for decision even within the URAA framework. In addition, the changing trade and policy environment has put new issues on the agricultural trade agenda which barely figured during the UR negotiations. The main part of the paper identifies the main issues and the options to be considered. In the final section, we conclude with some comments on the political economy of a new round.

## II Uruguay Round unfinished business

The URAA has been generally recognised as a very considerable achievement in the reform of agricultural trade policy. It brought agricultural trade within GATT rules for the first time. Bound tariffs replaced non-tariff import measures and thus made border protection much more transparent, export subsidies were curbed and domestic programmes have been classified according to their potential to distort trade.<sup>5</sup> The related but separate Agreement on Sanitary and Phytosanitary Standards (SPS) has clarified the rules covering trade measures taken to protect human, animal and plant health and safety. Josling and Tangermann (1999) describe the detailed changes to domestic agricultural policies required by the major countries in response to the Agreement.

Nonetheless, most commentators agree that the Agreement did relatively little to actually liberalise trade. Agricultural tariffs remain at very high levels and the process of tariffication produced a number of very high tariffs which effectively prohibit trade. The introduction of tariff rate quotas has created a network of managed bilateral trade flows with associated quota rents which ensure continued state involvement. The disciplines on export subsidies have only belatedly come to bite because of relatively high world market prices in 1995 and 1996, although they will become increasingly constraining over time even without any further reduction requirements. The rules on domestic support commitments may have encouraged changes in the policy instruments used to support domestic agriculture (as in the EU, for example) but the practical effect on market access has been limited. Finally, trade disputes around the issue of food safety standards remain highly contentious despite the more rigorous requirements of the SPS Agreement. Producer Support Estimate figures in the most recent OECD report monitoring agricultural policies suggest that support levels in 1998 have now returned to the levels of the early 1990s despite a dip due to favourable world prices in 1995 and 1996 (OECD 1999).

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<sup>5</sup> Accounts of the UR negotiations on agriculture can be found in Ingersent, Rayner and Hine (1994), Josling, Tangermann and Warley (1996) and Swinbank and Tanner (1996). Shorter summary articles include Rayner, Ingersent and Hine (1994), Ingersent, Rayner and Hine (1995) and Tangermann (1996).

In this section of the paper, we look at some of the reasons why so little liberalisation occurred and what steps might be sought in the next trade round to improve on this situation.<sup>6</sup>

## Market access

### 2.1.1 Tariff rates

Average tariff rates for agricultural products worldwide following the implementation of the agreed UR average reduction of 36 percent are shown in Table 1 based on WTO data. It indicates that average tariffs range between 35 and 50 percent for most commodity groups. There are two qualifications to these figures. First, the table excludes those tariffs which are based on specific or mixed tariffs because of the difficulty in estimating the percentage tariff protection they provide which will vary with the level of world prices. For example, around 42 per cent of EU tariffs are non-*ad valorem* tariffs of this type. Second, the use of averages conceals the widespread tariff peaks for individual commodities. Other calculations suggest that individual tariffs of 200-300 percent are not unusual in agricultural trade (Table 2).

There are a number of reasons why bound tariffs on these products turned out to be high:

- Choice of 1986-88 as the base period for the tariffication process. At that time world market prices were very low and as a result the computed tariff equivalents, based on the gap between domestic and world prices, were very high.
- There is some evidence that several countries set their base tariffs for some products at much higher rates than would have been justified by computed tariff equivalents (Hathaway and Ingco, 1996). This process has been given the name of ‘dirty tariffication’. It reflects in part the fact that the time available between the signature of the UR Agreement in Geneva in December 1993 and the submission of Schedules of Commitments attached to the Final Act which was ratified in Marrakesh in April 1994 was too short to allow adequate checking and challenge of what other countries were submitting.

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<sup>6</sup> Discussions of the possible future agenda for agricultural trade negotiations can be found in Josling (1998), Josling and Tangermann (1999), and the OECD Workshop on Emerging Trade Issues in Agriculture, Paris, October 1998 (available on-line at <http://www.oecd.org/agr/trade>) on which I have freely drawn in the discussion below.

