Pursuant to Article 1 of the Convention signed in Paris on 14th December 1960, and which came into force on 30th September 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

– to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;

– to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and

– to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The original Member countries of the OECD are Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries became Members subsequently through accession at the dates indicated hereafter: Japan (28th April 1964), Finland (28th January 1969), Australia (7th June 1971), New Zealand (29th May 1973), Mexico (18th May 1994), the Czech Republic (21st December 1995), Hungary (7th May 1996), Poland (22nd November 1996), Korea (12th December 1996) and the Slovak Republic (14th December 2000). The Commission of the European Communities takes part in the work of the OECD (Article 13 of the OECD Convention).
FOREWORD

This booklet contains the Executive Summary of the forthcoming publication The Uruguay Round Agreement on Agriculture: an Evaluation of its Implementation in OECD Countries.

This larger study was undertaken under the 1999-2000 Programme of Work of the Committee for Agriculture. It analyses in depth the implementation of the three pillars of the Uruguay Round Agreement on Agriculture (URAA): market access, domestic support and export subsidies in OECD countries. It also provides an overall appraisal of the immediate trade implications of the URAA and presents evidence on the evolution of agricultural trade openness and levels of protection.

The author of this report is Dimitris Diakosavvas. Statistical assistance was provided by Stéphane Guillot. The full publication will be available as of April 2001. Should you wish to purchase it, please contact the OECD Bookshop, 2 rue André-Pascal, 75775 Paris Cedex 16 (www.electrade.gfi.fr/cgi-bin/OECDBookShop.storefront).
Agriculture Ministers adopted a set of shared goals in March 1998, stressing that these goals should be seen as an integrated and complementary whole. Among the shared goals is the further integration of the agro-food sector into the multilateral trading system. In pursuit of that goal, Ministers mandated the OECD to examine ongoing and new agricultural trade and trans-boundary policy issues and their impacts, and to provide analytical support, as appropriate, to the process of agricultural trade liberalisation.

In response, the Committee for Agriculture adopted (and the Trade Committee endorsed) a comprehensive programme of work on agricultural trade policy issues, to be carried out throughout the period 1999-2000 and continuing during the period 2001-2002. The programme of work was carefully designed to incorporate specific agricultural trade policy issues that are of major interest to Member countries of the OECD, but which may also concern non-OECD countries. A wide range of issues arising at the interface of trade and domestic policy is also covered, such as the trade implications of different kinds of agricultural support measures, food safety, food security, rural development and environmental protection policies.

On-going core activities of the Committee for Agriculture such as the annual monitoring of agricultural policies and medium term outlook exercises provide an essential backdrop to the specific trade programme of work, which is being implemented on two broad fronts.

One major element, characterised as evaluating and strengthening trade liberalisation, aims to assist policy makers and negotiators as they enter the next round of multilateral trade negotiations on agriculture by:

- Assessing in-depth the effects of the URAA on trade, on agricultural policy and on protection levels.
- Identifying possible impacts on trade and markets of different scenarios for further trade liberalisation.
- Analysing the effect of trade policy instruments such as export credits or export taxes and restrictions that have not, to date, been disciplined and the trade impacts of food aid and STEs.

The second major element of the agricultural trade policy work programme deals with a wide range of issues that arise increasingly at the interface of trade and domestic policy. The following issues will be examined:

- Production and trade impacts of different agricultural policy measures ranging from market price support to different kinds of direct payments and including agri-environmental measures.
- The concept of multifunctionality and in particular relationships between policies intended to ensure an adequate supply of agriculture's non-food outputs (such as possible contributions to environmental benefits and rural development) and existing or future international commitments with respect to trade.
- Policies that contribute to improving environmental performance in ways that are consistent with agricultural trade liberalisation.
- The implications of trade liberalisation for food security in OECD and selected non-OECD countries.
- Trade aspects of domestic policies in the area of food safety and quality with respect to topical issues such as biotechnology and animal welfare.
- Trade or trans-boundary aspects of competition policy with respect to geographical labels and state trading.

Reflecting the wide range of issues, different methodologies are employed in the implementation of the agricultural trade work programme – analytical, model-based tools are used alongside statistical and descriptive approaches while some issues receive a conceptual treatment. Choice of methodology is determined by data availability and by the nature and complexity of the issues being examined, leading to either quantitative or qualitative results. In a later phase, work will be undertaken to synthesise the main conclusions and policy implications for each of the main elements of the programme.

