

# Agriculture and trade

William Meyers

PID\_00157671



Universitat Oberta  
de Catalunya

[www.uoc.edu](http://www.uoc.edu)



## Index

|  |    |
|--|----|
| <b>1. Scene setter</b> .....   | 5  |
| <b>2. Structure and evolution of agricultural, food and trade policy</b> ..... | 7  |
| 2.1. Higher income economies .....   | 7  |
| 2.2. Lower income economies .....  | 12 |
| <b>3. Political economy of food and agricultural policy</b> .....              | 15 |
| 3.1. Explaining domestic agricultural and food policies .....                  | 15 |
| 3.2. Explaining trade policies .....   | 17 |
| <b>4. Trade measures and implications</b> .....                                | 19 |
| 4.1. Higher income economies .....   | 19 |
| 4.2. Lower income economies .....  | 19 |
| <b>5. Impacts of policy on food security and production</b> .....              | 20 |
| <b>6. Uruguay Round Agreement on Agriculture</b> .....                         | 21 |



## 1. Scene setter

The volume and value of food trade has increased as incomes and market globalization have increased, but part of that change since the mid 1990s has been the gradual reduction of trade barriers for food and agricultural products. Thus, we begin this course with some basic information and analytical concepts on agri-food policies and trade.

In the trade wars immediately following World War I, trade barriers and protectionism severely stifled trade and economic growth around the world.

- **General Agreement on Tariffs and Trade (GATT):** One remedy and a key part of the Post-WWII recovery package that was created in 1947 and which progressively reduced trade barriers for many products.

But food and agricultural products were essentially left out of these multilateral trade agreements until the:

- **Uruguay Round Agricultural Agreement (URAA)**, which started in 1986 and came into force in 1995.

The reason was that most of the trade barriers for food and agricultural products are a direct result of domestic policies. Governments have to protect domestic producers and domestic food and agricultural products and they did not want international agreements to limit what they considered to be their domestic food security or domestic farm support decisions.

Although trade barriers have declined since the Uruguay Round, agricultural and food products still are highly protected through trade barriers in many countries, especially in higher income countries. Processed food products are generally more protected than primary commodities. This higher protection is referred to as *tariff escalation*, which means that more highly processed foods tend to be more highly protected than less processed products. These measures are primarily driven by the political economy of higher income countries, where the agricultural producers and food industries tend to be better organized and have more influence. Food safety and/or food standard regulations may well arise quite independently from these protectionist measures; but as trade negotiations reduce tariffs, regulatory measures are more likely to be a binding mechanism. This is exactly why international agreements are formulated to limit the use of legitimate food safety regulations as barriers to trade.

So we begin this course by looking at:

- the structure and evolution of agricultural, food and trade policies,

- some measures to compare levels of protection,
- the political economy of these policies in different countries,
- the linkages between domestic and trade policies,
- the implications of such policies in high low income countries and on production and food security, and
- the provisions of the URAA for constraining agricultural and trade policy decisions by member countries.

## 2. Structure and evolution of agricultural, food and trade policy

The evolution of food and agricultural policy is a saga worth revisiting briefly so as to understand the motivations behind these policies and why they may have evolved differently in different places. For the same reason, we divide this story into several parts to highlight differences in paths and motivations. We first discuss the policy evolution in higher income economies, at times referred to as *industrialized* or *developed* countries, then the policy paths of lower income economies, at times referred to as *developing*, *less-developed* or *Third World* countries. These classifications are far from exact, so we feel it is better to use the relative designations of *higher* and *lower* income.

### 2.1. Higher income economies

- The origins of protection go back to the industrial revolution and is best seen in Britain, which increasingly raised food import duties from 1660-90, then pushed them even higher in the Corn Laws of 1815. Later, the Corn Laws were repealed in 1846; France removed most agricultural protection in 1860; the Netherlands in 1862 and Belgium in 1871. So, in the middle part of the 19<sup>th</sup> century, the trade among European countries was nearly free of restrictions.
- The next wave of European protectionism came after 1870, when grain exports from the Canada, Russia and especially the United States began rising and grain prices were falling. By 1895, grain prices were nearly half the level of 1870, and import tariffs of Germany and France were already relatively high. As a consequence, wheat prices in Germany and France were nearly a third higher than in the USA and England, which did not reintroduce tariffs (first figure below). It is clear these policies were to help farmers incomes via higher product prices, but consumers may not have noticed much, since prices were declining even in Germany and France but not as fast as in US and England and world markets in general.
- The First World War drove world agricultural and food prices up again, and import tariffs were suspended.
- But prices began to fall again when production gradually recovered after the war. This price decline was greatly accelerated by the Great Depression that followed the New York stock market collapse in 1929. Import tariffs, again were the first response of some countries, and they were even higher than before the war.  
When even such high tariffs did not stop imports, other measures were taken, such as requiring a minimal share of domestically produced grain

#### Bibliographical reference

Anderson, Kym (2009). "Political Economy of Distortions to Agricultural Incentives: Introduction and Summary". *Agricultural Distortions Working Paper* (No. 91, p.11). World Bank.

