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The Honorable Patrick Leahy
Chairman, Committee on Agriculture,
Nutrition, and Forestry
United States Senate

The Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives

As you requested, we have been monitoring the agricultural trade negotiations under the Uruguay Round of the General Agreement on Tariffs and Trade (GATT).[1] The purpose of this letter is to provide a progress report on the current status of negotiations. Specifically, we have focused on (1) the U.S. and its key competitors' reactions to the proposal presented by the GATT's Director General, (2) problems identified with countries' commitment schedules to reduce their support for agriculture, and (3) the status of the European Community's (EC) reform of its Common Agricultural Policy (CAP). We have also provided an outline of the Director General's proposal and the revised CAP in the enclosures. Press reports varied as to whether the United States and its major trading partners made progress at the Group of Seven (G-7)[2] summit meeting in early July in resolving their differences in the Uruguay Round negotiations. This letter helps explain the nature of those differences.

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[1]See our two earlier reports, Agricultural Trade Negotiations: Initial Phase of the Uruguay Round (GAO/NSIAD-88-144BR, May 5, 1988), and Agricultural Trade Negotiations: Stalemate in the Uruguay Round (GAO/NSIAD-91-129, Feb. 1, 1991).

[2]The G-7 countries are Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

SCOPE AND METHODOLOGY

We have monitored the agricultural trade negotiations since the Uruguay Round began in 1986. Our two prior reports assessed the progress in negotiations from September 1986 through December 1990. This letter covers only the key events occurring from January through June 1992, as we plan to issue a separate, more detailed report on the overall status of the talks. To assess negotiations, we interviewed officials at the U.S. Trade Representative (USTR) and the U.S. Department of Agriculture (USDA) on an ongoing basis. We also met with U.S., foreign government, and GATT officials in Geneva, and U.S. and EC agricultural officials in Brussels. In addition, we reviewed the GATT Director General's proposed agreement, status reports from the GATT's Trade Negotiations Committee, countries' reduction commitment schedules, USDA analyses of country schedules, the EC's CAP reform plan, and other pertinent documents. Information in this report on international legal matters does not reflect our independent analysis of the matters but rather is based on secondary sources.

REACTIONS TO PROPOSED GATT AGREEMENT

In December 1991, the GATT's Director General released his proposed final agreement for consideration by GATT parties. According to his proposal, GATT parties would commit themselves to reduce agricultural support and protection in three separate areas--market access restrictions, export subsidies, and domestic support. Parties would also convert all nontariff trade barriers, such as import quotas or bans, to tariffs having the equivalent trade impact as the barriers they replaced. This process, called "tariffication," would make existing barriers more transparent and would provide a clear basis from which to measure reductions in trade barriers. (See enclosure I for more information on the proposed GATT agreement.)

Although the GATT parties accepted the proposed GATT agreement as the basis for further negotiations, they were unable to reach final agreement as planned by April

15, 1992.[3] In general, the United States and most members of the Cairns Group, a group of 14 agricultural exporters,[4] support the agreement as written. However, the EC, Japan, and Canada have raised various objections to the proposal.

According to U.S. officials, although the proposed GATT agreement does not reduce agricultural support sufficiently, the United States generally accepts the proposal, describing it as a mechanism for bringing agriculture further under GATT and providing a "downpayment" on future agricultural trade reforms. Most Cairns Group countries hold a similar position. Both the United States and the Cairns Group maintain that the agreement provides the minimum level of reductions needed, and any further modifications would be unacceptable.

Nevertheless, several countries have raised objections to the proposed text. The EC opposes placing quantity limits on subsidized exports. It would also like to "rebalance" decreases in agricultural support for grains with tariff increases for certain nongrain feed products that now enter the EC with very low or no tariffs.[5] Moreover, the EC maintains that its compensatory payments, which will be provided to farmers as part of CAP reform to make up for lost income, should not be

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[3]On January 13, 1992, the GATT's Trade Negotiating Committee met to consider the Director General's proposal. It agreed to use the text as the basis for further negotiations and to reach a final agreement no later than April 15, 1992.

