Agricultural Liberalization in the Uruguay Round

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BRINGING *agricultural trade under multilateral discipline and converting nontariff barriers into tariffs are important achievements of the Uruguay Round. However, the actual liberalization achieved has fallen well short of expectations.*

The objectives of the agricultural negotiations under the Uruguay Round were ambitious and impressive: "to establish a fair and market-oriented agricultural trading system, reverse protectionism and remove trade distortions in agricultural trade." Many studies have pictured the Uruguay Round agreement as including a sweeping reform of agriculture and a significant liberalization of agricultural trade.

Indeed, the agreement is an important advance, since it launched a new framework of rules to strengthen the trading system and brought agriculture under multilateral discipline. The Round has brought about substantially less liberalization than had been expected, however. While major reforms were made in the relevant rules, the final commitments made represent neither a significant reduction in agricultural protection nor a major expansion in market access. Even after all commitments are met, protectionist barriers to the importing of many agricultural products will be as high as before in many countries.

Before the agreement, agriculture was exempt from most multilateral trade rules. A mass of complex nontariff barriers (NTBs) was being used to provide the sector with high and variable rates of protection in many countries. Over time, the volume of agricultural trade subject to these barriers increased in virtually every country in the world. Large exporting countries increasingly used export subsidies as a major instrument of protection and a weapon to gain market share. For the industrial countries as a whole, the average nominal level of protection for agriculture rose from 41 percent in 1979–81 to 74 percent in 1992, which was about 15 times as high as tariffs in manufacturing, for which there was an operational framework of rules.

Major achievements

The new agreement went beyond the traditional rules under the General Agreement on Tariffs and Trade (GATT) by covering not only import restrictions but also export subsidies and domestic support programs. The new rules represent a radical and fundamental departure from the way agriculture was previously treated under the GATT. To bring order to border protection, the agreement mandates the conversion of all NTBs except those justified under normal World Trade Organization (WTO) exceptions (e.g., balance of payments) into tariffs (a process known as tariffication), subject to agreed maximum rates. It requires the reduction of tariff equivalents and ordinary tariffs over six years (ten years for developing countries) by an average of 36 percent (24 percent for developing countries) with a 15 percent (10 percent for developing countries) minimum cut per tariff item.

Without question, tariffication represents a major reform in agricultural trade rules. It moves agricultural trade toward the same treatment as manufactures under the GATT and provides transparency of import protection. Tariffs are generally preferred over other import barriers, since they are more predictable, nondiscriminatory, easier to bind or reduce, and less susceptible to corruption; they also facilitate competition in internal markets and help ensure that importing countries adjust their trade to world market changes. By introducing bindings (maximum tariffs that can be applied to any product at the border) on almost 100 percent of agricultural tariff categories, the agreement on agriculture surpassed what had been achieved during 40 years of negotiations in manufactures. In addition to disciplines on import protection, minimum market access opportunities were introduced.

In export competition, the new export subsidy rules impose some discipline on an area where the general GATT principle of prohibiting export subsidies had not been applied and where the specific GATT rules for agriculture

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based on the concept of "equitable share" were largely ineffective. The agreement defines more precisely the permissible upper limits on the use of export subsidies by country and by commodity. Where countries had no export subsidies in the base period, they are prohibited from using them in the future. The rules require that the export subsidies be reduced by 36 percent in nominal terms over a 6-year period, and that the volume of subsidized exports be reduced by 21 percent. An innovation is the anti-circumvention provisions, under which exporting countries must establish that subsidies have not been granted in excess of commitments.

Domestic support policies, measured by the total aggregate measure of support (the annual level of support in monetary terms provided for agricultural products or of non-product-specific support provided for agricultural producers in general), should be reduced by 20 percent in developed countries (13.3 percent in developing countries). Reduction commitments refer to total levels of support and not to individual commodities. Since the binding on spending is fixed in nominal terms, it will erode with inflation and raise the incentive to move to nondistorting policies.

Important direct income-support measures—such as the European Union's (EU) compensation payments and the United States' deficiency payments—are exempted from the reduction commitments. Policies which have minimal trade-distorting effects are excluded (for example, general services to agriculture, food-security stocks, and domestic food aid). Policies which affect less than 5 percent of the value of production for developed countries (10 percent for developing countries) are also excluded. Overall, a large degree of distortion will remain in world agricultural markets even after the complete implementation of the reduction commitments. The magnitude of the commitments, however, is still impressive. Aggregate domestic support will be cut to \$162 billion from \$198 billion, and export subsidies will be cut to \$13.8 billion from \$21.3 billion. Virtually all tariffs in agriculture will be bound in the future—that is, ceiling rates have been established for them.