#### Bibliographical reference

Tracy, Michael (1993). "Food and Agriculture in a Market Economy: An Introduction to Theory, Practice and Policy". *Agricultural Policy Studies* (Chapter 8, pp. 148-162). Belgium.

#### Example

In France and Germany, import tariffs on grains were at least two times the world price level.

for milling and imposing import quota limits, which was first used by France in 1931. When post-war production growth continued to depress prices, despite import restrictions, France and many other European countries instituted other policies to manage markets, buy surpluses, subsidize exports and subsidize farmers. Even exporters Denmark and Netherlands abandoned their *laissez faire* policies and intervened in marketing and pricing of some products. The most extreme measures, however, were in Nazi Germany who, from 1933, imposed state control on the markets and fixed prices and quantities according to a state plan. Ironically, this was the means of market management later adopted in the Soviet Union and some of its Satellite countries after World War II.

The post-war production recovery combined with the economic Depression and these trade restricting policies that limited market access for exporters, caused a severe decline in world prices on which exporters were dependent.

Wheat price declined by more than 50 percent in three years, while prices in many of the protected countries of Europe declined much less (second figure below). The United States and Canada, as major grain exporters, felt the biggest impacts of the protectionist measures. The US farmers and representatives in Congress started discussing means to help farmers during the period of price declines after WWI. Some bills were passed between 1924 and 1928 and were vetoed by Republican President Coolidge, but no strong measures of support were passed and implemented until the even greater distress in the 1930s and a new Democratic President Roosevelt.

The **Agricultural Adjustment Act of 1933** was the first of many laws to bring government to the support of US farmers. And in Canada the **Canadian Wheat Board** was founded in 1935 to be the sole buyer and export seller of Canadian grains in order to get a better price for Canadian producers.

The policies in Europe, Canada and the United States have undergone many reforms since the 1930s, but the laws and institutions created then still form the basis of agricultural policy today.

- Although World War II disrupted agricultural production in many countries and brought back high agricultural prices, the post-war recovery again brought prices down and created some of the same pressures for agricultural support that existed in the 1930s. In the United States, the **Agricultural Act of 1949** set higher price support levels that eventually had to be reduced, but that law is still the permanent farm policy legislation that has to be periodically amended to avoid a return to those unrealistic high support levels. In Europe, the devastation

#### Bibliographical reference

Petit, Michel (1985). "Determinants of Agricultural Policies in the United States and the European Community". *Research Report* (No. 51, chapter 4). Washington, DC: International Food Policy Research Institute.

#### Bibliographical reference

Zobbe, Henrick (2001). "The Economic and Historical Foundation of the Common Agricultural Policy in Europe". *Unit of Economics Working Paper* (2001/12). KVL, Frederiksberg.



of the war and the real experience of food deprivation and food insecurity during the war gave a high priority to domestic food production in the post-war period. It is evidence of the importance of food and agriculture in post-war Europe that when the Treaty of Rome was signed in 1957 to form the new six-member European Economic Community (EEC), it created a **common agricultural policy (CAP)** that codified the high support policies of France and Germany and extended them to the other 4 members along with the import protection and export assistance required to maintain these support levels.

As the EEC evolved into the European Union (EU) and more members were added from the original 6 to the current 27, the CAP was always extended to the new members and the single market in agricultural and food products was maintained; but policy measures in the CAP also had to adjust to change.

The group of countries that have had and still have the highest levels of protection for agricultural goods are:

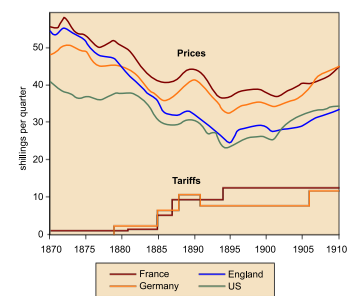
- Iceland
- Norway
- Switzerland
- Korea
- Japan.