- The simple unweighted average formula used in the UR allowed countries to make smaller cuts on some commodities (sensitive commodities which could be cut by the minimum 15 percent required) combined with larger cuts on other commodities which may not have been that important in trade, in order to meet the average reduction requirement of 36 percent.
- Developing countries were allowed the option of binding “ceiling tariffs” which could be set at whatever level they choose and did not have to be based on tariff equivalent calculations. Many choose quite high levels even though, in practice, applied tariffs are often much lower. An obvious issue in the next round will be achieving further reductions in these tariffs, the extent of these reductions and the modalities of how to achieve this. The options include:

- Following the UR precedent of setting an average reduction target and allowing countries to meet this target by implementing lower reductions for some commodities compensated by higher tariff cuts for others. This option has the drawback that it would exacerbate the existing dispersion of tariff rates across commodities. If it were followed, the case could be made to replace an unweighted average target by a weighted one.
- An across-the-board linear reduction. This option would continue to leave many of the existing tariff peaks in agriculture. There is also the danger that linear tariff cuts are often accompanied by special pleading for exemptions, so that in practice it turns out similar to the previous option.
- An attempt to harmonise tariff rates, for example, based on the Swiss formula which was used in the Tokyo Round to harmonise tariff peaks on industrial products left as a result of the linear formula used in the Kennedy Round.<sup>7</sup> The point of the Swiss formula is that it leads to greater percentage reductions in higher tariffs than in lower ones.

Whichever method might be chosen must be applied to a particular base. Here again there are three main options:

- To use the tariff levels in place at the end of the UR implementation process as the starting point for reductions under the next round.

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<sup>7</sup> The Swiss formula is  $T_n = (a_{max} * T_0) / (a_{max} + T_0)$  where  $T_0$  is the original tariff,  $T_n$  is the new tariff and  $a_{max}$  is the upper bound on all resulting tariffs. With  $a_{max} = 50$ , an initial tariff of 40 percent would be reduced to 22 percent.



- To apply the reductions to the same base as used in the UR. In comparison to the previous option, a further 36 percent cut in the average level of tariffs from the same base as in the UR would imply a 72 percent cut over the two reform periods, a significant reduction over a dozen years or so. The approach has the advantage that it would give full credit for unilateral reductions during the negotiation period and thus would not inhibit countries from taking this step for fear of forfeiting negotiating capital.
- The most radical option would be to use the actual protection rates applied in recent years as the benchmark. This would eliminate the gap between the bound and the applied rates, the so-called discretionary protection or water in the tariff. However, it would penalise countries which had not fully exploited their tariff ‘rights’ and would hardly be acceptable to them on that basis.

### **2.1.2 Tariff rate quotas**

Because it was foreseen that tariffication on its own, even with the 36 percent reduction in bound tariffs, might not create much additional market access, the URAA introduced tariff rate quotas (TRQs) in those situations where tariffs replaced non-tariff barriers. For specified access quantities the tariff charged is some fraction of that agreed as the bound tariff in the schedules. The quantity is set to increase over time, generally from 3 percent to 5 percent of consumption. Furthermore, current access quotas were to be bound at their 1986-88 levels.

The WTO Secretariat reports that 36 WTO Members have tariff quota commitments in their Schedules with a total of 1,370 individual quotas on agriculture. Their total volume in 1995 typically ranged between 3 and 7 per cent of world trade in that product although, for some commodities, e.g. dairy, meat products and sugar, this level exceeded 10 percent. These figures include both new quotas as well as existing, i.e. current quotas. FAO calculates that the *additional* access opportunities in most cases amounted to less than 2 percent of world trade, although this was more important in the case of dairy products and, to a lesser extent, rice. Furthermore, not all TRQs available are utilised. WTO analysis showed rates just over 60 percent for both 1995 and 1996 for all agricultural products for which TRQs were opened.

The limited impact of TRQs on new market access is partly due to the fact that many countries allocated current access quotas to traditional suppliers, and also counted preferential access quotas as part of minimum access commitments, e.g. the EU's Sugar Protocol imports. Another reason was the aggregation of minimum access quotas which reduced the likelihood that new access would be created. For example, the EU, in its minimum access commitments, aggregated all vegetables into one category and all fruit into another. As a result of this aggregation, the quantities of imports of the EU in each of the two categories during 1986-88 were more than 5 percent of its base year consumption. Thus the minimum access commitment was met without the need for further change. A similar situation occurred in meat. The situation would have been different if a product by product approach had been followed.

