A Two-Level Games Analysis of the Agricultural Trade Negotiations Between the United States and the European Community in the Uruguay Round

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A TWO-LEVEL GAMES ANALYSIS OF THE AGRICULTURAL TRADE NEGOTIATIONS BETWEEN THE UNITED STATES AND THE EUROPEAN COMMUNITY IN THE URUGUAY ROUND

A Thesis Presented
by
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Submitted to the Graduate School of the University of Massachusetts Amherst in partial fulfillment of the requirements for the degree of

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Department of Political Science
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CHAPTER I
INTRODUCTION

The Uruguay Round ended successfully on December 15, 1993 after negotiators from many countries overcame numerous differences in positions. All 117 participants in the trade talks agreed on a text of some 500 pages containing 40 separate agreements, even though in the final countdown the deal lost some of its promised features, including agreements on maritime services, film, television and aircraft subsidies, financial services and abuse of anti-dumping laws.(1)

It is well known that disagreement on agricultural issues was one of the main reasons it took so long for the Uruguay Round to be finalized. The deadlock on agricultural policy threatened to jeopardize all the other components of the larger trade reform effort, but the impasse was finally overcome. At first glance, the importance of the agricultural negotiations appears surprising. Agriculture was handled by only one of the fifteen separate negotiating groups in the Round. Agricultural trade makes up only about 10 percent of the total world trade, and farming represents less than 4 percent of the gross domestic product

(1) "And now for something completely different," The Economist December 18, 1993: 59.
in almost all major industrial countries. On further investigation, however, this result is less surprising. Trade negotiators had to reconcile the demands of powerful and well-established domestic groups with the often conflicting larger international interests of the state. So, negotiators could not decide on agricultural issues on their own, but had to pay attention to the opinions of the related domestic lobby groups. It has also been said that some participating governments put agricultural issues onto the agenda of the Uruguay Round as a way to solve domestic problems arising in relation to agriculture. This means that there was a strong connection between international negotiations and domestic politics.

It was mostly the French government supported by its farm lobbyist groups that thwarted the efforts of compromise on agricultural issues between the US and the EC. Failure to achieve compromises on agriculture would have meant the breakdown of the whole Uruguay Round trade negotiations. Again, at first glance, this is somewhat surprising because France was not the most powerful country in the world, especially in economic terms. Its trade comprised just 6.4 % of the total world trade. (2) The reason why the influence of the French farm lobby groups was so conspicuous can also

be found in the willingness of the other negotiating parties, the Cairns Group and the US, to strike a deal on agricultural trade reform. The Cairns Group, composed of 14 agriculture exporting countries, needed a fair trade regime in agriculture because they could not afford to compete with the EC and the US in export subsidies. The US also wanted to cut its support programs to its farmers to reduce budget pressure.

There was another reason why other participating countries could not ignore the intransigence of the French government. The whole Uruguay Round was expected to fail if there was no reform agreement on agricultural trade. Unlike the situation in previous Rounds, agricultural issues in the Uruguay Round was a matter of importance not only to the US and the EC but also to the Cairns Group. So, France could benefit from this changed environment in agricultural trade talks.

France also took advantage of the EC decision making process. Because of the fear of possible National Assembly election losses, the French government opposed the EC’s agricultural reform accord with the US which could reduce support programs to its farmers. This opposition was possible because of the fact that each member of the EC could use veto power on matters where a vital national interest is at stake. The French government often threatened to use it to get concessions from the US as well.
as other members of the EC in the farm reform negotiations. France had therefore successfully rejected any compromise reached between the US and the EC up until December 1993.

The linkages between international negotiations and domestic politics meant that some lobby groups could successfully interfere with the negotiations in the Uruguay Round. Robert Putnam’s two-level games model offers a way to understand such situations. (3) According to him, at the international level (Level I), bargaining takes place among representatives of states in order to forge an agreement. Level II bargaining involves attempts to gain ratification of the agreement by those domestic constituencies whose concurrence is needed to implement the agreement. Quite often, what may be in the interests of the state at Level I collides head-on with interests of entrenched domestic interests at Level II. But, the two levels are highly interactive. Level II interests usually mold the bargaining positions and strategies of negotiators at Level I. Expectations about prospects for ratification also determine the parameters within which potential agreements are considered. Conversely, Level I developments can affect politics at Level II, sometimes increasing prospects for

ratification and at other times diminishing them. But, it is also true that failure to gain acceptance of the agreement at Level II can doom the agreement altogether. This is because the agreement cannot be amended at Level II without reopening the negotiations at Level I. Negotiators thus must always be aware of the constraints imposed on them in Level I deliberations by Level II constituencies.

Yet Level II constraints can work to the advantage of negotiators at Level I. Putnam’s model allows analysts to understand why certain countries gain negotiating advantage through a comparison of participating countries’ win-sets. A win-set for a given Level II constituency is defined as the set of all possible Level I agreements that would win - that is, gain the necessary majority among the constituents - when simply voted up or down. Wider win-sets enhance the prospects for ratification because the win-sets of each side are more likely to overlap. Ratification is impossible if no overlap exists. However, negotiators with narrow win-sets may garner some bargaining leverage with their counterparts because negotiators whose win-sets are perceived to be large will be pressed to make concessions. The negotiator with the narrower win-set has an advantage in negotiations as long as the others regard its acceptance as essential to an agreement.

I will therefore try to figure out why and how the Uruguay Round agricultural trade negotiations were
deadlocked by applying the two-level game analysis to the US and the EC. Though others were involved in this complex process, the US and the EC were the main negotiating partners. On both sides, several government agencies and domestic groups were actively involved in the decision-making. To analyze the dynamics in Level I, I will examine the positions and intentions of negotiators in the international fora: in the US, top decision makers and trade representatives (USTR) and in the EC the Directorate General for Agriculture who has the authority to negotiate for the Commission on agriculture. Explaining French leverage over the negotiations, however, requires supplementing Putnam’s analysis by taking account of how France could put a lock on EC decisions. France alone was a middling participant while France steering the EC was a major partner, one of the triad of US-Japan-EC. In effect, France and the other EC members had to have a Level I game of their own before and while they were in a Level I game with the US, Japan, the Cairns group, and all the others in the Uruguay Round. Within the EC, policy is made through a multitiered, compartmentalized and consensus driven process that favors agriculture. Among other things, trade policy decisions have to be made in the European Commission and the Council of Ministers. Powerful national farm lobbies exert influences on the representatives in those agencies in this process. So I will examine the decision making process in the European
Commission and the Council of Ministers. It is also necessary to look into the changes in the EC’s Common Agricultural Policy (CAP) because in most cases, the positions of the EC in the agricultural negotiations were determined based on the changes of the CAP.

In relation to Level II, I will consider the positions of the groups of constituents who can be affected by or affect the agreements on agriculture. In the US, they are domestic farm lobby groups, such as American Farm Bureau Federation and American Soybean Association, and Congress. With regard to France, I will explore how important agriculture is in the French economy and political process. Political factors such as elections, may also have helped the French farmers to be able to maintain their strong influence on the decision-making process.

The study is organized as follows. In the second chapter, I will explore what two-level game is and how it works. In chapter three, I will look into the agricultural policy process including farm support programs in the US, France and the EC, the history of the agricultural trade negotiations and the issues of agriculture in the Uruguay Round as a background for the following chapters. In chapter four, I will examine why and how the Uruguay Round was deadlocked, and how the agricultural issues became an obstacle to the successful conclusion of the Uruguay Round trade talks. In the first section of this chapter, I will
look into the initial proposals and responses and explain the differences in proposals. In the second section, I will examine the negotiating process to the modified proposals, responses to those proposals and explain why the deadlock continued. In the third section, I will examine why there were continuous confrontations. In chapter five, I will explain the process of overcoming the differences and the adoption of the final text. Well into this stage also, differences of the positions of the US and the EC on many parts of the agricultural issues remained unchanged. However, the incentives of the EC to agree with the US to cut subsidies shifted as CAP spending spun out of control around the time when the Dunkel draft was presented. This situation encouraged a narrowing of differences between the US and the EC. In the first section of this chapter, I will therefore look at the negotiating process to the proposal of Mr. Dunkel, Director General of the GATT, and the responses to the proposal. In the second section, I will analyze how the oilseeds dispute influenced the Uruguay Round trade talks. In the third section, I will look at how the US and the EC could reach an agreement on agriculture at Blair House but why it was rejected by France. In the fourth section, I will probe into the final process to the conclusion of the Uruguay Round.
CHAPTER II
EXPLANATION OF TWO-LEVEL GAMES

Robert Putnam begins his explanation of two-level games by saying that domestic politics and international relations are often entangled. It is, however, unclear whether domestic politics really determine international relations, or the reverse. The answer to that question is clearly "Both, sometimes." The more interesting questions are "When?" and "How?" (1) Putnam says that his two-level games can answer these questions.