What do they have in common?

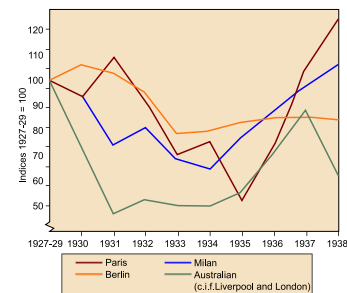
- They are all small, higher income countries
- They have relatively high ratios of population to agricultural land
- They have low competitiveness in the production of most agricultural commodities

Every country has its own story and its own policy development path, but we focus on Japan for purposes of this discussion.

Agriculture has played a large role in the traditions and culture of Japan, and the meticulously managed rice fields even today bear testament to the pride and devotion with which farmers till the soil. Agricultural support grew out of the post-WWII land reform that replaced large landholdings with small farmer-owned operations and sought to close the gap between farm and non-farm incomes as well as to preserve the rural landscape and ensure some measure of food security. Despite the fact that Japan is the largest net importer of agricultural products in the world and imports at least 60 % of its food calories, it has a policy that seeks to preserve *rice security* by producing nearly all of its own rice consumption.



Wheat Prices and tariff rates.  
Source: Board of Trade (UK), *British and Foreign Trade and Industry* (1909); data for later years compiled from national sources. A "quarter" was a measure of capacity, equal to about 2.9 hectolitres.



Wheat Prices, 1927 to 1938.  
Source: *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2009*.

### Bibliographical reference

OECD (2009c). "Evaluation of Agricultural Policy Reforms in Japan" (pp 27-43). Paris.

Its agricultural policies maintain high prices to support farm incomes, so much of the cost of this incomes and *rice security* policy is borne by consumers. As South Korea has become more prosperous, it has in many ways followed the example of Japan in protecting domestic markets, and now has even higher levels of support and protection than does Japan.

Both EU and US policies, as well as those of other higher income countries, have changed over time to reflect new realities of increasingly globalized markets and pressures from budget constraints as well as bilateral, regional and international trade agreements. A significant factor in these changes since 1995 has been the Uruguay Round Agricultural Agreement (URAA) that will be discussed in greater detail in unit 6 below.

- First, we will see what happened to support and protectionism.
- Later, we will discuss how and why it happened.

In order to illustrate these changes, we need first to introduce three measures that are frequently used to compare levels of support among countries and across time.

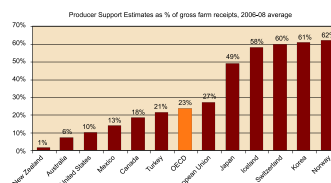
- **The Producer Support Estimate (PSE).** It is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers, measured at farm gate level, arising from policy measures, regardless of their nature, objectives or impacts on farm production or income. Like all such measures, it is imperfect, but it has the advantage of combining several types of support into one measure, distinguishing different types of support used by countries, and being accepted by a broad range of countries as a fair and balanced indicator. It is annually updated by the Organization for Economic Cooperation and Development (OECD).
- **The Nominal Protection Coefficient (NPC).** It is the ratio between the average price received by producers at the farm gate (including payments per ton) and the border price (also calculated at the farm gate). It measures the level of market protection.
- **The Nominal Assistance Coefficient (NAC).** It is the ratio of the value of gross farm receipts (including support) and the gross farm receipts valued at border prices (also calculated at the farm gate). It measures what share of farm receipts that come from the marketplace.

#### Bibliographical reference

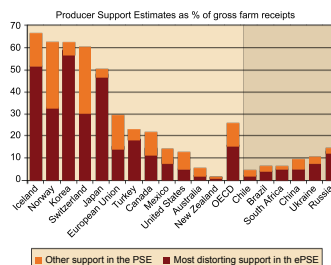
<http://stats.oecd.org/glossary/detail.asp?ID=2150>  
<http://www.oecd.org/dataoecd/57/5/43411396.pdf>  
 (pp. 1-5)

It is clear that even for higher income countries, there are large differences in the levels of support, ranging from almost free market conditions in New Zealand, to very high support levels in Japan, Korea, Switzerland, Iceland and Norway.

In the next section, we want to discuss why such big differences may exist in these support levels. By comparison with many of the higher income countries, emerging economies are all at the lower end of the support spectrum (figure below). There is a big variation in how much support is in the form of less distorting support, such as direct income payments, and how much is a more distorting type of support such as high price supports.