[4]The Cairns Group consists of 14 developed and developing countries including Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

[5]The nongrain feed imports for which the EC would like to increase tariffs include corn gluten feed, corn germ meal, molasses, beet pulp, and citrus pellets.

subject to the agreement's domestic support reductions.[6] Japan asserts that its nontariff trade barriers on rice, a basic foodstuff, and those products under the purview of GATT article XI[7] should not have to be converted to tariffs as called for in the proposed GATT agreement. Canada has also asked for clarification on the agreement's treatment of article XI and maintains that its import restrictions on commodities produced under supply management systems (i.e., dairy, poultry, and eggs) should not be converted to tariff equivalents.

REDUCTION COMMITMENT SCHEDULES SUFFER FROM POLITICAL AND TECHNICAL PROBLEMS

Despite some countries' objections, all parties agreed to proceed with negotiations that included submitting detailed reduction commitment schedules to the GATT Secretariat by March 1, 1992. These schedules provide baseline information and specific reductions for market access restrictions, export subsidies, and domestic support. As of June 12, 1992, 30 out of 103 parties had submitted agricultural schedules, including most of the major agricultural traders. Some countries, according to U.S. officials, have delayed responding because they disagree with the text or want to avoid the domestic political conflict that could be caused by designating specific reductions. Other parties, particularly the developing countries, have not completed their schedules because they lack the necessary data or technical expertise to do so.

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[6]Domestic support that has only a minimal effect on agricultural production and trade is not subject to reduction under the proposed agreement. However, the EC's compensatory payments would be subject to reductions because farmers must plant and harvest their crops in order to receive compensation and because payments are made on a per-hectare basis. A hectare equals 2.47 acres.

[7]Under article XI of the GATT text, parties have been able to impose import quotas necessary to support measures that limit domestic production.

Several of the commitment schedules that were submitted are not complete, reflecting political and technical problems. For political reasons, some countries--notably those that initially raised objections to the proposed agreement--have not completed the schedules in accordance with the text. The EC, for example, has not listed any reductions for market access restrictions, export subsidies, or domestic support because it does not accept the text as written. Japan did not compute tariff equivalents for rice, starch, and dairy products and is trying to exempt wheat, barley, processed grain products, peanuts, and dried legumes as well, according to U.S. officials. Canada also did not include tariff equivalents for its supply-managed commodities.

GATT parties have also used different technical approaches in preparing their schedules, which vary, in some cases, from the approach prescribed in the proposed agreement. For example, the agreement includes a special safeguard provision to protect, from a dramatic influx of imports, products subject to tariffication. Canada, however, has claimed the special safeguard for products not subject to tariffication. In another case, the proposed agreement calls for minimum access opportunities for those products that are not significant imports. This goal would be achieved by setting very low tariff rates for a small percentage of imports for those commodities. The United States and the EC have interpreted this provision of the text differently and have not used the same approach for computing the minimum level of access. While GATT parties have not yet resolved this difference, the U.S. approach provides much higher levels of access than the EC method does. Finally, according to GATT as well as U.S. and foreign government officials, several countries have not followed the proposed text when converting their nontariff barriers and, as a result, have inflated their tariff equivalents.

To complete the negotiations, GATT parties will have to resolve the technical discrepancies concerning the reduction schedules. Even if political agreement is reached, USDA and USTR officials estimate that parties will need an additional 4 to 6 months to complete this process.

REFORMED EC COMMON AGRICULTURAL POLICY DOES NOT MEET THE GATT DIRECTOR GENERAL'S TARGETS

Concurrent with the Uruguay Round, EC member states have been negotiating among themselves to reform the EC's Common Agricultural Policy. Political agreement on a CAP reform package was reached in late May 1992. Such reform was needed to address both international and domestic concerns with EC agricultural support policies.[8] The scope and level of CAP reform alone are not sufficient to allow the EC to comply with the proposed GATT agreement. However, CAP reform does bring the EC closer to the proposed agreement reductions for certain commodities. In addition, the EC's new support regime for oilseeds, which was the first commodity sector reformed,[9] failed to resolve a GATT case the United States filed against the EC's previous oilseed support regime. EC resistance to any further modifications of its CAP could prolong the ongoing U.S. and EC disagreement, which is holding up an overall agreement in the GATT negotiations.

