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# THE GATT URUGUAY ROUND AND THE DAIRY SECTOR\*

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## ABSTRACT

The Uruguay Round has now been in existence for 6 years and has had a history of confrontation, brinkmanship and repeated last minute efforts at preventing a breakdown in talks. A "Draft Final Act" was put forward by the GATT Director General, Arthur Dunkel, on 20 December 1991. This paper provides a brief review of its main proposals and the interpretations put forward in the Schedule of Commitments, submitted by Canada, the USA, the European Community and Japan, so far as these relate to the dairy sector.

## 1 THE TEXT ON AGRICULTURE

Following 5 years of discussion, negotiation, breakdown and revival in the current GATT round, a "Draft Final Act" was put forward by the GATT Director General, Arthur Dunkel, on 20 December 1991. After recalling the objectives of the negotiations as set out in the Punta del Este Declaration in 1986 to bring agricultural trade and policy within the scope of strengthened GATT rules and the Mid-Term Review Agreement "to establish a fair and market orientated agricultural trading system" and "to provide for substantial progressive reductions in agricultural support and protection ..." the Dunkel "Draft" makes specific proposals in the four main areas of "market access", "export competition", "domestic support" and "Sanitary and Phytosanitary Regulations". In the light of these proposals Contracting Parties were requested to submit not later than 1 March 1992 Schedules of Commitments in each of the first three of these areas.

This paper provides a brief review of the main proposals in the "Draft Final Act" and the interpretations put forward in the Schedule of Commitments, submitted by Canada, the USA, the European Community and Japan, so far as these relate to the dairy sector. We have not had access to the Schedule documents submitted by other parties. An attempt will be made to provide an analysis of the effects on the dairy industry and trade in dairy products if agreement is concluded as the Dunkel "Text on Agriculture" stands. At this stage no attempt is made to guess possible "fine tuning".

The Dunkel Text proposes that agreement would be implemented over 6 years, from 1993 to 1999. The base period proposed for calculations of import access and domestic support are the average of the years 1986-1988. The proposals are a compromise between the negotiating positions of the US and Cairns Group on one side and the EC on the other.

### 1.1 Market access

Binding commitments are proposed in two basic areas for market access – a reduction in customs duties and a requirement to allow a minimum level of access to markets.

- All non-tariff barriers (for example US Section 22 Quotas) are to be converted into bound tariffs at a level corresponding to the difference between internal and world prices over the 1986-1988 base period.
- All tariffs (including those newly created) are to be reduced on a simple average basis by 36% for product areas, with a minimum reduction of 15% for each tariff line.
- Imports at a reduced rate of duty must account for a minimum of 3% of domestic consumption in 1993 rising to 5% in 1999.
- Where imports already exist in significant quantity, access must be maintained on terms at least equivalent to existing arrangements relating to the base period. There is provision for consultations "with a view to negotiating appropriate solutions" for dealing with arrangements such as EC cheese quota imports or EC/New Zealand butter quotas.

### 1.2 Export competition

The Dunkel Text proposes a reduction in the overall size of export subsidies and also a commitment to reduce the volume of exports subsidized.

- Export subsidies are to be reduced by 36% and the volume of subsidized exports by 24% based on the average of 1986-1990.
- Reductions are to be implemented in each of four commodity groups – butter and butteroil, skim milk powder, cheese and "other milk products".

### 1.3 Domestic support

Subsidies which affect trade or production are to be reduced by 20% from the average level in 1986-

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1988. Subsidies which have no effect on production or which are less than 5% of the value of production are excluded.

Calculations in this area show the biggest differences in interpretation. Subsidies which do not affect production, and therefore have no trade distorting effect, are a matter of dispute. The US calculates the Aggregate Measure of Support (AMS) for the dairy sector as the difference between the internal support price for manufacturing grade milk and the "international milk price" (f.o.b. Northern Europe) times the level of US production. The EC, on the other hand, have made a separate calculation of the total level of market support for skimmed milk powder and butter. The EC puts forward its calculations "on the understanding" that headage payments (as proposed for Common Agricultural Policy reform) will not be subject to the commitment of reductions.

#### 1.4 Sanitary and Phytosanitary Regulations

The essential aim is to harmonize regulations for the protection of human and animal health based on scientific knowledge and to assess possible risks on the basis of techniques acceptable to international organizations. While there are difficult areas here for the dairy industry, disagreement on this part of the Dunkel Text does not appear to be a main concern. In the dairy sector it is notable that liquid milk has not been interpreted as being part of the Schedule of Commitments for minimum access for traded products (except with qualification by Canada), which may ease considerably possible problems of acceptance in this area. Problems with BSE (bovine spongiform encephalopathy) and BST (bovine somatotropin) may still prove serious.

#### 1.5 Food aid and net food-importing developing countries

The Dunkel Text also contains an important undertaking so far as the dairy sector (and others) is concerned. Contracting Parties are to "agree to establish appropriate mechanisms" to ensure that the outcome of the Uruguay Round on trade and agriculture does not seriously disadvantage developing countries and the availability of food aid sufficiently to meet the needs of these countries when required.

## 2 THE SCHEDULES OF COMMITMENT

In order to begin negotiations, the "Draft Final Act" contains a set of tables which Contracting Parties were required to complete by the beginning of March 1992. These tables are intended to set out the basic data on which the reductions, outlined in the rules set out above, are to be implemented. Appendix A summarizes data from the US and EC Schedules.

It has not been possible to obtain all documents, but an examination of those of Canada, the USA, the EC and Japan for the dairy sector reveals wide differences in interpretation and indeed in the extent to which major Contracting Parties seem willing or politically able to comply with the rules set out in the Dunkel Text. The submissions of these four Contracting Parties illustrate in our view the problems of agreement for the dairy sector.