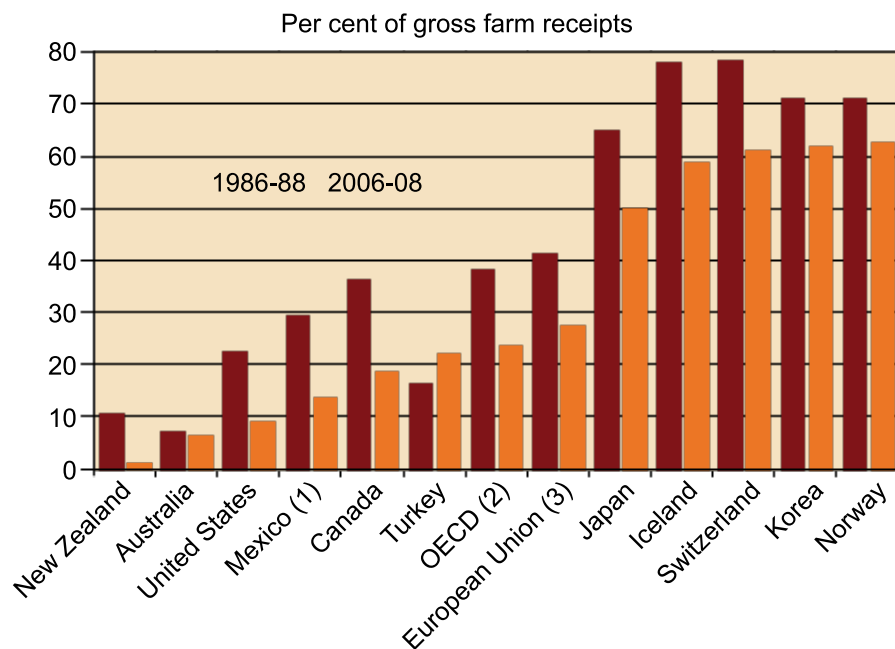


Comparison of PSEs in OECD countries. Source: Agricultural Policies in OECD Countries: Monitoring and Evaluation 2009.



Comparison of PSEs in OECD and emerging market economies, 2005-77 ave.

Finally, the next figure gives an indication that support has been reduced since the late 1980s in all higher income countries, except Turkey, since the URAA came into force, though many still remain very high.

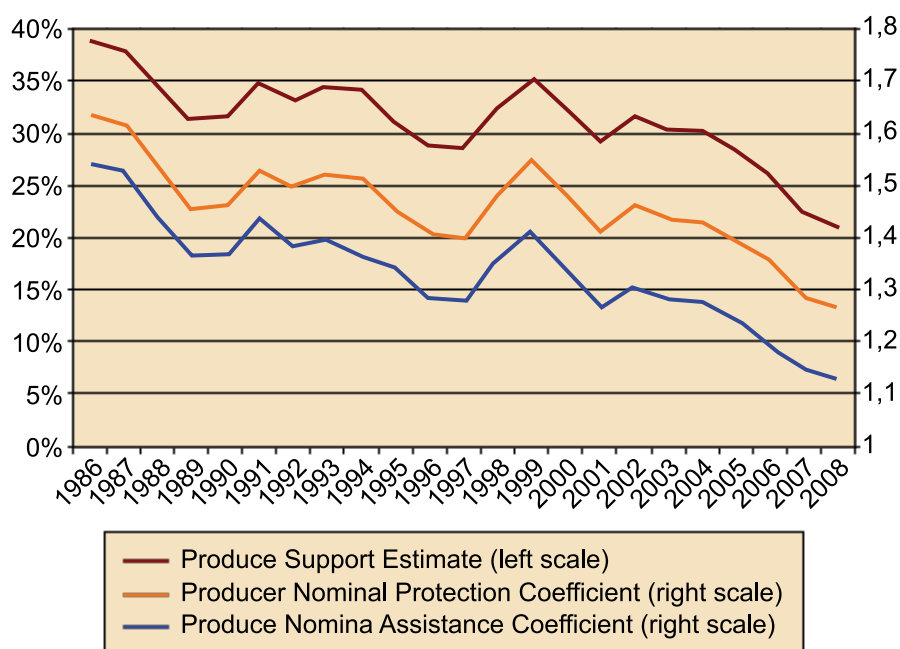


Change in producer support estimates by country, 1986-88 and 2006-08. Countries are ranked according to PSE levels in 2006-08.  
 1) For Mexico, 1986-88 is replaced by 1991-93  
 2) Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the non-OECD EU member states.  
 3) EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 for 2004-06 and EU27 from 2007.  
 Source: OECD, PSE/CSE Database, 2009.

