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Stephan von Cramon-Taubadel and Ralf Kühn*

Turning Point for European Agricultural Policy?

The Agricultural Negotiations of the Uruguay Round

Agriculture is undoubtedly the most important and controversial topic in the ongoing Uruguay Round of the GATT. Can a compromise between the divergent positions of the EC and the USA on agricultural trade be found? Does the Uruguay Round mark a turning point for the EC's Common Agricultural Policy?

The immediate consequences for agricultural policy of recent political developments in Eastern Europe – particularly in the former German Democratic Republic – have attracted a great deal of attention in the EC in the last months. This has done much to overshadow other key agricultural policy issues. In particular, the state of the GATT negotiations seemed, at least until very recently, to have been of secondary importance in agricultural policy discussions, even though developments in this area will have a significant long-term impact on the agricultural sector.

The success of the current Uruguay Round depends to a great extent on the willingness of the EC and USA to compromise in the area of international agricultural trade. The USA and other GATT members are calling for the EC to increase access to its markets by replacing the current system of variable levies and export restitutions with a set of tariffs which would be bound under the GATT and gradually dismantled. The EC seems willing to consider a form of tariffication provided that it be allowed to rebalance its agricultural protection – i.e. close the Common Agricultural Policy's (CAP) "open flank" in cereal substitutes – in return. In this paper we review the current state of the Uruguay Round negotiations and present the areas in which European farmers can expect changes if the EC accepts proposals along the lines of those being discussed at the moment. As we put the final touches on this paper, the EC Council of Ministers is agonising over the decision whether or not to accept such

proposals. Depending on its final decision, this paper either describes the actual changes facing EC agriculture, or the potential changes which EC policy makers have been unable to accept.

The GATT and Agriculture

Since 1947 there have been seven rounds of GATT negotiations. The eighth round, called the Uruguay Round, began in 1986 and is expected to end in December, 1990. The three GATT rounds prior to Uruguay were characterized by an increasing focus on the problems of agricultural trade (see box). In the meantime, agricultural trade problems have grown to such an extent that farming, along with the service sector, has become the most important issue facing the GATT. Some GATT members have threatened to let the Uruguay Round fail if it is not possible to reach an agreement on agriculture. Lack of progress on agriculture could also rekindle the EC/USA trade war, a conflict which would likely spread to other sectors and countries.

Before discussing the Uruguay Round in detail, the importance of the GATT in general must be stressed. It may be tempting for the farm lobby in the EC to suggest either that agriculture be excluded from the GATT, or that the EC avoid the politically unpleasant consequences of

¹ See, for example, U. Koester et al.: *Disharmonies in EC and US Agricultural Policy Measures*, Office for Official Publications of the European Communities, Luxembourg, 1988; S. Tarditi et al.: *Agricultural Trade Liberalisation and the European Economic Community*, Oxford 1989.

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GATT directives regarding agriculture by simply not complying. However, such an isolationist agricultural policy is not tenable in our increasingly integrated world. As many studies have shown,¹ the EC's CAP not only affects farmers in the Community but also has direct and considerable effects on farmers throughout the world. These studies also show that the CAP saddles the EC with large welfare losses.

Furthermore, one must be realistic about the relative importance of the agricultural sector and the GATT's accomplishments in other sectors to date. The GATT has been successful in reducing average tariffs on manufactured goods from over 40% after World War II to less than 5% in the late eighties. It would be very unwise for GATT members to risk these advances by maintaining

inflexible positions on agricultural policy. In particular Germany, a leader in manufacturing, owes a great part of its post-war economic success and standard of living to exports which have grown in the environment provided by the GATT.

The EC's Agricultural Position

In summary, a great deal is at stake in the Uruguay Round and the final results are likely to bring about important changes in the rules governing agricultural policy. As discussed below, the EC has hinted that it is willing to make important concessions on agriculture in the Uruguay Round, even though other GATT members – not surprisingly – remain unconvinced that the EC has gone far enough.