Issues surrounding TRQs in the next round include:

- Whether the rules governing the administration of TRQs should be tightened up. A wide variety of methods are used, including first come first served, auctioning, historical shares, imports undertaken by state enterprises or applied tariffs (cases where imports are allowed in unlimited quantities at the in-quota tariff rate or below). The role of state trading enterprises in determining how much to import has come under the spotlight, with some suggestions that state trading importers should be required to *guarantee* market access (in contrast, the TRQs only provide a right to import at a lower tariff). While it would probably not be possible to agree on a single method, it might be possible to agree to a set of acceptable methods.
- There are differences in the rates of in-quota tariffs applied by different countries. These were generally set at whatever rate the importing country thought would be sufficient to achieve the minimum access guaranteed. In future, it might be agreed that rates cannot exceed a specified percentage (for example, one third?) of the MFN rate.
- The rate at which market access might be expanded will be a crucial consideration. If minimum access quantities were doubled, for example, it would make many of the high bound over-quota tariffs irrelevant. No doubt agricultural exporters will be looking for the maximum possible under this heading.

### **2.1.3 Special safeguard clause**

Article 5 of the URAA specifies a Special Safeguard (SSG) provision distinct from the general safeguard mechanism provided for in the Agreement on Subsidies and Countervailing Duties. This is available in the case of commodities which have undergone tariffication and which have been designated in a country's Schedule as a product for which SSG can be invoked. It establishes conditions which allow temporary duty increases above the bound levels based on either a price-based or a quantity-based trigger. In practice, it has been little used to date. However, it might be reasonable to require that the trigger price used is consistent with the world reference price used in the calculation of tariff equivalents. For example, the EU set a trigger price for butter of 2483 ECU per tonne, as opposed to the world market price of 943 ECU per ton it had used for tariffication; and for white sugar, of 531 ECU per ton, as compared with 193 ECU per tonne (Swinbank 1999).<sup>8</sup>

The Article specifies that the SSG mechanism "shall remain in force for the duration of the reform process as determined under Article 20". This could be seen to mean that the SSG remains in force during the negotiations even if the latter are very protracted. It is possible that the SSG would lapse if the reform process provided for in Article 20 should falter.

## **2.2 Export subsidies**

Important disciplines were introduced in the URAA. New export subsidies are prohibited, there is a clearer definition of what constitutes an export subsidy, and the scheduled reductions in both expenditure on export subsidies and the quantity of exports that can benefit from the subsidies have led to a reduction in their use. The Schedules establish the level of such subsidies deemed to exist in the base period. Export subsidies were significantly reduced by the high prices of 1995 and 1996. As prices returned to lower levels in 1997 and 1998, countries made use of the existence of unused export subsidy entitlements from earlier years.

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<sup>8</sup> These figures were possible because they were based on actual import prices rather than the calculated world reference price. Imports of butter in the base period comprised almost exclusively New Zealand butter entering under a tariff quota, while sugar imports were dominated by ACP imports and in both cases the exporters were able to acquire the quota rent which was thus embodied in the reported import price.

Options for further disciplines on export subsidies include (a) their complete abolition or (b) a continuation of the UR strategy of progressive reduction. If the reduction were undertaken using the same base, this would imply constraining the expenditure on such subsidies by another 36 percent, thus removing 72 per cent of the subsidy expenditure that was used in the base period. Continuing the quantity restrictions would imply that 40 percent of the volume of subsidised exports would have been removed from the market over the two periods of reform. Josling (1998) has observed that since the remaining 60 percent would have to be subsidised with only 29 percent of the expenditure, the disruption that could be caused by such subsidies would be significantly reduced. The issue of carryover rights will be also be contentious for some countries.

In the URAA the provision of export credits was defined as a form of export subsidy, but it did not prove possible to agree on constraints. Within the OECD, countries have negotiated a code for non-agricultural export credits which puts limits on credit terms and the length of credit extension but agriculture is not included in this agreement. The EU, in particular, has raised it as an issue for the next round. Presumably the easiest way to deal with it would be to calculate the 'subsidy equivalent' embodied in credit terms which went beyond the allowable terms on such credit, and to charge this against a country's export subsidy constraints in its schedules.

If the definition of export subsidies is opened up for discussion, then the opportunity may be taken by other exporters to tighten up arrangements that may result in the cross-subsidisation of exports. Two cases in point are production quotas with above-quota output sold at world market prices, and price pooling arrangements as practiced by state trading exporters. The former issue would expose the EU's current sugar arrangements where the EU does not consider C quota sugar to be subsidised and excludes it from its subsidy schedule.<sup>9</sup> For state trading exporters, the concern centres on the competitive advantages they might have from their monopoly position through the opportunities for discretionary pricing facilitated by domestic price pooling.

