



# The GATT Uruguay Round and the World Trade Organization: Opportunities and Impacts for U.S. Agriculture

Leaflet No. 7

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The most recent trade agreement negotiated under the General Agreement on Tariffs and Trade, the Uruguay Round (GATT-UR), covered a wide range of trade issues, but reducing trade barriers for agricultural commodities was a central issue. This was the first time that agricultural trade had taken center stage. Other issues included in the negotiations for the first time were trade in services; textiles and clothing; international investment; international property rights; and strengthening the organizational structure of GATT.

The Uruguay Round concluded with a signed agreement in late 1993. Subsequent ratification by the United States, in December 1994, and by other member countries established new global trading rules and created the World Trade Organization (WTO) to replace GATT.

GATT had been both a forum for trade negotiations and a set of agreed upon rules governing trade between member countries. It had been the key world trade institution since the end of World War II. The GATT-UR agreement created the WTO, effective January 1, 1995. The WTO possesses wider powers than GATT and the new trade rules are much broader in scope.

While the GATT-UR agreement does not remove all trade distortions, it is significant. Agricultural trade issues were included for the first time and some progress was made. The initial United States proposal sought to eliminate all agricultural trade barriers and distortions; however, the final agreement fell far short of this goal.

As a consequence of this agreement, countries with protected economies or industries will be forced to further reduce trade barriers and domestic policies that distort trade, making the "global playing field" more equitable. This will likely allow consumers to benefit from lower prices and more varied choices. Production of traded goods will depend more on comparative advantage rather than on competitive positions established through government intervention. On the other hand, some developing countries will find it difficult to accept new international rules on copyrights and patents that may impose costs in the form of royalties and fees that have been avoided in the past.

## GATT

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In 1944, an international monetary conference was held at Bretton Woods, New Hampshire. With the end of World War II in sight, the purpose of the meeting was to develop a plan for rebuilding the world economy. The International Monetary Fund (IMF) and World Bank were formally created at this meeting. However, a proposed International Trade Organization failed to get the necessary support from participating countries' legislative bodies over the next several years, so a previously-approved section known as the General Agreement on Tariffs and Trade (GATT) was elevated to a lead position in bringing order to world trade. The administration of GATT had its headquarters in Geneva.

Membership in the GATT has grown to over 120 nations, with China and Russia as notable exceptions. A key feature of GATT trade agreements is that the rules must be applied equally and fairly to trade between all member nations. However, exceptions can be negotiated. For example, developed countries may impose lower trade barriers on items imported from third world countries than on comparable items coming from other developed countries. Also, two or more countries may negotiate separate trade agreements that are more favorable than the GATT provisions. This is the case under North American Free Trade Agreement (NAFTA), which is discussed in [Leaflet 9](#).

GATT has served both as a legal institution and a forum for member nations to resolve trade conflicts. There have been eight rounds of trade negotiations under GATT, all of which ended successfully with trade agreements that were later ratified and implemented by member countries. The major focus in earlier rounds was the reduction in tariffs on merchandise. The result has been a reduction from an average tariff rate of approximately 40 percent at the time GATT was created to around 4 percent in the early 1990s. Agricultural and textile products were notable exceptions to the goods covered in these earlier rounds. The emphasis changed and broadened in the Uruguay Round: non-tariff trade barriers received more attention; agriculture and textiles were included; trade in services and intellectual property was considered for the first time; the powers and structure of the GATT organization were modified and strengthened.

## The Uruguay Round Agreement

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Under this agreement, by the year 2000, tariffs will be reduced on medical equipment, scientific instruments, pharmaceuticals, wood, paper, aluminum, chemicals, and construction equipment. Harmonization of rules of origin will be completed by 1998 and anti-dumping rules were strengthened. Financial services were incorporated in the GATT round, but full agreement was not reached and further talks were planned to gain safeguards for US firms overseas.