### 2.1 Canada

Canada's submission tackles first the issue of **market access**. It is argued in line with the Punta del Este Declaration and the mid-term agreement that GATT rules and disciplines should be strengthened and that this also applies to Article XI, 2(c), permitting quantitative control of imports, when such controls are also applied internally to the production of an agricultural product. Canada requires clarification of Article XI, 2(c) to avoid problems of definition between the agricultural product concerned and individual tariff lines relating to products derived from the agricultural product.

While stating its reservations with regard to market access, Canada has complied with the Dunkel Text and submitted figures of 3% and 5% of consumption for main product classifications. The figures are as follows:

Coding	Product	Initial access	Final access
		quota	quota
		('000 tonnes)	
0402	Milk powder	4.314	6.917
0403	Buttermilk, yogurt	3.057	3.116
0404	Whey	2.984	4.973
0405	Butter and butteroil	2.984	4.973
0406	Cheese and curd	20.411	20.411

Under the liquid milk and cream coding (0401) Canada records an initial access figure of 87 913 tonnes, rising to a final figure of 146 521 tonnes, but states that Canada's minimum access is conditional on "equivalent real access to the US market". The Canadian document is the only one to raise the issue of liquid milk and cream; the others ignore it without comment.

Canadian base rates of duty are a mixture of specific and *ad valorem* rates according to tariff line. A reduction of 36% is calculated for every tariff line, both for specific and *ad valorem* rates. The right is reserved, however, to administer the tariff regime, including rates in a manner Canada considers appropriate.

On **export competition** Canada reserves its position and the right to amend the phasing of reductions in export subsidies in the course of negotiations.

On **internal support** Canada reserves the right to re-examine the classification of its support programmes with respect to the "green box" in the light of classification by other Contracting Parties.

### 2.2 USA

The US document applies its own interpretation of **market access**.

Minimum access is calculated separately for cheese and for all other products. Minimum access for cheese is calculated as follows:

	Consumption	Import access ('000 tonnes)		
	1986-1988	1991	1993	1998
Cheese	2587.2	111.0	111.0	128.9

These figures would indicate an increase in access of approximately 18 000 tonnes of cheese over 6 years. It has been noted, however, that the calculation of consumption excludes cottage cheese and fresh cheese, and production of these products in the USA



is a significant part of total cheese consumption. If added to the calculation above, it is estimated approximately to double the final increased access amount.

The minimum access calculation for products other than cheese has been made by aggregating the consumption of other products in terms of fat and solids-not-fat and then distributing 3% and 5% of these amounts according to the proportions of existing (Section 22) import quotas for each product. The results of this calculation are as follows:

#### Minimum import access for other dairy products to the USA ('000 tonnes)

	Consumption 1986-1988	Import Access		
		1991	1993	1999
Fresh cream	-	5.8	18.0	30.0
Skim milk powder	318	0.8	0.8	1.4
Condensed skimmed milk	468			
Whole milk powder	59	0	0	0
Condensed whole milk	398	2.4	4.2	7.0
Butter milk powder	22	0.2	0.3	0.4
Butter	505	0.3	1.0	1.7
Butteroil		0.5	1.8	3.0
Chocolate crumb		11.8	16.0	31.4
Whole milk substitute		7.4	7.7	12.7
Fat	456	5.2	13.7	22.8
Solids-not-fat	577	12.5	16.1	26.8

The resulting pattern of the US offer of increased access from this method clearly has a peculiar pattern. The largest increases are for fresh cream (although well below the figure for fluid milk and cream in the Canadian document), chocolate crumb and whole milk substitute (?), but negligible quantities of other products traded in large quantities in the rest of the world.

The tariffication calculation of cheese quotas, worked out as the average of the difference between the internal and external price in each of the base years, gives an *ad valorem* duty of 105.5%. There are well over 100 tariff line descriptions of cheese set out, and the full reduction of 36% is applied only to "Italian-type cheese not from cows' milk" and one or two other types of little importance, while reductions in other types are either 0 or 15%. The Dunkel Text does not require a reduction of 36% for cheese, but in this case the tariff line is split, which makes it difficult to see whether the minimum reduction is met. For most other dairy products the basic tariffication calculations give *ad valorem* rates between about 123 and 138%; the percentage reductions in split tariff lines are all either 0 or 15%, which again obscures the match up with the Dunkel Text.

Notwithstanding the deviations and obscurities on import access, the US Schedules appear to stick closely to the Dunkel Text with regard to **export competition**. The main products of butter and butteroil, skim milk powder, cheese and whole milk powder are each averaged individually for the base period (1986-1990), both for quantity and subsidy expenditure, and the rules of the Text strictly applied. The figures for cheese and whole milk powder are small and of little significance. Those for butter and skim milk powder are as follows:

#### US exports of butter, butteroil and skim milk powder ('000 tonnes)

	Exports 1986-1990	Exports 1990	Maximum exports 1999
	Butter and butteroil	26.7	11.0
Skim milk powder	86.3	0	65.6
US\$ million (subsidies)			
Butter and butteroil	47.5	17.7	30.4
Skim milk powder	128.8	0	82.4

Finally, a calculation is given of the **Aggregate Measure of Support (AMS)** for the dairy sector and the amount by which it will be necessary to cut it over six years. The calculation as averaged for the base years 1986-1988 is as follows:

Support price for manufacturing grade milk	\$ 242.9 per tonne
International milk price	\$ 159.8 per tonne
Price gap	\$ 83.1 per tonne
US total deliveries to dairies	65.151 million tonnes
Market price support (price gap x deliveries)	\$ 5409.38 million
Plus State subsidies	\$ 5.34 million
Minus "fees and levies"	\$ 144.47 million
Aggregate Measure of Support	\$ 5270.25 million

The AMS of \$ 5270.5 million would be reduced by 20% to \$ 4166 million in 6 years. It may be noted that the international milk price is an estimate of the value of milk from derived cif values of butter and skim milk powder, and that the support level of manufacturing milk is about 12.5% below the average price to all producers in the USA.

