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## AGRICULTURE IN THE URUGUAY ROUND: A UNITED STATES PERSPECTIVE\*

Jimmye S. Hillman†

*"The only new thing in the world is the history we do not know."*

*Harry Truman*

### I. INTRODUCTION

Over the last two centuries the United States has suffered from isolationism, protectionism and lack of leadership in creating and maintaining consistent agricultural and trade policies. From the country's beginning, an export market was taken for granted as the natural order of things, and national trade policy consisted essentially of arguments over tariffs and customs duties. After more than a century of this, World War I should have awakened the United States to its potential for a new role in world affairs. Its answer was a rejection of the League of Nations in the early 1920s, followed by reinforced protectionism throughout that decade, and by the disastrous Hawley-Smoot Tariff Act of 1929. Failed protectionist attempts to "make the tariff effective for agriculture" centred on five McNary-Haugen Bills (1924-28), which included a two-price system. As an added negative effect on world trade, the United States for some years after World War I ignored its new role as the world's chief creditor.

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This article appears as chapter 3 of KENNETH A. INGERSANT ET AL., *AGRICULTURE AND THE URUGUAY ROUND* (1992). My thanks to the editors and to MacMillan for their permission to publish it here. The acknowledgment should be made. This chapter was written principally while I was a Visiting Professor at Lincoln University, New Zealand. Special thanks are due to Jan Clark and Elnora Fairbank for their assistance with the manuscript. Since the end of the Tokyo Round, I have observed an increasing volume of quantitative econometric analysis with respect to agricultural trade in general and the Uruguay Round in particular. Thus far, the effect of this analysis in helping to resolve the fundamental concerns dividing the United States, Europe, Japan, and the Cairns group on farm and trade issues has been unclear. Hence, I approached the United States' perspective of the Uruguay Round from a politico-economic position.

In an attempt to reverse isolationism and failed trade policies, the U.S. Congress enacted the Reciprocal Trade Agreements Act (RTA) of June 1934 in which was incorporated the unique idea of Reciprocal Trade Agreements, an idea which has endured for more than 50 years of trade negotiations. The essence of that Act (initially enacted for a period of three years) empowered the President to order tariff cuts of up to 50% on a bi-lateral, reciprocal basis, and that such cuts would be extended to third countries on a most favored nation (MFN) basis, provided that they were prepared to reciprocate by giving equally favourable treatment to imports from the United States. The fact that farmers, who had been particularly hurt by the shrinkage of their exports and the price slump accompanying it, needed larger foreign markets to improve their situation was recognized in the reference in the Act's introductory paragraph to trade expansion "as a means of . . . establishing . . . a better relationship among various branches of American agriculture, industry, mining, and commerce."

The RTA was pushed through Congress, and the President was given this unprecedented authority, despite all the illiberal domestic policy (including farm programs) which was being enacted at the same time. Die-hard protectionists in the farm sector who still favoured the high Hawley-Smoot tariffs and export dumping as principal agricultural policy tools lost the battle early with Henry A. Wallace, President Franklin Roosevelt's Secretary of Agriculture, who favoured the expansion of markets through tariff modification.

Protectionists had not lost the war, however. Perhaps they considered the RTA an aberration which posed no real threat to their long term position. Also, RTA in one sense was a trade-off for the path-breaking elements of the Agricultural Adjustment Act (AAA) of 1933. Section 22, a part of the AAA, as amended in 1934, and the RTA were legislated more or less simultaneously, emphasising the political insight as well as the power of President Roosevelt. Section 22 was designed to protect the economic viability of domestic farm price supports.

The essence of Section 22 is that it legalized agricultural impact quotas subject to certain constraints; that is, agricultural import quotas are legal provided a government support programme is in force covering the "like domestic product."<sup>1</sup> That is still the case. Section 22 authorizes the President of the United States to restrict the importation of commodities by the imposition of fees or quotas if such importation would render

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1. For a detailed discussion and update of Section 22 legislation and activities, *see*, JIMMY S. HILLMAN, *TECHNICAL BARRIERS TO AGRICULTURAL TRADE* 19, 98-99, app. c (1991).

ineffective or materially interfere with the policies of the Department of Agriculture in relation to agricultural commodities. The scope and permissible action of the original legislation were expanded by the Trade Agreements Extension Act of 1951, under which no trade agreement or other international agreement can be applied in a manner inconsistent with requirements found in Section 22. The Trade Expansion Act of 1962 also makes that exception. It will be shown later that the United States, as part of its negotiating position in the Uruguay Round of multi-lateral trade negotiations, expressed a willingness to negotiate the repeal of Section 22, but certain domestic farm interests continued to vigorously resist this change. If this piece of fundamental legislation were eliminated, and if no comparable substitute were put in place, the United States would, indeed, have taken a major step in removing the principal bulwark of its agricultural protection.

An additional disposition toward protection and trade distortion was continued in Section 32 of the 1933 AAA. Section 32 authorized the use of import duty revenues to subsidize the disposal of surpluses, domestically and abroad. Further, there was constant agitation in some agricultural quarters to legislate a marketing scheme with a discriminatory two-price system for farm products, domestic and foreign. Thus began a period of about 40 years (1933-73) of predominantly inward-looking, protectionistic agricultural policies, which became increasingly at odds with the United States position in the Post-World-War II ambience and with the country's position in the post-war trade negotiations.

Rather than exercise a bold and liberal posture from its overwhelming economic status in the early 1950s, United States permitted the protectionistic views of farmers and farm organisations to prevail in the negotiation of waivers and exceptions to GATT Article XI on the general elimination of quantitative restrictions. Adding to this and other protective devices was the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), the principal aspect of which was an expanded surplus disposal programme, some of it through export subsidies. Again a strong overall economic and political position of the United States was undermined and dissipated by rather narrow, vested interest groups.

Since World War II there have been eight GATT rounds of trade negotiations (Geneva 1947; Annecy 1949; Torquay 1951; Geneva 1956; Dillon 1960-61; Kennedy 1964-67; Tokyo 1974-79; Uruguay 1986-90), most of which were devoted to reduction of tariffs on manufactured products. The Uruguay Round was the first to focus primarily on the

agricultural sector and again the United States, which was the leader in insisting on that focus, found itself in the years immediately prior to 1986 in a position of qualified ambivalence with respect to its agricultural and trade policies. Even though the United States was, and still is, less culpable than its major trading partners, Japan and the European Community, it began the Uruguay Round with agricultural policies which resulted in total transfers to producers from taxpayers and consumers, less budget revenues (direct costs) of \$88 billion (U.S.) in 1986, and which total was still \$67 billion (U.S.) in 1989 (Table 3.1). The data in Table 3.1 demonstrate both the continuing enormity of the problems of agricultural policy distortion and the urgency of finding solutions for fundamental resource adjustment in the agricultural sectors of the world economy. This data emphasises that, amongst OECD countries, the lion's share of income transfers to farmers induced by agricultural policy are attributable to the European Community (12), the United States, and Japan, in that order.

## II. UNITED STATES URUGUAY ROUND OBJECTIVES

The Uruguay Round of GATT negotiations, like most important historical events and phenomena, had factors underlying or leading up to it which are of vital importance for our understanding and objective analysis. As already suggested in the introduction, the United States has had a long-standing, ambivalent position with respect to agricultural protection and international trade policy. The roots of conflict lie deep in the evolution of U.S. economic development and occasionally manifest themselves negatively, as was the case with the 1947-48 negotiations over whether to include an International Trade Organisation (ITO) in the Havana Charter. United States interests and farm organisations led the opposition to the creation of an ITO.