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<sup>9</sup> It also considers itself entitled to export a quantity equivalent to its preferential imports of ACP and Indian sugar without constraint.

The converse of export subsidies – export taxes and controls – received relatively little attention in the Uruguay Round. But there is an inconsistency in expecting importers to open their markets to trade and then withholding exports from the market in times of shortage. Within the GATT export controls are generally disallowed, though export taxes are deemed innocuous. In 1995/96, the EU imposed export taxes on wheat to limit the rise in domestic prices. Article XI of GATT 1947 prohibits quantitative export restrictions but makes an explicit exception for “export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party”. Article 12 of the URAA tightens this a little by calling on Members, with respect to *new* restrictions on foodstuffs, to give “due consideration” to the food security concerns of importing countries and requires adequate notice and consultation prior to implementation. Developing countries are exempt from these provisions unless they are regular food exporters. Food importing developing countries may seek a tightening up of this rule, although those developing countries where export taxes are an important source of revenue may have a different interest.

### **2.3 Domestic supports**

The URAA established two types of disciplines on domestic support. One is a quantitative one establishing schedules of commitments reducing subsidies covering agricultural products. The other is a qualitative one defining those types of domestic supports which are exempt from these reduction commitments. The quantitative commitment required a country’s Base Aggregate Measure of Support (AMS) to be reduced by 20 percent over a six year period.

In computing the AMS, the major exceptions are:

- Green Box measures. In turn, these are divided into income support payments which are totally decoupled from production, including decoupled income support, income insurance and safety-net programmes, disaster relief, producer or resource retirement schemes and investment aids; public stock-holding for food security services and domestic food aid; general services, including research, pest and disease control, training, extension, marketing and promotion services and infrastructural services; and environmental programmes and regional assistance programmes.

- Blue Box measures. These are direct payments under production limiting programmes where such payments are based on fixed area and yield; or such payments are made on 85 per cent or less of the base level of production; or livestock payments are made on a fixed number of head.
- *De minimis* exemptions which allow support for a particular product to be excluded if that support is not greater than 5 percent of its total value of production. In addition, non-product specific support which is less than 5 percent of the value of total agricultural product is also exempt from reduction.

In calculating the AMS, Annex 3 of the Agreement specifies four categories of support to be included:

- market price support. This is measured by multiplying the gap between the applied administered price and a specified fixed external reference price (“world market price”) by the quantity of production eligible to receive the administered price.
- Non-exempt direct payments dependent on a price gap
- Non-exempt direct payments based on factors other than price, and
- Other non-exempt measures, including input subsidies.

Countries have not been consistent in their interpretation of the term ‘eligible production’. The EU based its dairy AMS on butter and milk powder production, and ignored the milk used in other products such as cheese, yoghurt and drinking milk, presumably on the grounds that only these products were subject to an administered price (Swinbank 1999). Some countries have actually used just the amount of product actually bought into intervention. Some clarification on these issues may be sought in the next round.

The continuation of the Blue Box may be an issue. This was designed to fit EU and US policies as part of the Blair House Agreement between the two and was then incorporated into the final Agreement. However, under its 1996 FAIR Act, the main US deficiency payment programmes were eliminated and thus the Box currently only protects EU compensatory payments. Revision could take the form of reviewing the eligibility criteria for exemption or its entire elimination.

Another demand which may resurface is that the AMS reductions should apply for each product or product group and not be aggregated as finally agreed in the URAA.

Once the qualitative issues are decided, the quantitative issue of the further extent of reduction to be applied to the remaining AMS must be decided. Continuation from the same base would result in 40 percent of the coupled domestic support being removed or converted into less trade-distorting types of programmes over the course of two reform periods.

Of interest to some developing countries is whether negative AMS (where domestic prices are below external reference prices) could be explicitly set against positive AMS. The Agreement does not discipline taxation of production and negative AMS is ignored in calculating the AMS level.

#### **2.4 Multifunctionality**

The key criterion for inclusion in the Green Box is that policies have a minimal distorting effect on production and trade. However, the concept of 'minimal effect' has not been explained or quantified. Some countries will want to revisit the definition of Green Box measures with a view to excluding some types of programmes currently allowed, e.g. crop insurance and environmental payments. Other countries may argue that it should be expanded, to permit food security policies or rural viability payments to keep farming in particular areas. The EU, supported by other countries, believes that payments in support of the multifunctionality of agriculture and nontrade concerns should not be prevented by WTO trade rules.

