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Final Curtain for the Uruguay Round?

The final phase of the Uruguay Round of GATT recalls the previous Tokyo Round completed in the spring of 1979, when the USA threatened to impose countervailing duties on a number of subsidized dairy products from the European Community. There was no direct connection between this trade dispute and the multilateral talks, but the threat of penalties by America was the "casus belli" for the Europeans in the Tokyo Round. "We can't negotiate with this gun at our head", was the EC stance, and France's trade minister Michel Durieux spoke in similar terms recently with regard to possible countervailing measures by the USA for European oilseed subsidies. It was impossible, he said, to negotiate with a gun at one's head, referring to the agriculture talks in the Uruguay Round, to which there is again no direct link with the transatlantic quarrel over oilseeds.

The countervailing duties of 200 per cent on EC exports to the value of US\$ 300 million announced by the USA on 5 November (to take effect as of 5 December) would largely have affected French products, wheat gluten and rape seed oil, but primarily white wines. France thus immediately pressed in the EC for the drawing up of a counter-retaliation list, which in turn would have prompted the Americans to escalate their sanctions. Quite unusually for them, though, the French then found themselves increasingly out on a limb in the EC Council of Ministers. Adroit French arithmetic ostensibly proving that a concession to the Americans in the oilseed dispute would demolish the basis for the EC reforms of May of this year was greeted with a shaking of ministerial heads: the difference still to be made up in the negotiations was small, a matter of 500,000 tonnes of oilseeds out of a total EC production of some 12 million tonnes.

The French lobbying is a sad example of politics getting the better of economic reason. Obviously the Government in France, heading for a disaster in the March national elections, has allowed itself to be co-opted by a militant agriculture lobby, whereas in fact the French farming sector could reap tangible benefits from a successful conclusion to the Uruguay Round. Gains through higher exports in agricultural processed products could more than offset losses in grain and oilseeds. Surprisingly, French industry and services have been reticent to criticize their government's agricultural policy. After all, France is not just the world's second largest agricultural exporter after the United States; it also comes second – again after the USA – on the list of service exporters.

Unlike its French counterpart, Germany's business sector has not been sparing with criticism. This time, even the Federal Government was not prepared to stand as one with its French partner, but turned a cold shoulder along with Great Britain. This was a major step toward gaining the urgently needed acceptance for European unification. For what would a Union be worth in which a vociferous minority could – at the expense of the general public – condemn policymakers to inactivity? In any case, the oilseeds were certainly not a fitting object to prove, in Delors' words, that an "adult Europe" could say no to its big American brother.

Nevertheless, the oilseeds dispute has left behind a bitter taste with a view to GATT. American ire at the EC subsidies is understandable: an old concession of the Europeans from the Dillon Round in the early 60s, i.e. exempting food from import duties in compensation for the disadvantages caused to American citrus farmers by EC preferential treatment of the Mediterranean countries, is in fact rendered partly worthless. Twice, a

GATT panel appointed on the request of the USA found against the EC regulation, but the Community stuck largely to its obstinate course. So, instead of a binding arbitration with compensation payments, a solution in line with GATT, the principal suppliers engaged in power play with the other GATT members being forced to stand by helplessly and watch GATT rules being flouted with sovereign disdain.

The actual agricultural negotiations in the Uruguay Round have also increasingly escalated into a bilateral, transatlantic dispute, creating the impression that the multilateral talks involved two instead of 108 countries. The agricultural poker game began with the US demand for the complete abolition of all agricultural subsidies affecting international trade by the year 2000. The EC, however, was not in the least prepared to sacrifice its common agricultural policy and decided to stonewall.

It took over two years to agree on a joint negotiating goal: "a substantial progressive reduction in agricultural support and protection sustained over a period of time". It then took the Community another one and a half years to draft this vaguely worded aim into a negotiating offer, which the USA in turn rejected, because the EC was only willing to cut internal support by effectively 15% and was unwilling to discuss binding rates of reduction for import restrictions and the export subsidies of especial interest to the Americans. This was why the Brussels conference in December 1990, which was supposed to conclude the Uruguay Round, was doomed to fail. Nor did the compromise proposed a year later by GATT Secretary General Arthur Dunkel find acceptance in Brussels, because it "called the foundations of the common agricultural policy into question".

Not until the Community itself shook these foundations with the internal agricultural reforms adopted in May 1992 did negotiations revive. Would the deep cuts in grain prices envisaged in the agricultural reform bring about a reduction of the volume of subsidized exports acceptable to the USA? Should the planned compensation payments for European farmers come under the permissible "green box" subsidies or the "yellow box" subsidies in need of rollback? And then the "rebalancing" of import restrictions: would the EC refrain from its intention of reintroducing tariffs on animal feed imports? Progress was made on all three fronts until according to one EC negotiator the differences remaining were "microscopic" and then all of a sudden came the eclat in Chicago – genius loci?

Two weeks later, on 20 November, agreement was reached after all: the export volumes subsidised by the EC were to be cut by 21 per cent (rather than by 24 per cent, as proposed by Arthur Dunkel). In the case of oilseeds, a ceiling was to be placed not on production but on the area under cultivation as envisaged in the EC agricultural reform; the "trade war" could be called off. However, the French Government, after a negative vote in the National Assembly, announced its intention to veto the compromise in the Council of Ministers.

Because of the endless agricultural disputes, major outcomes of the Uruguay Round have not as yet taken practical shape in the form of liberalization measures. The developing countries, for example, are still waiting for crucial cuts in import quotas on textiles and clothing. We should not, of course, forget that agreement has not been reached in areas other than the agricultural sector, either. This applies in particular to tariff reductions and the liberalization of services. The present dubious antidumping compromise emphasizes measures against circumventing antidumping more than reforming antidumping itself (in the sense of ensuring fair competition). A thorough reform of Article 24 of GATT for improved compatibility of regional integration and multilateral market opening has not been achieved, either.

In spite of all these shortcomings, it is estimated that concluding the Uruguay Round based on the Dunkel paper of December 1991 could immediately raise world trade by 200 billion dollars and world income by 120 billion dollars a year. This would be a much needed shot in the arm for an ailing world economy. It is therefore right to expect leading politicians to take a swift decision. For a "democratic discussion" of the many other elements of the Uruguay Round, apart from agriculture, there appears to be little time left.

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