Article XI, Section 1 of the GATT states:

No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

But, due to the widespread incidence of agricultural protectionist sentiment around the world, including in the United States, an exception to this general ban on the use of non-tariff barriers to trade was made in the case of agriculture. Thus, paragraph 2 was added to Article XI in

order to make an *exception* in the case of agriculture to the otherwise general ban on the use of non-tariff barriers to trade. Sub-paragraph 2(c)(i) of Article XI effectively legalises an agricultural import quota, *provided* a supply control programme is in force restricting the production of the “like domestic product.” However, the United States was not happy with sub-paragraph 2(c)(i) because the constraint it imposed on the use of an agricultural import quota was tighter than the constraint imposed by Section 22 of the 1934 amendment of the AAA. Whereas Section 22 authorises the quantitative restriction of imports, subject only to a government support programme being in force for the “like domestic commodity,” Article XI.2(c)(i) of the GATT stipulates that the government programme must include *supply control*. Dissatisfaction with Article XI.2(c)(i) eventually led to the United States being granted a waiver of its commitments under those provisions. The celebrated Section 22 waiver was granted to the United States in 1955, as part of a wider revision of the General Agreement effected in that year. Although, in the strict letter of the law, the 1955 waiver applied only to the United States, after it had been granted other GATT signatories understandably felt free to impose quantitative restrictions on imports of agricultural products *without* domestic supply control. By taking this action when it was at a comparative advantage and in a dominant position in world agriculture and trade, the United States sacrificed the high ground of international agricultural trade policy in round after round of GATT trade negotiations for the next 30 years.<sup>2</sup>

These rounds of GATT negotiations since World War II resulted in significant reductions in industrial tariffs but not in agricultural protection. Instead, new methods of restricting agriculture arose, especially of the non-tariff type. The United States after a 40-year, inward-looking policy discovered it no longer dominated world agricultural commodity markets. After a respite of trade prosperity in the mid-1970s, the increased market competition, lower farm prices, and rural depression all succeeded in focusing American attention on foreign markets as a possible solution to farm distress. Unfortunately, a period of high exchange rates for the American dollar meant that its over-valuation would spell disaster for agricultural exports. In calendar year, 1981 U.S. agricultural exports had reached almost \$44 billion, or 30% of gross sales. From this peak exports dropped to \$26 billion in 1986, or only 19% of gross farm

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2. JANE M. PORTER & DOUGLAS E. BOWERS, USDA STAFF REPORT AGES 89, A SHORT HISTORY OF U.S. AGRICULTURAL TRADE NEGOTIATIONS (1989).

sales, and payments to U.S. producers for farm price and income supports had skyrocketed to almost \$30 billion. At least an equivalent amount in value was transferred from consumers as a result of agricultural policies then in existence. It was in this atmosphere that the United States led the way toward the Uruguay Round and in the process proposed a new departure in the negotiations; namely, the inclusion of domestic subsidies and import quota restrictions on the agenda, along with all other non-tariff agricultural trade barriers.

The United States, thus, had come a long way when it finally appeared willing in the mid-1980s to link, fundamentally, its agricultural policy with its international trade policy. The first step had been taken in that direction in 1973 within the United States Department of Agriculture (USDA), when the domestic commodity programmes and international affairs were combined under a single Assistant Secretary for International Affairs. This did little to coordinate interdepartmental trade matters and concerns, however, and the ghost of agricultural protectionism quickly reappeared with the early 1980s downturn in exports.

The basic change, therefore, with which the United States appeared at Punta del Este, Uruguay in 1986 was the intent not only to integrate its own agricultural and foreign policy objectives and to present a unified position, but also to insist that all the farm policies and related agricultural issues of each country or political bloc be put on the bargaining table. Robert Paarlberg, in an excellent recent essay<sup>3</sup> maintains that Reagan Administration officials, Clayton Yeutter, U.S. Special Trade Representative, and Daniel Amstutz, Undersecretary of Agriculture for International Affairs, after defeat on their free-market proposals in the 1985 Farm Bill, sensed an opportunity to pursue their domestic objective of reforming farm policy through an international negotiation abroad. No doubt both were deeply committed to a basic restructuring of United States farm policy. In fact, seldom in the history of the GATT negotiations had the process and the potential outcome been so influenced by major U.S. political personalities.

The United States had not had an abrupt conversion from protectionism and, in fact, there was much talk that its opening position in the Uruguay Round was a "bluff." Pressure groups campaigning for the retention of agricultural protectionism were still strongly entrenched in Washington, D.C. Nevertheless, there was a general recognition by the

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3. ROBERT PAARLBERG, HARVARD CENTRE FOR INT'L AFFAIRS, WHY AGRICULTURE BLOCKED THE URUGUAY ROUND: REVOLVING STRATEGIES OF A TWO-LEVEL GAME (Apr. 1, 1991) (copy available from author).

Congress and the Executive Branch of the high social costs of past mistakes in trade policies and the high price paid for uneconomic farm policies. But, in view of the strength of domestic opposition to major reform, the position on agriculture adopted by the U.S. government in the Uruguay Round displayed considerable political courage.

The Tokyo Round, 1974-79, had been conducted during a period of unparalleled expansion of agricultural trade. Unfortunately, the Uruguay Round began at a time of declining agricultural trade and, for the United States, a declining relative share of that trade compared to that of a decade earlier. For example, U.S. share of world wheat exports varied between 40% and 50% for the decade 1974-83, but fell below 30% in 1986-87 as the Uruguay Round started. The challenge to the U.S. negotiators was to discover methods of negotiating farm programme changes throughout the world, including its own, which might rectify this situation.

A variety of proposals were tabled in late 1987 and early 1988 for the Uruguay Round of trade negotiations. The U.S. proposal was for a sweeping elimination of *all* trade-distorting agricultural subsidies by the year 2000, or over a ten-year period (the so-called Zero Option). Was this position a bluff, or were the Americans naive, or was this a bold eco-political strategy? It seems unlikely that the U.S. Administration really believed that the European Community and Japan would accept the Zero Option. If this interpretation is correct, the first negotiating proposal, tabled by the United States in Geneva in July 1987, was an ideological trial balloon launched by the Administration in the hope that political and economic winds would be favourable to achieving the desired result. As has already been stated, agricultural protectionism is deep-rooted; farm lobbies and their allies have always been the stumbling block to agricultural policy reform, both in America and other developed countries.

Paarlberg proffers the persuasive argument that, for their own ulterior motives, certain protectionist interests in the United States nevertheless supported the zero option in the secure knowledge that it would be rejected by other parties to the negotiations and that it might possibly torpedo the entire Round.<sup>4</sup> Though this strategy might appear a bit Machiavellian, one should never underestimate the latent physiocrats of rural America and the die-hard protectionist supporters of commodity programmes. There can be little doubt, however, that some elements in

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4. *Id.* at 17 *et seq.*



U.S. agriculture, alarmed by adverse public sentiment and concern over the costs of current farm programmes, have for some time been in favour of substantial policy reforms.

The political opportunity arose in the Uruguay Round to attempt such reforms. Ambassador Yeutter, among others, was centre stage both in framing the proposals and in conducting the actual negotiations. Most knowledgeable policymakers agree on the disease; only the technical remedy was at issue. But few ever believed in the shock therapy of zero option. As with many of the ideological thrusts of the Reagan Administration, the vulnerability of the U.S. position was overlooked, and the mechanics of executing the "solution" were unsupported by the realpolitik of American farm programmes. To repeat, the political clout still wielded by agricultural protectionists, farm lobbies, farm fundamentalists, and other opponents of freer agricultural trade was underestimated from the beginning of the Uruguay Round.

The U.S. position has been for some time that it is impossible to free domestic agricultural markets while, at the same time, international markets continue to be distorted by the policy interventions of governments. Dale Hathaway, former Under-Secretary of Agriculture in the USDA, has observed that in the modern world domestic and international markets and policies are closely and extricably interlinked.<sup>5</sup> The United States, with its opening salvo at Punta del Este appeared to be willing to forgo its past 50-year reliance on regulating its internal markets for the greater goal of freer commodity and services trade on an international scale.