### 2.3 The European Community

The EC Schedule submitted is prefaced with the qualification that "the Community has not been able to accept the Draft Final Act in its present form". The EC does not accept the Schedules as commitments and points out that the Draft Final Act itself allows "for the possibility of deviations".

The EC Schedule calculates consumption and **market access** for three dairy products, skim milk powder, butter and cheese. Other products are excluded from the EC schedule without comment. Final increased access is 69 000 tonnes for skim milk powder, 104 000 tonnes for cheese and 10 000 tonnes for butter. Unlike the US Schedule, the EC calculation for cheese with an average consumption in the base period (1986-1988) of 4 302 000 tonnes appears to include all cheese including fresh cheese. As about one quarter of cheese consumption is in the form of fresh cheese, its inclusion nearly doubles the EC's calculation of final new access for this product compared with the US definition. On the other hand, the EC's calculations omit any reference to fresh products in the liquid milk and cream area in addition to yogurt and the range of long-life products.

With regard to tariffication, the EC document calculates an average rate of duty by tariff line for the base period for all dairy products with the rates in commer-



cial ECU's per tonne. These are the EC's estimates of the difference between internal and external prices for each product, based on the values for butter and skim milk powder. No percentage reductions are applied to these calculations.

On **export competition** the EC tables set out the total direct export subsidies for butter and butteroil, skim milk powder, cheese and "other milk products" in terms of million ECU and alongside this the quantities involved. The reductions in quantity subsidized required by the Draft Final Act and the reduction in expenditure are not set out. This is undoubtedly one of the areas that would cause the EC the greatest difficulty both administratively and politically.

Finally, the EC Schedules set out the calculations of the **aggregate measures of support** for the dairy sector, relating it to skim milk powder and butter separately. The EC approach specifies as "policies exempt from the reduction commitment" per hectare and headage payments and makes it clear that its commitments will not include this form of subsidy to producers. This position is a highly controversial one in the negotiations.

The calculation of total market support for butter and skim milk powder is made by taking the difference between an administered internal support price for each product and an external reference price and multiplying the difference by EC production of butter and skim milk powder separately. There is therefore a considerable difference here between the US and the EC calculation of support for the dairy sector. Whereas the USA calculates an administered price for milk and an external price for milk and applies the gap to all milk delivered to dairies in the USA, the EC makes the calculation separately for butter and skim milk powder, leaving out the effect of prices for support products internally on the utilization of milk for other products.

## 2.4 Japan

The Japanese document pays the least regard to the actual Draft Final Act of all the submissions. An attached memorandum is headed "Major Problems in the Draft Final Act on Agriculture in the Uruguay Round".

Japan argues that the concept of comprehensive tariffication causes difficult problems. It ignores all considerations of security of supply of basic foodstuffs, and is especially concerned in this respect with rice. It pays no attention to products that come under the purview of Article XI, 2(c) of GATT, which, Japan argues, should be exempt from tariffication.

Japan submits no data on **market access** for dairy products. It is stated that Japan will make every effort to maintain current access opportunities under the provisions of Article XI, 2(c).

On **export subsidies**, none were provided by Japan during the base period. Japan does not, however, undertake to limit export subsidies in the future, should it need to export products for which it is exercising production control measures.

The Japanese document points out the inconsistency between a reduction of 36% in import duties and the same percentage reduction in export subsidies. Because world prices are likely to rise, the effect of

reducing import duties is likely to be greater. The reduction in the quantity of exports which are subsidized is likely to be the most restraining force in subsidized exports.

No figures are submitted on the **Aggregate Measure of Support**. Japan expresses the view that the criteria for income support and structural adjustment assistance are unnecessarily stringent. These should be treated as "green box" policies "under appropriate conditions".

## 3 THE IMPACT

While there are such differences in interpretation and specific non-commitment, it is difficult to be precise over the implications of the Dunkel Final Act. However, any agreement based on it is likely to be highly significant and have an impact on nearly every dairy farmer and processor worldwide. The world market accounts for only about 6 or 7% of the world production of milk; world prices are well below the internal level in most countries and roughly 80% of exports are subsidized in one form or another. Market access is limited by tariffs or import quotas. Hence any move to reduce subsidies is bound to affect the volume of trade and the price of products. With tariffs fixed, changes in world market conditions will affect conditions in internal markets in most countries.

The implications of the Dunkel Text can be divided into two categories: the effect on volumes traded and, with the balance of supply and demand altered, the effect on the level and variability of prices of traded products.

### 3.1 On traded volumes

The impact on volumes traded on the world market will obviously depend on the nature of any final agreement. The Dunkel Text, as it stands, has two constraints on volume – the setting of a 1986-1988 volume base (or 1986-1990 in the case of exports), and the requirement to specify import access and export subsidies by product. As a result of the changes in markets between 1986 and 1993, the Text as it stands will have most impact on products whose market is expanding (cheese, whole milk powder) and least impact on markets which are declining (butter and skim milk powder). It is, of course, possible that the final negotiated settlement will contain constraints on overall volumes (perhaps in terms of milk equivalent) rather than by individual product.

The setting of a 1986-1988 base works to the advantage of countries with export subsidies in two ways. First, world prices were very low during this period and have risen by 54% between 1987 and 1991. Second, action has been taken to reduce dairy product prices by reducing the levels of support prices or, in the case of the EC, by cutting output significantly. For this reason, the reduction in subsidy expenditure may not have a major impact, but the requirements to reduce the volume of subsidized exports and increase import access are much more significant. Hence the analysis that follows concentrates first on the volume effect.