Protection remains high

Although the Round appears to have achieved new transparency in import protection through tariffication, this has come without a great deal of liberalization in most countries. Most developed countries have established new base tariffs that reflect even higher protection than had been provided by the NTBs they replaced. Many countries have set agreed tariff rates at levels significantly in excess of the tariff equivalent of border measures in the chosen base year and of the pre-Round applied rates (1979–93). After the 36 percent reduction is applied to the new base tariffs, tariff rates in the year 2000 will remain very high on many products—in many cases as high as, or even higher than, effective rates prior to the agreement.

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A number of countries in Asia, Latin America, and the Middle East, however, reduced protection for some products and locked in earlier unilateral reforms for others. Korea and Indonesia significantly reduced protection for several major products. Liberalization in many developing countries, however, will be modest at best for many commodities. Some developing countries carried out tariffication and some also used "dirty tariffication" to maintain high levels of protection. Most countries in Africa and South Asia declared new tariffs at very high levels (100–300 percent) that were unrelated to previous levels of protection. These countries have missed the opportunity to reduce domestic distortions in agriculture and have undermined liberalization efforts. In general, tariffs in Latin American countries tend to be lower than those in other developing countries, reflecting the changes in economic policies the former have made in recent years.

"Dirty" tariffication. The conversion of nontariff barriers into tariffs required the calculation of tariff equivalents of NTBs in a chosen reference period: 1986–88. In principle, countries subject to tariffication were to set initial base tariffs—to be applied in the first year of implementation—so that the resulting protection would be equivalent to the nominal protection in the base period. This base period coincided with very low world prices and generally high levels of agricultural support in the industrial countries, resulting in higher protection than if tariff equivalents had been based on another, more representative period.

Many countries used what had been termed "dirty tariffication," because the tariff equivalents were higher than the equivalent of protectionist measures applied under the old system of NTBs. The extent of dirty tariffication varied widely among countries and commodities. It was most common for "sensitive" commodities, such as grains, sugar, meat, and dairy products. Among the industrial countries, it was most extensive in the EU and the countries of the European Free Trade Association (EFTA). The United States practices dirty tariffication in sugar and dairy products, although to a lesser degree than the EU.

Uneven tariff reductions. Most countries were able to satisfy the guidelines by reducing the highest tariffs the least and the lowest tariffs the most or to zero. For politically sensitive commodities that had been protected by nontariff barriers, there was generally a minimum reduction of 15 percent. To offset these minimal cuts, the tariffs on products that already had low tariffs were cut significantly more in percentage terms. The combination of "dirty" tariffication and the unequal distribution of tariff reductions for many commodities previously protected by NTBs has resulted in continued high protection at the end of the implementation period, as well as unequal rates of protection across commodities in certain countries.

Export subsidies

The export subsidy commitments made under the agreement seem likely to provide more liberalization than the import tariffication commitments. The new rules limit both the volume of subsidized exports and the nominal value of expenditures as subsidies. The changes will be significant for wheat, meat, and dairy products, but minimal for most other products. The effects of the commitments will depend on the quantity of the product affected, the significance of the reduction relative to total volume of trade, and the policy adjustments—that is, the changes from price support to direct income support—that occur during the transition period.

Even though the reductions in export subsidies are important, trade in many products will still be subjected to significant distortions at the end of the implementation period. With trade at current levels, subsidized exports could account for a third or more of trade in beef and veal, wheat, pork, and vegetable oils, and more than a fifth of the trade in poultry and coarse grains.

Minimum access commitments

The minimum access provisions were designed to deal with continued high levels of border protection by ensuring access for a minimum quantity of imports. This was defined as either the existing level or a higher level if current imports did not equal 5 percent of consumption. Opportunities for such access are to be provided by imposing lower tariffs on import volumes up to their minimum access commitments. In most cases, the final access provided is no more than the base-period (1986–88) imports. Despite the most-favored-nation requirement in the agreement, countries were allowed to count imports under existing special arrangements as part of their minimum access commitments. Thus, the United States, for instance, was able to include previous special arrangements for sugar and beef imports in calculating its minimum access requirements. Except for rice, the minimum access commitments will not provide significant additional market access for most products.

Developing country distortions

The agreement left many of the worst distortions in developing countries—such as import subsidies, export taxes, state-trading monopolies, and domestic policies that implicitly tax agriculture—outside its scope. The agreement also did not address the issue of differential export taxes that may constitute an implicit subsidy for exports with the lower tax level.