He says that the politics of many international negotiations can usefully be conceived as a two-level game. At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, individual governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments. Neither of the two games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign. (2)

---

(1) Putnam 431.
(2) Putnam 436.
Each national political leader appears at both game tables. Across the international table sit his foreign counterparts, and at his elbows sit diplomats and other foreign policy advisors. Around the domestic table behind him sit party and parliamentary figures, spokesmen for domestic agencies, representatives of key interest groups, and the leader's own political advisors. The unusual complexity of this two-level game is that moves that are rational for a player at one board may be impolitic for that same player at the other board. (3)

The political complexities for the players in this two-level game are staggering. Any key player at the international table who is dissatisfied with the outcome may upset the game board; and conversely, any leader who fails to satisfy his fellow players at the domestic table risks being evicted from his seat. On occasion, however, clever players will spot a move on one board that will trigger realignments on other boards, enabling them to achieve otherwise unattainable objectives. (4)

Putnam analyzes, in detail, how his two-level game works. He explains the importance of win-sets, determinants of win-sets, bargaining tactics under uncertainty and restructuring of game tactics and reverberation.

(3) Putnam 436-437.
(4) Putnam 437.
A. The Importance of Win-Sets

Negotiators representing two states meet to reach an agreement, subject to the constraint that any tentative agreement must be ratified by their respective states. For the moment, Putnam presumes that each side is represented by a single leader or chief negotiator who has no individual policy preferences, but rather tries to come to an agreement that will be attractive to his constituents.

Putnam decomposes the process into two aspects:
Level I - bargaining between the negotiators, leading to a tentative agreement.
Level II - separate discussions within each state about whether to ratify the agreement. (5)

In this decomposition, expectational effects are quite important. There will probably be prior consultations and bargaining at Level II to work out an initial position for the Level I negotiations. In contrast, the need for Level II ratification is certain to affect the Level I bargaining. In fact, expectations of rejection at Level II may jeopardize negotiations at Level I without any formal action at Level II. In many cases, the two-level process may be iterative, as the negotiators try out possible agreements and probe their constituents' views. In more complicated

(5) Putnam 438.
negotiations, the constituents' views may even be formed during the negotiations. However, the requirement that any agreement made at Level I agreement must eventually be ratified at Level II creates an important link between the two levels. (6)

Ratification may entail a formal voting procedure at Level II, such as the constitutionally required two-thirds vote of the US Senate for ratifying treaties, but here the term covers any decision process at Level II that is required to endorse or implement a Level I agreement, whether formally or informally. The actors at Level II may represent bureaucratic agencies, interest groups, social classes, or even public opinion. (7)

The only formal constraint on the ratification process is that an identical agreement must be ratified by both sides. This means that a preliminary agreement made at Level I can be modified to gain greater Level II support only by returning to the Level I negotiations and securing the other side's consent to the modification. In the end, then, ratification must be simply voted up or down. (8)

Given this set of arrangements, Putnam defines the "win-set" for a given Level II constituency as the set of

(6) Putnam 438.
(7) Putnam 438-439.
(8) Putnam 439.
all possible Level I agreements that would "win"- that is, gain the necessary majority among the constituents- when simply voted up or down. For two quite different reasons, the contours of the Level II win-sets are very important for understanding Level I agreements. (9)

First, larger win-sets make Level I agreement more likely, ceteris paribus. By definition, any successful agreement must fall within the Level II win-sets of each of the parties to the accord. Thus, agreement is possible only if those win-sets overlap; and the larger each win-set, the more likely they are to overlap. Conversely, the smaller the win-sets, the greater the risk that the negotiations will break down.

The second reason why win-set size is important is that the relative size of each Level II win-set will influence the distribution of the joint gains from the international bargain. The larger the perceived win-set of a negotiator, the more he is at a disadvantage in Level I negotiations. In comparison, a small domestic win-set can be a bargaining advantage at Level I.

(9) Putnam 439-442.
B. Determinants of the Win-Set

Three sets of factors are important in affecting win-set size. First, the size of the win-set depends on the distribution of power, preferences and possible coalitions among Level II constituents. It is possible to say that the lower the cost of no-agreement to constituents, the smaller the win-set. Some constituents may face low costs from no-agreement, and others high costs, and the former will be more skeptical of Level I agreements than the latter. In some cases, evaluation of no-agreement may be the only significant disagreement among the Level II constituents, because their interests are relatively homogeneous. The distinctive nature of such homogeneous issues stands out more by contrasting them to cases in which constituents' preferences are more heterogeneous, so that any Level I agreement bears unevenly on them. Thus, an internationally coordinated relation may face domestic opposition from those who think it goes too far and from those who think it does not go far enough. So, the task of a negotiator grappling with a heterogeneous conflict is more complicated.

The participation rate of the constituents also influences the size of a country's win-set. For example, when the costs and/or benefits of a proposed agreement are

(10) Putnam 443-452.
relatively concentrated, it is reasonable to expect that those constituents whose interests are most affected will exert special influence on the ratification process.

The composition of the active Level II constituency also varies with the politicization of the issue. Politicization often activates groups who are less worried about the costs of no-agreement, thus reducing the effective win-set.

We also have to consider that various groups at Level II are likely to have quite different preferences on the several issues involved in a multi-issue negotiation. In general, the group with the most at stake in a particular issue is also likely to hold the most extreme position on that issue. This means that the chief negotiator is faced with tradeoffs across different issues.

Second, the size of the win-set depends on the Level II political institutions. Ratification procedures definitely influence the size of the win-set. For example, the win-set will most likely be smaller if a two-thirds vote is required for ratification than if only a simple majority is required.

Domestic political practices too can affect the size of the win-set. Strong discipline within the governing party, for example, increases the win-set by widening the range of agreements for which the Level I negotiator can expect to receive backing. State strength and state autonomy is relevant too. The more the main negotiators are independent
of their Level II constituents, the larger their win-set and consequently the greater the probability of achieving international agreement. However, the less pressures a state receives domestically, the weaker its relative bargaining position internationally.

Third, the size of the win-set depends on the strategies of the Level I negotiators. Each Level I negotiator has an explicit interest in making the most of opponent's win-set, but regarding his own win-set, his motives are mixed. The larger his win-set, the more easily he can reach an agreement, but, also the weaker his bargaining position against his opponent. This fact often poses a tactical dilemma. For example, one effective way to show commitment to a given position when bargaining at Level I is to gather support from one's constituents. On the other hand, such tactics may affect the attitudes of the constituent irreversibly, hindering subsequent ratification of a compromise. Conversely, preliminary consultations at home, aimed at preparing one's constituents for a ratification compromise, can undercut a negotiator's ability to project an implacable image internationally. Nevertheless, a negotiator who wishes to expand his win-set in order to encourage ratification of an agreement, may exploit both conventional side-payments and generic good will. In a two-level game, the side-payments may come from unrelated domestic sources or they may be received as part
of the international negotiation. In addition to the use of specific side-payments, a chief negotiator whose political standing at home is high can more easily win ratification of his foreign initiatives.

C. Uncertainty and Bargaining Tactics

Level I negotiators are often ignorant about Level II politics, particularly on the opposing side. Uncertainty about the size of a win-set can be both a bargaining device and at the same time a stumbling block in two-level negotiation. (11) In Level I bargaining, negotiators have an incentive to understate their own win-sets. Since each negotiator is likely to know more about his own Level II table than his opponent sees, the claim has some plausibility. On the other hand, uncertainty about the opponent’s win-set increases one’s concern about the risk of involuntary defection. (12) Deals can only be struck if each negotiator is convinced that the proposed deal lies within his opposite number’s win-set, and thus will be ratified. Thus, a utility-maximizing negotiator must seek to convince his opponent that his own win-set is kinky; in other words,

(11) Putnam 452-454.