The History of Agriculture under the GATT

(1) *The Dillon Round (1961-1962)*. The Dillon Round was primarily occupied with the creation of the EC. The GATT permits the creation of customs unions as long as the resulting rate of protection is not higher than the average rate of protection of the individual member countries prior to the creation of the union. The EC could not guarantee that this condition would be met in agriculture as it proposed to install a system of variable import levies. Under such a system the rate of protection is not fixed because it varies with world prices. In the final analysis, GATT members were nevertheless prepared to allow the creation of the EC. However, in return the EC agreed to the zero-binding of duties and tariffs on cereal substitutes. This concession, the so-called "open flank" of the CAP, has become very important as EC imports of cereal substitutes and cereal surpluses have increased.

(2) *The Kennedy Round (1963-1967)*. This round began with a US

proposal that support for all agricultural products worldwide be reduced by 50%. The EC responded with an offer to fix "margins of support", which are defined as the difference between the domestic price of a good and the corresponding world market price which has been corrected for the influence of protectionist measures. It was not possible to agree on either of these proposals and the Kennedy Round essentially disintegrated – as far as agriculture is concerned – into a series of negotiations on individual commodity agreements. In the end, the only agreement reached covered cereals. Interestingly, the EC made an offer to limit its selfsufficiency rate for cereals to 90% during the Kennedy-Round. The USA rejected this proposal as a step away from the

desired liberalization of agricultural trade. In retrospect, this limit would have had a great effect on international markets and the CAP. In the 1980s, the EC-10's selfsufficiency rate for cereals averaged 116%.¹

(3) *The Tokyo-Round (1973-1979)*. The Tokyo-Round was an equally unsuccessful attempt to deal with the problems of agricultural trade. In this round, the USA proposed that agricultural products should receive the same treatment as industrial products. The EC stated that the underlying principles of the CAP were not open to negotiation and focused its efforts on stabilization measures such as price and storage agreements. The USA insisted on new rules governing the use of export subsidies; however, these rules proved to be ineffective when the first attempt to apply them ended after six years with a GATT committee concluding that they were not operational, binding or effective enough.²

¹ Own calculations based on Agrarbericht der Bundesregierung, Bonn, various issues.

² R. Paarlberg: International Agricultural Policy Coordination: An Aid to Liberal Reform?, in: H. v. Witzke, C.F. Runge, B. Job (eds.): Policy Coordination in World Agriculture, Kiel, 1987, p. 203.

The policy declaration that launched the Uruguay Round – and which was also signed by the EC – states that the goals of the agricultural negotiations are “to achieve greater trade liberalization and to bring all measures affecting import access and export condition under strengthened and more operationally effective GATT rules and disciplines”.² However progress in the area of agriculture has been halting and there remains a wide gap between the EC and US positions in particular. In the following paragraphs the EC’s Uruguay Round proposals and their consequences will be dealt with in detail.

At the beginning of the Uruguay Round, the EC was put on the defensive by American and Cairns Group³ proposals calling for the dismantling within ten years of all trade distorting measures in agriculture. Rejecting this as completely unrealistic, the EC responded with the following three-part proposal:

- A step-wise reduction of protection for agricultural products in general, as measured by a sector-wide yardstick, the Aggregate Measure of Support (AMS).
- The so-called “rebalancing” of CAP protection (through restrictions on cereal substitute imports coupled with decreases in protection for cereals).
- A move towards more “market balance” in world agricultural trade through agreements on market sharing and the coordinated reduction of supply.

The differences between the EC and the USA/Cairns Group opening positions were considerable. The EC has demonstrated little interest in free trade per se, and seems to view the Uruguay Round as an opportunity to create stable conditions under which it can tinker with its CAP in peace. To this end, the EC would like to close the open flank of the CAP (rebalancing), to reduce protection (as measured by the AMS) only as much as absolutely necessary to pacify the USA and the Cairns Group, and to divide up world markets between itself, the USA and the

Cairns Group (market balance) so that surpluses can be disposed of in an orderly fashion. Characteristic of the EC’s dirigistic stance is its demand that it receive credit in the Uruguay Round for its milk quota system, which, the EC claims, has led to drastic cuts in butter and milk powder surpluses.