Tables 1 and 2 provide rough estimates of the effect on the major players in the world market. It is assumed that the impact on Australia and New



**Table 1: Effect of a GATT agreement  
(million tonnes milk equivalent)**

	Increase in imports	Decline in exports	Total change
European Community	1.1	1.6	2.7
Other European	0.1	-	0.1
North America	0.5	0.6	1.1
Total	1.7	2.2	3.9

Notes: Based on market sizes and export volumes.  
Based on total milk solids.

**Table 2: Effect of GATT agreement – by product  
(‘000 tonnes)**

	Increase in imports	Decline in exports	Total change	World market size
Butter				
EC	25	-	25	
USA	5	-	5	
Other	12	33	45	
Total	42	33	75	770
Skim milk powder				
EC	62	-	62	
USA	1	-	1	
Other	3	23	26	
Total	66	23	89	960
Cheese				
EC	105	177	282	
USA	18	-	18	
Other	2	44	46	
Total	125	221	346	920
Other products				
EC	-	217	217	
USA	90	-	90	
Other	5	5	11	
Total	96	223	319	1330

Note: Calculations based on replies to Dunkel schedules; estimates of effect in 1999 compared with the volume of trade in 1990.

Zealand will not be large, as their markets are small in global terms and their exports are comparatively unsubsidized. There are also implications for developing countries, but few are significant exporters and the Dunkel Text allows implementation over a longer period than for developed countries. It is also assumed that fresh products, such as yogurt, liquid milk and cream, will be effectively excluded. If these products are included, the impact on import access would effectively be more than doubled. The figures in Tables 1 and 2 show that:

- Most of the impact (nearly 70%) will fall on the EC and amount to a reduction of nearly 3% in output. As the Community provides up to 50% of exports and 30% of imports, this is not surprising.
- With world trade around 25 million tonnes milk equivalent per annum, demand could increase by nearly 7% while the volume of subsidized exports will fall by about 9%.

- The largest impact will be on expanding markets, notably cheese and whole milk powder; butter and skim milk powder will be less affected, although some uncertainty hangs over the issue of New Zealand butter quotas in the United Kingdom. Apart from this, the impact in the dairy sector of agreement to the Dunkel Text as it stands would be considerable, as far as the EC is concerned, while the USA would be little affected. Moreover, the efforts of the USA recently to reduce the level of its support price for butterfat, while increasing that for solids-not-fat, have probably reduced the possible long-term impact of agreement on the US dairy industry, as it has brought the ratio of support prices in the USA closer to the ratio of world prices.

Appendix B of this paper reviews separately the issue of the possible impact of agreement on cheese trade. Whether or not the import access calculation is to include fresh cheese, as in the EC Schedule, or exclude it, as in the US Schedule, the quantitative limit on cheese exports with subsidy is likely to cause considerable diversion of trade from the principal exporting countries within the EC (Denmark and the Netherlands) to other Community countries. The impact of this in handling quota cuts, for example, apart from disruptions to the internal market from changed flows for trade, is likely to be considerable. However, as Appendix B shows, it is not only the EC that will be affected. Other smaller dairying countries in Europe are also heavily dependent on cheese exports, particularly Austria, Switzerland, Finland and Norway. The degree of impact will depend on the extent to which these countries are able to continue to export some types of cheese without subsidy. Higher prices will have an impact on demand, and this must cast some doubt on whether the potential possible growth in world trade from increased access will actually be achieved.

Demand may also be affected by the extent to which developing countries continue to use Article XVIII (2) to prevent imports of dairy products on the grounds that protective measures are necessary to facilitate the growth of their own dairy industries. Such concessions to the dairy industry in the developed world will undoubtedly depend on concessions elsewhere which benefit developing countries.

### 3.2 On price levels

Adding the effect on import demand and export supply together, the balance of supply and demand on the world market could change by as much as 16%, implemented over the next 6 years. Clearly this will have a major impact on prices. Precisely what that will be is something of a guess but, judging by the behaviour of world prices over the last few years, an increase of 30-40% seems plausible in the short term. This likely sharp rise in the first half of the 6 year period is assumed partly because of the quantitative limit placed upon export subsidies on cheese and whole milk powder and relating this limit to the average exports in the base period (1986-1990). Exports of these products from subsidizing countries have risen between 1986 and 1991 and the limitations in the first few years will therefore have a larger effect in cutting supplies than in later years. Moreover, some rise in



milk supplies in exporting countries (as well as limitation of demand) can be expected, which will reduce and possibly prevent the fall in supplies of these products in the second half of the 6 year period. The path is unlikely to be smooth and there may be surprises.

Table 3 gives a profile of producer prices in a number of countries and compares these prices with the return, in milk equivalent, from selling butter and powder on the world market. The existing world market equivalent price of about \$15 per 100 kg enables New Zealand to export and pay its farmers the equivalent of \$12 per 100 kg after transport and marketing costs are deducted, with little direct subsidy or cross-subsidization from the domestic market. An increase in world price to a level of \$20 or \$21 per 100 kg would make it more profitable for the traditional world exporters to increase the volume of production. Based predominantly on grass and therefore with a limited capability of rapid expansion, an increase of 5% a year in output would seem to be maximum. Even so, for New Zealand, Australia, Uruguay and Argentina this would generate an increase in supplies of 1.7 million tonnes by 1999. The effect of raising world prices on supplies in the Baltic States and in Central and Eastern Europe is difficult to guess. These countries are not low consumers of dairy products, although there is still considerable potential demand, if these economies grow in the long term. Higher prices in world markets may give rise to diversion of supplies in the attempt to relieve shorter term economic problems. Figure 1, which is a graph of Table 3, suggests that world milk supplies may not change much, although output in