This report assesses the effects of the URAA on trade and protection levels. It analyses in depth the implementation of the three pillars of the URAA: market access, domestic support and export subsidy in OECD countries. It also provides an overall appraisal of the immediate trade implications of the URAA and presents some empirical evidence on the evolution of agricultural trade openness and levels of protection.
EXECUTIVE SUMMARY

The Ministerial Communiqué of March 1998 reaffirms support for Article 20 of the URAA, recognising that continuation of the reform process should take into account, inter alia, the experience from implementing the reduction commitments as well as their effects on world trade. The present report addresses one aspect of the mandate to examine ongoing and emerging trade and transboundary trade policy issues and their impacts by analysing in-depth the implementation of the three pillars of the Uruguay Round Agreement on Agriculture (URAA) – market access, export subsidies and domestic support in OECD countries. It does not cover other aspects of the URAA, many of which are taken up in other parts of the Programme of Work of the OECD Directorate for Food, Agriculture and Fisheries. The main findings can be summarised as follows.

The URAA marked an historic point in the reform of the agricultural trade system

One of the main achievements of the URAA has been the development and implementation of a framework to address barriers and distortions to trade in three major policy domains (market access, domestic support and export subsidies). New and operationally effective rules have been established and quantitative constraints have been agreed upon for all three pillars. In addition, the URAA has provided an overall framework for the re-instrumentation of agricultural support towards less trade distorting policies. Moreover, the URAA has provided the basis for further negotiations.

The immediate quantitative effects on trade and protection levels are moderate

Although the immediate trade impacts specific to the implementation of the URAA in OECD countries are difficult to identify and distinguish from the impacts of other events, the empirical evidence suggests that the overall effects have been moderate. The reasons for this include the weakness of many specific features of the URAA, and the historically high support levels during base periods from which reductions were to be made. In some countries reforms undertaken in anticipation of the outcome of the negotiations were sufficient to fulfil or partially fulfill commitments in some areas of the URAA. Finally, some features of the URAA, including implementation and methodological issues, have weakened its effectiveness in reducing trade protection.

The on-going WTO negotiations on agriculture provide an excellent opportunity to deepen the process of agricultural policy reform and trade liberalisation

The empirical results of this study lead to the conclusion that the challenge now facing WTO members is to build upon the foundation of the URAA to further reduce trade distortions. This requires strengthening the disciplines already established under the URAA and addressing those weaknesses of the current agreement which have been identified as well as to agree on emerging trade issues. At the same time, it requires maintaining an appropriate role for governments to address domestic policy goals in ways that are targeted, transparent, cost effective and avoid distortion of production and trade.
Market access aspects

Notwithstanding the achievements of the URAA, agricultural tariff levels are still high

A major accomplishment was the conversion of non-tariff barriers to tariffs. Although tariffication appears to be a significant step forward, in most OECD countries average agricultural tariffs are higher than non-agricultural tariffs, with rates on some agricultural products exceeding 500%.

The post-UR tariff profile in the agricultural sector in many OECD countries has become more complex

The structure of countries’ tariff schedules has become extremely complicated, with several different rates applying to the same product, sometimes depending on their country of origin. The number of tariff lines to accommodate in-quota and over-quota tariffs has increased.

Tariffication has, in some instances, resulted in higher actual or potential protection than before the URAA

The tariffication process allowed scope for considerable discretion, resulting in tariff bindings at rates much above actual protection rates, reducing the significance of subsequent tariff reductions. Moreover, some of the tariffs that emerged from the URAA are not very transparent, including many specific rate tariffs or combination tariffs with both ad valorem and specific components. Agricultural tariff dispersion as measured by widely used indicators, such as standard deviation, has increased and trade policy specific measures, such as the number of tariff “spikes”, have also risen.

The use of special safeguards has been relatively modest

The special agricultural safeguard was designed to address disturbances in domestic markets arising from the removal of non-tariff measures, either in terms of a surge in imports or a decline in domestic prices. However, the modest use of special safeguards suggests that countries’ concerns regarding import surges for tariffified commodities were not warranted. Nevertheless, the potential for using special safeguards remains and could be used even when import quantities are very low as has occurred already in some instances.