(12) Involuntary defection means the behavior of an agent who is unable to deliver on a promise because of failed ratification.
that the proposed deal is sure to be ratified, but that one more favorable to the opponent will probably not be ratified.

D. Restructuring and Reverberation

In the process of negotiations, it may be necessary to restructure the game and to alter one another's perceptions of the costs of no-agreement and the benefits of proposed agreements because not only the real costs and benefits of the agreement but also the perception of the constituents to them can change over time. In some instances, perhaps even unintentionally, international pressures reverberate within domestic politics, tipping the domestic balance and thus influencing the international negotiations. This can be something to facilitate agreement as well as create a domestic backlash.

(13) Putnam 454-456.
Although the influence of the lobby groups of the US was different from that of the EC including France because of the different agricultural decision making processes, their demands were same: continuation of the agricultural support programs. So, these governments could not reduce their support programs to help their farmers get more market shares in international competitions. The programs were price or income support to prevent farm incomes from falling too far below others' and export subsidies and import barriers to boost exports of farm products and limit imports from abroad. All of these programs became the object of criticisms by the other GATT member governments in the 1980s. By then the farm support programs also put budgetary pressure on the US and the EC. This situation encouraged the decision makers from the US and the EC to find a way out of it and they found that the Uruguay Round trade talks could solve the problem.
A. Domestic Politics of Agriculture
in the US and the EC

1. US's Decision Making Bodies and Process

In the US, both the executive and the legislative branches play significant roles in making agricultural policies. The constitution's separation and balance of power requires that the two work together. (1)

a. Decision-Making Process

Within the executive branch, the US Department of Agriculture (USDA) plays a leading role in the development of farm policy and the Agricultural Stabilization and Conservation Service (ASCS) exercises a strong influence within USDA. ASCS is the focal point for lobbying efforts by commodity groups because it is responsible for administering commodity programs. ASCS and commodity groups have maintained close ties out of organizational self-interest, with commodity groups providing information and support for USDA programs in return for the protection of their interests. ASCS has a politically powerful

bureaucracy with a network of state and county offices, each with an elected committee of influential commercial farmers. These committees are influential in administrative and policy decisions. ASCS has the ability to mobilize a formidable grass-roots army of farmers and commodity groups to protect its interests against the Secretary of Agriculture, the Office of Management and Budget (OMB) and Congress. Thus, an obstacle to commodity policy reform exists inside USDA.

There is no fixed structure for dealing with domestic agricultural policy in the White House. The OMB and the Council of Economic Advisors are related to agricultural decision making. The OMB is responsible for keeping all federal spending within budgetary guidelines and serves as a significant force for agricultural reform. The Council's principal responsibility is for macro-economic policy even though it also analyses and participates in any area of policy with significant economic impact. In recent years, the Council appears to have had little impact on agricultural policy decisions. Only one staff member is assigned to agriculture in the Council of Economic Advisors.

However, in relation to the negotiations in the Uruguay Round, the trade representative (USTR) played a very important role. The USTR is the US government's principal trade policy agency, a cabinet level agency headed by the US Trade Representative who reports directly to the president.
The USTR and five deputies hold ambassadorial rank. In the USTR, one Assistant Trade Representative is in charge of agriculture and is aided by a deputy along with a staff of advisors and staff economists. The Office of the USTR is the focal point for a number of trade advisory committees from outside government as well as for administrative activities within the Executive Branch. The USTR leads bilateral and multilateral trade negotiations. The Office receives advice and complaints from businesses, individuals, and members of Congress regarding matters of trade. The Executive Branch draws heavily on expertise from outside the government through several advisory groups. The Agricultural Policy Advisory Committee directly counsels the government on trade issues of agriculture. In 1994, the two executive Secretaries of this Committee were from the Department of Agriculture and from the US trade representative while its members included representatives from the American Soybean Association, American Meat Institute, Archer Daniels Midland Co., National Corn Groups Association and National Bank for Cooperatives. (2) The Agricultural Technical Advisory Committee worked mainly through 10 commodity committees. Committee members were chosen for technical expertise to advise government

officials mostly on technical and administrative matters regarding agricultural trade.\(^{(3)}\)

In Congress, the House and Senate Agriculture Committees, the House commodities sub-committees and the agriculture sub-committees of the House and Senate Appropriations Committees are important. All of these are constituency committees with a vast majority of the members representing districts or states where agriculture is important. Moreover, in the House commodity sub-committees, the members overwhelmingly represent the districts in which the included commodities are produced.

The largest and best known of the old-line farm groups is the American Farm Bureau Federation, which claims nearly two million farm families as members. Another mainstay in the farm organizations is the National Farmers Union (NFU), which claims nearly a million farm families as members and was one of the first advocates of the family farmer. The American Agricultural Movement (AAM) was born out of the "tractorcade" demonstrations in Washington and other cities in 1978-1979, when discontented farmers protested against President Carter’s farm policy. In addition, individual commodity organizations - for soybean, cotton, pork, cattle, and even honey and sunflower produces - also exert influence on the decision making process.\(^{(4)}\)

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Agri-business also has interests in the farm decision making process. The farm and farm-related employment involves a diverse group of industries, ranging from farm operations to grocery stores that sell farm products. These farm and farm-related industries provided over 23 million jobs, or 17.3 percent of US employment, in 1989. They also represent 17.9 percent of gross national production. They are extremely influential, but seldom exercises their full potential because of their close ties with government officials. They also have every incentive to maintain low visibility because visibility invites other groups to mobilize in response.

b. Farm Support Programs

For more than fifty years, the broad objective of farm programs has been to absorb the risk farmers incur from wildly fluctuating prices for commodities which trade in the most volatile markets in the world. Since World War II, US farm policy has centered on price stabilization and crop


(6) Moyer and Josling 134.
insurance schemes designed to help farmers cope with ever-changing physical and economic climates. These programs deal mainly with corn, wheat, cotton, and rice, which together with soybeans occupy three of every four commercially planted acres of land in the US. Farm price-support programs are based on this simple premise: the entire farm sector of the country can be managed if these crops can be managed. Over the years, a two-tier system has evolved to fulfill the federal government’s unflagging commitment to buy farmers’ products at a floor price if they cannot sell them for at least that much on the open market. At harvest time, the Agriculture Department offers low-interest loans to farmers who agree to hold all or part of their crops off the market for as long as nine months. The goal is to spread sales over the course of a full marketing year and prevent a glut during the brief period of time when most farmers bring their crops in from the fields.

Congress sets the rate for this price-support loan. It is done on a bushel basis, requiring the Agriculture Department to offer a farmer, say, $2 a bushel for corn, with the farmer putting up the crop at harvest time, and if at the end of the nine-month term the farmer-borrower has not been able to get a market price that is better than the loan rate, the farmer can forfeit the entire crop to the government and keep the principal. Other than taking over the crop, the government has no other recourse to get its
money back. Farmers come under no penalty for nonpayment of the loan. They do not suffer any stigma either; nothing like a bad credit rating attaches to a farmer who defaults on a price-support loan. These are nonrecourse loans. In effect, the government buys the crop at $2 a bushel, guaranteeing the farmer who participates in the program at least that much when signing up at the beginning of the year. A key feature of these price and income support programs, as far as the government is concerned, is the ability to control production from year to year. In years of expected surpluses, the government periodically makes farmers reduce their planted acreage as a prerequisite for getting direct government supports.(7)

Several US laws affected imports of farm commodities too. Quotas were used to restrict meat imports in 1976. The Meat Import Act of 1979 was used to restrict meat imports. The US has also often been at the forefront in obtaining special trade exemptions for agriculture under the GATT. A notable example was the breaching of the prohibition against import quotas. Provisions introduced to the US to protect domestic price support programs were Sections 22 and 32. Established under 1935 amendments to the Agricultural Adjustment Act of 1933, Section 22 allows for import quotas and Section 32 for export subsidies.