The theme of potential expansion of markets was a recurring litany in testimony supporting the U.S. position on the Uruguay Round. For example, Ambassador Hills, in a March 1991 testimony supporting Fast-track extension, said: "Agricultural reform of the kind the United States has proposed would allow world agricultural exports to expand by \$100 billion, or by one-third."<sup>6</sup>

Paarlberg has skillfully described the ensuing process as an international negotiating venture at reforming US agricultural policy; and as an attempt, conducted with like-minded officials abroad, both to weaken, then to finesse, the domestic farm lobby opponents of reform at home.<sup>7</sup>

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5. DALE E. HATHAWAY, INST. FOR INT'L ECONOMICS, AGRICULTURE AND THE GATT: REWRITING THE RULES (Policy Analysis in Int'l Economics No. 20, 1987).

6. *Hearings on Agricultural Trade Before the House of Representatives Comm. on Agriculture*, 102d Cong., 1st Sess. 17 (March 13, 1991) (statement of Ambassador Carla Hills, Special Trade Representative).

7. PAARLBERG, *supra* note 4, at 11 *et seq.*

The problem with this plan to outmaneuver domestic opposition to reform was that it united the opposition. Thus, from the moment when the United States government chose to present agricultural reform as the central element in the overall Uruguay Round GATT negotiations, U.S. domestic farm lobby groups, with some distinct advantages on their side, began their own strategy to protect themselves from this international effort to reduce farm subsidies.

Hence, initially the general objective of the United States in the Uruguay Round was to guide world agriculture and trade toward a market-oriented system which would be governed by stronger and more operationally effective GATT rules and disciplines, and ultimately to fully integrate agriculture into the GATT. Of major concern were long-range reforms in agricultural policies which would result in freer international markets for agricultural commodities. Ambassador Yeutter (later U.S. Secretary of Agriculture), testifying before a key committee in the U.S. House of Representatives on September 25, 1986 after the launching of the Uruguay Round, pointed out that the terms of the Ministerial Declaration—following seven months of preparatory discussion in Geneva—had put all agricultural issues on the table in which “at the top of our list is agricultural subsidies, which are hurting our efficient farmers and busting budgets around the world. We will also go after the full range of market access restrictions affecting agricultural trade, including those based on phoney health standards.”<sup>8</sup>

Specifically, and in outline form, the US goals in the agricultural sector as of July 1987 might be summarised as follows:

1. To establish a discipline over the use of export subsidies. The United States sought to freeze existing subsidies with an agreed timetable for phasing them out over a period of years. (The so-called “standstill” and “rollback” provisions.)
2. To improve market access and to reduce trade barriers, including quantitative restrictions. Non-tariff barriers, including animal health and plant inspection requirements, were singled out for special attention.
3. To strengthen the dispute settlement and enforcement processes, including the development of improved arrangements for assuring compliance.
4. To phase out all trade-distorting domestic subsidies and import barriers over a 10-year period.

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8. *Testimony on the Results of the GATT Ministerial: Hearings Before the Subcomm. on Trade of the House of Representatives Comm. on Ways and Means, 99th Cong., 2d Sess. 168-74 (Sept. 25, 1986) (statement of Ambassador Clayton Yeutter, United States Trade Representative).*

United States negotiators came away from the initial sessions of the Uruguay Round on an optimistic note, perhaps relieved that the 92 GATT member countries had at last launched a new round of multilateral negotiations. Ambassador Yeutter reported "I am now pleased to report that we came away from the Punta del Este Ministerial meeting having achieved all of the objectives we identified. Multilateral negotiations will soon get underway on the full range of trade problems confronting us."<sup>9</sup>

Offsetting any undue optimism, however, was the memory of past negotiations and bargaining, particularly with the European negotiators, who are under constant pressure from hard-line farm organisations such as COPAN and COGECA. The Uruguay Round negotiations were expected to be tough because there was much at stake and much work to be done. Producing a multilateral agreement on new trade rules and disciplines is always difficult. The United States, however, apparently deemed this latest effort necessary to open significant new opportunities for American agricultural exporters as well as to strengthen the global trading system so that all countries might compete on equal terms. In the background of the United States negotiating position lay its own farm policies, and there lurked U.S. farm organisations and farm commodity groups, which would be constantly on the alert to prevent an erosion of their interests during the coming years of negotiations. Many, including the author of this article, were not fully convinced that the U.S. delegation would be permitted to "go the distance" in substantially reducing the United States' own farm support systems and the protection of commodity interests.

The original United States objectives and bargaining position during the life of the Uruguay Round would be affected by two major forces: the reaction of other countries, especially the European Community, to its initial proposals; and the politics of agriculture in Washington. Whether by accident or design, for the first time in the history of the GATT a round of negotiations was scheduled to end simultaneously with the passage of major U.S. legislation in the fall of 1990.

During late 1987, and most of 1988 the U.S. negotiation machinery was at work: (1) Assessing the fallout from the initial proposal; (2) Constructing proposals for future discussion and negotiations; and (3) Undertaking economic analyses to document various scenarios for future bargaining.

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9. *Id.* at 168.

### III. PROCESS VS. SUBSTANCE

Often in international affairs, the objectives sought by nations become so enmeshed and identified with the techniques for attaining those objectives that some unforeseen change in circumstances and events is needed to move things off dead centre and toward a conclusion. Such an anomaly or cataclysmic occurrence has never happened in GATT negotiations. "Rounds" open, participants congregate at Geneva, negotiators jockey for position at a pre-agreed locale, and midway—or, usually much later—through the round, some serious paper is surfaced by a country which ushers in a flurry of activities preparatory to the meeting of the deadline for concluding this particular round. It has been no different with the Uruguay Round.

This is not to say that there has been no urgency in the current process, nor that the negotiating technique has been the same as that in the Tokyo, the Kennedy, and other rounds. Indeed, the United States in particular, and the Cairns Group (Argentina, Australia, Brazil, Canada, Chile, Columbia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand, and Uruguay) alongside it, have utilized a variety of economic techniques and political tactics to move toward the accomplishment of objectives spelled out in the Ministerial Declaration at Punta Del Este in 1986. From the beginning, the United States said that agriculture was the top priority for the Uruguay Round. It also insisted that the scope of the negotiations be broader than in the past. That is, "tariff reductions" was not the issue but, instead, "substantial, progressive reductions in agricultural support and protection" must be achieved. This meant fundamental change in all agricultural and trade policies and programmes, domestic and international.

Implied in the United States' position from the beginning was "decoupling," or the separation of price or income payments to farmers based on production of farm commodities. The idea appears simple but is difficult to achieve and, contrary to implications in the current debate, it has been around at least 50 years. Academic economists in the United States were advocating decoupled payments as early as the 1950s, but Congress for the most part has always ignored proposals containing the concept.<sup>10</sup>

The 1980s decoupling plan of Senator Rudy Boschwitz (Minnesota)—which did not include dairy and sugar—proposed to break the tie between production of agricultural commodities and income support by

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10. Robert D. Reinsel, *Decoupling: Not a New Issue*, 4 CHOICES 3d qtr. 1989, at 16-19 (1989).

abolishing nonrecourse loans, allowing prices to be determined in the market, paying farmers directly based on past production, and reducing payments annually to some lower level over time. However, farmers in the United States have always been quite skeptical of any concept that divorces their income from price, acreage and yield, or the equivalent phenomena on the animal side of production. As will be seen later in this article, on the other hand, the 1990s and the Uruguay Round were not "normal" times, and U.S. policy makers were being forced into new avenues of thinking and action on farm issues and trade.

In November 1988 the United States submitted a Framework Proposal which was specifically designed to set the agenda for future negotiations, to serve as a guide for the forthcoming Mid-Term Review of progress made during the first two years of the Uruguay Round negotiations, and to outline a working plan for the final two years. A central element of the Framework Proposal was the "tariffication" of all non-tariff barriers to agricultural trade, i.e., that all non-tariff barriers (NTBs) should be converted to their tariff equivalents and bound. Combined with the tariffication proposal was its natural corollary that all tariff equivalents (TEs) be subject to a phased reduction leading to eventual abolition. Despite this attempt by the United States to advance the Uruguay Round by clarifying the agenda for the negotiations on agriculture, the contracting parties, meeting for the Mid-Term Review in Montreal in December 1988, could not agree upon objectives, let alone the procedures to be followed in achieving them. The United States, supported by the Cairns Group (CG), wanted an agreement to achieve a market-oriented, barrier-free agricultural trading system. The US-CG proposal contrasted with that of the European Community, which continued to refuse substantial alteration of its support policies and which, in line with European history, preferred market sharing arrangements. An impasse ensued, but not a complete breakdown in negotiations. A pause was convenient in any case, to permit the "digestion" of the U.S. election results (including the election of a new President) in November 1988.