As a reference to how these have changed year to year and how the PSE measure compares to NPC and NAC, we show the change year to year for OECD countries in aggregate since 1986.

**Bibliographical reference**

OECD (2009a). "Agricultural Policies in OECD Countries: Monitoring and Evaluation 2009 Highlights". Paris.



Evolution of OECD support according to PSE, NAC and NPC measures. Source: Anderson et al 2009, page 36

## 2.2. Lower income economies

A clue to the story of policy evolution in lower income countries is already seen in the comparisons of PSEs in OECD and emerging market economics. The countries on the right side, Chile, Brazil, South Africa, China, Ukraine and Russia, are in the classification of **Middle Income Countries (MICs)**, so in some ways are between the **Low Income Countries (LIC)** and **High Income Countries (HIC)**. The data will show that, in general, support for agriculture is lower in countries with lower incomes, so the countries in the middle tend to have support levels that are between the HICs and the LICs. The cases of Russia and Ukraine are very different because of their being part of the Soviet Union with a very different economic and policy system from 1922 to 1991.

But the other MICs mentioned were generally part of the pattern of taxing agriculture in earlier years when their incomes were lower. The most enduring examples of agricultural taxation appear to be in Africa, where income levels are also still among the lowest in the world.

The evolution of these policies was traced by Bates (1983) and Krueger (1996) to extraction of revenue from agriculture, and especially export crops, in order to finance industrialization. The agricultural marketing boards, formerly used by colonial powers to extract value and products from agriculture in these countries, were used after independence to raise revenue for industrialization and other urban priorities. This was done by paying farmers a lower price than the price for which it was sold in the world market. There was also a mistaken belief in those early years that poor farmers were not responsive to economic

### Supplementary content

In Stalin's time agriculture in Russia and Ukraine was heavily taxed, but later farmers and consumers were widely subsidized in the Soviet Union and Central and Eastern European countries in the 1970s and 1980s.

incentives. The general exception to this pattern of taxation was that import competing commodities (often the food staple) were usually protected rather than being taxed as were the exportables.

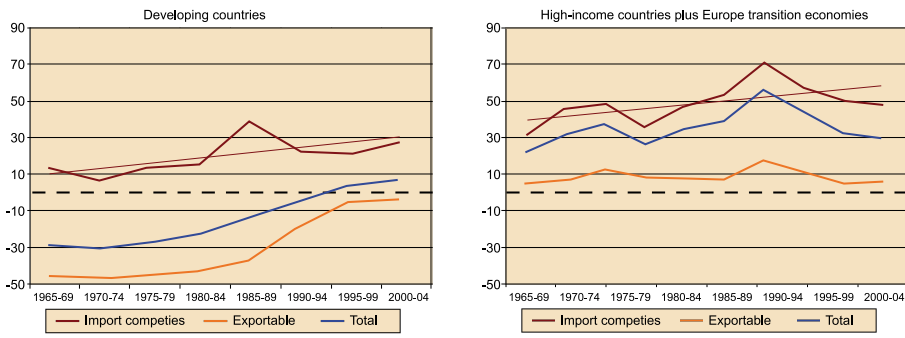
A detailed analysis conducted in recent years has made this pattern clear by computing the **Nominal Rates of Assistance (NRAs)** –very similar to the NAC measure used by the OECD before- for a large number of high income countries and developing (MIC and LIC) countries to make a comparison over time. The NRA is:

"the percentage by which government policies have raised gross returns to farmers above what they would have been without the government's intervention (or lowered them if NRA is negative)".

Anderson, Kym; Croser, Johanna; Sandro, Damiano; Valenzuela Ernesto (2009). "Agricultural distortion patterns since the 1950s: what needs explaining?". *Agricultural Distortions Working Paper*(No.90). World Bank.

Product-specific input subsidies are included. Aggregating these across commodities and across countries within each group tells a very illuminating story that confirms and elaborates on results from earlier studies. For included developing countries, the NRA was nearly -50% in the late 1960s; and this taxation was gradually reduced over time until it was nearly zero in the 2000-04 period. For import-competing products, there was a positive support starting from about 10 % in the mid 1960s, rose to nearly 40% in the mid 1980s then declined to about 30 % in 2000-04. So, for all products combined there was a weighted average tax at the beginning (NRA= - 30%) and small assistance (NRA = 5%) at the end of this 35 year period.