(7) Rapp 34-37.
Export subsidies were used extensively in the 1960s, terminated in 1972, and revived again in 1985. The Export Enhancement Program (EEP) originated in 1985 to stop the loss of US international wheat and flour market share to heavily subsidized EC exports. Another export assistance program is the Market Promotion Program (MPP) which was created by the 1990 farm bill and replaced the Targeted Export Assistance program authorized by the 1985 farm bill. The 1990 farm bill authorized $200 million for MPP for each of the years from 1991 through 1995. Differences between the MPP and EEP are: EEP is limited to commodity exports suffering injury from unfair practices of competitors, whereas MPP is not so limited although priority is given to countering unfair trading practices; EEP is an export subsidy that tends to reduce world export prices, whereas MPP is primarily for export product promotion designed to expand world markets without lowering price. (8) The US government also used production quotas mainly for milk, peanuts, and tobacco. This is government-organized franchises granting a farmer the right to sell a specified quantity of a crop at a guaranteed price. (9)

Due to the farm support competition with the EC, the US government found itself spending almost $26 billion a year to support the income of US farmers. These domestic

(8) Tweeten 254-259.
commodity programs were, however, justifiably criticized, not only for the burden they placed on taxpayers but also for the distortions they tended to impose on the production of farm commodities, and by extension on international agricultural trade. The combination of the US support program as well as that of the EC generated high-cost surplus farm production. This could be sustained only through tight restrictions on imports or had to be dumped onto world markets through the use of export subsidies. These import restrictions and export subsidies, in turn, tended to generate endless international trade frictions.\(^{(10)}\)

A number of studies have shown that the US government's farm support programs have not met all of their objectives. One study of the EEP showed the increase in wheat exports resulting from EEP was less than the volume the government had expected. In addition, far from being budget neutral, EEP increased budgetary expenses and harmed other exporters more than the EC.\(^{(11)}\) Another study also concludes that abolishing the support programs will increase exports and lower world prices of the crops.\(^{(12)}\)

\(^{(9)}\) Rapp 157.

In France the President usually plays the most important role in the decision making process. The influence of the legislative branch can not be ignored because of its power to modify bills. However, the prime minister supported by the majority in the National Assembly becomes a focal point when a President from one party faces legislative majority drawn from another, the case of "cohabitation". The EC also exerts an influence on the French agricultural decision making process.

a. Decision Making Process

The president is the most important decision-maker and stands as an arbiter above the other governing institutions. The president also appoints the prime minister, who thereupon supposedly selects the rest of the cabinet. (13)


The composition of the cabinet is endorsed by the Assembly, which is most often controlled by politicians more or less in the same ideological camp as the president. Under President Mitterrand, a Socialist, the situation has been more complicated. For five years following the 1981 National Assembly elections produced a Socialist-controlled Assembly, the composition of governments reflected the president's wishes to a large extent. However, after the legislative elections of 1986, when the conservatives recaptured control of the Assembly, the president was forced to appoint a prime minister and cabinet to the Assembly's liking rather than his own. The "cohabitation" of a Socialist President with a conservative government led to a restructuring of the relationship between the two: a delicate form of power sharing in which the prime minister took responsibility for most domestic policies, while the president retained a measure of authority in foreign affairs and national defense, as well as a vaguely defined influence in internal affairs. After the reelection of Mitterrand as president in 1988, and the recapture of control of the Assembly by the Socialists immediately thereafter, the situation returned to normal, with the president's preeminence reestablished. (14)

Agricultural policy is usually made and carried out in the executive branch. However, sometimes the government asks the National Assembly to give opinions on issues of importance such as the Uruguay Round agricultural issues. In a formal sense, Parliament has been weakened by the constitution as well as by the legislature's own standing orders. Nevertheless, that institution is not so weak that it can be dismissed. Although in most cases the initiative belongs to the government, deputies have succeeded in significantly modifying government bills through amendment.\(^{(15)}\) The conservatives are more attuned to markets and open trade than are the socialists, but also are willing to play to the farmers' lobby. There was not much conflict in relation to the decision-making of agricultural policy when the president and the prime minister represented the same party. When they are different, it is mostly the cabinet represented by the majority in the National Assembly that decides and carries out agricultural policy.

Because of the EC's CAP, however, many parts of the agricultural policy in France follows rules and regulations imposed by the EC because the European Commission or the European Council are engaged in the decisions of many parts of member countries' agricultural policy.

\(^{(15)}\) Safran 159.
France is characterized by the presence of two major farmers' organizations: FNSEA (National Federation of Farmers) and CNJJA (National Center for Young Farmers). Furthermore, there are three minor unions: FFA (French Federation of Agriculture), MODEF (Movement for the Defence of Family Farms), and the Confederation Paysanne, which was the result of a secession from the previous two organizations in the early 1960s. After World War II the reconstruction of the agricultural trade union movement was centered on FNSEA and CNJA and was inspired by the renewed rural Catholic movement (JAC, Young Christian Farmers). CNJA and JAC were protagonists in the process of agricultural modernization developed in France from 1960 and 1980 where, they were effective partners. Their strategy of productive modernization has been an element of cohesion for a large majority of French farmers who are owners of farms large enough to accept the challenge of market competition. The role of principal interacting partners granted to them by the government has allowed them to become centers for the dispensation of services. Furthermore, FNSEA and CNJA have maintained a strong and active presence in the cooperative movement, whose leaders have been elected thanks to the support received from these trade unions. (16)

b. Farm Support Programs and the Importance of Agriculture

French farmers, who produce most of the EC surplus, would suffer greatly if EC agricultural export subsidies were significantly reduced or eliminated. (17) France has received substantial amount of EC subsidy: nearly 5.8 billion ecus ($6.4 billion) in 1990, more than Holland and Britain put together. The French government added bucketfuls of its own on top: direct subsidies to farmers from the agriculture ministry totalled around $2.3 billion in 1991, about twice as much as in 1982. Programs of farm income support were mostly aimed at those with low incomes. However, other farmers who are in financial difficulties were also beneficiaries of the programs. About 70,000 farmers had high debt levels in 1990s. Two farm groups were very vulnerable to the indebtedness: large farms run by young farmers with recent high levels of investment; and small farms run by elderly farmers with low return. In 1989, many parts of the aid payments were given for those suffered by the drought. Subsidies usually have benefitted animal breeders more than any other categories.

The French government would also lose if EC subsidies were reduced because agricultural exports provided a very important component of national export earnings. In the 1980s, while France’s trade balance in manufactured goods went deeper into the red, its surplus in agricultural products steadily increased. A net importer of food products at the start of the 1960s, France has become the world’s second-biggest food exporter, behind only the US. Europe was the key to this success. France accounted for almost a quarter of the EC’s food production, and nearly three-quarters of France’s food exports in 1991 went to other EC countries. The net benefit for France of a new GATT agreement, as compared to no agreement at all, was more questionable than for any other major EC country.

French agricultural policy assumes that expansion of farm exports would contribute to a whole range of desirable goals: improving the balance of payments, alleviating unemployment, combating inflation, preventing the economic and social decline of disadvantaged regions, closing the gap between farm productivity in France and in agriculturally more advanced countries of the Community, and developing the country’s only major natural resource. Given the relative decline in the trade surplus with the rest of the EC, French

policy aims at adding value to agricultural exports by further processing, thus increasing earnings from this field. The national cast of agricultural policy has been reinforced by the vigorous pursuit of structural policies since the orientation laws (lois d’orientation) of 1960 and 1962. These marked a turning point. Previously, officialdom protected agriculture by tariffs or price supports in response to pressure from the farm lobbies. It amounted to rather passive protectionism with overtones of patronage. With the advent of the Fifth Republic and the shrinkage of farming as a society within society, government has promoted food as a whole, including food processing, fertilizer and chemical production and farm machinery production, in a positive, expansionist way, as one sector among the many others to which similar treatment is accorded. Before the war, government spending on agricultural promotion represented under 1 percent of agricultural output. In the 1950s, this climbed to 10 percent; in the 1960s to 12 percent; and since 1973 to 16 percent.