The agricultural negotiations remained stalemated leading up to the mid-term review of the Uruguay Round held in Montréal in December, 1988. Nevertheless, the negotiating parties were able to gloss over the outstanding differences at a meeting held the following April, and it was agreed that each participant would submit a detailed proposal for long-term agricultural reform by December, 1989.⁴

Tariffication of Support Measures

In its December, 1989 proposal the EC did not change its basic position. However, the EC did expressly declare that “adjustment of support and protection shall lead to overall lower support and protection levels”, and explicitly agreed that every increase in protection resulting from rebalancing “should find its compensation in reductions of protection elsewhere”.⁵ At the same time, the Community carefully proposed a compromise – the tariffication of support measures – which could have far-reaching consequences for the future of the CAP.⁶

In its purest form, tariffication would replace the current system of variable levies with ad valorem tariffs. This would strengthen the link between EC and world markets for agricultural commodities because EC markets would no longer be completely insulated from world market price fluctuations. As Figure 1 makes clear, the EC’s variable levy system stabilizes domestic agricultural prices at levels which are significantly higher than the corresponding world market prices. The difference between the constant domestic price and the fluctuating world market price is bridged at the border by a variable levy; the lower the world price, the higher the value of the levy and so on. This mechanism would be fundamentally changed by tariffication. Since an ad valorem tariff is applied as a percentage of the value of the good in question, it is greater – in absolute terms – the greater the price of the good. Domestic prices cannot be held constant under such a tariff system but rather fluctuate in step with world market prices.

However, because of its traditional mistrust of world

² GATT: Draft Ministerial Declaration on the Uruguay Round, Punta Del Este, Uruguay, September 1986.

³ The Cairns Group is a coalition of agricultural exporters including Argentina, Australia, Brazil, Canada, Chile, Columbia, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay. The EC, the USA and the Cairns Group are not the only actors involved in the current round of GATT negotiations on agriculture. The Nordic countries (Finland, Iceland, Norway and Sweden), Japan, the Republic of Korea, India and several developing countries (Egypt, Jamaica, Mexico, Morocco, Nigeria and Peru) have also presented proposals. For details, see B. Chattin, R. Wise: *Agricultural Trade Policy and GATT Negotiations*, in: *Agricultural Food Policy Review: U.S. Agricultural Policies in a Changing World*, United States Department of Agriculture, Economic Research Service, Agricultural Economic Report Nr. 620, 1989.

⁴ B. Chattin, R. Wise, op. cit., p. 78.

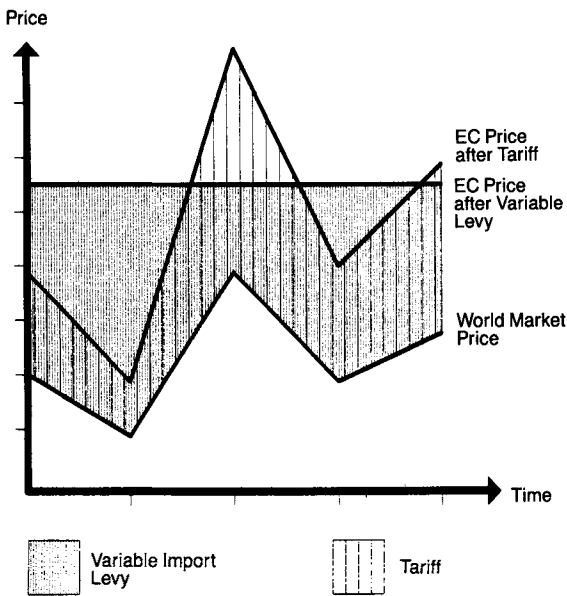
⁵ Agra Europe (London): EC Tables New GATT Working Paper on Rebalancing and Tariffication, June 15, 1990, p. E/1.

⁶ GATT: Global Proposal of the European Community on the Long-Term Objectives for the Multilateral Negotiation on Agricultural Questions, December 1989.

market prices, the EC proposed some changes to the system described above. According to the refined EC proposal, tariffs would be divided into a "fixed element" and a "corrective factor" (see Figure 2). First, a corrective factor (positive or negative) would be applied to the world market price in order to obtain a reference price which is

free from exchange rate and world price fluctuations that exceed a predetermined limit.⁷ According to the EC proposal, reference prices could be calculated using data from a representative period – for example, the average of the years 1985-1988.⁸ Second, a simple ad valorem tariff called the fixed element would be added to the reference price in order to derive the internal EC price. This fixed element could be reduced step-wise over the years as a contribution to the EC's commitment to reduce its AMS. The EC has repeatedly stated, however, that the internal EC price must continue to include an element of domestic preference so that imports cannot underbid domestic production.