On May 21, 1992, the EC Agriculture Council reached political agreement on CAP reform. The package covers the cereal, oilseed, dairy, livestock, and tobacco sectors. While the specific changes vary by commodity, the package requires price cuts, production control through land set-aside and quotas, and compensatory

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[8]It should be noted that, in contrast to the Director General's proposed agreement, which calls for reductions in the three areas of market access restrictions, export subsidies, and domestic support, the CAP reform package directly addresses only the area of domestic support. These domestic support reductions, however, may in some cases result in reductions in the other two areas outlined in the Director General's proposed agreement.

[9]Although the EC implemented the new oilseed support regime in December 1991, oilseeds are included in the final CAP reform package.

payments for lost income. CAP reform does not address fruits and vegetables, for which, according to the EC, existing policies successfully control production and expenditures. It also does not address olive oil, for which policies were revised in 1990, or sugar and wine, for which existing policies will be revised through separate arrangements. (See enclosure II for more details about CAP reform.)

EC member states discussed a CAP reform package for more than a year. They debated the proposed level of price and quota cuts, the distribution and duration of compensatory payments, and the effect of CAP reform on their farmers' income and production. Disagreements surfaced between northern and southern states as well as between states dominated by small farms and states dominated by large farms. In addition, states that are the primary contributors to the EC budget raised concerns about the cost of CAP reform.

Resolving these differences resulted in a final CAP reform package that is weaker than the plan initially proposed by the EC Agriculture Commissioner. The domestic target price[10] for cereals will drop to about 29 percent below the existing average buy-in price,[11] as

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[10]The definition of the target price for cereals changes with CAP reform. Under the old system, the target price was a politically determined, theoretical price that reflected the return farmers should receive for their products under ideal market conditions. The target price was higher than the actual market price. Under CAP reform, the target price for cereals is the intended market price and will be closer to prevailing world prices.

[11]CAP contains a price-stabilizing mechanism that operates by removing excess production from the EC market. The EC makes intervention purchases when the internal market price drops to an administratively determined price called the "intervention price." However, in recent years, intervention purchases have occurred at 94 percent of the intervention price at a

opposed to 35 percent as originally proposed. Medium- and large-sized farmers will still receive compensatory payments in exchange for taking 15 percent of their land out of production. However, the final package provides compensation for all land set aside rather than just a limited amount as called for in the original plan. In the dairy sector, the reform package requires a 5-percent cut in the intervention price for butter, as opposed to the originally proposed price cuts of 15 percent on butter and 5 percent on skimmed milk powder.[12] The CAP reform package requires reviewing and setting dairy production quotas annually depending on market conditions, while the original proposal would have simply cut dairy quotas by 3 percent. Intervention prices for beef will still be cut by 15 percent, and the livestock premiums will be increased.[13]

Certain administrative actions are necessary in order for CAP reform to be implemented in the 1993-94 marketing year.[14] According to an EC official, the European Commission must draft the necessary legal text to amend the original proposal and reflect the changes in the negotiated CAP reform agreement. This legal text must still be officially adopted by the Agriculture Council. The final package will not return to the European Parliament, which issued its favorable opinion of the original package in December 1991. The Commission will

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level known as the "buy-in price."

[12]See footnote 11.

[13]Under CAP, beef producers receive a payment per animal called a "livestock premium." These payments vary in amount and frequency depending on the type of animal and have been payable on the first 90 animals per herd. To compensate beef producers for the price cut in beef, CAP reform increases the amount of these payments. Such payments will now be limited to two animals per hectare.

[14]A new price package was adopted at the same time CAP reform was finalized that will be in effect for the 1992-93 marketing year.

also draft rules to carry out the changes outlined in the reform package. Finally, member states will have to make administrative changes to implement and enforce certain parts of the package, such as monitoring the set-aside requirements.