Under GATT-UR, existing agricultural tariffs will be reduced. Export subsidies will be cut and no new subsidies can be introduced. The agreement improves market access for agricultural exports. Import licenses will be eliminated. Member countries must convert non-tariff barriers to tariffs, and these tariffs must be reduced over a specified time period. For example, import quotas will be replaced by tariff rate quotas ([see Leaflet 6](#)).

Over a six-year period, export subsidies and differential export taxes must be reduced, relative to levels during an historic base period. Budgetary expenditures on export subsidies must be reduced by 36 percent, and the volume of subsidized exports must be reduced by 21 percent, compared to the 1986-90 base period. Also, no new subsidies are permitted for commodities that did not receive subsidies during the base period.

The actual changes in U.S. and European Union (EU) export subsidy programs, which are the world's largest, will be relatively small. Therefore, the influence of the GATT-UR agreement on world prices and the relative trade shares of these two exporters are likely to be small also. The beneficiaries will be those exporters that have not previously depended on export subsidies and the taxpayers who financed them. Consumers who previously benefited from subsidized prices will lose some of those benefits. The agreement allows legitimate food aid shipments to continue.

These changes will make some U.S. exports more competitive; EU and Japanese exports will be generally less so. Commodities affected include wheat, feed grains, cotton, peanuts, livestock, and dairy products. Increases are anticipated in U.S. exports of wheat and flour, feed grains and products, beef and processed meat, pork, soybeans and products, other minor oilseeds, and poultry. Increases are likely in U.S. imports of cotton, textiles and apparel, vegetables, peanuts and dairy products.

Member countries must reduce trade-distorting domestic farm programs and policies relative to a 1986-88 base period. For developed countries, the total level of internal support must be reduced by 20 percent over a four year implementation period. Developing countries, which typically provide lower levels of support, must reduce the level of support by 13 percent over an eight year time frame. Members may continue farm income support and other payments at previous levels, provided these are not linked directly to production or marketing activities and do not distort trade.

The calculation of the level of internal supports for agriculture is based on an aggregate measure for the country as a whole and there is the potential for increasing domestic supports for one commodity at the expense of another. A country could choose to increase one type of domestic support program as long as it reduced another type by an equivalent amount, to keep the net impact on the aggregate measure in compliance. Such actions would satisfy the intent of the agreement.

Recent changes in U.S. and EU domestic agricultural policies already satisfy the minimum requirements under GATT-UR. Therefore, the agreement will cause little or no additional change in the internal support programs for agriculture in these countries, although changes that have already taken place are reinforced by the agreement.

Members agree to work towards harmonizing health and sanitary measures and justify them based on sound science. Prior to the GATT-UR agreement, each member country had wide latitude in establishing health and sanitary rules on imports, and these were often used to create trade barriers. Under the new agreement, scientific evidence, not arbitrary decisions based on political considerations, will be used as the basis for establishing these measures and in settling disputes. One country can challenge the legitimacy of another's health or sanitary measures before the WTO.

As a result of these changes, global trade will increase, and market economics, rather than government policies, will increasingly determine trade flows.

## **Implementation Issues**

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Although the Uruguay Round will result in some far-reaching improvements in the world's trading system, it left some issues and concerns unresolved. They include the following:

- Effective enforcement.
- The relationship between the provisions of the Uruguay Round and other agreements made before the Uruguay Round was completed, such as NAFTA;
- Whether safeguard provisions will result in serious inequities in market access and industry protection;
- Whether safeguard provisions can be applied effectively when perishable commodities are dumped;
- Whether the U.S. government will aggressively pursue trade dispute settlement when phyto-sanitary restrictions or trade issues conflict with other political or non-economic objectives;
- How the United States can protect itself if abuses occur under the developing nation exemptions that favor competitors over U.S. producers;
- Whether U. S. rules on country of origin marking can be made consistent with GATT rules;
- Whether agricultural intellectual property rights will be effectively protected; and
- What impact the agreement will have on the U.S. government budget and the U.S. trade policy debate.