Since 1962, French policy has focused on three broad priorities. The first has been to promote a solid stratum of viable, two-person, medium-sized family farms for social, regional and environmental reasons. Young farmers had to be allowed to acquire or operate farms and settle the countryside prosperously in as large numbers as possible to
prevent rural desertification. Second, farmers were encouraged to act collectively mainly through producer or marketing cooperatives. This made it possible to reap economies of scale without mergers, increased the bargaining power of farmers against manufacturers and retailers, and helped them improve management and marketing, not least to build up exports. Third, value added along the whole length of the food chain from the farmer to the food manufacturer was to be increased by upgrading products and encouraging effective cooperation among the various stages in the sector. The instruments for structural reform tended to cluster around the Credit Agricole, producer cooperatives and the interprofessional organizations, which link different sectors of the food chain. The Credit Agricole is a combination of a state bank, a cooperative agricultural bank, which benefits from tax relief, and a bank which lends money to house purchasers on mortgage. Government funds subsidize interest rates to preferential borrowers, such as new farmers or cooperatives, purchasers of land, approved modernizers, and so on. As a result, farm borrowing and indebtedness are high. This makes it hard to cut back incomes for fear of ruining farmers. The interprofessional organizations bring together farmers, food processors, manufacturers and retailers in virtually every sector. They have powers to collect levies and subsidies.(19)
The variety of French natural environments has repercussions on agricultural activity where the wealth of contrasts, whether in land use or production, is greater than in other European countries. (20) 33% (181,580 km out of 549,100 km) of France's total land is arable while 60% of Denmark's, 31% of Portugal's, 30% of Spain's and Italy's, 29% of Germany's (before unification), 28% of United Kingdom's, 25% of Belgium's, 22% of Greece's, 21% of Luxembourg's and Netherlands' and 14% of Ireland's is arable. (21) While there are countries in the EC that have more percentages of arable land than France, France has about 27% of the total arable land of the EC, the largest share. Furthermore, while the agricultural work force in France is smaller than that in other sectors of the economy, it is more significant when compared with other EC nations. Another aspect which gives agriculture importance is that there has been an increase in the number of people working in agriculturally related activities, that is, in agribusiness. (22)


3. EC's Decision Making Bodies and Process

The four main EC bodies making agricultural policy are the Commission, the Council of Ministers, the Parliament and the Court of Justice. In recent years a fifth body, the European Council has become important in taking decisions on contentious issues, though it has no formal role in governance of the Community. (23)

a. Decision Making Process

The Commission holds a strategic place in the constitution of the EC. It acts as both the initiator of proposals and the administrator of decisions. It controls the major part of the bureaucracy, the Directorates-General, which run the day-to-day business of the EC. Much of the internal action on reform consists of proposals by the Commission to the Council of Ministers. At the head of the Commission are the Commissioners, who supposedly take a community view of issues, separated from mere national advantage. They are appointed for four-year terms by the member states. The Commissioner holding the agricultural portfolio is responsible for submitting

(22) Pinchemel 273.
(23) Moyer and Josling 31-36.
proposals for changing agriculture and the CAP to the other Commissioners, meeting weekly as the College of the Commission. He develops these proposals with the assistance of his Cabinet and the Directorate-General for agriculture (DG-VI). How they are developed depends to a large extent on the preferences and personality of the Commissioner. Before submitting his proposals to the College of the Commissioners, the Agriculture Commissioner must clear them with affected Directorates-General and with the Commission's legal staff. Proposals then face screening in the weekly meeting of the chiefs of the various cabinets to set the agenda for the weekly session of the full Commission. The chiefs try to streamline the Commission debate by identifying key issues as well as areas of probable agreement. The full Commission then debates the proposals and may approve, modify or reject them. Even though decisions are made by simple majority vote, agreement does not always come easily. The Commission submits its final proposal to the Council of Ministers. In preparation for discussion in the Council of Ministers, Commission proposals are scrutinized in one or more committees made up of national and Commission officials and chaired by an official from the member state holding the presidency.

The Council of Ministers, as the decision-making body, controls the direction and the pace of the Community. Each member state has a seat on the Council, which it fills with
a minister from the national government. Discussions in the Council are structured by subject matter and attended by the ministers responsible for those subjects. Hence, the EC has, for example, an Agriculture Council, a Finance Council and a Foreign Affairs (or General) Council.

Council decision-making, until recently, came largely through consensus or unanimity. This has no basis in the EC Treaty, which provided only for voting by qualified majority, but developed as a result of the Luxembourg Compromise reached in January 1966. The Compromise states that the other governments will not overrule a country which opposes a piece of draft EC legislation on the ground that a vital national interest is at stake. This means that the veto has been used sparingly over the years and that other members respected it when it was used. They also tried to avoid it from compromising.

The emergence of the European Council comes largely as response to the fragmentation of authority among the various Councils of Ministers, although it also serves the need to discuss future directions for the EC. Made up of heads of government (or, in the case of France, the head of state), together with the Commission President and recently with the President of the European Parliament, the European Council holds summit meetings at least twice a year. In turn, the

prime ministers and President of France generally make decisions in principle, which are passed back to the Council of Ministers for action.

Some European countries, such as France and Ireland, are more protectionist in agricultural trade, whereas others, such as Great Britain, Denmark and the Netherlands are more free-trade oriented. There are some compelling reasons why protectionist forces were strong in much of European agriculture. About 8 percent of the EC population lives on farms, compared with only 2 percent in the US. In the twelve countries of the EC there are more than 10 million farmers (3 percent of the total population), compared with only 2.5 million (1 percent of the total population) in the US. As a result, farmers in the EC enjoy considerable electoral weight.

The Treaty of Rome does not address the issue of the creation of organizations representing the interests of European agriculturalists in the EC. However, it allows the indirect participation of agriculturalist organizations in the preparation of community norms through farmers' presence in some EC institutions such as the Economic and Social Committee (ESC) and the sectoral Advisory Committees. Agriculturalist organizations are also present in the pan-community private organisms which are recognized by the EC as principal interlocutors in agricultural matters. Farmers in the EC have long had very strong domestic organizations
to represent and articulate their views. As early as 1963, some 100 Community-wide agriculture groups had been formed. By the late 1980s, this number had grown to around 150. The most important of these groups was Committee of Professional Agricultural Organizations (COPA) which was an umbrella or peak organization representing all types of farmers on the basis of affiliation through national farming groups. (25) Others are General Committee of Agricultural Cooperatives (COGECA), European Council of Young Agriculturalists (CEJA), and European Center for the Promotion and Formation of Rural Life (CEPFAR). (26) So, the sheer size of the lobby was formidable.

b. Farm Support Programs

The centerpiece of the Community's grain market is the Common Agricultural Policy (CAP), which is based on three fundamental principles. First, the Community functions as a single market for agricultural commodities. Given the history of agricultural protectionism in the original member countries, this implied the replacement of national price support policies with a common price support system.


(26) Bonanno 212-216.
Second, preference is always given to producers within the EC over foreign competitors. This requires the use of import measures, such as duties and levies, to keep the price of imported grain above that of domestically produced grain and community prices above world prices. The third principle states that community members jointly finance CAP costs. This led to the creation of the European Agricultural Guidance and Guarantee Fund (EAGGF) to administer Community agricultural expenditures.

The price support mechanism is founded on target, intervention, and threshold prices. The target price is the cornerstone because it determines the levels of the intervention and threshold prices. The target price is the farm-gate price that all farmers are entitled to receive for their products, regardless of circumstances. Free-market prices equal target prices only when the Community is a net importer. In the case of the Community cereal market where supplies are exceed domestic requirements, free-market prices are always lower than target prices. The threshold price is the minimum price at which grain imports are permitted to enter the Community. The threshold price system aims to protect Community from import competition. The threshold price also acts as an effective ceiling price in domestic markets because domestic grains are price-competitive with imports up to the threshold price. A variable levy paid by importers is charged to ensure that
all imports enter the Community at the threshold price. The intervention price is a support price at which the Community will purchase grain from farmers if they cannot obtain a higher price on the open market. Community grain prices are not supposed to fall below the intervention price, but market prices typically lie at the lower end of the price band because domestic supply most often exceeds demand. Monthly adjustments are made to all support prices to account for storage costs. These monthly increments are meant to promote the provision of a smooth and continuous grain supply throughout the year by removing pressure to sell immediately after harvest. To promote private stockholding, any stocks remaining at the end of a season are eligible to be purchased by the Community at a price that includes a compensation allowance, which equals the difference between the target price for the last month of the old season and the first month of the new season.