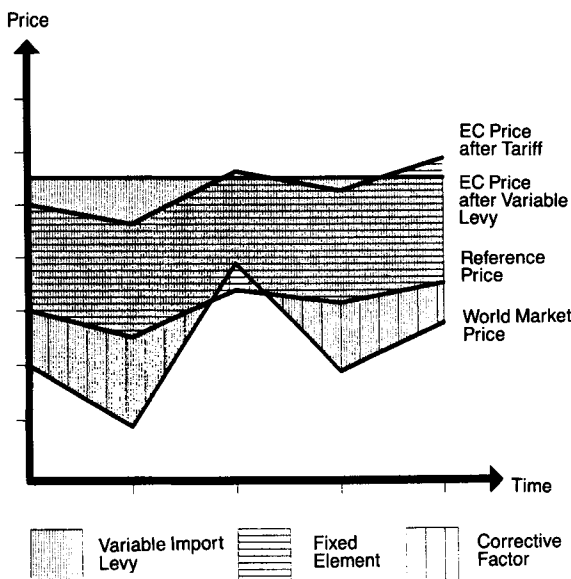
Figure 1
A Comparison of Variable Import Levies and Ad Valorem Tariffs



The relationship between domestic and world market prices described above is only valid in an import situation when levies or tariffs can be collected. How the EC's December, 1989 proposal would be applied to agricultural exports was less than clear. As long as the EC insists on supporting domestic agricultural prices, it will have to depend on export restitutions to dispose of its surpluses on world markets. The EC's proposal states that "The same arrangement [as for imports] would apply to exports; the amount granted to exports could not exceed that levied on imports".⁹

Theoretically, it would be possible to implement an export subsidy analogous to the tariff on imports discussed above. In this way, a link between EC and world market prices could also be established for export products. However it is hard to imagine an agreement over such a mechanism being reached with the other GATT members. First, the EC's system of export restitutions has always been rather arbitrary and characterized by the extensive use of price discrimination based on product quality and destination. It would not be surprising, therefore, if the EC attempted to maintain as much latitude as possible in a new system – for example by using a correcting factor analogous to that proposed for imports to fine-tune export restitutions. Second, recall that the import tariffs proposed by the EC would include an element of domestic preference. Using export subsidies equal to these tariffs, EC exporters would be able to underbid the competition by the amount of this preference. Since American negotiators have repeatedly

Figure 2
The Tariffication Scheme Proposed by the EC



⁷ Agra Europe (London): EC Commission GATT Paper, December 15, 1989, p. P/5. Most international agricultural trade is carried out in US-dollar terms. Hence, to express a world market price in national currency – for example DM – terms, it must be converted using the appropriate US-dollar exchange rate. Under a system of tariffs, domestic EC price levels would therefore depend on the value of the dollar as well as the absolute level of world prices.

⁸ Agra Europe (London): EC Tables New GATT Working Paper on Rebalancing and Tariffication, op. cit., p. E/1.

⁹ Agra Europe (London): EC Commission GATT Paper, op. cit., p. P/5.

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stressed that export subsidies should be reduced more rapidly than other forms of protection, it is highly unlikely that the USA would ever agree to this sort of an export subsidization regime.

Reaction to the EC Proposals

The USA's initial reaction to the EC proposals was extremely negative. According to a statement made by the US Trade Representative, Carla Hills, and the Secretary of Agriculture, Clayton Yeutter, "The United States cannot accept the EC's proposal to 'rebalance' import protection. Rebalancing is simply protectionism by another name, and we believe that the other GATT countries will recognize it as such. The EC's version of tariffication – retaining a country's right to vary import charges with fluctuations in market prices and exchange rates – does little to liberalize market access. The EC's approach on export subsidies is unacceptably weak and totally out of step with the other Uruguay Round proposals".¹⁰

