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The World Trade Organization Agreement and U.S. Agriculture

In late 1993, negotiators reached agreement in principle on a new accord under the General Agreement on Tariffs and Trade (GATT) which modified world trading rules and created the World Trade Organization. The agreement was finalized in early 1994, and the Congress approved implementing legislation after the 1994 elections. Most agricultural provisions of the multi-sector agreement took effect in 1995.

Four parts of the agreement are of particular interest to U.S. agriculture:

Export subsidy limits

The agreement requires countries to reduce their use of export subsidies between 1995/96 and 2000/01. Relative to an average of 1986-90, the value of export subsidies must be reduced by 36 percent, and the volume of subsidized product must be reduced by 21 percent. The limits apply to particular commodities or groups of commodities (e.g., wheat and wheat flour, coarse grains, etc.), and no subsidies can be offered on products that were not previously subsidized.

This part of the agreement primarily affects the United States and the European Union. The United States is forced to limit use of the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP). Congress has limited use of EEP below the WTO-permitted level, and the Administration has not used EEP at all this fiscal year. In contrast, DEIP has been used, and the WTO limits are likely to prove binding.

The European Union has had less difficulty complying with the export subsidy agreement than many people expected. Because of reforms to the Common Agricultural Policy (CAP) that were enacted before the WTO agreement was reached, the European Union is less reliant on export subsidies for grain, pork, and some other products than it was earlier. Thus it is hard to identify grain trade effects that could be attributed to the WTO agreement, rather than to EU CAP reform. With no further changes in EU policy, the limits may become binding in the future. The WTO agreement has had a real limiting effect on EU exports of beef and cheese, but the United States and the European Union generally do not compete directly in world markets for those products.

Market access

The agreement requires countries to increase access to their markets by converting nontariff barriers into tariffs and by then reducing tariffs over time. However, when many countries converted quotas into tariffs, they set the tariffs at prohibitively high levels. Even after reduction (all tariffs must be reduced at least 15 percent, and the average reduction must be 36 percent), tariffs for many products will remain so high that no trade will occur.

Partly to counter the effects of this "dirty tariffication," the agreement also requires that countries establish tariff-rate quotas that allow a certain amount of imports at a low tariff rate. These TRQs have resulted in some real access to some markets. Japan and South Korea were not required to convert their rice import restrictions into tariffs, but they were required to import significant
amounts of rice.

Given what has actually occurred so far, it is not clear that the market access provisions of the WTO agreement have resulted in large increases in trade. Ironically, the single largest consequence of the provisions is probably on the Japanese rice sector, even though the Japanese rice sector is exempted from most of the provisions of the market access agreement that apply to other countries and commodities. The United States will probably import more cheese and a few other products because of the agreement, and will expand exports in a few foreign markets.

**Sanitary and phytosanitary**

The sanitary and phytosanitary (SPS) agreement allows countries to determine what level of risk they think is appropriate, but requires them to use sound science in setting standards consistent with that determined level of risk. In other words, countries are not supposed to use sanitary and phytosanitary standards as disguised trade barriers.

The current beef hormone case illustrates both the reach and the limits of the SPS agreement. Two panels have now found that the European Union’s ban on imports of beef from cattle receiving hormones is inconsistent with the SPS agreement, because it is not based on sound science. However, the ban remains in place. The European Union has an additional 15 months to try to find a scientific justification for its current restrictions. Even if it fails to find scientific evidence for the ban, the European Union will be able to maintain the ban if it agrees to provide compensation to the United States and other affected countries. This compensation need not take the form of something that would directly benefit the U.S. beef sector.

**Internal support**

Last and least in importance are the limitations on the use of measures to provide support to producers. The United States and the European Union carefully crafted the WTO agreement to ensure that it would not require any changes in existing policies that support prices or make payments to farmers.

The only real importance of the internal support provisions is that they limit the types of changes in agricultural policy that a country can undertake. For example, it is not clear that the United States could replace current farm programs with a program that made large payments to producers tied to how much they produce in a particular year.

**The next round**

Negotiations on the next round are scheduled to begin in 1999. Whether the negotiations will begin on time is uncertain (especially if fast track is not approved), and it is impossible to predict with any certainty when they might be concluded. Most of the provisions of the current agreement are clearly in effect through 2000/01. Although somewhat uncertain in its implications, “peace clause” language implies that countries should not start a trade war for at least a couple of years beyond that time.