By contrast, HICs started in the late 1950s (note this starts 10 years earlier) with assistance to exportables of about 5%, which increased to nearly 20% by the late 1980s, then decreased again to about 5%. Import-competing products in HICs were assisted to the tune of nearly 30% in the late 1950s, increased to nearly 70% by the late 1980s then declined to about 50% at the end of this 45 year period. When these are aggregated across all products, the level of assistance starts at over 20%, rises to over 50% in the late 1980s then declines to about 30% in 2000-04. These results both contrast the evolution of protectionist policies in HICs and developing countries and trace interesting patterns over time, that reflect increased protection with income growth and perhaps some moderation in this growth after the beginning of the Uruguay Round negotiations in 1986.



Nominal rates of assistance to exportable, import-competing and all covered agricultural products, high income and developing countries, 1955 to 2004, percent.  
 Covered products only. The total also includes nontradables.  
 Source: Anderson et al 2009, page 36

### 3. Political economy of food and agricultural policy

- Why do food and agricultural policies differ so much from country to country, and why do high income countries tend to support and subsidize agriculture while low income countries tend to neglect or even tax agriculture?
- What can explain how these policies change over time?
- Why do policies differ from what academic analysis may suggest?
- If governments don't just do what economists or other academics have found to be best for society as a whole, what actually determines policy decisions?

These are political economy questions, and the puzzles over observed policy trends and patterns have led to many studies that compare policies across countries and across time in an attempt to understand the factors that contribute to these different outcomes and alternative paths through time. This section does not answer all these questions but merely summarizes some of the results of such studies. We will see later that many of the same principles of political economy apply to the formation of food regulations, another form of food policy.

#### 3.1. Explaining domestic agricultural and food policies

Swinnen reviewed studies of the political economy of agricultural protection in the 1980s and 1990s and organized the explanations of these studies into three groupings:

- The **development pattern**, which relates to the pattern that as incomes grow, agricultural protection also grows and policies shift from taxing agriculture to protection of it.
- The **anti-trade pattern**, which finds that import-competing sectors or products are supported more or taxed less than exportables.

- The **anti-comparative advantage pattern**, which can be seen when protection is lower or taxation higher on products that have greater comparative advantage and that protection increases or taxation decreases when farm incomes, especially from that product or sector, fall relative to the rest of the economy.

These general patterns can even be seen in the graphs of the figure above, which come out of a very recent and much more complete data set than was available for earlier studies.

The question still remains as to what are the factors behind these observed patterns. The political economy approach views decisions as rational responses to all the pressures from an array of interests in society, given the way institutions of government and of stakeholders are organized at that time in that country. Some of the main factors identified by political economy theory and public choice models are:

- Individual preferences of the citizenry.
- Differing ability of stakeholder groups to organize effectively.
- Collective action by lobby groups.
- Preferences of politicians or interaction of lobbies and politicians.
- Political institutions and ideology (e.g. US Congress vs. European Commission as decision maker).

A good example of the underlying processes at work is what happens as an economy develops and average incomes grow.

The share of agriculture in the national economy and the share of farmers in the workforce decline, so it becomes less costly for the rest of the economy to subsidize them. Likewise, the share of income consumers spend on food declines, so there is less resistance to food price enhancing measures from consumers and from industries concerned about pressures to increase wages. Moreover, in the course of economic development, incomes in the rest of the economy tend to grow faster than in agriculture, which increases pressure to support farmers and provides more tax revenues to do so. Of course, after many years of such support, farmers' incomes in many high income countries are now as high or higher than the national averages.

Political science theories of political interest groups in a democracy also say that it is easier to organize around a more narrow set of objectives and with a more narrowly defined interest group, which means organizing wheat or corn producers or even farmers more broadly defined is more effective than organizing consumers, for example.

It is also observed that the coalition of such special interest groups and politicians that support them and seek their votes can be quite strong. This coalition of interests that develops in a democratic system helps to explain why

#### Bibliographical reference

Swinnen, Johan F. M. (2009). "Political Economy of Agricultural Distortions: the Literature to Date". *Agricultural Distortions Working Paper* (No. 94, p. 3). World Bank.

#### Bibliographical reference

Swinnen, Johan F. M. (2009). "Political Economy of Agricultural Distortions: the Literature to Date". *Agricultural Distortions Working Paper* (No. 94, p. 4). World Bank.