The EC also introduced several measures to curb structural surpluses. To dispose of production in excess of what can be absorbed by the domestic market at Community prices, exporters receive export restitutions equal to the difference between domestic and international prices. These are paid by the Commission from the Community’s budget. Exports are closely monitored by the Commission, and the refunds paid to exporters are calculated based on market trends, including quality and quantity of cereals and
internal trade costs. Other exporters label the restitutions as export subsidies, and as EC grain exports have grown, the payments have become an increasingly contentious issue. In addition to the measures mentioned above, there are also different grain policy instruments used in the EC such as production encouragement measures (producer guaranteed price, deficiency payments, production quota, etc.), import discouragement measures (tariff, variable levy quota, licensing, etc.) and export encouragement measures (taxes, subsidies, state trading, etc.).(27) The EC also uses production quotas mainly for dairy products.

B. The Roots of Increased Confrontation over Agricultural Issues in the 1980s(28)

While agriculture had been discussed in GATT, the issue had generally been left aside before the Uruguay Round. Although US-EC differences emerged over agricultural trade issues in the 1960s, conflict was limited during much of the


1970s because the major grain exporters benefited from short supplies and an expansion of trade. A variety of global and domestic factors, however, contributed to a return to surplus conditions in the 1980s. Unlike the period of surplus capacity in the 1950s and 1960s, US hegemony had declined and the EC had emerged as a formidable competitor. The stage was therefore set for a major confrontation. Although a number of agricultural exporters were adversely affected by excess capacity in the early 1980s, the problems were particularly severe for the US, whose share of global wheat exports fell sharply. One of the factors in the loss of US competitiveness was the EC’s export subsidies. (29)

The agricultural trade surplus of the US with the EC fell from $7.5 billion in 1980 to $2.5 billion in 1986, but the US was even more concerned about growing EC competition for third world country markets. Although Western Europe had traditionally been a net agricultural importer, the EC dependence on food imports declined with the postwar recovery and the creation of the CAP. In the 1980s, the EC

became a net exporter of grains, and it benefitted greatly from the rising value of the US dollar.

The US at first attempted, in vain, to work mainly through the GATT to produce a change in EC agricultural policies. Frustrated with its GATT efforts, the US then moved to engage the EC more directly in an export subsidy contest. The US had export subsidy programs in the 1950s and 1960s when government price supports were far above international levels. However, these programs were discontinued during the period of grain shortages in 1973 and did not reemerge as a policy instrument until 1983. The US Department of Agriculture opposed export subsidies in principle, and the Reagan Administration tended to view them as unfair trade practices. Nevertheless, under pressure from the Senate leadership and the Director of the Office of Management and Budget (OMB), the US established an Export Enhancement Program (EEP) in May 1985 to regain its lost market share and to force the EC to the bargaining table. The EEP authorized the Commodity Credit Corporation (CCC) to offer government-owned commodities as bonuses to US exporters to expand sales of agricultural products. The bonuses were, in fact, a form of export subsidy because exporters could sell commodities abroad at prices that were below domestic levels.(30) The EEP contributed to a US-EC export subsidy war, which lowered world grain prices, and smaller exporter countries found it difficult to compete.
The US government indicated that the EEP would target only EC markets, and initially its policies were consistent with these assurances. However, smaller exporters felt that US statements were belied by its actions when the EEP was extended to the Soviet Union, where 48 percent of the market was served by non-subsidizing competitors.

There was also a difference in the US and the EC policies on crop size. The US had policies limiting plantings of subsidized crops, basically because the government decided in the late 1960s or early 1970s that it did not want to have to pay for storing surplus crops. The EC did not have anything comparable until the late 1980s and 1990s. Surpluses all went into EC stockpiles, and the EC had major incentive to sell them cheap or even give them away because the storage costs were getting so high.

The adverse coalition of fourteen so-called fair trading countries formed the Cairns Group in 1986, with the joint goal of pressuring for an end to the US-EC export subsidy war. The US defended itself against Cairns Group criticisms by pointing out that it was also a victim of EC policy, and to demonstrate its resolve for reform, the US

submitted broad-ranging agricultural proposals to the GATT Uruguay Round in July 1987.

C. The Main Agricultural Issues of the Uruguay Round

Three major agricultural trade issues—trade distorting price or income support to farmers and export subsidies, agricultural import barriers, and health and sanitary import restrictions—were under consideration in the agricultural negotiations. (31)

1. Price or Income Support and Export Subsidies

Farm price and income support policies in the US, the EC and other industrialized member countries of GATT provide incentives for surplus production. These surpluses are then exported to other countries, often at subsidized prices. These same commodity price and income support policies often led to the imposition of barriers against imports to protect farmers from foreign competition. In the 1980s, this combination of domestic agricultural support and trade policies contributed to a buildup of stocks of major traded

commodities, deterioration of commodity prices and aggressively subsidized competition for export markets. The Organization for Economic Cooperation and Development (OECD) estimated that in 1986 the costs of agricultural support and protection in the EC and the US exceeded $100 billion.

Supporters of agricultural trade liberalization argue that government support policies lead to excess production, trade distortions, large budget outlays for export and other subsidies, and high costs to consumers. Economists argue further that government support to agriculture, because it influences farmers' production decisions, contributes to a misallocation of global resources, is wasteful, reduces world agricultural output by imposing quotas, and diminishes global welfare.

Farm support policies, however, have the backing of farm and commodity groups that are beneficiaries of the programs. These groups are not always amenable to negotiating policy shifts, particularly in an international forum. Despite some evidence that taxpayers and consumers are more aware of the large costs of supporting US farmers' incomes, farm programs often get broad support in Congress. In the EC, farm organizations also back government support programs. Many EC consumer groups and others also back expensive farm support programs because they see them as critical for restraining growth in urban unemployment and for protecting the environment.
2. Import Barriers

GATT member countries use a variety of non-tariff barriers to impede import access to their markets. Quotas, variable import levies, and agreements to voluntarily restrain exports were among the barriers most frequently employed. In general, the GATT rules governing the use of barriers to imports of agricultural products are weak in the case of quotas and nonexistent in the case of variable levies or voluntary export restraints. There is, moreover, no generally agreed upon approach in the GATT for negotiating modifications in non-tariff barriers.

3. Health and Sanitary Regulations

GATT member countries employ numerous health and sanitary standards to regulate trade. Proponents of these standards say they were established to protect the health and safety of consumers of imported products, but critics charge that often they were used to restrict trade in order to protect domestic producers from import competition. Trade negotiators were trying to harmonize standards across countries, and improve dispute settlement procedures so that legitimate standards could be distinguished from illegitimate and so that distortions in the international flow of goods could be reduced. Environmentalists and
consumer groups in the US and Europe have expressed their concern that harmonized GATT standards for health and sanitary measures may be weaker than national standards.
CHAPTER IV

DEADLOCK IN THE URUGUAY ROUND

The new Round of multilateral trade negotiations within the GATT was launched in Punta del Este, Uruguay in September 1986. The Ministerial Declaration recognized the urgent need to stabilize the world agriculture market and called for a greater liberalization of trade through

- improving market access by reducing import barriers;
- improving the competitive environment by limiting the use of all direct and indirect subsidies and other measures directly or indirectly affecting agricultural trade; and
- minimizing the adverse effects of sanitary regulations and barriers to trade in agriculture. (1)

These points were reaffirmed by an OECD ministerial meeting in May 1987. At the Venice Summit in June 1987, the Group of seven leaders reaffirmed the commitment to agricultural trade reform set out in the OECD communique.

The Ministerial Declaration adopted by GATT members at Punta del Este established the Group of Negotiations on Goods (GNG) to carry out the negotiations. The GNG established the various negotiating groups, developed their negotiating plans, coordinated their work and supervised the progress of the negotiations. There were 14 negotiating

groups, including one for agriculture. Several of these groups could affect the agriculture group, including the groups on tariffs, non-tariff measures, tropical products, subsidies, and natural resources.

There were several attempts to reach an agreement on agriculture including other issue areas of the Round from 1987 through 1990 when the Round was scheduled to be finalized. However, this period was characterized by the big differences in the positions of the US and the EC.

A. Initial Proposals and Responses (1987-88)

1. Proposals and Reactions

The initial phase of the Uruguay Round was highlighted by the submission of proposals by the US and other GATT participants on the liberalization of agricultural trade. This phase was essentially completed by the end of 1987.