Table 3: Producer prices and production, 1991

	Ex-farm price (US\$ per 100 kg)	Milk production (million tonnes)	
		National output	Cumulative output
Bulgaria	4.0	1.9	1.9
Estonia	6.5	1.1	3.0
Uruguay	10.0	0.9	4.0
Argentina	10.9	6.5	10.5
New Zealand	12.0	7.4	17.9
Poland	13.8	14.1	32.0
<b>World price</b>	14.6	-	-
Czechoslovakia	16.1	6.6	38.6
Hungary	18.8	2.6	41.2
Australia	20.6	6.6	47.8
United States	27.0	67.4	115.2
European Community	33.1	113.8	229.0
Canada	35.8	7.6	236.6
Austria	39.7	3.3	239.9
Sweden	48.5	1.9	241.8
Norway	51.5	3.2	245.0
Switzerland	61.7	3.1	248.1
Japan	64.7	8.3	256.4
Finland	67.6	2.6	259.0

**Notes:** Prices are at unadjusted national fat and protein levels. Data are for 1991 except for Bulgaria, Czechoslovakia and Hungary, where figures are for 1990. The figure for Estonia relates to February 1992 and for Poland January 1992.

**Sources:** Organization for Economic Co-operation and Development, GATT, Produktschap voor Zuivel, International Dairy Federation, National Statistics, Milk Marketing Board.

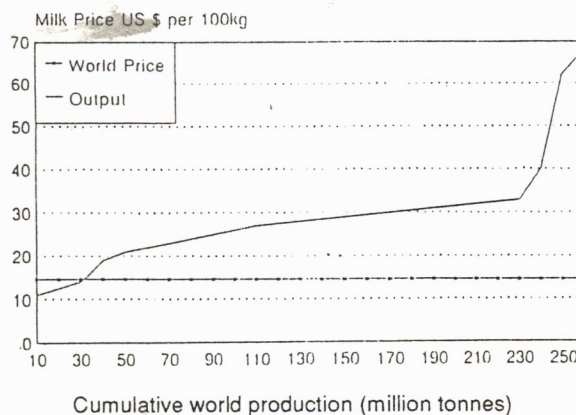


Figure 1: Producer prices and cumulative production, 1991.

some of the smaller countries at the extremes of the price scale may do so.

The point is a basic one – a substantial increase in world prices in the longer term is unlikely, as more supplies will be drawn on to the market and prices will fall back. The principal effect of a GATT agreement, while having some impact on prices in the longer term, will be to substitute subsidized exports with unsubsidized exports, but passage is likely to be difficult as overcapacity occurs in some countries and investment takes place in others.

### 3.3 On price variability

World market prices have fluctuated considerably over the past 5 years (Figure 2). The effect of this on producers has been determined by the dependence of each country on the world market. Prices to producers in New Zealand have fluctuated violently from year to year, but producers in the EC and the USA have largely been insulated from these effects. The world market tends to fluctuate for the following reasons:

- it is a small part of world milk production (about 6%) and, as it is the lowest priced market, small changes in milk production in exporting countries have an exaggerated effect;

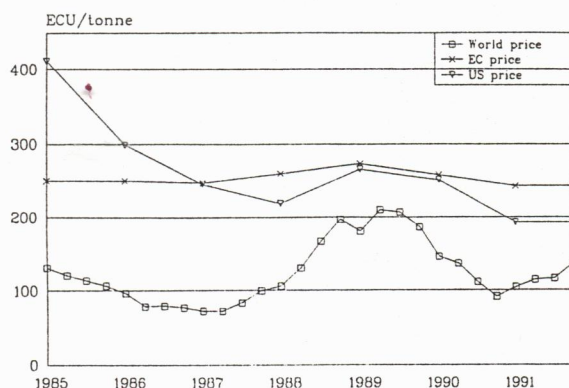


Figure 2: World, EC and US milk prices 1985-1991 (ECU/tonne).



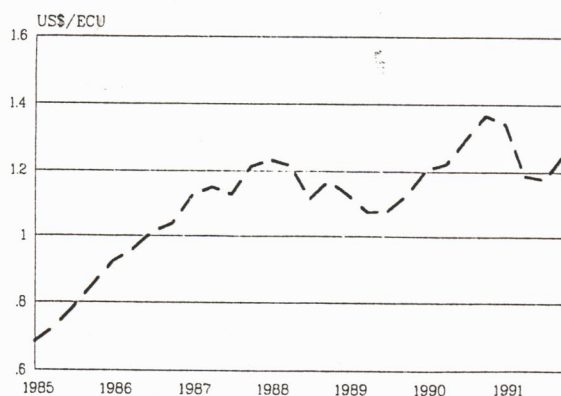


Figure 3: The dollar/ECU exchange rate 1985-1991.

- milk production can change suddenly because of policy changes, such as the sudden drop in milk quotas in the EC in 1987 and 1988, and also because of changes in the weather from year to year;
- the build-up and disposal of stocks;
- fluctuating currency values (Figure 3); this has exerted considerable influence on world market prices, which are expressed in dollars.

Although sudden policy changes are now probably unlikely, and the increased volume of world trade may also influence price changes, world market prices are likely to remain unstable due to economic and political uncertainty and climatic variability. There are reasons to suppose that this variability will be transmitted to internal markets and that producer prices (and industry profits) will change more from year to year in both an upward and a downward direction:

- improved import access means more open markets;
- tariffs are to be bound and import quotas are to be converted into tariffs; the scope for changing customs duties and export subsidies will diminish considerably;
- the 36% reduction in tariffs and export expenditure will considerably reduce the protection which internal markets receive.

The probable greater instability in prices will place additional strains on farmers, processors and policy makers as they try to adjust to changing conditions. Within the EC close economic and monetary ties have been seen as a means of promoting economic stability to encourage a higher growth rate; a GATT agreement with the objective of revitalizing growth in overall world trade will almost certainly lessen stability in the food industry in the EC.