#### IV. YEUTTER AND THE U.S. COMPREHENSIVE PROPOSAL

At one critical point prior to the ill-fated Montreal Conference, Ambassador Yeutter, still acting as Special Trade Representative (STR), signaled a willingness to move away from the Zero Option and, with the Cairns Group, compromise towards a more realistic position, or a short-term roll-back of agricultural supports, export subsidies, and trade barriers. United States farm groups, led by sugar and dairy protectionists,

lobbied the Secretary of Agriculture successfully to have Yeutter persist with the Zero Option. Specifically, the Chief Economist of the national Milk Producers Federation expressed concern that a short-term reduction in support barriers and price supports of 10% for two years could cost the U.S. dairy industry \$2 billion. He added: "why should U.S. agriculture not be alarmed at the administration's talk of possibly embracing something less than its long-term objective? Why should we think something different is going to happen, given that this administration has been more critical of basic agricultural programs than previous administrations? Why should we not be concerned this time around?"<sup>11</sup>

Early in 1989, the appointment by the incoming Bush Administration of Dr. Yeutter as Secretary of Agriculture, moving him from the post of Special Trade Representative under the Reagan Administration, appeared to reinforce the resolve of the United States toward hard bargaining to lower agricultural supports and to foster liberal agricultural trade policies. Yeutter's unique background *vis-a-vis* European farm groups, his excellent knowledge of U.S. agribusiness and trade, his well-known ability to achieve political compromise, all coupled with his toughness at insisting on movement toward fundamental change when the economic facts warrants such change, placed him a strong auxiliary position in the new U.S. Administration. Yeutter's new appointment was a signal of the strength of the U.S. commitment to agricultural policy reform, as well as a test of how acceptable a reduced level of protection might be to agricultural interests in the United States. If political support for his position became uncertain, which it ultimately did, the U.S. commitment would inevitably soften.

The new Special Trade Representative, Ms. Carla Hills, along with Yeutter, could and would continue to urge negotiators in the Uruguay Round to reduce agricultural supports substantially, and to ensure more liberal agricultural and trade policies for the future. Over the next two years one could accurately predict inexorable pressure by the United States both at home and abroad to adopt the appropriate political techniques in order to attain its basic objectives. As was soon evident, some modifications in those objectives themselves would be tabled in order to keep the negotiations moving.

The delayed Mid-Term Agreement of April 1989 in Geneva salvaged the negotiations from complete break-down. In order to preserve

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11. *The Food and Fibre Letter*, (Natural Milk Producers' Federation Newsletter) Nov. 1988 vol. 8, at 3 (quoting remarks of Peter Vitalano).

the basic objectives agreed to in the Punta del Este Declaration, particularly that of establishing "a fair and market-oriented trading system," the United States accepted what was characterized as a language change from "elimination of *all* trade distortions" to "substantial, progressive reductions in agriculture support and protection sustained over an agreed period of time." Actually, this form of words was a cover for a basic shift in the U.S. position. The new President, George Bush, had fudged away from the Zero Option in agriculture in order to buy time on other aspects of the Uruguay Round negotiations, but a tough stance on agriculture persisted.

The Mid-Term Agreement, at U.S. insistence, also called for strengthened GATT rules pertaining to agricultural trade, and it established a work plan for the rest of 1989. In addition to proposals on the fundamental issue of market access and subsidies, participants were to advance proposals on a variety of other topics, including food security concerns, special and differential treatment for developing countries, and ways to counter the possible negative effects of the reform process on net food importing countries.<sup>12</sup> The agreement also stated that by the end of 1990 participants would agree to a long-term reform programme and the period for its implementation. In keeping with the programme established in the Mid-Term Agreement, the United States submitted a paper in July 1990 which outlined a procedure to convert all non-tariff barriers to tariffs with the understanding that tariffs would be substantially and progressively reduced. The rationale for this approach was that tariffs have historically been the preferred means of protection under the GATT.<sup>13</sup>

Also, in accordance with the terms of the Mid-Term Agreement, the United States tabled at Geneva on October 25, 1989 its Comprehensive Agricultural Proposal, preparatory to the final 14 months of negotiations. The U.S. was the first nation to do so. This latest proposal outlined in considerable detail policies to be included in the phase-out of agricultural protection over a ten-year period. The U.S. Zero Option remained intact in the Comprehensive Agriculture Proposal. Ideological positions, once taken by great powers, die reluctantly. But many observers, including the author, had little doubt that the United States would ultimately retreat from the hard line Zero Option. This Comprehensive Proposal, in the words of Secretary Yeutter, "is designed to level the

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12. LARRY DEATON ET AL., USDA, GATT TRADE LIBERALIZATION: THE U.S. PROPOSAL 1-9 (Agricultural Information Bulletin No. 596, 1990).

13. *Id.* at 5.

playing field for farmers, so they compete fairly against one another instead of against governmental treasuries, in order to feed this growing population with a rational set of international trade rules.”<sup>14</sup>

The U.S. Comprehensive Proposal was tabled after one of the most intensive periods of agricultural and trade policy analysis in the history of GATT. The Economic Research Service, USDA, alone, lists 228 studies done by that agency as of September 1991.<sup>15</sup> Many other major and minor analyses were done by public and private, domestic and international agencies. The salient feature of most of these studies was a general support of the United States position: That agriculture is, indeed, the most protected and distorted sector in the global economy; That governments spend billions of dollars each year to fund policies which are detrimental to the welfare of farmers, consumers and taxpayers; And that the entire world would benefit by agricultural trade liberalisation, though some farmers and consumers (e.g., primarily those in LDCs) would lose.

Despite all of the “proof” by research studies of resource misallocation, of the protection of vested interests, and of the enormous costs of farm programmes, lobbyists and politicians select only those programs that support their own positions. Hence, U.S. opponents of agricultural trade liberalisation continued their efforts at demonstrating the ill effects of a rapid dismantling<sup>16</sup> of government farm programmes. Results of two studies were selected for particular prominence by farm groups:<sup>17</sup> By one estimate (Roningen), even in a world of multilateral liberalisation, the elimination of farm subsidies would still cost U.S. farm producers \$17 billion; and by another study (Drabenstott), more than \$5 billion. These types of data were gleaned from the numerous models and research by academic, government, and private economists, and were fodder for the anti-liberalisation lobbyists. Added to these, special interest group commissions formed their own studies. Unfortunately, in such periods, objective analysis gives way to convenient fact finding, and often the data needed to support objectivity is difficult to find.

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14. Clayton Yeutter, Secretary of Agriculture (Policy Statement Release of the USDA, Washington, D.C.) Oct. 25, 1989.

15. CARL NABBS-ZENO & NINA M. SWAN, USDA, BIBLIOGRAPHY OF RESEARCH ON AGRICULTURAL TRADE POLICY REFORM (1991).

16. For example, see *Extending International Trading Rules of Agriculture: Hearings Before the Subcomm. on International Trade of the Senate Comm. of Finance*, 101st Cong., 1st Sess. 105 (1991).

17. VERNON O. RONINGEN & DIXIT M. PARVEEN, USDA, ECONOMIC IMPLICATIONS OF AGRICULTURAL POLICY REFORMS IN INDUSTRIAL MARKET ECONOMIES 30 (1989); Mark Drabenstott et al., *Farm Policy*, ECONOMIC REV., FED. RESERVE BANK OF KANSAS CITY, May 1989, Table 2, at 17.



An entire article could be devoted alone to an analysis of the U.S. Comprehensive Proposal of October 1989.<sup>18</sup> Suffice to say that the document repeated the U.S. commitment to a more market-oriented trading environment in which all countries would be able to compete on relatively equal terms, according to their comparative advantage, and not by government support. It reaffirmed the belief of the U.S. government that trade liberalisation would increase the volume of agricultural trade and eliminate artificially low prices which are the result of subsidised overproduction.