The legitimacy of multifunctionality as a justification for permitting general payments to farmers has been attacked (Anderson, 1998). What is at issue is whether general agricultural programmes are the most efficient means of ensuring the provision of those public goods associated with agricultural production, as distinct from targeted programmes which address the market failure directly. The main difficulty arises where the public good is a joint product with agricultural production activity, such that the stimulation of the public good requires payments coupled to the maintenance of agricultural production. While this would rule out the inclusion of such payments in the Green Box, it may be possible to agree on rules which would allow them to be covered by the Blue Box exemption.

## 2.5 SPS issues

Although not formally part of the built-in agenda, issues to do with regulatory restrictions on trade are increasingly important in agriculture. The EU's refusal to allow the import of genetically modified maize and soybeans is an example. The growing share of processed food products in agricultural trade suggests that the importance of standards and technical rules will only increase in the future.

Article XX of GATT permits members to apply measures necessary to protect human, animal and plant life and health, provided that "such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade". In the Uruguay Round, two new Agreements were included which make clearer what is meant by this qualification.

Henceforth, the SPS Agreement applies to standards and regulations for aspects related to health of plants, animals and humans. The Technical Barriers to Trade (TBT) Agreement applies to all other technical regulations and standards, including packaging, marks and labelling, as well as to matters such as methods of production. A separate agreement deals with intellectual property rights.

The SPS Agreement lays down general principles (national treatment, scientific proof, harmonisation, equivalence and mutual recognition, proportionality and risk assessment, transparency). The use of international standards is encouraged. Countries can maintain a level of protection higher than international norms if there is a scientific justification (Art 3) and provided that a risk assessment justifying the measure is carried out (Art 5).

Issues relate to where scientific evidence is not yet conclusive (Art 5.7 of the SPS Agreement does allow temporary measures when scientific evidence is insufficient and requires that additional information be sought – thus allowing a form of the precautionary principle) and what role, if any, should be given to consumer concerns not supported by scientific proof. Dispute settlement panel rulings are making an important contribution to the interpretation of the principles of this Agreement. An important point of principle was established when the original panel in the beef hormones dispute held that the burden of scientific proof is on the Member



imposing a measure which is not based on international standards. The Appellate Body reversed this conclusion and required the complainant to prove that a technique is safe, which is a much harder requirement, and may go some way to alleviating consumer concerns (Mahé and Ortalo-Magne, 1999). The EU has raised the need to accommodate within WTO rules trade measures taken pursuant to any multilateral agreement which might be reached regarding welfare standards. Although technically not part of the further negotiations on agriculture, these issues may well be raised as part of the overall round.

## 2.6 Developing country issues

Developing countries are affected by the URAA in two ways. First, they are influenced by the consequences of policy changes undertaken by other countries. These include the terms of trade effect of higher food prices, any effects on world price stability due to tariffication and, for some countries, the loss of the value of preferences as agricultural support is wound down. Second, developing countries also took on obligations under the URAA although the principle of special and differential treatment (SDT) has been recognised by providing a longer time frame for implementation, by requiring fewer obligations and by making provision for technical and financial assistance. The reduction rates required of developing countries under the various headings in the URAA are shown in Table 3. These rates of reduction in themselves have not been problematic. Of more concern is whether the commitments may make it more difficult to pursue desired food security and rural development policies. Many developing countries declared that they had zero AMS in the base period, and thus now find themselves in the position where any direct assistance to their agricultural sector has to either fall into the Green Box or *de minimis* exemptions. However, the definition of the Green Box has been expanded for developing countries to include most of the major development instruments that they would wish to use, so the absence of a formal AMS entitlement should not prove inhibiting.

To deal with the potential adverse terms of trade effects of higher world market food prices on low income and net food importing countries, the URAA was accompanied by a *Decision on Measures Concerning The Possible Negative Effects on LDCs and NFIDCs*. The main problem addressed by the *Decision* is the fear that the LDCs and NFIDCs may face

difficulty in accessing adequate supplies of basic foodstuffs from external sources on reasonable terms, including financing. It mentions four specific responses to this difficulty: food aid; favourable treatment with export credits; concessional financing for food imports; and technical and financial assistance to increase agricultural productivity and production.