It is important also to be clear about the impact that agreement to the Dunkel Text is likely to have on developing countries and food aid, with possible knock-on effects on overall world food supplies. Almost 90% of milk powder, 50% of butter and nearly 40% of cheese exports went to developing countries in 1990. Some of these countries are "oil-rich" and able to meet higher prices, but some are not, and there will be resistance when prices rise. The 1990 figures for food aid were historically low, because stocks were reduced in 1988 and 1989, but the cost of food aid in future will certainly rise, when legitimate need has to be met. The figures are set out below, and they also illustrate the effect of supplies to the former Soviet Union (now the Commonwealth of Independent States), where there is also likely to be great difficulty in paying higher prices.

#### 4 CONCLUSIONS

The Uruguay Round has now been in existence for 6 years and has had a history of confrontation, brinkmanship and repeated last minute efforts at preventing a breakdown in talks. This paper has shown how, over the slow process of argument and conciliation, views have begun to converge, views which at the start of the talks were diametrically opposed. It has been a painful process.

The impact of any agreement is not easy to measure. The improvement in market access and the restrictions on subsidized exports will place a downward pressure on prices in countries which insulate themselves from competition by controlling imports or subsidizing exports. This is more than half the countries shown in Table 3 – any country with a milk price of over US\$ 20 per 100 kg. The extent of this pressure will depend on the increases in world prices which occur as a result of any GATT agreement. It is likely that any substantial increase will draw extra supplies on to the market and therefore be nullified. A study by the US Department of Agriculture, for instance, suggests modest increases of only 10-15%.

Clearly we are not entering a new world order of higher and more stable prices. The GATT Uruguay Round is really developing a world trading system which already exists, and reinforcing a trend in policy towards a less regulated and less subsidized dairy industry. The future will remain uncertain, and the industry will need to monitor and anticipate market conditions in order to secure the best interests of producers and processors and, in the longer run, of consumers as well.

There are good reasons for suggesting the establishment of an international body monitoring and

#### The importance of developing countries and food aid for trade in dairy products in 1990

	Cheese		Butter		Powder	
	'000 tonnes	%	'000 tonnes	%	'000 tonnes	%
Food aid	-	-	23	3	72	4
Developing countries	350	38	385	50	1 618	89
Commonwealth of Independent States (former USSR)	15	2	300	39	85	5
<b>Total trade</b>	<b>921</b>	<b>100</b>	<b>773</b>	<b>100</b>	<b>1 820</b>	<b>100</b>

acting as a consultative forum on events on the world market – a reinforced International Dairy Arrangement with a membership of all the principal players. Such a body could monitor the application of a GATT agreement (the difficulties of application in this very complex sector will be considerable), and also promote stability by maintaining minimum prices, acting as a forum for the exchange of views and forecasts and operating a

sensible stock-holding policy. Such a policy would not only warn when stocks were too high or too low but also help to maintain a strategic reserve which could be used as food aid in emergency situations. In the Arrangement there should also be powers to consider the operation of Article XVIII of the GATT Agreement in parallel with food aid.

## APPENDIX A

Table A.1: Schedule of Commitments – offers by each country:  
EC and USA compared with estimates of current position

		European Communities			United States		
<b>Import access</b>							
Volume (5%)		Butter	Skim milk powder	Cheese	Fat	Solids-not-fat	Cheese
5% of 1986-1988 consumption	('000 tonnes)	90	71	215	23	27	129
Current imports <sup>a</sup>	('000 tonnes)	80	2	111	5	13	111
Increase required	('000 tonnes)	10	69	104	18	14	18
Tariffs (-36%)		Butter	Skim milk powder	Cheddar	Butter	Skim milk powder	Cheddar
Base tariffs	(ECU per tonne)	2962	1485	2611	1983	890	1304
Less 36%	(ECU per tonne)	1896	950	1671	1269	570	835
Import offer price <sup>b</sup>	(ECU per tonne)	2985	1919	2882	2223	1477	1956
Support price <sup>c</sup>	(ECU per tonne)	3352	1974	-	1552	1623	1982
Offer price as percentage of support price	(%)	89	97	-	143	91	99
<b>Export competition</b>							
Volume (-24%)		Butter	Skim milk powder	Cheese	Butter	Skim milk powder	Cheese
1986 - 1990 exports less 24%	('000 tonnes)	314	234	294	20	66	3
Current exports <sup>d</sup>	('000 tonnes)	235	190	470	11	0	0
Reduction required	('000 tonnes)	none	none	176	none	none	none
Subsidy (-36%)		Butter	Skim milk powder	Cheese	Butter	Skim milk powder	Cheese
1986 - 1990 budgetary expenditure <sup>e</sup>	(million ECU)	1180	370	439	44	120	5
Less 36%	(million ECU)	755	237	281	28	77	3
1990 level <sup>f</sup>	(million ECU)	443	203	519	14	0	0
Reduction required	(million ECU)	none	none	238	none	none	none

- Notes:**
- <sup>a</sup> EC calculates current access as 1986-1988 average imports.
  - <sup>b</sup> Reduced tariff plus GATT minimum price.
  - <sup>c</sup> Intervention price in market ECU in EC, CCC purchase price in USA.
  - <sup>d</sup> For USA, 1990 subsidized exports from submission.
  - <sup>e</sup> Direct export subsidies and sales of stocks.
  - <sup>f</sup> Contained in the submission.