The Proposal was presented in a 21-page, single-spaced document.<sup>19</sup> Four main sections comprised an integrated package, and were designed to prevent reforms in one area from being offset by programmes in another. A special section on differential treatment for developing countries was designed for countries which can demonstrate a special need. Three annexes outlined product coverage, types of subsidies to be prohibited, and a classification of internal policies.

The Comprehensive Proposal formed the political and economic basis for the United States argument during the last scheduled year of the negotiations. Particularly importantly, the United States continued to press its tariffication proposal during this period. In the meantime, United States farm politicians spent a good part of that year in Washington drafting the 1990 Farm Bill. Even though U.S. GATT negotiators had let it be known, "We are not writing the 1990 Farm Bill in Geneva," the simultaneous processes and the interlocking considerations could not be ignored. The United States, as if to strengthen its position in Geneva, in late October 1990 passed a farm bill which drove home two relevant points for European observers. First, there were large spending cuts—an estimated \$40 billion over 5 years—through a variety of changes in programme operation. In this the United States was "leading by example." However, at least part of the spending cuts were forced by the overriding necessity of reducing the federal budget deficit. Second, there was continued authorization of export subsidies through a re-authorization of the Export Enhancement Programme (EEP) and a Market Promotion Programme (MPP). All this was buttressed, of course, with a continuation of Section 22, which the United States had as "decision bait" in its Comprehensive Proposal. These aspects of the Farm Bill might be viewed as

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18. See Office of Special Trade Representative, Submission of the United States on Comprehensive Long-Term Agricultural Reform, a document tabled by the Office of the U.S. Trade Representative in Geneva, Switz. at GATT, (Oct. 25, 1989) (copies available at the Office of Special Trade Representative, White House, Washington, D.C. 20250).

19. *Id.*

counter-attacking foreign agricultural export subsidies, and might be interpreted as, "If we can't negotiate the elimination of export subsidies and similar supports, then we shall match your spending!"

#### V. PRESSURE FOR NEGOTIATING MAINTAINED

As time fast slipped away, specificity in the negotiations was urgently needed. Again, the United States, after temporary delays caused mainly by domestic budgetary problems, led the way by tabling, on *October 15, 1990* its formal proposal to reduce trade-distorting domestic agricultural subsidies by 75% over a 10-year period. An integral part of this proposal was the call for a 90% reduction in export subsidies over two years. Thus the proposal assumed a more urgent nature with respect to export subsidies, a position in stark contrast with that of the European Community, which argued that export subsidies should be reduced only in terms of overall levels of support.

Another specific part of the U.S. proposal was the renewed emphasis on the tariffication of market access barriers. All non-tariff barriers would be converted to tariffs expressed in *ad valorem* percentages, and would be "bound" along with other existing tariffs. The major innovation was that whereas until then the United States had pressed for the *elimination* of import barriers within 10 years, the goal was now reduced to a 75% cut over the same period (one facet of abandoning the Zero Option) with a final ceiling rate of not more than 50% at *valorem* by the year 2000. Tariff quotas would be used as a transitional mechanism for products currently subject to non-tariff barriers or subject to an import tax in particular cases such as rice to Japan. In such cases a minimum access level of 3% (of total domestic consumption) would be established and subsequently expanded by 75% over ten years. The proposal would allow for a tariff "snapback" to prevent market disruption if imports of a particular commodity exceeded 120% of the imports of that commodity during the previous year.

Although this U.S. proposal was less aggressive than earlier positions taken, and even though the United States continually falls short of living up to its own stated farm policy objectives, the proposal fitted the overall strategy of removing government from the market by decoupling income support from the production of agricultural commodities. As stated earlier in this article, the original strategy of the Reagan Administration was to use the Uruguay Round as a negotiating forum to pursue the objective of domestic agricultural policy reform. Decoupling was part of that strategy. Decoupling as offered by the U.S. Office of the

Special Trade Representative in the negotiations, however, took on yet another different meaning: for negotiating purposes, trade distorting programmes must be removed, but direct payments to farmers could still be made if they were not tied to production and did not distort trade. It is important to reiterate that the concept of decoupling is complex and carries with it a variety of meanings and potential ramifications.

Negotiations on subsidies proceeded on the basis of the negotiating framework reached at the mid-point of the Uruguay Round, i.e., whether to categorize subsidies as prohibited (red light category); permissible but actionable or countervailable (yellow light category); or permissible and nonactionable (green light category). The United States focused most of its attention on the red light and so-called dark amber categories (a variation on yellow which would make remedial action more automatic when certain kinds or levels of subsidisation are present). In contrast, others focused on rules for developing and expanding the green light category.

At the Ministerial-level meeting in Brussels (December 1990) the United States expressed its continued strong opposition to the green light category. Some participants signaled a willingness to consider an agreement that did not have such a category, but others insisted that there needed to be nonactionable treatment for certain kinds of assistance.

As the Uruguay Round progressed, U.S. farmers and farm groups obviously visualized successful negotiations as pre-empting their birth-right, or price-income franchise, and as inimitable to their long term welfare. The vital difference between current attempts (including Uruguay Round negotiations) and former proposals to decouple payments to farmers from production is that never before have direct payments based on production been so large, the linkages among domestic and world markets so complete, and the concentration of payments so focused on large and seemingly financially successful producers. It might also be added that never before in the United States have farm programmes and their costs been under greater scrutiny by the media and by the general public. The basic question still remains: How do we permit the market to set prices and to signal the need for changes in resource use, while offering some assistance to farmers to deal with vagaries of weather and problems caused by structural excess capacity and other issues?<sup>20</sup>

A summary of the basic element of the U.S. proposal as of October 15, 1990 is shown in Table 3.2. In addition to the decoupling idea, there

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20. Reinsel, *supra* note 11, at 18.

were the milder provisions of low-level protection through the transparent means of tariffs and the treatment of agricultural commodities under GATT as any other traded goods. Consistent with its overall approach, in this proposal, the United States advocated the eventual removal of the exceptional treatment of agriculture under GATT including Article XI.2(c)(i), which allows countries to impose quantitative import restrictions as part of supply-management systems. The United States reiterated a willingness to part with its beloved Section 22 (not a specific part of its latest proposal) in order to obtain its general strategic goals of the Uruguay Round, which was to phase out all import barriers, provided that trading partners would reciprocate. Moreover, the agricultural offer had considerable relevance to an understanding of the United States' position in other negotiating groups.

Yet, substance was once again giving way to process in the GATT. As pressure from the United States increased on the European Community to table a meaningful proposal to reduce agricultural support, farmers, farmers' organisations, and farm supporters in many European countries mounted demonstrations against change. In France, Italy, and even England during late October 1990, the object of such demonstration groups appeared to be to block concessions to the American proposal. Despite all this, United States negotiators and their Cairns Group allies maintained the pressure for reform.

At the same time, one could sense that the United States was positioning itself for some type of compromise. An important question arises as to why the United States waited so long to back away from the Zero Option. There is no single answer. It will be remembered that Ambassador Yeutter and the U.S. negotiators entered the Uruguay Round with great determination to use the international bargaining forum to restructure U.S. farm policy, and liberalise world agricultural commodity markets. A strong opening position was taken to that effect. Yeutter continued to argue forcefully for that position at Montreal in December 1988; he also gave it his "best shot" at Geneva in the spring of 1989. Later, when he indicated a willingness to compromise, certain U.S. farm lobbies got busy and he was advised to stick to the Zero Option. Thus, one answer to the above question is that apparently Yeutter and the United States team miscalculated the Europeans, underestimating their strength and tenacity. On the American side, he was betrayed by the unwillingness of some U.S. agricultural interests to compromise. There was no political intrigue to undermine the U.S. position in the GATT.

There is no great "mystery" as to this outcome, unless there be mystery in the political activities of a democratically elected government.

