The GATT Agreement: A Layperson's Description

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What is the General Agreement on Tariffs and Trade (GATT)? The GATT may be best described as an ongoing process through which trade distortions among countries are defined and targeted for reduction. There have been seven previous GATT agreements over the years. The recent GATT agreement represents the eighth round of trade negotiations and is often called the Uruguay Round in reference to Punta del Este, Uruguay, where the agenda was set in 1986.

The Uruguay Round of trade negotiations was the first to achieve committments on trade distortions in agriculture. Agricultural trade distortions were chosen largely due to increasing budgetary constraints for agricultural programs around the world. An agreement from the Uruguay Round was finally reached in December 1993, after seven years of negotiations with 117 nations participating. Despite the fact that an agreement was reached, the U.S. Congress still has to approve the agreement for it to become U.S. law. With the agreement slated to take effect on July 1, 1995, the lawmakers will have to move quickly to pass GATT implementing legislation if the GATT agreement is to be approved it its present form. If GATT is not approved by Congress by the spring of 1995, many of the agreements will have to be renegotiated.

While the Uruguay Round of GATT negotiations did focus on areas other than agriculture, agriculture was very prominent. The four areas of negotiation (called disciplines) were: market access, export subsidization, internal support, and sanitary and phytosanitary measures. Market access was defined as the amount of imports of a particular country that are allowed to enter that country with little or no tariff and no nontariff barriers. The majority of countries currently have import tariff or nontariff barriers of some kind on some or all of their agricultural products. The goal of negotiating market access was to increase trade by opening markets that were previously inaccessible. To determine market access levels, a base period of 1986-1988 was selected from which changes in market access could be negotiated. Negotiations led to starting and ending market access rates being set. The starting rate of market access beginning in 1995 was set at 3 percent of a country's domestic consumption over the 1986-1988 base period. This rate would increase to 5 percent of the countries' domestic consumption by 2000 and then level off. For example, the United States must allow 5 percent of its domestic butter consumption to enter with low tariffs. This does not mean that 5 percent of domestic butter consumption must enter, but if world prices are such that foreign countries would like to export butter to the United States with low tariffs, they may do so on up to 5 percent of U.S. consumption.

The next discipline, export subsidy reduction, requires countries to reduce both the amount of money spent on subsidies and the quantity of the commodity exports subsidized. Budget pressures for many countries, especially the European Union (EU) and the United States, are really what made this a key topic of negotiation. Similar to market access, a base period from which reductions would be made was negotiated. In the case of export subsidies, the greater of the 1986-1990 average subsidized exports and expenditures or the 1991-1992 average subsidized exports and expenditures was chosen as the base period. Negotiations resulted in two levels of required reductions, one for subsidy expenditures and one for subsidized quantities. Total subsidy expenditures are to be reduced by 36 percent from the base level by 2000. The quantity of subsidized exports is to be reduced by 21 percent by 2000. For the United States, this means that spending on the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP) will have to be reduced. However, concerns over the federal budget deficit may reduce expenditures on EEP and DEIP anyway.

The next discipline addressed was internal support. Most countries support their agricultural sectors in some manner. Negotiations on this discipline centered on discouraging the practice of increasing internal supports to offset a reduction in trade barriers. From the negotiated base period of 1986-1988, a 20 percent reduction in internal supports by 2000 was agreed upon. The United States is already in compliance with this discipline given the reduction in target prices and in payment acreage from flex. Many other countries are also in compliance with this discipline, but the ruling is important because it limits the ability of countries to simply expand their internal support to offset the required reductions in export subsidies and increased market access.

The last discipline, sanitary and phytosanitary measures, was designed to synchronize food safety and health regulations across countries by setting uniform standards and establishing scientific monitoring committees that can make binding assessments. In the past, countries had used food safety and health regulations to restrict imports which may or may not have posed heath problems. This discipline seeks to insure that scientific fact is used to set standards.

In addition to the standard agreements on the four disciplines, many side agreements were also negotiated. The specifics of the GATT agreement and side agreements listed by country are found in the CARD GATT Research Paper 94-GATT 22 entitled "Uruguay Round Agreement on Agriculture: Summary of Commitments from Selected Country Schedules."