Table A.2: Schedule of Commitments - aggregate measures of support: comparisons of EC and US

		European Communities		United States
<b>Domestic support</b>				
AMS calculation (-20%)				
1986-1988				
Total price support <sup>i</sup>	(million ECU)	Butter	Skim milk powder	Dairy
		5774	2329	4888
Total other support <sup>g</sup>	(million ECU)	0	0	- 126
Total AMS	(million ECU)	5774	2329	4762
Less 20%	(million ECU)	4619	1863	3810
1991				
Internal price <sup>h</sup>	(ECU per tonne)	3221	1897	180
External reference price <sup>k</sup>	(ECU per tonne)	943	685	144
Production	(million tonnes)	1.6	1.4	67
Total price support	(million ECU)	3644	1696	2407
Total other support <sup>g</sup>	(million ECU)	0	0	- 126 <sup>i</sup>
Total AMS	(million ECU)	3644	1696	2281
Reduction required	(million ECU)	none	none	none

**Notes:** <sup>g</sup> For USA, non-exempt direct payments minus producer assessments.

<sup>h</sup> For EC, intervention price plus 10 per cent.

<sup>i</sup> 1986-1988 level, taken from submission.

<sup>j</sup> Based on difference between internal price and external reference price multiplied by production.

<sup>k</sup> Fixed external reference price.

AMS = Aggregate Measure of Support.

Figures based on submissions by the EC and the US Department of Agriculture together with calculated estimates of the current position; the figures which estimate the change in subsidies or subsidized volumes required are not based on government submissions but are calculations.

## APPENDIX B

### A NOTE ON THE IMPLICATIONS OF A GATT AGREEMENT FOR TRADE IN CHEESE

Cheese poses particular problems for an agreement to open markets or reduce subsidies. In many ways it is less of a commodity product than either butter or milk powder, differentiated as it is into types which have a distinct regional or country bias in both production and consumption. Consumption has been increasing consistently over the past decade; trade has been erratic, but has tended to increase over the longer term. The major importers are, outside the Middle East, the developed countries of Japan, North America and Europe, and imports into the latter two have been controlled by quotas.

#### The effect on exports

Around two-thirds of world cheese exports originate from Europe, the majority of which are subsidized. The EC is the largest single supplier, with 423 000 tonnes of cheese sold with the aid of subsidies in 1990 (about 25 000 tonnes are sold unsubsidized). According to the EC Schedule of Commitments a 24% reduction in the volume of subsidized trade would reduce EC subsidized exports to 293 000 tonnes – a reduction of 160 000 tonnes on the forecast level for 1991. Adding the impact of reduced exports of the other European countries, the total

potential reduction in exports would be around 200 000 tonnes or about 22% of total world trade.

The impact of such restrictions will at least partly depend on the reaction of prices to such a reduction in availability – on whether cheese could be exported without subsidy. Certain high-value cheeses such as blue vein and Parmesan cheese attract a subsidy equivalent to 30 - 40% of the world price, but most cheese exported from the Community has a subsidy of more than 60% of its "world value".

The effect of any restrictions on cheese exports on internal markets will ultimately depend on the proportion of milk production which is exported in the form of cheese (Table B.1). The consequences are potentially serious for the Austrian, Swiss, Finnish and Norwegian dairy industries. Cheese exports between Member States of the EC are more than double exports to countries outside the Community. However, Denmark is uniquely dependent on cheese exports outside the EC, primarily Feta to the Middle East. A GATT agreement on the lines of the Dunkel Text would have a considerable effect on the Danish milk industry, if, as is likely, it resulted in a considerable reduction in exports.

### B.1 Dependence on cheese exports by selected countries

	Cheese exports 1990 ( <sup>000</sup> tonnes)	As % of cheese production	As % of milk production
Switzerland	61.5	47.5	15.9
Norway	27.5	32.7	14.5
Austria	36.3	42.7	10.8
Finland	28.9	31.0	10.3
EC	447.1	9.0	4.1
of which:			
Denmark	161.0	54.6	33.9
Netherlands	85.7	14.1	7.6
France	77.9	5.6	2.9
Germany	60.9	5.5	2.6
United Kingdom	18.7	5.6	1.2

### The effect on imports

Nearly one-third of cheese trade goes to three countries: the USA, Japan and the EC (Table B.2). The most rapid growth in cheese imports has been into Japan, Iran and Saudi Arabia over the last few years. Imports into the EC and the USA are restricted by high tariffs or import quotas; the import access offers tabled by both countries are shown in Table B.3. These offers indicated a further 100 000 tonnes of imports to the EC on the average 1986-1990 level and 18 000 tonnes into the USA. If the US offer were made comparable to the EC, new access to the USA would increase from 18 000 to 39 000 tonnes.

### B.2 Cheese imports (<sup>000</sup>tonnes)

	1986	1990
USA	127.6	138.6
Japan	81.2	107.9
European Community	107.6	102.9
Iran	52.3	82.0
Saudi Arabia	40.6	50.0
Egypt	20.5	30.0
Switzerland	22.9	26.0
Sweden	14.0	21.8
Canada	20.6	21.1
Australia	20.3	20.7
Other	256.2	356.3
<b>Total</b>	<b>763.8</b>	<b>957.3</b>

### B.3 Import access offers

	Consumption 1968 - 1988	New access	
		Initial	Final
( <sup>000</sup> tonnes)			
EC (1)	4 302	18	104
(2)	3 229	0	50
USA (1)	2 578	0	18
(2)	3 009	0	39

**Notes:** EC (1) and USA (1) from the Schedules of Commitments; USA (2) makes the calculation for the USA on the same definition of cheese used by the EC; EC(2) uses the same definition of cheese consumption as used by the USA.

Implementing import access has, however, a number of problems in the case of cheese, which arise from the division of the cheese market into a large number of different types. There are 51 different tariff codes in the EC submission for cheese. Tariffication in the Dunkel Text is based on the difference between world and internal prices for butter/powder, which inevitably give rise to technical arguments over product composition. This difficulty is compounded by the variations in the commitment to reduce bound duties between different types of cheese.