#### THREATS, CRISES AND DELAYS

By November 1, 1990, negotiations had deteriorated into a war of nerves after the European Community had failed to produce a trade liberalising offer, which had been due October 15 at Geneva. In fact, apparently the EC Ministers wanted the EC Commission to make changes in the Commission's earlier proposal. A meeting of the Ministers in Rome October 27-28, 1990 came and went without mention of the crisis in the agricultural negotiations.

The United States threatened trade war in an attempt to force the European Community to table its proposals. Secretary of Agriculture Yeutter threatened that U.S. farmers would keep their taxpayer support to ensure access to international markets in the face of subsidised EC competition. "The probability is we're going to have a war of subsidies. That is almost inevitable."<sup>21</sup>

Supporting Yeutter's thesis were data released from the General Accounting Office (GAO), which pointed out that the United States had spent \$32 billion (U.S.) on farm supports of all kinds in 1989, compared to the EC's \$53 billion (U.S.) and Japan's \$33 billion (U.S.). But, with the passing of the US 1990 Farm Bill the GAO pointed out that U.S. farmers *could* get up to \$40.8 billion (U.S.) per year.<sup>22</sup>

Thus, at the "countdown" of the Uruguay Round, the United States had a strong agricultural position on the table that would represent a major advance by gradually removing most policies that disrupt trade and which would treat agriculture equally with industrial goods under GATT rules. An apparent softening of the United States position on export subsidies, however, worried some countries in the Cairns Group. There was concern in some quarters that in order to negotiate a deal with Europe, the United States would have to make even further compromises and to retreat substantially from its proposal of October 15. Certain elements in United States agriculture, moreover, were not eager for any agreement that would eliminate the protection which had been part of their expectations and planning processes for many decades.

Countdown became "breakdown" at the December 1990 meeting of

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21. Stephen K. Knight, *U.S. Threatens Trade War Over Subsidies*, NAT'L BUS. REV., Oct. 26, 1990, at 3 (Auckland, N.Z.) (available on AP-Dow Jones).

22. *Id.*

the GATT in Brussels, and the flurry of events that occurred and followed are indicative of the agricultural trade reforms that might ultimately result from the Uruguay Round of negotiations. The United States sent several of its top trade officials to that meeting and, even though fruitful discussions were held outside of agriculture, a deadlock in that area provoked a suspension of the talks. Deadlock centred around the so-called Hellstrom proposal<sup>23</sup> which, essentially, proposed 30% reductions on internal support, border protection, and export subsidies over five years.

Even though this proposal fell short of United States objectives in a number of areas, including the level of reduction commitments, the United States joined other countries in expressing willingness to negotiate on the basis of the Hellstrom text. That might lead to serious talks, it was thought. The European Community was unwilling to accept this as the basis for negotiations on agriculture and at that stage, the Cairns Group and some LDCs walked out of the meeting.

In sum as to process, or tactics, it can be said quite confidently that, up to and including the December 1990 meeting of Ministers in Brussels to negotiate final results, the United States had been more comprehensive and more methodical in the Uruguay round with respect to the economics and politics of agricultural trade than at any time in its history of trade negotiations. The United States entered the final phase of bargaining in a very strong position to press for long-term agricultural reform and for more liberal agricultural trade policies. Nevertheless, the Americans, as well as the Cairns Group, probably underestimated European intransigence toward change in agriculture, as embodied in the Common Agriculture Policy. This issue is debatable. The writer's position is that the U.S. and the members of the Cairns Group should have been prepared for all contingencies in light of past GATT rounds and in view of the history of high agricultural protection in much of Europe,<sup>24</sup> fortified in many regions by physiocratic philosophy and reinforced recently by the prominence given to issues such as self-sufficiency, food safety and 'green' or environmental arguments—all demanding a *status quo* on the farm and in rural areas.

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23. Mats Hillstrom, GATT "Non-Paper" on Agriculture, (Dec. 6, 1990) (copies available from the European Commission in Brussels, Belg.)

24. MICHAEL TRACY, *AGRICULTURE IN WESTERN EUROPE: CHALLENGE AND RESPONSE*, (1982).

## VII. TRADE POLITICS AND THE NEW FAST TRACK

At the beginning of 1991, the attention of the United States and the world was temporarily diverted by the Gulf War and away from the GATT Uruguay Round and other matters. But not for long. It would be inappropriate in an account such as this article to attempt to analyse or to describe all the issues bearing on the United States' agricultural position as the year began and as the parties attempted to re-establish a negotiating dialogue after the breakdown. Several events, however, are worthy of brief treatment and this final section will centre on them. These will be designated as the Dunkel Shuttle, the McSharry Mission, the Yeutter Resignation, the new Fast Track, and the implication of a GATT agreement for United States agriculture.

Most agricultural interests in the United States, whether or not they support the Administration's position in the Uruguay Round, nevertheless expected some movement toward the reduction of protectionism through the negotiations. The same could be said of European agricultural interests, though their bargaining position had not been so well defined. At this time, the United States had the advantage of having just enacted the 1990 Farm Bill, which further reduced domestic assistance to the agricultural sector and called for a one billion dollar increase in export subsidies if GATT were to fail.

In this atmosphere GATT Director General Arthur Dunkel began a series of discussions aimed at the resumption of the Uruguay Round talks. His shuttling between negotiating groups and other officials and his effective diplomacy helped promote technical discussions in Geneva, which were necessary prior to the resumption of political talks. Such technical discussions, had they been held prior to the ill-fated Brussels meeting in December 1990, might have clarified the meaning of just what the negotiating parties had put on the table. Dunkel on one occasion in early 1991 stated bluntly, ("Agriculture: the situation cannot continue: . . . the reform of agricultural trade has become a central point not only in the Uruguay Round agenda, but also in the internal debates on economic and social policies practically everywhere."<sup>25</sup> On another occasion, his patience wearing thin, he expressed exasperation at United States' and European Community's attempts to place blame on the other

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25. GATT Director General Arthur Dunkel, Address at the Annual Meeting of the World Economic Forum, Davos, Switz. (Feb. 4, 1991), reprinted in, GATT NEWSLETTER No. 78, Jan.-Feb. 1991.

for lack of progress on agricultural talks.<sup>26</sup>

Simultaneously with the Dunkel Shuttle Mr. Ray McSharry, EC Farm Commissioner, was busy prescribing his proposals for reform of the Community's Common Agricultural Policy. The "reflections" paper entitled, "Communication of the Commission to the Council: The Development and Future of the CPP," raised all the old questions of assistance to agriculture in Europe and its costs.<sup>27</sup> Meanwhile, in the United States, the politics of GATT were centring on the position of Secretary of Agriculture and Congressional debate about extension of Fast-track legislation.

The move by Secretary Yeutter to Chairman of the Republican Party March 1, 1991 sent mixed signals on the GATT negotiations. Was this a signal of retreat or of slowdown by the Americans? His knowledge of the agricultural issues, his position relative to trade policy, and his long-time association with the European "mind" on agriculture had made him a formidable factor to be dealt with by all parties in the Uruguay Round. His departure no doubt pleased many European farm groups, as well as those commodity groups in United States agriculture who had basically opposed the Yeutter position on farm policy for many years and who favoured high levels of assistance and protection.

Secretary Yeutter's move to a new position must be interpreted as inspired by the stage reached in the Uruguay Round. He had directly and indirectly been involved with the negotiations and the agricultural agenda since July 1, 1985, first as Ambassador at STR and from January 1989 to March 1991 as Secretary of Agriculture. He had led the fight to fundamentally reform U.S. farm policy, first on a domestic level, then through GATT negotiation. On occasion he appeared willing to compromise the United States' hard line position in Geneva but, that seemed politically inexpedient or unacceptable. There appeared to be no mystery about his departure other than a question whether President Bush and Mr. Yeutter's successor, Mr. Edward Madigan, would pursue agricultural policy reform and trade liberalization with the same zeal and vigour.

No doubt, Mr. Madigan, who became US Secretary of Agriculture March 12, 1991, could speak with more political authority about farm issues, having been elected from a farm district in Illinois for 18 years.