#### Bibliographical reference

McFarland, Andrew (2009). "Political Interest Groups". *Political Science* (No. 566, p. 3). University of Illinois at Chicago.



the protection levels once achieved are sometimes easier to increase than to reduce or dismantle. Another notable consequence of special interests and lobbying behaviour that is consistent with theory is that protection increases with the level of processing (called *tariff escalation*), which relates directly to our main topic of food regulation, which also tends to be more stringent on more highly processed foods.

Food processors are even more specialized and fewer in number and easier to organize than farmers, but sometimes also enhance their influence through coalitions with farm and commodity organizations.

The many factors that combine to influence the path of policy evolution over time and space are much more complex and interconnected than we have elaborated here.

The important lesson is that different policies in different countries and in different time periods are the consequence of numerous economic, political, social, institutional and cultural factors that interact with each other.

There are also factors external to every country that usually play a role, and these include trade, trade agreements, and international institutions that are discussed elsewhere.

The most remarkable policy changes have come as a result of factors external to agriculture and/or crises. Budget problems have driven some big reductions in support in Sweden and New Zealand and were a factor in some EU policy reforms. Regime changes caused major reforms in agricultural policy in China, Central and Eastern Europe and former Soviet Union in recent decades. So policy change is not always gradual and deliberative. It can be abrupt and radical as well, especially if crisis and external factors are impacting the country simultaneously.

### 3.2. Explaining trade policies

It should be clear by now that trade policies in food and agricultural products are usually a direct consequence of domestic policies. We started the discussion previously by talking about the import tariffs Britain used to protect its farmers. Most of the early policy measures used to support farmers involved the use of:

- import tariffs
- import quotas
- export subsidies

#### Bibliographical reference

Swinnen, Johan F. M. (2009). "Political Economy of Agricultural Distortions: the Literature to Date". *Agricultural Distortions Working Paper* (No. 94, p. 7). World Bank.

- other border measures

to maintain domestic prices higher (or lower for the countries taxing agriculture) than the world market. As a consequence of budget pressures and multilateral trade negotiations, some measures of support that are less trade distorting have been introduced over the last decade or more.

If a country wants to raise the income of its farmers, there are several ways of doing so. Taxing or restricting imports or subsidizing exports are typical traditional measures. But another way is to give them income transfers in the form of payments that are less trade distorting as long as these payments are not tied to production of any particular commodity. Such payments are called *decoupled payments*, because they are decoupled from production decisions. As a consequence of the Uruguay Round Agriculture Agreement (URAA) of 1995 and the **Doha Development Agenda (DDA)** negotiations that are now underway, more countries are shifting to this method of supporting farmers. These trade issues will be discussed briefly in later sections.

## **4. Trade measures and implications**

Because of the differences described between policies of high and low income countries, this discussion is separated into those two categories. The main policy patterns have already been discussed, so we merely summarize the market impacts.

### **4.1. Higher income economies**

Trade measures of higher income countries have resulted primarily from domestic policies to increase domestic prices of farm commodities.

- For imported goods, this meant limiting imports with tariffs or quotas.
- For exported goods, this meant stimulating exports with subsidies or other forms of surplus disposal.

All of these measures result in more goods on the markets outside these protected countries, and that depresses world prices. A common complaint of developing countries in trade negotiations for decades has been that developed countries policies, by increasing prices for their own farmers, result in depressed prices for developing country farmers. Naturally, these policies enhance prices and incomes of domestic farmers.

### **4.2. Lower income economies**

As has been previously seen, low income countries have tended to tax domestic agriculture, especially for exported products. As incomes have grown over time, there is also evidence of a movement toward reducing this discrimination against agriculture. However, most of the low income economies cannot afford to subsidize, and agriculture remains neglected or taxed either directly or indirectly. These discriminatory policies reduce the amount of exported products and, thus, would have the effect of increasing world price. At the same time, these policies discourage domestic production and further impoverish domestic farmers.

## **5. Impacts of policy on food security and production**

The recent data on rates of assistance to agricultural products indicate that support has generally increased over time, though its increase has slowed after the 1985-89 period. Support in high-income countries has increased, and the discrimination against agriculture in developing countries has decreased and in some cases has become positive support. Inasmuch as policies around the world have stimulated production more than what markets alone would have generated, this has increased the level of food availability in the world as a whole. However, food security is more than global food supply, because it depends critically on how these supplies are distributed. The important element of access to food depends on the ability to purchase or produce that food. If production growth in low income countries has been slowed by discriminatory policies in low-income countries or by world prices depressed by developed country protectionism, it reduces access to food both through lower own production and lower incomes.