Since the December, 1989 proposals were submitted, a number of attempts to find a common denominator in the various negotiating positions have been made. One of these is a paper tabled at the end of June, 1990 by the Chairman of the GATT Agriculture Working Group, de Zeeuw. De Zeeuw's paper is seen as a substantiation of the USA/Cairns Group negotiating position because it stresses that export subsidies must be reduced more rapidly than other support measures and because it mentions neither rebalancing nor the modifications (fixed element/corrective factor) that the EC has proposed for its tariffication scheme.¹¹ Agricultural trade was also on the agenda at the G-7 Economic Summit in Houston in July of this year. At this summit, the G-7 leaders made a firm – if vague – commitment to "achieve far-reaching, substantive results in all areas of the Uruguay Round by the end of this year".¹²

At a meeting of agriculture ministers from Australia, Canada, Japan and the USA, in Dromoland, Ireland at the end of July, 1990, EC Agriculture Commissioner Ray MacSharry presented a plan elaborating the EC's proposal for the reduction of agricultural protection. According to this plan, GATT members would reduce their

aid to agriculture, as measured by the AMS, to 70% of the 1986 level by 1996. At the same time, MacSharry reiterated the EC positions that rebalancing must be allowed in return for tariffication, that tariffication must include a corrective factor to compensate for world price and exchange rate fluctuations, and that de Zeeuw's proposal to dismantle export subsidies more quickly than other protectionist measures was unacceptable.

Foreign reaction to MacSharry's proposal was mixed. Observers were generally positive because it was felt that the proposal was evidence that the EC was beginning to negotiate seriously. At the same time, US Agriculture Secretary Yeutter emphasized that this proposal did not go far enough.¹³ In particular, Yeutter criticized the choice of 1986 as the basis year, because this was a year in which EC levels of support had been very high. Indeed, Yeutter argued that the USA had already reduced its subsidies by more than 30% since 1986, and thus could, according to MacSharry's proposal, actually increase its subsidization of agriculture between now and 1996.

MacSharry was also criticized at home. In the months of August and September, 1990, it rapidly became clear that neither MacSharry's colleagues in the EC Commission nor the EC's Council of Agriculture Ministers were united behind his proposal. Some members of the former body – for example Trade and Internal Market Commissioners Andriessen and Bangemann – felt that MacSharry's proposal did not make enough concessions in the area of export subsidization,¹⁴ while in particular the German and French members of the latter body criticized MacSharry for going much too far. Not until the first week of October, 1990, was MacSharry able to obtain the Commission's approval for the details of his package so that it could be submitted to the Council of Ministers for approval. By then, however, it was already clear that the EC would not be able to submit a detailed proposal by October 15 as agreed to by the GATT parties.

The package approved by the EC Commission and now before the Council of Ministers is very similar to MacSharry's original submission.¹⁵ The overall 30% reduction in the EC's AMS has been distributed among

¹⁰ USDA (United States Department of Agriculture) Economic Research Service: EC Proposals in GATT Negotiations, in: World Agriculture, March, 1990, p. 8.

¹¹ Agra Europe (London): De Zeeuw Paper Goes to Heart of EC/US GATT Dispute, July 6, 1990, p. P/1.; Agra Europe (London): GATT Chairman Drafts Compromise for Farm Trade Agreement, July 6, 1990, p. E/2.

¹² J. J. Schott: GATT Talks: Up Against the Wall, in: Economic Insights, Sept./Oct. 1990. The G-7 nations are Canada, France, Germany, Great Britain, Italy, Japan and the USA.

¹³ Agra Europe (London): Yeutter Claims US "has already met EC farm support target", August 10, 1990, p. E/3.

¹⁴ Agra Europe (Bonn): Kommission über GATT-Vorschlag zerstritten, September 24, 1990.