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26. GATT Director General Arthur Dunkel, Address to the European Atlantic Group, London, Eng. (May 15, 1991).

27. EC Farm Commissioner Ray McSharry, Communication of the Commission to the Council: The Development and Future of the CPP, (Feb. 1, 1991) (Com(91) 100 Final Brussels, Belg.).



For 16 of those years, he was on the Agriculture Committee, 8 as the ranking Republican. His standing with farmers was high at the time of appointment. His standing was reinforced by the fact that he was an elected official, a matter with which Dr. Yeutter, who was not, sometime had to deal. Madigan was faced immediately with a major problem in the dairy industry and had to argue against quick fixes in U.S. dairy policy.<sup>28</sup> The dairy lobby took advantage of this short term crisis to restate its opposition to the liberalizing provisions of the U.S. Uruguay Round proposal.<sup>29</sup>

Other farm lobbyists and farm groups hostile to the Administration in GATT had won a victory of sorts and would inevitably expect a softening of the hard line. The Zero Option was history. As domestic and foreign policy issues came and went in 1991, the Uruguay Round was no longer the priority issue of the Bush Administration, and Mr. Madigan's profile on trade issues would be kept low. At the Washington Agricultural Establishment, emphasis was on a prevention of further damage to the U.S. negotiating position from within. The bureaucracy was quiet.

Thus, the question can be raised again, as it has been at other places in this article. For all the talk about freer international trade, the lowering of government assistance, and the restructuring of agriculture policies, just how committed were United States negotiators? How far was the United States willing to go in order to attain its objectives? To be sure, the United States farm bills of 1985 and 1990 moved unilaterally in the direction of freeing up markets and toward reducing the cost of farm programmes. In the 1990 bill, yields continued to be "frozen" on base acreage, and the yield base updated, thus supporting the decoupling of income from farm production. The U.S. Congress had agreed to reduce farm support by \$13.5 billion over the next five years. At the same time however, the Export Enhancement Program (EEP) had an open faucet, and Section 22 and Section 301<sup>30</sup> were fully operative.

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28. Edward Madigan, *US Dairy Policy: Pointing it in the Right Direction*, 16 CHOICES 3d qtr. 1991, at 4-6.

29. *Hearings Before the House of Representatives Comm. on Agriculture*, 102d Cong., 1st Sess. 912 (May 13, 1991) (statement of Peter Vitaliano, Director of Policy Analysis, National Milk Producers' Federation).

30. Trade Act of 1974, § 301, 19 U.S.C.A. § 2462 (West Supp. 1992). Section 301 covers unfair trade practices by foreign governments affecting U.S. products. These often are cases that can not be covered by the escape clause, dumping, countervailing duties, or Section 337 [Trade Act of 1974, § 337, 19 U.S.C. § 1337 (1988)] of the same act. The Section 301 cases are administered by the President's Special Representative for Trade Negotiations (STR), and many have involved complaints against the EC's Common Agricultural Policy (CAP).

At the same time, the Fast-track<sup>31</sup> debate revealed much of the protectionist sentiment that has existed for a long time in rural America. Fast-track authority for an additional two years, until June 1993, was given by the Congress to the President in late May 1991. So another major hurdle was overcome toward keeping the Uruguay Round negotiations on course. From a United States perspective, attention could now be turned to the negotiations and, more seriously, to the implications for the United States agricultural sector of an agreement at Geneva. What that agreement would be, of course would have to be negotiated before its impact could be assessed. In the meantime, the domestic farm lobby was taking advantage of the stalled negotiations and the two-year U.S. Fast-track extension by pursuing subsidy guarantees for various farm groups.<sup>32</sup>

Academics, government economists, farm organisations, and commodity groups in the United States in the spring and summer of 1991 continued their politico-economic analyses of the potential fallout; the possible gains and losses from various scenarios of the Uruguay Round. In late 1991 one analysis in particular was relevant for our purpose in this article: the study by the Office of Economics, USDA, entitled "Economic Implications of the Uruguay Round for US Agriculture."<sup>33</sup> This study was undertaken principally to clarify the last U.S. proposal in the Uruguay Round (that of October 15, 1990) and to present an analysis of the economic implications of the Uruguay Round for U.S. agriculture.<sup>34</sup>

Specifically, the United States was not proposing that support to producers be eliminated. As has already been pointed out, in the Uruguay Round GATT negotiations, the United States never proposed the elimination of all producer support, but only of that which is tied to output-increasing incentives (in GATT parlance, "green" policy instruments do not present a problem).

Another vital implication of the U.S. proposal is that a reduction in farm subsidies does not necessarily imply commensurate reductions in producer prices—because market prices are expected to rise. This aspect

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31. Under Fast-track legislation, Congress gives the President authority to negotiate with foreign governments without meddling in the process or second-guessing the deals being made. After the negotiation has been completed and in order that the "package" or "deal" become legally binding, the Congress must vote yes or no on the entire agreement and cannot vote on items selectively.

32. PAARLBERG, *supra* note 4, at 28-29.

33. OFFICE OF ECONOMICS, USDA, ECONOMIC IMPLICATIONS OF THE URUGUAY ROUND FOR US AGRICULTURE (1991); *see also*, National Center for Food and Agriculture, Should Agriculture Go with the GATT? Policy of Agriculture Resources for the Future (Apr. 8, 1991); Determining Winners and Losers from a GATT Agreement: The Importance of Base Periods and Rules, GATT research paper 91-GATT2, CARD (May 1991) (research paper issued from Iowa State University).

34. OFFICE OF ECONOMICS, USDA, *supra* note 34, at 6-8.

of the proposal is so important that the section of the USDA report explaining it is reproduced verbatim as Appendix 3.A1. This is a key element of the United States' position in the ongoing attempt at policy reform. It has been emphasised both for the domestic agenda of U.S. farm groups as well as for other GATT negotiation participants, particularly in Europe.

This report, which obviously had been written to assuage the anxieties of the U.S. farm community, goes into further analytical detail as to how U.S. agriculture will benefit significantly from a Uruguay Round agreement along the lines of the suggested U.S. Proposal. The principal clarifying features are that:

- (1) Even though support levels might remain higher elsewhere, United States producers would gain from subsidy reductions;
- (2) United States competitiveness would be enhanced;
- (3) A GATT agreement would not expose United States producers to large market shocks;
- (4) An agreement would not change United States food safety regulations;
- (5) The agreement would give credit to the United States for actions taken in the 1985 and 1990 farm bills to reduce subsidies;
- (6) Authority over United States agricultural policy decisions would remain in Washington.

The study makes a 5-year projection of the U.S. proposal of October 1990 from 1986-88 base period levels of support, but with implementation deferred until 1992-96. Moreover, the study results indicate projected budget savings over 5 years in excess of the losses suffered by adversely affected producer groups like sugar and dairy—i.e. a net welfare gain would remain even after the gainers had compensated the losers. Finally, the aggregate effects of a GATT agreement along the lines of the U.S. Proposal would permit an increase in U.S. farm income because prices and production would be generally higher. By 1996, cash farm income for United States agriculture would be at least \$1-\$2 billion higher than under baseline assumptions. United States farm product exports would be \$6-\$8 billion higher.<sup>35</sup>

#### CONCLUSION

The United States, despite a checkered and dubious record on agricultural protection dating back to the 1920s, nevertheless came into the Uruguay Round of GATT in 1986 apparently determined to change

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35. *Id.* at 31-32.

things. It was determined to change not only its own but also the world's propensity toward subsidies, supports, and all types of assistance which had seen the average level of protection in agriculture rise substantially since World War II. The United States was apparently willing to place everything, including Section 22, on the bargaining table in order to effectuate domestic agricultural policy reform—that is, to reduce public commitment to costly farm price and income support policies of the past. The United States Administration, with backing from Congress, passed Fast-track legislation, and its negotiators, along with the Cairns group, pressured the European Community to move its agricultural sector forward toward a freer trade era for agricultural commodities.