Uncertainty in implementation

First, actual procedures for notification and monitoring of the implementation of commitments are not yet fully defined, and a wide range of issues will require clarification during the implementation period.

Second, the special safeguards (SSGs) provision was conceived as a mechanism designed to facilitate acceptance of the comprehensive tariffication and to provide a certain degree of flexibility in the implementation of the tariff-reduction commitments. The SSG provisions provide protection against import surges for products previously protected by NTBs by allowing additional tariffs above the scheduled levels if import quantities surge or import prices at the border fall too low during the implementation period.

In implementing the minimum access commitments, considerable uncertainty exists in the actual allocation arrangements of the tariff quotas. The latter create the opportunity for considerable rent seeking, and the way they are allocated largely determines the extent to which benefits accrue to the exporting country rather than the importing country. The fact that many allocations within quotas have been given to particular countries, on a preferential basis or in accordance with bilateral arrangements, may result in the formation of coalitions to preserve the status quo. Thus, the mechanisms adopted will determine whether markets will become more competitive and market-oriented or there will be more "managed trade" than in the past.

In addition, not all domestic support policies are subject to reduction commitments, and some may actually encourage countries to shift policies toward the kinds that are exempted from required cuts, such as direct income support linked to land set-aside programs, despite the adverse production and trade effects these policies may have. If countries do this, they may shift agriculture toward greater reliance on supply-management policies rather than a stronger market orientation.

Global impact

Effects on trade. While there were important systemic reforms in the rules governing world trade for agricultural products, the actual impacts over the implementation period, particularly in the short term, will be modest. This conclusion applies to both the trade and the world price effects, as they translate into improved access and reductions in export subsidies and domestic support policies. Moreover, any tangible improvements resulting from the agreement will appear slowly, since implementation problems are identified only in practice and actual monitoring procedures will evolve under the auspices of the WTO. There will be some increased trade in a few commodities—particularly in rice and beef and other meats in Asia-Pacific markets—owing to the commitments made on current and minimum access opportunities.

Effects on world prices and welfare. In view of the limited increases in market access, the continued high incidence of export subsidies in major markets, and the capacity of low-cost producing countries to increase production in response to the new trade opportunities, the impact of the agreement on world prices will be modest. Based on the most recent analysis by Goldin and van der Mensbrugghe (1995), world food price changes owing to actual liberalization achieved will range only from -1 to +4 percent (relative to the price of Organization for Economic Cooperation and Development (OECD) exports of manufactures), compared with previous estimates ranging from +2 percent to more than +12 percent based on the Uruguay Round's Draft Final Act. As a result, the small changes in world food prices resulting from agricultural liberalization are expected to have only a very minor impact on the welfare of most developing countries. For the world as a whole, the estimated income gains are now smaller than before, although still substantial—they are currently estimated at around 0.9 percent of GDP, including income from increases in investment resulting from liberalization. Analysis by Goldin and van der Mensbrugghe (1995) of welfare effects owing to changes in border protection in agriculture and manufacturing indicate relatively modest welfare gains of $48 billion (in 1992 prices) in the same year for the world economy in 2002. This is compared with an estimated welfare gain of $140 billion (in 1992 prices) if the agreement had been implemented without the various slippages discussed earlier in this article.

Conclusions

The Uruguay Round agreement on agriculture has the potential to transform the future policy and trade environments of world agriculture. A ceiling has been placed on such key elements as the levels of tariffs, administered prices, export subsidies, and aggregate domestic support. Further, the improved dispute-settlement procedures constitute an important achievement with potentially important positive effects for agricultural trade.

The agreement will prove path-breaking if countries choose to use the agreed rules as a springboard to further liberalization and strengthening of the trading system. The achievement of the agreement's long-term goals requires further commitments for reform. During the next negotiation on agriculture, which will be initiated in the year 1999, countries will face the challenge of continuing the reform process. Overall, the agreement offers the tools for countries to pursue domestic reforms to improve both their own and the multilateral trade systems. Their decisions will ultimately determine the extent to which the significant systemic benefits of the Uruguay Round are translated into de facto trade liberalization in agriculture. F&D

This article was derived from the author's "Agricultural Liberalization in the Uruguay Round: One Step Forward, One Step Back?" World Bank Working Paper, forthcoming in 1995.

Further reading: Ian Goldin and Dominique van der Mensbrugghe, "The Uruguay Round: Assessing the Implications," World Bank Discussion Paper, forthcoming in 1995; Dale E. Hathaway and Merlinda D. Ingco, "Agricultural Liberalization and the Uruguay Round," paper presented at a World Bank Conference on "The Uruguay Round and Developing Economies," January 26–27, 1995.