**Enforcement.** Under section 301 of the U.S. Trade Act of 1974, as amended, the U.S. Trade Representative (USTR) may take action to enforce U.S. trade agreement rights or eliminate trade practices unfairly burdening U.S. commerce. The Uruguay Round sustains this use, subject to due restraint, to enforce a WTO decision that a U.S. trading partner is violating its commitments. There are no restrictions on applying Section 301 procedures against countries that are not part of the WTO or in areas where there are no agreed WTO rules. A question arises, however, as to whether the United States can use the section 301 remedy to enforce existing bilateral agreements such as the canned fruit agreement or the wine accord with the EU.

**GATT and NAFTA.** The provisions of the Uruguay Round do not supersede those of the North American Trade Agreement. They are simply a different set of obligations and commitments. If the Uruguay Round calls for lower trade barriers than NAFTA, the Uruguay Round applies; if Uruguay Round calls for less, then NAFTA provisions apply. All signatory nations must comply with the new Uruguay Round disciplines on tariffs, non-tariff barriers and subsidies but the new tariff rules are not as demanding as those of NAFTA. Therefore, the NAFTA rules on tariffs apply between the United States, Canada and Mexico. On the other hand, the Uruguay Round requirements on non-tariff barriers are generally more extensive and more restrictive than those of NAFTA and would prevail if a dispute arose. Thus, the Uruguay Round cannot weaken the agreements between the US, Canada and Mexico, but could augment them in some areas.

**Reciprocal access.** Article 5 of the Uruguay Round contains a Special Safeguard Provision which can be utilized by countries that have converted border measures, such as quotas and variable import levies into tariffs. This provision will permit such countries to assess

an additional duty if the level and price of covered imports unreasonably damages domestic suppliers. The price and volume conditions under which this remedy is available are carefully identified.

Fruit and vegetable commodities imported into the United States are not subject to border measures other than ordinary tariffs. Hence, the safeguard provision available to countries that had more restrictive barriers is not available to the U.S. under the same price and volume conditions. Therefore, this provision of the agreement is not reciprocal; rather, it continues the imbalance in market access between producers of like products in the U.S. and Europe, which has converted its border measures into tariffs. This inequity can be resolved only in future GATT negotiations.

**Perishable commodities.** The agreement is not well designed to deal with perishable commodities because remedies for unfair trade rules often cannot be applied quickly enough to prevent serious economic damage. In seasonal agricultural markets, imported sales below costs over relatively short periods of time can cause serious and lasting harm to domestic industries. This lack of expedited anti-dumping (safeguard) procedures for perishable commodities could be rectified by speeding up WTO procedures in the case of perishable commodities. This might be done without waiting for the next round of GATT negotiations if sufficient member pressure is put on WTO to alter its administrative procedures.

### Provisions and Impacts for Selected Commodities

| Commodity        | Provisions   | Impacts  |
|------------------|--|--|
| WHEAT            | Cut U.S. tariffs by 15-55% depending on type Cut export subsidies 21% in volume and 36% in value by 2000     | Likely increase in U.S. exports  |
| CORN             | Cut US tariff by 75% Cut export subsidies 21% in volume and 36% in value by 2000                             | Likely increase om U.S. exports<br>Likely increase in domestic demand                            |
| COTTON           | Replace import quota with a tariff-rate quota  | Likely increase in U.S. cotton exports; likely in apparel imports                                |
| PEANUTS          | Replace import quota with a tariff-rate quota  | Likely decrease in U.S. exports; likely increase in U.S. imports                                 |
| BEEF             | Replace Meat Import Law with a tariff-rate quota Cut export subsidies 21% in volume and 36% in value by 2000 | Likely increase in U.S. exports of high quality beef and increase in imports of low quality beef |
| PORK             | Cut US tariff by 36% Cut export subsidies 21% in volume and 36% in value by 2000                             | Likely increase in U.S. exports of pork  |
| GRAIN<br>SORGHUM | Cut U.S. tariff by 75% Cut export subsidies 21% in volume and 36% in   | Likely increase in U.S. exports<br>Likely increase in domestic                                   |