¹⁵ Agra Europe (Bonn): Kommission verabschiedet ihren GATT-Vorschlag, October 5, 1990; Agra Europe (London): Commission Approves MacSharry GATT Proposals with Few Changes, October 5, 1990; Agra Europe (London): The Commission's Tariffication Proposal: How It Will Work, October 5, 1990; Agra Europe (Bonn): GATT-Angebot der Gemeinschaft für den Agrarbereich, October 15, 1990.

the various CAP products. Annual price reductions of 4% for cereals and sugar beets and 4.7% for milk and meat products would be required. Rebalancing is to be accomplished by imposing import quotas on cereal substitutes and phasing in tariffs of between 6 and 12% over five years. The necessary quotas would be based on imports in the 1986-1988 period, increased by 8%. The formula to be used in determining the corrective factor has also been defined. 70% of all world price movements that are smaller than 30% of the 1986-1988 reference price would be allowed to leak through to EC markets. Thus, if world market prices sank 20% below their reference level, EC prices would sink 14% and the corrective factor would increase 6% to make up the difference. World market price fluctuations beyond the 30% limit would be fully compensated for by the corrective factor, as would all fluctuations that are due to exchange rate changes. The fixed element of the proposed tariffication would include a 10% premium to guarantee Community preference.

As we write at the end of October, the Council of Ministers remains unable to reach a final decision on this package. The USA has submitted a counter-proposal calling for a 70% reduction of agricultural subsidization by 1996, coupled with a 90% reduction of all export subsidies. While rejecting rebalancing and the EC's version of the corrective factor, the American proposal would allow a country to levy special duties in the event that import prices fall below 75% of the previous three year average or imports climb above 120% of the previous year's volume.¹⁶ With the major parties so far apart, and one party unable to agree on a negotiating stance in the first place, the success of the Uruguay Round is in great danger. Although it appears that the December, 1990 deadline cannot be met, an extension into early 1991 is possible¹⁷ and would take the negotiations past the German elections in early December. The German government is under a great deal of pressure from its farm lobby and might show more flexibility once this election is over.

If an agreement is to be reached at all, the USA and the Cairns Group are going to have to be more realistic about what is politically feasible in the EC. At the same time, the EC is going to have to make more concessions than it has to date. In any case, it is likely that a final compromise – if one is to be reached – will have to contain both rebalancing and a tariffication that is less watered down

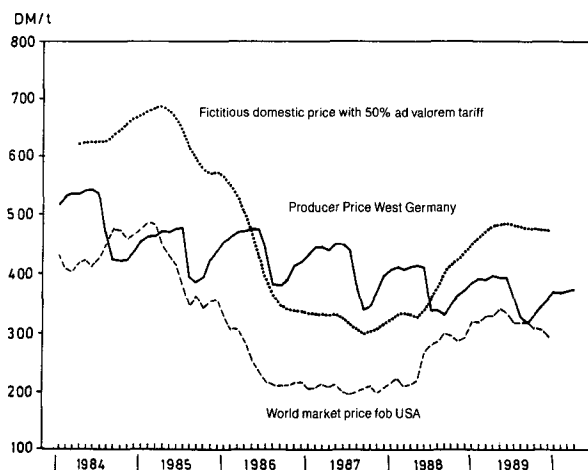
than that outlined in the current EC proposal. It is therefore of interest to consider what effects such changes would have on agriculture in the EC and the rest of the world.

Effects on Domestic Price Movements

Using variable levies, domestic agricultural prices can be kept practically constant. This also means that the seasonal pattern of domestic prices can be divorced from world market price developments (see Figure 1). EC policy makers have used variable levies not only to support domestic prices for crops such as oilseeds and cereals but also – using monthly increments – to interfere with seasonal price patterns. The development of monthly EC and world market prices for wheat is presented in Figure 3 which clearly illustrates the influence of the EC's monthly increments on the seasonal pattern of prices. Over the course of the intervention period, these increments to the EC's buy-in price provide for steady price increases which reduce the risk of storage activities.

In contrast, world market prices for wheat show no dominant seasonal pattern as a comparison of Figures 4a and 4b makes especially clear. The tariffication of trade protection would entail giving up monthly increments and with them, the ability to influence seasonal price patterns. The result would be a whole new environment for storage and trading activities in the EC. World market price developments, however filtered, would become a deciding factor and the risk, and therefore the cost, of storage would increase.

Figure 3
Development of EC and World Wheat Prices, 1984-1989



Sources: FAO: Quarterly Bulletin of Statistics, Rome, various issues; German Ministry of Food, Agriculture and Forestry: Statistische Monatsberichte, Bonn, various issues; own calculations.