Almost inevitably, import access must be implemented on the basis of individual types of cheese, since, if for instance, access into the EC were implemented on a global basis with no differentiation between cheese types, there is the possibility that individual cheese markets could be swamped – the market for Gouda in the Community is around 500 000 tonnes, Cheddar 300 000, Emmental 250 000 – and a further 10 000 tonnes supplied to any of these markets would create considerable difficulties. Similarly, the restriction of export subsidies to 76% of previous levels will create a difficult administrative problem in deciding who should bear the brunt and how. The closer the control needed, the more bureaucratic the system becomes.

### B.4 EC trade in major cheese types, 1991

	Imports ( <sup>000</sup> tonnes)	Exports ( <sup>000</sup> tonnes)
Processed	10.0	91.9
Blue vein	0.3	12.1
Cheese for use in processing	4.4	-
Emmental	44.4	8.8
Gruyere	7.2	0.1
Bergkase type	5.9	-
Cheddar	17.0	18.7
Edam	1.5	34.3
Tilsit	3.1	0.5
Feta	0.3	134.7
Finlandia	2.8	-
Jarlsberg	2.2	0.1
Parmesan type	-	10.5
Pecorino type	-	19.1
Gouda type	1.0	52.6
Cantal type	-	8.7
Other	9.3	91.4
<b>Total</b>	<b>109.4</b>	<b>479.6</b>

### Conclusions

The effect of the Dunkel Text on cheese will depend on how much prices will increase in the light of a major contraction in subsidized supplies. To ensure significant unsubsidized exports from the EC would require an increase in prices of at least 60%. Such a large increase would undoubtedly harm the level of demand as well as encourage surplus from the lower-cost producers in the world. The price rise for cheese as a result of Dunkel is, however, likely to be greater than that for butter/powder.



# THE GATT URUGUAY ROUND - THE COURSE OF THE AGRICULTURAL NEGOTIATIONS 1986-1991

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## ABSTRACT

A brief summary of the positions of the most important players is presented in order to form a basis for understanding, first, the development up to now and, second, the drafts for a liberalization of agricultural trade presented by the parties during negotiations of the Uruguay Round. The "Mid-term agreement (Spring 1989), de Zeeuw's proposal (June 1990), the Hellström paper (December 1990), and the Dunkel Option paper (June 1991) are discussed.

## 1 THE GENERAL POSITION OF THE PARTIES

As a basis for understanding, first, the development up to now and, second, the drafts for a liberalization of agricultural trade presented by the parties during the negotiations of the Uruguay Round, it is relevant to start with a brief summary of the positions of the most important players. Among the main players we count first of all the Organization for Economic Cooperation and Development (OECD) countries, which represents by far the largest share of trade-distorting agricultural subsidies in the world.

Viewed on a continuum stretching from protectionism to liberalism, the parties can be situated roughly with Japan and a number of EFTA (European Free Trade Association) countries to the left as the most protectionist, the European Community (EC) and the USA with some distance between them in the middle, and the Cairns countries on the far right as the most liberal.

Such a scale must, of course, be regarded with some reservations, but it may be valid to an extent, both for the scope of the agricultural subsidies in these countries and for the positions on reductions in agricultural subsidies taken during the GATT negotiations.

The positioning of individual countries may be debatable, for example from the EC's point of view it should be emphasized that identifying the USA as more liberal than the EC is founded upon political/ideological attitudes rather than on actual economic behaviour. This is not least true in the dairy sector.

Japan and EFTA countries such as Switzerland, Norway and Finland, however, may be clearly identified as the most protectionist-minded ones; likewise, despite considerable heterogeneity, the Cairns group, comprising 13 agricultural producing countries with low subsidies, has demonstrated and maintained a position as the standard-bearer of liberalism.

As implied, it is difficult to place the USA and the EC in relation to each other, and given that these are the central players, it is here that the negotiations encounter the greatest obstacles.

## 2 BACKGROUND

The very high priority given to trade in agricultural products from the very start of the Uruguay Round should be seen in the light of the fact that – despite energetic efforts – former rounds had failed to incorporate this issue into the general GATT principles and norms.

The interplay of various other events should also be emphasized. By the mid-1980s, increased détente in the world had eliminated the foundation of much of the protectionism, which was based on considerations of safe supplies. At the same time there were increasing fluctuations in the world market, with serious consequences for developing countries in particular, difficulties in managing agricultural production and, finally, increasing budgetary pressure from maintaining agricultural subsidies in industrialized countries.

With this background, the agricultural preparation committee under GATT, in its report of 31 July 1986, formulated a basis of negotiation according to which attempts should be made "operatively and effectively" to include agricultural products in GATT rules. The following issues were particularly emphasized:

- internal support schemes;
- improved market access;
- strengthened discipline with regard to export competition.

The period up to the spring of 1989 was then scheduled for discussions on the principles of further negotiations. During this period it became clear that the gap between the parties, not least the main players – the EC and the USA – was very wide. Fundamentally, the USA considered agricultural support schemes to be the main disease of which the disequilibrium of the world market was just a symptom. The EC, on the other hand, claimed that the disequilibrium should be solved by means of regulations before the support schemes were ended through gradual liberalization.

More concretely, from the outset, the USA prepared for a frontal attack on the agricultural support schemes of the EC, whereas the EC demanded that liberalization should be carried out taking account of the global market and rebalancing.

The bargaining positions of the parties during a mid-term agreement on further procedures reflected these differences. The USA proposed to initiate the discontinuation of support schemes, total abolition being the objective. The EC suggested two phases: first, short-term adjustments of support schemes in order to resolve global balance problems; second, gradual reduction of support based on production.

## 3 THE MID-TERM AGREEMENT

After extremely hard negotiations, a plan for further action was arrived at in the spring of 1989. The so-called "Mid-term agreement" contains the famous "magic" formulation of the GATT negotiations' long-term objective in agriculture, which is:

"... to provide for substantial progressive reductions in agricultural supports and protection ..."