## 6. Uruguay Round Agreement on Agriculture

The **Uruguay Round Agreement on Agriculture (URAA)** has been mentioned above as one of the factors that apparently slowed the growth of protection rates during the last decade, so we want to provide a brief summary of its provisions and why it may have had such a moderating effect. One of the main achievements of the URAA has been to bring the food and agriculture sector into the multilateral framework that has for many decades been reducing protection in almost every other sector of global economies. It was the first time that countries allowed the **General Agreement on Tariff and Trade (GATT** – which was transformed by the Uruguay Agreement into the World Trade Organization) to constrain those domestic agricultural policies that distort trade. Even though the actual reduction in protection may have been relatively small, the URAA did develop and implement a framework to address barriers and distortions to trade in three main categories:

1) **Market access.** This is the most far-reaching of the changes wrought by the URAA. Nearly all countries agreed to convert all existing non-tariff barriers (such as import quotas) and unbound tariffs into bound tariffs and to refrain from introducing any new non-tariff barriers. This also has direct relevance for food regulations as we will see later. Each country agreed to a *minimum access*, converted quantitative restrictions to bound tariffs and bound all tariffs. In particular:

- Quotas were to be converted into tariffs (tariffication):
  - Usually done by means of **tariff rate quotas (TRQs)**, which means a low or no tariff on minimum access quantity (quota) and a higher tariff thereafter.
  - Minimum access was required: TRQ should represent at least 3% (growing to 5%) of domestic consumption as a general rule.
- Tariffs were to be reduced (including new tariffs created under tariffication).
  - 36% average across all tariff lines.
  - At least 15% for each tariff line.

2) **Domestic support.** Rules and commitments for domestic support were divided into different categories with different disciplines for each. Measures were classified so that measures considered to be more distorting were subject to greater reductions. In particular:

- Policies were classified into *boxes* of support:

- **Green box:** not significantly distortionary, not limited by URAA (examples are agricultural research, domestic food assistance, green payments for environmental services, etc.).
- **Blue box:** somewhat distortionary, but tied to supply control and thus not limited by URAA (actually only created for and used by the USA and EU).
- **Amber box:** distortionary, sum of all subsidies to be reduced 20% from 1986-88 level.

**3) Export subsidies.** As we learned, exports subsidies are used by countries to keep domestic prices above world prices and to increase their exports. Although non-agricultural export subsidies were prohibited at the beginning of the GATT in the 1940s, agricultural export subsidies were not disciplined before 1995. In the URAA, countries accepted commitments on reducing the quantity of exports subsidized and the total value of export subsidies. In particular:

- Quantity of exports benefiting by export subsidies to be reduced by 21% from base level for each commodity.
- Currency value of export subsidies for each commodity to be reduced by 36% from base levels.

The agreement also stimulated a movement toward less trade distorting policies (such as shifting from coupled to decoupled subsidies), included:

**1) An Agreement on Sanitary and Phytosanitary Measures (SPS Agreement).** These measures are designed to prevent non-tariff measures such as health and safety standards from being used to unfairly restrict trade, while protecting the rights of countries to maintain genuine health and safety regulations for food. It was deemed especially important to have this agreement so that reduced tariffs and subsidies would not be replaced by non-tariff measures to restrict trade. In particular:

- Countries could continue to have their own health and safety standards.
- But should not use health and safety as an excuse to restrict trade unnecessarily.
  - Countries can determine level of risk they are willing to accept.
  - Policies should be no more restrictive of trade than necessary to achieve this level.
  - Standards should be based on science.

2) A practical mechanism called the *Peace Clause* (Article 13). It was an incentive for countries to comply with the new disciplines by promising that there would be less scope for challenges if they complied with the new agreement. This measure expired 1 January 2004, so it is the only part of the URAA that is no longer binding. In particular:

- Countries should be exempt from certain types of legal trade challenges normally allowed under WTO rules if
  - they followed the provisions just discussed
  - the level of support for any given commodity does not exceed levels *decided in 1992*.

3) The groundwork for further negotiations which are now very slowly progressing in the DDA.

Implementation of this agreement was scheduled over 6 years, and developing countries had 10 years to meet the commitments. Also, developing countries had to achieve only two-thirds of the reduction targets and could include development policies in the *green box* category. While the actual reduction in tariffs, subsidies and other trade distorting domestic policies has not been very large, this agreement set the mechanisms for further reduction of trade restrictions. It probably had the largest impact on new member countries who joined after the URAA and were held to an even more limited policy intervention than were members who participated in these negotiations.