¹⁶ Agra Europe (Bonn): GATT: Washington will Exportsubventionen um 90 Prozent kürzen, October 15, 1990.

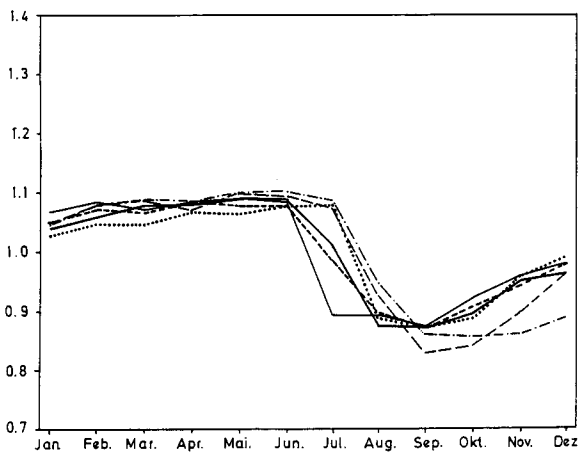
¹⁷ The US Administration's so-called "fast-track" mandate for the Uruguay Round expires on June 1, 1991.

Price Relationships in the EC

Highly protected cereal prices, coupled with duty-free imports of cereal substitutes, have completely distorted domestic price relationships in the EC. As a result, it is worthwhile for livestock producers to replace grain with comparably cheaper substitutes in feed rations. Relatively inexpensive imports of cereal substitutes in port areas have contributed a great deal to the concentration of livestock production in northwestern Europe.

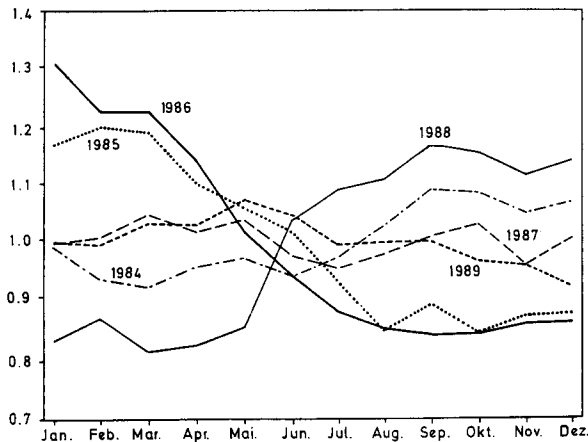
Figure 4
Monthly Wheat Prices in Relation to the
Yearly Average Price, 1984-1989

German Producer Prices



Sources: See Figure 3.

US Export prices



Sources: See Figure 3.

If rebalancing reduces the price advantage that cereal substitutes currently have, more domestic grain production will be fed to livestock and the EC's grain surpluses will be reduced. Within European agriculture, different reactions to these developments could be expected. On the one hand, cereal producers – who have been calling for the CAP's open flank to be closed for a long time – would benefit. On the other hand, livestock producers near EC ports who use cereal substitutes in their feed rations would see their feed costs rise.

A further problem would be the determination of tariff rates for individual products. Domestic price relationships should, optimally, be equal to world market price relationships. Domestic price relationships will only equal those on world markets when the percentage import burden is the same for all products. This has rarely, if ever, been the case in the EC. Because the various market organizations have different structures and mechanisms, and because individual producer groups have different degrees of political influence, the EC's relative rates of agricultural protection have tended to be more the product of accident than design (recall, for example, the case of cereals and their substitutes). In the Uruguay Round, the EC has attempted to retain manoeuvrability by refusing to negotiate protection for individual products and insisting on a global approach based on the AMS. Hence, although the overall level of protection would have to be reduced over time, the EC could engineer shifts in relative protection within this reduction. Based on past performance, it is unlikely that harmonization of EC and world price relationships would be the result. Nevertheless, a tariffication of protection for all agricultural goods would be an improvement over the current system because world market price changes would have effects on domestic EC prices. As a result, changes in world market price ratios would be reflected in corresponding changes in domestic price ratios.

Effects on the Level and Stability of Prices

The tariffication of the EC's agricultural protection would have a noticeable impact on world markets. The CAP has completely insulated domestic EC markets from the rest of the world. This means that neither consumers nor producers in the Community feel the influence of surplus or shortage conditions on world markets. As a result, world markets have not benefited from what would be a significant buffer against fluctuations in prices and production. Low world market prices, for example, do not result in increased consumption and reduced production in the Community, reactions which would otherwise tend to tighten markets and increase prices.