Tariff-quotas have opened up markets in some cases, but overall are under-filled by a significant margin

The increased use of tariff-quotas has allowed some access to markets that were previously closed and some additional access to markets where imports were restricted. In-quota tariffs are often set at low levels, although this is not always the case. In most countries, however, import of the full in-quota quantity does not occur. The empirical evidence presented suggests that, on average, tariff-quotas in OECD countries have been only two-thirds filled. Moreover, the fill rate of tariff quotas has steadily decreased over time.

Under-utilisation of tariff-quotas could be attributable to many factors

Under-utilisation of tariff-quotas could be attributable to various factors, some of which are beyond the importing countries’ control. Small quota quantities combined with high tariff rates for over-quota imports, as well as restrictive methods of administering tariff-quotas, hinder trade. Further, countries have considerable flexibility in allocating tariff-quota quantities at the in-quota tariff levels. Tariff-quotas, both under current and minimum access, have often been allocated to specific supplier countries through preferential tariffs under bilateral and regional agreements or preferential quota provisions, thereby limiting market access by other countries.

Methods of tariff-quota allocation determine who earns the economic rents

Administration of tariff-quota licenses not only determines who captures the economic rent, but it may also institutionalise the mechanism to create rent, thereby affecting market access opportunities. The analysis has highlighted the fact that the different methods available to allocate import quotas
have widely different impacts on the distribution of rents and on market access. If allocation is on a first-come first-served basis, the importer is likely to capture the rents. If allocation is by licensing of importing firms based on historic market shares, rents are likely to accrue to the importer, but there is a risk of concentration of the rents in the hands of a small number of importers and significant administrative and rent-seeking costs may arise. If quotas are auctioned by the government in the importing country, then the government will capture all or part of the rent. If the license system confers market power on importers and the tariff-quota is underfilled, market access is limited and excess quota rents are created.

The degree of tariff-quota utilisation varies among methods of quota allocation...

The simple average tariff-quota fill rate for OECD countries over the 1995-98 period was higher with the allocation methods of historical importers, producer groups and state trading than with auctioning and first-come first-served approaches.

… but is also somewhat dependent on additional factors

The fill rate through auctioning was found to be low, although auctioning is generally deemed a very efficient method of achieving an allocation which is consistent with the most favoured nation (m.f.n.) principle and is potentially the most transparent allocation mechanism. In order that all the benefits of auctioning materialise, including high tariff quota fill rates, auctions must be conducted under competitive market conditions.

The most efficient way to expand market access is through tariff-only protection, provided that the tariff rate is low

Expansion of market access through tariff-quotas can be achieved in various ways, including expanding the quantity, reducing the in- and over-quota tariff rates and changing the quota allocation methods. The most efficient way to increase market access depends on a clear understanding of the factors impeding full uptake of tariff-quotas. For example, if the tariff-quota allocation methods yield low utilisation of tariff-quotas, then an increase in tariff-quota quantities will not necessarily result in greater market access. Tariff quotas are, in general, less trade-distorting than non-tariff barriers but are considered to be second-best policy instruments in improving market access. The most efficient way to expand market access is through tariff-only protection, provided that the tariff rate is low.

Domestic support aspects

Domestic support is highly concentrated in a few countries

In the URAA, three countries or regions, the European Union, Japan and the United States, account for 90% of total domestic support (i.e. AMS, blue box, green box, de minimis, and special and differential treatment) for the OECD area as a whole.

Green box payments and other exempt policies are assuming greater importance

For the 1986-88 base period, the AMS was the major component of the URAA domestic support. However, during the implementation period, while the AMS was declining, exempt measures were increasing. The largest increases in green box expenditures were recorded in the European Union, Japan and the United States. Green box expenditures were greater than current total AMS by 1996. Domestic food aid was the most important category of green box measures, most of it accorded by the United States.
The Uruguay Round Agreement on Agriculture

The AMS commitments are close to becoming a binding constraint for only five OECD countries

For many OECD countries the impact of the domestic support discipline has been imperceptible, although for some countries it is becoming a binding constraint. Reforms undertaken between the base period and the start of the implementation period, together with the fact that blue box measures were included in the AMS in the base period and thereafter removed, meant that most countries have reduced their Current Total AMS levels much more than required under the URAA.