Only with the departure of Secretary of Agriculture Clayton Yeutter did the United States seem to falter in its determination to move into a new era in its combined agricultural and trade policies. Many of the old questions about the power of United States farm lobbies began to resurface. How could it be that agricultural subsidies continue to be large even with the decline in farm numbers and with the reduced agricultural vote? Some would find it strange that the political power of agriculture seems to increase with the diminution in its relative size. Traditional economic science seems unable to explain this phenomenon.<sup>36</sup> Would the outcome of Geneva be worth the effort of the past five years?

The last half of 1991 was highly important for the Uruguay Round of GATT as well as for the future of United States agriculture. Considerable understanding had been generated about the problems and issues, and some progress was made on resolving differences, but these would be swept aside unless there were an agreement. The daily ebb and flow of GATT developments as this article is being written (November 1991) provides little information to an outsider as to what is going on in Geneva. One good sign for the Americans, however, is there appear to be strong differences developing among the European parties.

What if there is a less than successful outcome in the Uruguay

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36. KYM ANDERSON & YUJIRO HAYAMI, *THE POLITICAL ECONOMY OF AGRICULTURAL PROTECTION: AN EAST ASIAN PERSPECTIVE*, (Sydney, et al. eds., 1986). As the relative importance of agriculture declines, the cost of supporting it is spread over a growing non-agricultural population within which the costs of organised opposition to farm subsidies are such that most people choose to opt out (or free ride). Also, Anderson and Hayami present compelling empirical evidence to back their hypothesis that the relationship between agricultural protection and comparative advantage (as reflected by agriculture's relative importance in the economy) is *inverse*. *Id.* Tullock and Hillman in their chapter, *Public Choice and Agriculture: An American Example*, have explained through public choice theory why a dwindling number of American farmers have maintained political power. But where is economic theory in all this? Is there an accepted political theory that explains it? Gordon Tullock & Jimmie S. Hillman, *Public Choice and Agriculture: An American Example*, in 3 *ISSUES IN CONTEMPORARY ECONOMICS* 98-118 (Macmillan eds. 1991) (chapter 5 of the volume).

Round? The United States can point to the large adjustments in internal farm subsidies made since 1986-88 as a result of the 1985 and 1990 farm and budget legislation. Moreover, it can contend that U.S. agricultural tariffs and import protection for most products are low. And, on the important subject of farm export subsidies, United States agriculture, while substantially dependent on foreign markets, especially in cereals, can survive in a continuing struggle with its chief competitors.

## APPENDIX 3.A1

## Subsidy Reductions Do Not Mean Large Cuts in Support Prices\*

First, internal subsidies subject to reduction include market price support, direct payments tied to production, and input subsidies. For market price support and direct payments, the level of support to be reduced is the product of the price gap (between the support price and a fixed reference price) and the quantity that receives support. Thus, this form of support could be reduced by cutting the support price or the quantity receiving support. Alternatively, other subsidies could be reduced. Therefore, a reduction in internal subsidies does not mean that support prices such as target prices and loan rates would necessarily be cut.

Second, even if the cut were made only in the support price, the percentage reduction would be applied to the price gap, not the support price. For example, if the support price were \$100/ton and the reference price \$60/ton, the price gap would be \$40/ton. A 75 per cent reduction in the price gap would result in a support price of \$70/ton [ $\$60/\text{ton} + (.25 \times \$40/\text{ton})$ ]. Therefore, a 30 per cent reduction in the support price would achieve a 75% reduction in the price gap.

For United States producers of wheat, feed grains, rice, and cotton, the quantity of production receiving support declines as market prices rise and programme participation falls. To the extent that a GATT agreement raises market prices and programme participation falls, computed support automatically declines. For voluntary programmes, this tends to lessen or eliminate the need to reduce the price gap or reduce production eligible for support by other means to meet GATT commitments.

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\* *Source:* Office of Economics, USDA, "Economic Implications of the Uruguay Round for US Agriculture," Washington, DC, May 1991, p. 7.

TABLE 3.1  
TOTAL TRANSFERS ASSOCIATED WITH AGRICULTURAL POLICIES  
(IN BILLION US DOLLARS)

Country	Transfers from taxpayers (1)				Transfers from consumers (2)				Budget revenues (3)				Total transfers (1) + (2) - (3)			
	1986	1987	1988	1989	1986	1987	1988	1989	1986	1987	1988	1989	1986	1987	1988	1989
Australia	0.4	0.3	0.2	0.3	0.5	0.4	0.4	0.4	0.0	0.0	0.0	0.0	0.9	0.7	0.6	0.6
Austria	0.4	0.5	0.6	1.1	2.2	3.0	2.7	2.2	0.0	0.0	0.0	0.0	2.6	3.4	3.2	3.3
Canada	4.4	5.7	5.1	4.2	3.6	3.6	3.6	3.1	0.1	0.1	0.1	0.1	7.9	9.2	8.6	7.2
EC-12	31.7	38.2	45.8	44.1	71.9	78.3	63.7	54.1	0.7	0.7	0.7	0.7	102.9	115.9	108.8	97.5
Finland	1.3	1.6	1.8	1.7	3.5	4.0	4.4	4.3	0.1	0.4	0.2	0.1	4.8	5.3	6.0	6.0
Japan	13.9	18.4	18.7	15.6	48.8	55.3	60.8	52.4	8.6	10.4	13.7	10.2	54.1	63.3	65.9	57.8
New Zealand	0.9	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.9	0.1	0.2	0.1
Norway	1.5	1.8	1.8	1.8	1.4	1.8	1.8	1.6	0.2	0.2	0.3	0.2	2.7	3.3	3.4	3.3
Sweden	0.5	0.5	0.4	3.2	3.5	3.3	2.9	0.1	0.3	0.2	0.1	0.1	3.5	3.8	3.6	3.2
Switzerland	1.1	1.4	1.5	1.3	3.8	4.9	5.2	4.3	0.6	0.8	0.9	0.6	4.3	5.5	5.8	4.9
United States	59.4	50.3	49.1	46.3	29.6	30.4	26.0	21.6	0.9	0.7	0.8	0.7	88.1	80.0	74.3	67.2
TOTAL	115.5	118.7	125.2	116.9	168.5	185.3	172.0	146.9	11.2	13.6	16.8	12.7	272.8	290.4	280.4	251.1

Source: OECD "Agricultural Policies, Markets and Trade", Paris 1990. Secretaria Estimates.

**TABLE 3.2**  
**SUMMARY OF KEY ELEMENTS OF US AGRICULTURAL PROPOSAL**  
**TO GATT, OCTOBER 15, 1990**

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### Export Subsidies

- reduce export subsidies on primary agricultural products by 90 per cent over 10 years,
- export subsidies on processed products to be phased-out in 6 years,
- negotiate specific commitments on quantities exported and budget outlays regarding such subsidies.

### Market Access

- convert all non-tariff barriers to bound tariffs and bind all tariffs,
- reduce all tariffs, including newly converted ones, on average by 75 per cent over 10 years,
- the final tariff ceiling would not exceed 50 per cent,
- for products now subject to non-tariff barriers establish minimum access commitments and expand access by 75 per cent over 10 years using a tariff rate quota, eliminate tariff quotas after 10 years,
- provide tariff snapback provision a safeguard using a price or a quantity trigger for the transition period,
- allow developing countries that are net importers of a commodity, depending on their per capita GNP, up to 15 years to implement the commitments.

### Internal Support

- support policies directly linked to the production or price of a specific commodity would be reduced by 75 per cent over 10 years,
- other trade-distorting measures to be reduced by 30 per cent in developed countries and according to agreed criteria for developing countries,
- reduction commitments to be implemented using an AMS,
- policies with minimal impacts on trade would be excluded from the reductions.

### Sanitary and Phytosanitary Measures

- develop new rules to settle trade disputes,
  - use the Chairman's legal text for these commitments.
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*Source:* Summarised by W.M. Miner in "The GATT Negotiations and Canadian Agriculture" a Discussion Paper, Centre for Trade Policy and Law, Carleton University, Ottawa, Canada, November 22, 1990.