Tariffication would increase the transmission of market signals between world and EC markets. Hence, agricultural prices in the EC would fluctuate more than they have in the past. At the same time, however, world prices would be stabilized by the improved integration of EC markets. EC policy makers who claim that Community agriculture should not be subjected to the chaos of world market conditions forget that they are directly responsible for much of this chaos.

Furthermore, a significant proportion of the observed instability on world markets is due to intervention per se, regardless of the specific form it takes. As an example, consider world grain markets. Much of the instability that has been observed over the last two decades is purely man-made, be it due to set-aside programs, embargoes, tit-for-tat export subsidization policies or major policy reorientations such as occurred in the USA with the 1985 Farm Bill. A GATT agreement – whatever form it might take – could increase policy coordination and reduce the incidence of purely reactive policy making. This would further reduce the instability from which EC policy makers seek to shelter their constituents.

Not just instability, but also the absolute level of world market prices would likely be influenced. Economists have used a wide variety of methods and models to estimate the impact of the CAP on world agricultural markets.¹⁸ Although the quantitative results vary, the qualitative consensus is that the EC – as a “large” country – depresses world prices by protecting its agricultural sector. Reducing CAP protection would thus increase world market prices for milk, grains, sugar and red meats. However, the EC’s proposals would probably lead to reduced world market prices for other commodities. This applies in particular to cereal substitutes which the EC would consume much less of following rebalancing.

Agricultural Policy Making Process

The EC’s Council of Ministers has traditionally played the most important rôle in the determination of key policy variables under the CAP. The Council’s price-fixing sessions in Brussels each year are the culmination of the EC’s agricultural policy process. Tariffication would relieve the Council of Ministers of at least part of its price-fixing role. As a result, the Agriculture Ministers would lose some of their current influence. They could no longer be held solely responsible for the level of farm prices by

their constituents because these prices would be determined by world market conditions and mechanisms bound under the GATT.

Hence, the Agriculture Ministers could be expected to focus their attention away from prices and toward other policy instruments. These would likely include direct income transfers and a variety of other social measures designed to compensate EC farmers for income losses due to reduced protection. One vehicle for transferring income which is receiving considerable attention is payment in return for the environmental services that farmers provide.

Not only price support but also supply control instruments would lose importance. If domestic prices are largely determined on world markets, then it is no longer possible to guarantee higher, stable prices in return for the implementation of a quota system. The introduction of milk and sugar quotas in the EC was politically possible because policy makers and producers were convinced that the only alternative was significant price reductions. At the moment, quotas are being considered in the EC for cereals and – because of the administratively convenient bottleneck provided by crushing plants – especially for oilseeds such as rapeseed. If price supports for these products were converted into tariffs and subjected to scheduled reductions, plans to introduce supply control measures would rapidly lose their charm.

Summary and Conclusions

The preceding pages have outlined the importance of the GATT for international trade, the newest attempts to bring agriculture under GATT control, and the impact that rebalancing and tariffication would have on agriculture in the EC and elsewhere in the world. At the moment, the EC’s proposal only contains a diluted form of tariffication, and the Council of Ministers is finding even this hard to swallow. As the Uruguay Round deadline approaches and is perhaps extended, however, more movement in the negotiations can be expected. Last-minute all-night negotiating sessions are standard procedure for the Council of Ministers and create the “sense of crisis” that helps politicians justify the concessions that they have made.¹⁹ The passing of the German elections may also facilitate a compromise. If a final agreement is reached, it will probably include some form of tariffication and rebalancing. These changes in the CAP would have important consequences for price levels and price stability in the EC. Whether or not the Uruguay Round ends successfully depends largely on whether policy makers in the EC are willing to accept these consequences.

¹⁸ See the sources in Footnote 1 for examples.

¹⁹ For an interesting analysis of CAP decision making, see M. Petit et al.: *Agricultural Policy Formation in the European Community: The Birth of Milk Quotas and CAP Reform*, Elsevier 1987.