|                | value by 2000  | demand   |
|----------------|--|--|
| SOYBEANS       | Cut U.S. tariff on oil 15% Cut export subsidies 21% in volume and 36% in value by 2000                     | Likely increase in U.S. exports of soybeans and products, other minor oilseeds<br>Likely increase in domestic demand |
| DAIRY PRODUCTS | Replace import quotas with a tariff-rate quota Cut export subsidies 21% in volume and 36% in value by 2000 | Likely increase in U.S. imports of dairy products  |
| POULTRY        | Cut U.S. tariff by 20% Cut export subsidies 21% in volume and 36% in value by 2000                         | Likely increase in U.S. exports of poultry   |

**Phyto-sanitary barriers.** With the reduction of tariff and other non-tariff barriers, sanitary and phyto-sanitary barriers will become the last major device for countries seeking to artificially restrict access to their markets. The agreement calls for all phyto-sanitary restrictions to be based on sound scientific measures. To be effective however, the United States must aggressively and rapidly address questionable barriers and pursue the dispute settlement mechanism to seek their removal. The concern among many U.S. producers is that the government will not use the dispute settlement procedures forcefully when there is a violation of the agreement, particularly when there are important non-trade considerations. The remedy lies in effective political action by affected commodity groups.

**Developing country subsidies.** The agreement defines and establishes rules and disciplines on subsidies and identifies those subsidies that are not subject to countervailing actions by GATT members. It also provides special conditions, such as a longer phase-out period or specific exemptions, for subsidies provided in developing countries. This presents a problem where such subsidies are abused or where developing country industries are fully mature and competitive with industries in developed countries. In these instances, imports from such a developing country may gain an unfair advantage over domestic or other foreign suppliers. The U.S. has little recourse in this situation other than to express its intent to take aggressive action under the WTO dispute settlement mechanism.

**Country of origin marking.** The agreement establishes a three-year work program to encourage harmonization rules of origin among GATT members. However, rules in the United States vary between states and considerable internal standardization will be required before an international standard can be agreed to. Such action may be stimulated by the GATT harmonization objective.

**Agricultural intellectual property rights.** The agreement establishes improved standards for the protection of a full range of intellectual property rights (IPRs) and the enforcement

of those standards both internally and at the border. The agreement does not cover IPRs for seed and plant development. Whatever remedies existed in the past for agricultural IPRs are still available, but clearly the same case can be made for agricultural IPRs that the U.S. has made successfully for non-agricultural IPRs. This issue needs to be addressed in the next GATT round, because it cannot be changed by unilateral action.

***Domestic policy impacts.*** Reductions in government revenue will occur because of lower import tax collections and reductions in other trade related items. This is a concern because, to meet federal deficit targets, either offsetting reductions in expenditures will be required or taxes must be increased.

Environmental questions, labor rules, patent and copyright laws and genetic property rights are important concerns to many. Such issues as antidumping and countervailing duties, fast track negotiating authority, Section 301 trade law, and the powers of the World Trade Organization occupied much of the discussion between the administration and Congress on the implementing language for the Uruguay Round legislation. Some interest groups remain dissatisfied and skeptical of the outcome. Concerns such as these will continue to be part of the Presidential and Congressional policy debates, will form the basis for grievances filed with the WTO, and will provide input for the next GATT round.

## Concluding Remarks

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The Uruguay Round is a significant step towards freer trade, even though it does not go as far as some supporters originally hoped. The major accomplishment was in enlarging the scope of the negotiations to include many areas of trade not covered in the previous eight rounds. These included barriers to trade in agriculture, textiles, and services; protection of intellectual property rights; and international investment. Also, a stronger world trade organization, the World Trade Organization, was created. This agreement provides a foundation for further reductions in trade barriers in future rounds of negotiations.

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