US agricultural policy officials made repeated attempts to reform these domestic agricultural support policies by reducing the level at which prices and income receive guaranteed public support. Their efforts, however, had been firmly opposed by domestic farm lobbies through the influence they exerted within the agricultural committees of

(2) General Agreement on Tariffs and Trade, GATT Activities 1986 13-14.
the US Congress. (3) Accordingly, when official preparations began for the new Uruguay Round these recently defeated Reagan administration officials sensed an opportunity to pursue their domestic objective of farm policy reform through an international negotiation. Consequently, they took an early lead in insisting that negotiations on domestic agricultural policy reform should become a key component of the larger Uruguay Round.

EC decision makers, defending the highly protectionist CAP, accepted inclusion of agricultural trade issues into the negotiations only reluctantly. This reluctance was overcome only when rapidly escalating farm subsidy costs in the mid-1980s threatened to break the EC budget, necessitating an unpopular increase in the Community’s value-added tax or an equally unpopular decrease in EC spending. This tended to increase the impetus for trade liberalization and weakened the European farm lobby. An important political development, the creation of the Single European Market, seemed to reinforce this effect because the budget crisis prevented expenditures needed for policy harmonization. Strong pressures from the US and the Cairns Group provided a reinforcing impetus too.

In a statement of July 6, 1987, President Reagan noted that at the heart of the US proposal was the elimination,

(3) Rapp 41.
over a ten year period, of all export subsidies, all barriers to each other's markets (including tariffs and quotas), and all domestic subsidies that affected trade. Farm policies that provided payments to farmers without affecting pricing or production decisions (decoupled payments) and bona fide food aid could be continued. Also, worldwide food health regulations should be harmonized to prevent them from being used as non-tariff barriers. (4)

The EC External Relations Commissioner stated in early October that the aim of the EC proposal was to cleanse the agricultural sector and to stop the subsidy war. The proposal noted that the root problem encouraging world agricultural trade war was the imbalance in supply and demand. While it essentially called for a gradual reduction in farm subsidies worldwide, it also called for special arrangements to deal with three problem sectors—grain, dairy products, and sugar—in the short term. (5)

(4) General Accounting Office, Agricultural Trade Negotiations (Washington: GAO, 1988) 17. Decoupled payment means removing the link between government farm payments and crop production. A farmer can choose to take income-support payments based on previous production of a particular crop, no matter what crop is planted in the future, or whether a crop is planted at all.

<table>
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<th>Agricultural exports Million($)</th>
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</table>

first stage, emergency measures would be taken to stabilize the world markets for those commodities. During the second stage, there would be a progressive and substantial decline in government support for farmers. The EC proposal also provided for aid to farmers as long as it would not produce unwanted effects on output. It also included provisions for harmonizing health and sanitary regulations pertaining to animals and plant products. (6)

The US proposal got a mixed reception from other GATT members. The EC official stated that the objective of eliminating all subsidies and import restrictions was not only overly ambitious but also overlooked the fact that agriculture is different in the various countries. He noted that the US proposal was calling for greater liberalization in agriculture than existed in the industrial sector. It went too far for the EC which, while willing to reduce price support and market access restrictions, was not willing to eliminate them. The official stated that this concern reflected social and political considerations more than economic ones. France and Germany too raised similar objections, adding that eliminating such supports was not politically feasible for the EC. The Cairns Group, however, expressed support for the US proposal, viewing it as a good

starting point and agreeing with its comprehensive approach.(7)

Even in the US there was a mixed reception. Several commodity group and farm representatives believed the US proposal to be a good negotiating strategy, because it sought the absolute optimal scenario, and a good first step. However, some also noted that it was neither realistic nor feasible. They said it was not realistic because they doubted that other countries, especially the EC would dismantle their domestic support programs and eliminate all trade distorting policies. They also regarded it as not feasible because they believed it politically impossible to eliminate all supports, both domestically and abroad.(8)

The EC proposal was not welcomed by the US or the Cairns Group. Some observers felt the proposal was too vague and reflected a desire to please the various member countries without making any real concessions. In the proposal, the EC indicated that it would not accept any change in the two-price system of its CAP. US negotiators

(7) General Accounting Office, Agricultural Trade Negotiations 20-21. According to the author of this report, the officials in the US General Accounting Office went to Brussels and interviewed delegates not only from the US but also from other countries to find out the responses to the proposals of the US and the EC. So, opinions expressed here by the officials from EC, France, Germany, the Cairns Group and the US are based on their interviews. However, this report does not show specifically whom was interviewed.

were worried that if the short-term measures were to be agreed upon, then the EC and others would have less incentive to agree to the more important long-term liberalization of agricultural trade. Also, although the exact nature of the short-term measures was not specified, US observers felt that the EC was proposing sort of market-sharing agreement for the grain, sugar and dairy sectors. Such market-sharing arrangements were contrary to US market-oriented trade policies. (9)

2. An Explanation of the Differences in Proposals

Although US proposal was considered by some, including the Cairns Group, to be a good first negotiating step, many groups in the US and elsewhere felt that the US demands were unrealistic and certain to promote instability in the agricultural trade regime. In particular, the US government could be faulted for failing to fully appreciate the significance of agriculture in a European context. European farm policies also placed considerable emphasis on social and ecological as well as economic objectives. Furthermore, some major EC agricultural products (such as wheat in France) would be far less competitive under free-market conditions. The US government, therefore, may have

underestimated European resistance to any basic changes in domestic farm programs. (10) Similarly, the EC may have underestimated the resolve of the US. Budgetary pressure meant that the willingness of the US government to reform the agricultural support system was stronger in the Uruguay Round than in previous Rounds.

The US also may have underestimated the degree to which its ability to force changes upon the EC had declined. A 1989 report of the US Department of Agriculture's Office of the Inspector General found that the Export Enhancement Program (EEP) did not have much impact on the EC's market share. To continue its sales, the EC had to spend somewhat more on export restitutions. Although the EEP was one of the factors that brought the EC to the negotiating table, the EC has continued to resist external pressures for change. (11)

The strong US stance against EC policies in the Uruguay Round was yet another indication that the US had changed its position on the linkage of trade and political-security issues. (12) In the Kennedy and Tokyo Rounds, the US had agreed to expanding market opportunities for trade in manufactures, despite the EC's unwillingness to make the

(10) Cohn 30.
(11) Cohn 31.
(12) Cohn 32-33.
desired agricultural concessions. One factor in the US flexibility was its reluctance to risk the political consequences of a failure of the trade negotiations as a whole given their relationship to broad security policy. In the Uruguay Round, by contrast, the US was far more adamant in linking the outcome of the agricultural negotiations with the results of the entire Round. The US had become less willing to make economic sacrifices for strategic-security reasons, largely because of changing cold war relationships and growing US economic problems.

It also should be noted that it was more difficult for the US and the EC to mask their differences because a number of countries were taking a more active stance regarding the agricultural trade negotiations in the Uruguay Round. At the GATT Kennedy and Tokyo Rounds, the US had settled for less in agriculture because of its desire to reach agreement in other areas; but this solution was not necessarily feasible at the Uruguay Round even if the US had opted for it. The Cairns Group was an important new actor calling for major reductions in internal support and export subsidies, and eleven of its fourteen members were less-developed countries (LDCs). By its heterogeneity, the Cairns Group could be regarded as a coalition unlike any other in the contemporary international political economy. Prominent within the group were Australia and Canada which was joined not only by New Zealand, another like-minded country, but
also by a variety of "unlike" countries, namely Brazil, Hungary, Indonesia, Argentina, Chile, Colombia, Fiji, Malaysia, the Philippines, Thailand, and Uruguay. (13) Cairns Group states, however, had important commonalities. Each had a highly competitive export-oriented agricultural sector, with agricultural exports representing from 18 percent to as high as 73 percent of total exports. The high percentage of the agricultural exports of the Group members could be contrasted with the figures of 17 percent for the US, 1 percent for Japan, 7 percent for West Germany, 8 percent for Great Britain, 9 percent for Italy, and 19 percent for France. In addition, all of the Cairns Group states played an important role individually or collectively in a large proportion of the world's agricultural markets. They provided from 21.4 to 91.8 percent of the world market in thirteen different commodities. (14)