Over 60% of domestic agricultural support in OECD countries are excluded from the domestic reduction commitments

Notwithstanding the reduction in the support deemed to be the most trade distorting, progress towards achieving “a progressive and concerted reduction in agricultural support” as envisaged by the OECD Ministerial Principles for agricultural policy reform, has been modest.

Changes in the mix of domestic agricultural support policies between the 1986-88 base period and the first three years of the implementation period involved a move away from reliance on the most trade-distorting policies toward blue and green box policies. Related effects on production and trade may have been reduced.

Despite the reduction in the current total AMS, the level of agricultural support as measured by the PSE remains quite high and the gap between the OECD PSE and the AMS is increasing over time. Many policies which may cause significant trade distortions are exempt from the domestic reduction commitments. Moreover, there are a number of technical and conceptual issues, including the aggregate (non-product specific) nature of the reduction commitment, the method of calculation of market price support and use of negative figures when calculating Current Total AMS, which weaken the effectiveness of the domestic support discipline. As a result, domestic support reduction commitments will not necessarily result in reduced support overall as required by the 1987 and 1998 OECD Ministerial Principles for agricultural policy reform.

Many exempt support measures have production and trade effects

Although “green box” and “blue box” support measures might be less trade distorting than traditional market price support, many of these measures may not be production and trade neutral. This question requires further investigation. The total amount of the payment as well as the detailed design and duration of a programme are critical factors for determining the impact of policies on production and trade.

The eligibility criteria of the URAA for “green box” measures do not always ensure that no or minimal distortions to production and trade result

Although it is virtually impossible to design income support policies that do not have some effects on resource allocation through income, wealth and risk effects, there is considerable scope for strengthening the disciplines to ensure that the exempt policies are minimally trade distorting. Currently, the policy specific criteria and conditions for green box measures do not always seem to ensure that permitted measures meet this requirement. Further investigation is required of whether payments reported in the “green box” are non or minimally trade distorting. Such research could contribute to the further development of more rigorous operational criteria for exemption from reduction commitments.

Export subsidy aspects

Resort to export subsidies has been reduced

In contrast to non-agricultural exports where subsidisation has been prohibited since the start of the GATT in the late 1940s, export subsidies are permitted in agriculture. The URAA imposed strict
limits on WTO member countries’ agricultural export subsidies. Consequently, resort to export subsidies has been reduced. The export subsidy discipline of the URAA proved to be the most binding of the three disciplines. Yet, very few countries changed their policies substantially to conform with their export subsidy commitments.

The European Union is the major provider of export subsidies

The main reduction commitments affect OECD countries, particularly the European Union which is the major user, accounting for 90% of all export subsidies accorded by OECD countries.

During the implementation period, subsidised exports were lower than allowed levels, although in some instances countries have overshot their export subsidy commitments

For the OECD as a whole, subsidised exports were lower than permitted. Over the 1995-98 period, 42% of the permitted budgetary outlays and 64% of the permitted volumes were used. The number of products being subsidised was also well below the possibilities provided for in Country Schedules.

The start of the implementation period coincided with a marked rise in world market prices for cereals, which allowed countries to fulfil their reduction commitments easily. In fact, the European Union even imposed a tax on cereal exports during that period.

However, some countries have availed of the rollover provision whereby in any of the second through fifth year of the implementation period the use of export subsidies may exceed, under certain conditions, the corresponding annual commitment levels. In some cases, the rate of export subsidy remained high and there was a large degree of disparity among commodities. Some commodities, such as beef and dairy products, still received subsidies on the bulk of their exports, reflecting the dominance of the European Union in these markets.

Despite overall compliance, the various ways in which export subsidy commitments may be circumvented have given rise to concern

Notwithstanding compliance, a number of outstanding implementation issues remains. Some countries have changed their policies to comply with URAA export subsidy commitments. The effects on export competitiveness of the possible subsidy elements of export credits, international food aid, export restrictions and revenue pooling arrangements have come under increasing scrutiny. There is a need to strengthen coverage and criteria to ensure that countries do not resort to other export competition policies which distort markets and undermine the long-term objective of reducing support and protection.
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