There is widely shared frustration among potential beneficiaries over the slow pace of implementation of the *Decision*. The *Decision* does not have quantifiable parameters nor a timetable for implementation. In the case of food aid, a new Food Aid Convention (FAC) was concluded in 1999 which actually lowered the minimum guaranteed quantities donors intend to provide. On export credits, no agreement has been reached on how assistance might be provided. As regards financing facilities, the *Decision* recognises that the two groups of countries facing difficulties “may be eligible to draw on the resources” of existing facilities of the international financial institutions, or such new facilities as may be established. But most of the *Decision* countries already have access to these resources, and there has been no enthusiasm to set up a further facility. Finally, on aid programmes, the *Decision* does not bind any country nor give any specific guideline on how “full consideration” is to be given to requests for technical and financial assistance to improve their agricultural productivity and infrastructure. Some improvement in what is on offer to these countries may be a necessary ingredient in the next round.

### **III Concluding remarks**

The significance of the collapse of the Seattle talks should not be overestimated. Even an agreement to start negotiations and to set a deadline would not necessarily guarantee that the talks would move fast or that the deadlines would be respected. Delay may be useful if it leads to further clarification and a narrowing of the existing divergences of view on the issues discussed in the previous section. It all depends on whether there is an underlying commitment to make the talks succeed. Thus it is useful to examine the political economy of a new round and what interests the major players have. To do this issue justice would require another paper, so we limit ourselves here to a few remarks.

The US remains a key player in further talks. It was widely thought that the 1996 FAIR Act would put the US in a very strong position to negotiate in a new round as it no longer needed the protection of the Blue Box for its direct payments. However, the 1998 crisis in world agricultural commodity markets is prompting a reevaluation of the 1996 legislation removing market price support and production controls. With production controls gone, aid can no longer be sheltered by the Blue Box. Substantial emergency payments have been made to farmers, although because receipts were based on past enrolment in farm programmes, these payments do not directly contravene Green Box eligibility.<sup>10</sup> In addition, the FAIR Act only reformed elements of the US support system, and dairy, peanut and sugar farmers could still provide formidable opposition to any further liberalisation efforts.

There has been much comment on the US Administration's failure to secure fast track authority for a new trade agreement. Trade agreements in the US must be approved by Congress. In order to avoid having the Congress amend and modify the agreement, a legislative procedure called "fast track" authority is used. Under it, Congress cannot amend a trade agreement, but only vote for or against it. When fast-track authority came up for debate in 1997, agricultural groups were at best lukewarm in their support for it because of their dissatisfaction with several aspects of the UR and NAFTA. Farmers who had expected significant evidence of market access liberalisation were disappointed by the lack of progress in both developed and developing country markets. No vote was taken then because it became apparent that the bill would not pass. The Asian financial crisis and the drop in US farm exports emphasised the importance of export markets to US farmers, and when fast track authority came up for a vote again in September 1998, it was widely supported by farm groups but was defeated by a broad coalition of labour, environmental and other liberal groups (Hathaway 1999). However, fast track authority for the UR was not granted until quite late into the negotiating process, so the failure to secure it at this stage may be more an indication of the Administration's unwillingness to expend political capital in an election year than a serious threat to the outcome of the talks.

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<sup>10</sup> ABARE (1999) has questioned if such payments are truly independent of world price conditions and thus might not be successfully challenged.

The EU also faces dilemmas in entering these negotiations.<sup>11</sup> Following the conclusion of the UR, it was recognised that growing surpluses on EU markets would have meant that an unreformed CAP would come into serious conflict with its commitments on export subsidies, particularly for cereals and beef. The original idea of Agenda 2000 was to enable the EU to export at least some cereals and beef without export subsidies, thus allowing EU negotiators to agree more easily to further cuts in these subsidies. Cuts in CAP price supports would also enable the EU to accept further tariff reductions because it would have less reason to fear that lower priced imports would undermine its domestic support programmes. The scaled down version of Agenda 2000 eventually agreed implements a 15 per cent cut for cereals (compared to 20 percent originally proposed), 20 per cent for beef (compared to 30 percent originally proposed) and 15 percent reductions in support prices for dairy products (but to begin not in 2000 as proposed but postponed until 2005), thus leaving the EU much less margin for flexibility.