CAP reform measures alone will not allow the EC to comply with the proposed GATT agreement as written. First, CAP reform only addresses certain commodities, while the agreement would apply to all agricultural products. Second, the EC will probably not fully comply with the proposed agreement's support reduction commitments for those commodities that CAP reform does address, according to U.S. and EC officials. CAP reform makes the most significant reductions to the cereals sector and will probably meet the proposed agreement's targeted reductions for most types of cereals. CAP reform changes in the beef sector are more modest and are less likely to meet the proposed agreement reductions. In the dairy sector, CAP reform makes only minimal changes that will probably not achieve the proposed reductions. Nonetheless, now that member states can present a unified front, EC officials have begun to assert that CAP reform represents the upper limit of changes the EC can make to its agricultural support policies, regardless of whether such changes are in line with the proposed GATT agreement.

In addition to having to deal with the gap between CAP reform and the proposed GATT agreement, the EC is also responding to recent GATT panel findings that its new oilseed support regime continues to impair tariff concessions the EC granted in a previous GATT round.[15] The panel directed the EC to act expeditiously to eliminate the impairment either by revising its new

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[15]In 1989, a GATT panel review of the EC oilseed support regime found that the effect of such support nullified the EC's agreement in a previous GATT round not to apply tariffs to oilseed imports. After the EC implemented its new regime in 1991, a second panel found in March 1992 that the revised system also effectively nullified the previously agreed-to tariff concessions.

oilseed regime or by renegotiating its tariff concessions for oilseeds under GATT article XXVIII.[16] The EC will attempt to renegotiate its tariffs, but it must devise compensation that is acceptable to the United States and other affected GATT parties. Meanwhile, the United States, which estimates that trade damage from the EC's oilseed support regime amounts to $1 billion per year, is preparing a list of retaliatory actions as provided for under Section 301 of the 1974 Trade Act, as amended.[17]

CONCLUSION

Reaching a final GATT agreement continues to depend primarily on resolving the outstanding political differences between the United States, as well as other supporters of the Director General's proposed agreement, and the EC over agriculture. Through its recent CAP reform, EC member states have now agreed to and can present a more unified position on what direction their agricultural reform should take. However, solidifying domestic reform may actually constrain the EC, at least in the short run, from making the additional concessions necessary to conform with the proposed GATT agreement that the United States and the Cairns Group consider to be the minimum level of acceptable reductions in agricultural support and protection.

In light of this situation, it is unclear whether the EC will offer to reduce agricultural support any further. On the one hand, the EC faces political opposition from agricultural groups to making any further cuts. On the

[16]Article XXVIII allows GATT parties to renegotiate tariff concessions as long as they provide adequate compensation to parties affected by the change.

[17]Section 301 of the 1974 Trade Act, as amended, gives the President the authority to enforce rights granted by international trade agreements. It authorizes USTR to suspend or withdraw the benefits of trade concessions and to impose duties or other import restrictions under certain conditions.

other hand, the EC is under strong international pressure to resolve the GATT stalemate and must consider that U.S. fast track provisions that simplify the U.S. legislative process for considering the proposed agreement will expire on June 1, 1993.

Please contact me at (202) 275-4812 if you or your staff have any questions concerning this letter. The information in this letter was developed by Phillip J. Thomas, Assistant Director, and Stanton J. Rothouse, Adviser (General Government Division); and Christina L. Warren and Shirley Brothwell (European Office).

Allan I. Mendelowitz

Allan I. Mendelowitz, Director
International Trade and Finance Issues

KEY ELEMENTS OF THE PROPOSED GATT AGREEMENT ON AGRICULTURE

The proposed GATT agreement requires parties to commit themselves to specific reductions in three areas--market access restrictions, export subsidies, and domestic support. Reductions in these areas would take place over a 6-year period from 1993 to 1999. In addition, the agreement includes sections on international sanitary and phytosanitary measures, special treatment for developing countries, and special safeguards to prevent large increases in imports.

The proposed agreement requires parties to carry out the following provisions in these areas:

Market Access Restrictions

- Convert all nontariff trade barriers to tariffs (referred to as "comprehensive tariffication").
- Reduce tariffs, including both existing tariffs[1] and those resulting from tariffication, by 36 percent using a simple average, with no less than 15 percent for each tariff line.
- Establish minimum access opportunities for those products that are not significant imports. Parties would set low tariffs for imports equaling at least 3 percent of domestic consumption in 1993 and increasing to 5 percent by 1999.
- Maintain and increase current access opportunities. However, no specific targets have been set for the increase in current access.