Implications of the GATT Agreement for Iowa Agriculture

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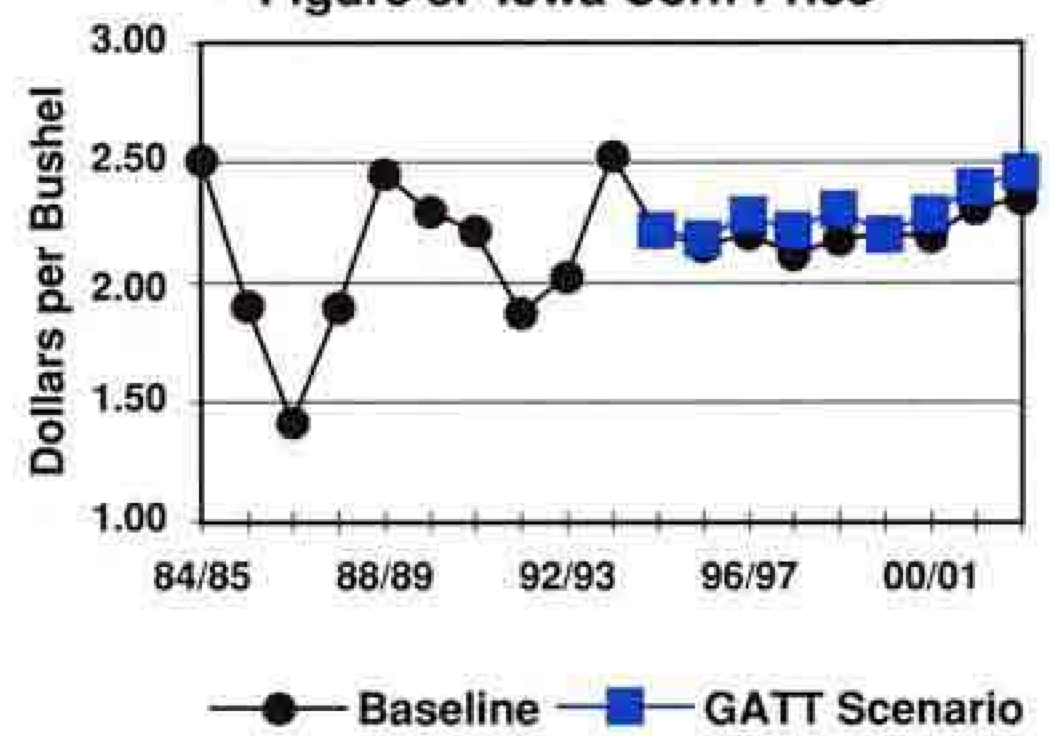
The FAPRI analysis indicates that nearly all U.S. agricultural commodities benefit under GATT, although some commodities experience larger impacts than others. CARD extended the FAPRI analysis to commodities important to Iowa, such as corn, soybeans, and pork and found that all are significant winners under the Uruguay Round Agreement.

Beginnning with corn, Iowa producers would realize increases in demand from two sources. The first source is increased exports. Because the European Union (EU) has committed to maintaining corn imports of 98 million bushels, and the United States has a comparative advantage in corn production, corn exports from the United States are expected to grow. In addition, under GATT, increased incomes around the world are expected to increase livestock production, further raising the demand for U.S. corn. In total, with full implementation of GATT, U.S. corn exports are expected to increase an average of 121 million bushels, over the 2000 to 2002 period compared with baseline levels.

The second source is greater domestic demand for corn through increased livestock production. With higher incomes around the world, more livestock exports are expected, particularly for pork. In total, U.S. domestic consumption is expected to increase by an average of 49 million bushels compared with baseline levels over the 2000 to 2002 period. With the stronger demand for corn, prices are expected to increase. However, as prices increase, the Secretary of Agriculture is expected to reduce the Acreage Reduction Program (ARP) rate from the 7.5 percent figure projected in the baseline. Beginning in 1999, higher corn prices from GATT are expected to motivate the Secretary to reduce the ARP rate to 5.0 percent. Reducing the ARP increases production in 1999 and drops prices back down to baseline levels. However, the momentum in exports and domestic demand increases prices above baseline levels after 1999. In Iowa, stronger prices and a reduction in the ARP rate translated into a significant increase in corn acres planted. When GATT is fully implemented, corn acreage planted in Iowa is expected to average 295 thousand acres (2.5 percent) higher than baseline levels with corn prices averaging $0.09 per bushel higher over the same period (see Figure 3).

Figure 3. Iowa Corn Price



Iowa soybeans are also expected to benefit from GATT, but not as much as corn. Relatively few trade barriers exist for soybeans and consequently, soybean exports are not expected to increase significantly under GATT. However, despite a reduction in EEP subsidies for U.S. soybean oil, increases in income around the world from GATT are expected to offset the reduction in subsidized exports and U.S. soybean oil exports are expected to increase. Soybean prices in Iowa are expected to average 20 cents per bushel higher over the 2000 to 2002 period when GATT is fully implemented (see Figure 4). With competition from corn, soybean planted acres are expected to remain at baseline levels.

Figure 4. Iowa Soybean Price