Some commentators have suggested that Article 13 of the URAA - the Peace Clause – provides an important incentive for the EU to reach an agreement. This clause is important as it stops members from bringing challenges against export subsidies, Green Box and Blue Box and *de minimis* payments. This only lasts during the implementation period until 2003. In other words, after this period, most of the subsidies that are allowed in the Agreement could become subject to challenge under the Dispute Settlement Mechanism of the WTO if a member can show injury. Whether a Panel would find against the EU, provided it remained within the URAA disciplines on these subsidies, would be an open question.

The EU's position on export subsidies was mentioned by some Irish media commentators as a cause for the collapse of the Seattle talks, but this may be to confuse the act of initiating negotiations with the negotiations themselves. The draft agricultural text of the Ministerial Declaration on which delegates were working suggests that the negotiations should cover “substantial reductions in all forms of export subsidies, and equivalent action in respect of the subsidy component of other forms of export assistance (excluding international food aid...), in the direction of progressive elimination of all forms of export subsidisation”. Such a wording

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<sup>11</sup> EU concerns in the agricultural trade negotiations as articulated by Commissioner Fischler are available on-line at [http://europa.eu.int/comm/trade/2000\\_round/ecapragr.htm](http://europa.eu.int/comm/trade/2000_round/ecapragr.htm).

would imply that export subsidies at some level would continue to be a legitimate support instrument by the end of the implementation period of a further round of protection reduction, and might thus disappoint their hardline opponents, but it also seems to imply that the days of export subsidies in agricultural trade are numbered. It is not clear if this wording which, of course, has no standing following the failure to reach agreement in Seattle, was acceptable to the EU or not.

Two other groups will be important in successfully concluding the negotiations. Developing countries are now much more numerous in the WTO and will want to see the outcome reflect their interests. Also, the developed countries will have to carry their wider public opinion with them. While producer interests who might be hurt by the reduction in protection might be expected to complain, political leaders have an important job to demonstrate both the wider benefits of an agreement and the legitimacy of the procedures under which it was reached.

The negotiations will be complicated by the possible accession of China, and maybe Russia and Ukraine, to the WTO in the next period. The membership of these countries will be hugely important for world food markets, and the way they might use their influence within the WTO would impact on the final outcome.

A final issue to highlight with reference to the agricultural negotiations and the other elements of the WTO's built in agenda is whether these negotiations should be conducted simultaneously, using the approach of previous GATT rounds where the results would be adopted as a single undertaking, or whether they should proceed under their own timetables and independently of progress, or lack of it, in other areas. In other words, how comprehensive should a new round be. Many have argued that a round confined to agriculture would almost certainly fail because countries expected to make concessions would not be able to point to offsetting gains in other areas. On the other hand, many non-agricultural groups object to the single undertaking approach because agricultural negotiations held up the UR for so long, and the US seems keen on a limited agenda. These issues remain to be clarified before the new round of agricultural trade talks can get seriously under way.

## Tables

**Table 1. Average unweighted ad valorem bound tariff rates post UR for agricultural goods, 20 countries**

Product	Percent	Product	Percent
Grains	46.7	Dairy products	47.1
Oilseeds	41.7	Sugar	48.7
Fats and oils	41.6	Fresh fruit and vegetables	35.5
Meats	39.3	Processed fruit and vegetables	35.3
Milk	40.7	Other agriculture	24.4

*Source: WTO, quoted in Josling (1999).*

**Table 2. Bound tariff rates of the EU, Japan and US for selected agricultural products (percent)**

	EU		Japan		US	
	Pre-UR	Post-UR	Pre-UR	Post-UR	Pre-UR	Post-UR
Sugar	297	152	126	58	197	91
Rice	361	n.a.	n.ap	n.ap	5	n.a.
Wheat	170	82	240	152	6	4
Coarse grains	134	n.a.	233	n.a.	8	n.a.
Dairy products	289	178	489	326	144	93
Meat products	96	76	93	50	31	26

*Notes: Pre-UR rates based on 1995 data.*

*n.a. refers to not available and n.ap refers to not applicable (postponed tariffication)*

*Source: Hathaway and Ingco (1996)*

**Table 3. Reduction rates required in the Agriculture Agreement (percent)**

<b>Reform areas</b>	<b>Developed</b>	<b>Developing</b>	<b>Least-developed</b>
Market access			
simple average tariff	36	24	0
minimum reduction per tariff line	15	10	0
Domestic support			
Total Aggregate Measurement of Support (AMS)	20	13.3	0
Export subsidy			
value of expenditure on subsidies	36	24	0
quantity of subsidised exports	21	14	0

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