Export Subsidies

- Reduce budgetary outlays for export subsidies by 36 percent and the quantity of subsidized exports by 24 percent.
- Use 1986-90 as the base period from which to measure reductions.

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[1]Measures maintained for balance-of-payments reasons or under general safeguard and exception provisions (articles XII, XVIII, XIX, XX and XXI of the General Agreement on Tariffs and Trade (GATT)) are excluded.

Domestic Support

- Reduce domestic support by 20 percent, with the exception of support that does not distort or has minimal effects on trade or production.
- Make reductions using product-specific aggregate measures of support.
- Use 1986-88 as the base period from which to measure reductions.

Sanitary and Phytosanitary Measures

- Use international standards, where they exist, to protect human, animal, or plant life and health.
- Introduce higher standards if they are scientifically justified.
- Rely on internationally accepted risk assessment procedures for developing standards.
- Accept different standards from other parties, if they are deemed to be equivalent.

Special and Differential Treatment for Developing Countries

- Allow developing countries up to an additional 10 years to implement the reduction commitments.
- Exempt least developed countries from any reductions.

Special Safeguards

- Restrict imports of a specific commodity if the price falls below an average of 1986-88 reference[2] prices.
- Restrict imports of a specific commodity if the quantity imported exceeds either 125 percent of the average amount imported during the past 3 years or 125 percent of the established minimum access level.

[2]The reference price is generally the average cost, including insurance and freight, of a unit of the product concerned.

KEY CHANGES TO THE EUROPEAN COMMUNITY'S COMMON AGRICULTURAL POLICY

Reform of the European Community's Common Agricultural Policy (CAP) modifies the current support structure for arable crops,[1] dairy, beef, and tobacco.[2] The changes will be phased in over 3 marketing years, starting in 1993-94. CAP reform also contains measures that address farming and care of the environment, afforestation of agricultural land, and early retirement of farmers.

Under CAP reform, the EC will make the following changes to its agricultural support structure for individual commodity sectors:

Arable Crops

- Reduce the target price to 29 percent below the average buy-in price.
- Require at least a 15-percent set-aside of land to be kept out of production in order to receive compensation, except for small farmers.
- Provide compensatory payments for all land set aside.
- Provide farmers the option to rotate or not rotate set-aside land, but require a higher set-aside percentage if land is not rotated.

Dairy Sector

- Reduce butter intervention price by 5 percent.
- Review and set dairy quotas based on market conditions at the beginning of the 1993-94 and 1994-95 marketing years.
- Provide compensatory payments if quotas are reduced.
- Implement higher dairy quotas for Greece and Spain.

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[1]Arable crops include cereals, oilseeds, and protein crops.

[2]CAP reform addresses sheepmeat, but does not make many changes.

Beef Sector

- Reduce the intervention price by 15 percent.
- Establish maximum herd density rate of two animals per hectare.
- Increase current livestock premiums subject to meeting lower herd density requirements.
- Reduce intervention stocks and lowerreduce the ceiling to 350,000 tons.

Tobacco Sector

- Establish eight groups of varieties of tobacco.
- Reduce total EC production quota to 350,000 tons.
- Set quotas for each tobacco variety at member-state level.
- Establish a premium for each variety of tobacco, payable up to an individual quota level.

The EC will also implement the following changes to establish a better linkage between farming and the environment:

Farming and Care of the Environment

- Offer aid to farmers who (1) lower their use of fertilizers, pesticides, and herbicides; (2) reduce their herd size; (3) adopt more natural, environmentally sensitive farming methods; and (4) commit to upkeep of abandoned farm land.

Afforestation of Agricultural Land

- Increase amount and types of aid currently available to assist farmers who undertake afforestation of farm land.

Early Retirement of Farmers

- Allow farmers to receive retirement pension at 55 years of age.

 ENCLOSURE II

- o Require that land belonging to farmers who opt for early retirement be (1) transferred to a successor or annexed to an existing farm to improve the production structure and ensure economic viability or (2) transferred to nonagricultural use.

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