Agricultural producers in the Cairns Group wanted fairer trade because they were not getting export subsidies. They were efficient producers who needed foreign markets in


order to take full advantage of their efficiency. At the same time, the governments of these countries were in no position to compete with the US and the EC in offering export subsidies. Agricultural interests in these countries wanted both reduction or end of export subsidies and reduction or end of import barriers. So a number of the LDCs threatened to turn down agreements in other areas, such as services and intellectual property, if no agreement was reached on agriculture, and some Latin American states backed up this threat when they led a walkout at the 1988 mid-term GATT review meeting in Montreal. (15)

However, the Cairns Group’s willingness to settle differences in the agricultural trade reform in the Uruguay Round made, in some sense, the strong opposition of the French farm lobby groups more conspicuous. In other words, the stronger the Cairns Group’s desire to make the agricultural trade reform possible, the more it seemed the French government’s intransigence in the negotiations could not be ignored. This situation therefore led negotiators

(15) It is undeniable that the position of the EC continued to differ sharply from those of the US and the Cairns Group. It is also true that, at the early stage of the negotiations, the incremental and flexible approach of the Cairns Group remained at odds with the US proposal for agricultural negotiations, which notwithstanding its status as a negotiating tool, called for the complete phase out of all barriers to import access and subsidies over a ten-year period although the position of the Cairns Group was mostly in line with that of the US during the Uruguay Round negotiations.
from the US and the EC to think that they had to meet some parts of the needs of the opposing country, France, in order to make the negotiations successful by preventing the Cairns Group from withdrawing from the overall Uruguay Round negotiations.

We can understand this standstill in the negotiations by comparing the win-sets of the negotiators. First of all, the win-sets of the EC on agricultural reform were small. Win-sets of the EC on the other sectors of economy, however, were relatively large and could contribute to enlarging win-sets in agricultural issues. In contrast, in the US side, win-sets in agricultural reform were large only if the condition was met that the EC also agreed to correspondingly cut its subsidies. The responses of the lobby groups and the Congress to the American proposal show this. The problem, however, was that no overlap existed in the win-sets between the two countries because of the clear differences in the opinions about subsidies. As a result, in the initial stage of the Uruguay Round agricultural negotiations, negotiators could not reach agreement.

However, a small domestic win-set in the EC became a bargaining advantage and could make it possible that President Reagan softened farm proposal stance in 1988. As Putnam says in his analysis, because the cost of no-agreement to farmers in several EC member countries was low, their win-sets could not but be small.

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But the possibility still remained that the Uruguay Round would succeed because some constituents in the EC faced high costs from no-agreement. For example, farmers were willing to oppose any agreement which would cut subsidies they received. Otherwise, they would lose huge amount of support given by the EC. By comparison, those who were working in the industrial sectors wanted agreement to be reached because they found the successful conclusion of the Uruguay Round would be beneficial to them.

In the real negotiation process, however, the influence of farm groups was more powerful than others. Farm issues in the Uruguay Round had been highly politicized by the farm lobby groups. The farm lobby groups were activated and took very extreme positions, and negotiators from each side had to take into consideration the presence of the farm lobby groups.

In relation to ratification procedure, it is noteworthy that US congressional ratification was conducted under a special fast-track authority whose rules-including no amendments, limited debate, and a single up-or-down vote on the entire agreement-greatly favored ratification. This system was expected to expand the win-set of the US negotiators. In the EC, formal approval after a GATT negotiation would not come from the Commission of the European Community, but instead from the Council of Foreign Ministers where members could wield a veto in the decision
making process. The actual decision would be made in the 113 Committee, dominated by member country trade ministers. This situation reduced the win-set of EC negotiators. The procedural characteristics in the Uruguay Round negotiations that rejecting one issue like the agricultural reform package would mean rejecting the rest of the Uruguay Round as well, including the results of all the parallel negotiations on services, intellectual property, dispute settlement, investment and all the rest, also played into the hands of recalcitrants. Groups or governments who opposed deals in the agricultural issues were encouraged to exploit others' willingness to reach a compromise.

Moreover, different political process of the US and the EC was a factor in the determinant of the win-set size. The US political process, with the division of power between President and Congress, tended to give interest groups more access points and hence more chances to try for influence over policy. The typical EC member has a fused executive and legislature in that the executive is formed by the leaders of the party of coalition forming a majority in the legislature. This reduced the access points, though it meant any interest favored by the executive is automatically in favor with the legislature or vice-versa. In the US, it was possible for interest groups to be favored by one branch but not by the other.
B. Revised Proposals (1988-1990)

1. Proposals after the De Zeeuw Paper

The second phase of the negotiations began in January 1988. Although the various GATT participants supplemented their initial proposals with additional papers and proposals, many observers believed that the negotiations had lost much of the momentum which had existed during the first year of negotiations.

A mid-term review meeting at the ministerial level was held in Montreal, Canada, in December 1988. Although framework agreements were reached in 11 of the 15 negotiating groups at that time, there was no agreement on agriculture, textiles, import safeguards or intellectual property. Several Latin American members of the Cairns Group refused to accept any overall framework agreement unless there was agreement in agriculture. By April 1989, following further negotiations, GATT participants did reach framework agreements in the four remaining areas. The April 1989 framework agreement on agriculture called for substantial progressive reductions in agricultural support and protection, sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets. While many viewed that language as an indication that the US was
retreating from its initial July 1987 proposal that all trade-distorting support to agriculture be eliminated, US negotiators stated that substantial progressive reductions would ultimately lead to the elimination of such support.\(^\text{(16)}\)

In the April 1989 agreement, the trade negotiators established a work plan for completing the negotiations. They also agreed, for the short term, to freeze domestic protection, export support, and import protection at levels prevailing in 1989. The US submitted a comprehensive proposal in October 1989. During the next few months, the EC, the Cairns Group and Japan submitted their own comprehensive proposals.

The differences between the US and the EC on agricultural trade reform continued into 1990. At the ministerial meeting of the OECD in Paris in May 1990, the EC and US officials publicly disagreed as to the structure of agricultural trade reform. The EC maintained that an agreement needed only to specifically address internal support while the US insisted that the three areas of internal support, market access, and export subsidies should all be addressed.

At the conclusion of the July 1990 Economic Summit of the G-7 countries in Houston, Texas, there was a joint statement supporting the use of a paper submitted by the Chairman of the Agricultural Negotiating Group, Aart de Zeeuw, as a means to intensify the negotiations. (17) The de Zeeuw paper addressed the four areas of internal support, border protection, export competition and health and sanitary regulations and barriers. Under this framework, all internal supports including price supports, deficiency payments and input and marketing subsidies that distort trade would be substantially reduced using aggregate measure of support. (18)

A new US proposal based on the de Zeeuw paper called for the most trade-distorting internal support measures to be reduced by 75 percent over 10 years and other trade-distorting measures to be reduced by 30 percent. All non-tariff import access barriers would be converted to tariffs, existing tariffs would be frozen and the newly converted and existing tariffs would be reduced by an average of 75 percent over 10 years. For products currently subject to non-tariff import barriers, minimum access commitments would be set and subsequently expanded by 75 percent over 10


years using a tariff rate quota mechanism. The tariff rate quotas would be eliminated after 10 years. The proposal called for export subsidies on primary agricultural products to be reduced by 90 percent over 10 years. Export subsidies on processed agricultural products would be phased out in 6 years. (19)

The new EC proposal, however, was less broad. It called for a reduction of internal supports for such commodities as cereals, rice, sugar, oilseeds, livestock and dairy products by 30 percent from 1986 to 1996; for other commodities, such as fruits and vegetables and tobacco, the reduction would be 10 percent. With respect to market access, the proposal called for converting variable levies and other non-tariff barriers to tariffs. Tariffs would consist of a fixed and a variable component. The EC proposal made no specific commitment to reduce newly converted tariffs. It also contained only the possibility of reducing existing tariffs through a request/offer basis. It also called for rebalancing, which would allow for the reduction of support and protection of cereal substitutes, derivatives and oilseeds. The proposal contained no precise commitment on export subsidies; rather, it noted that the proposed reduction of support and protection would lead to a considerable lowering of export subsidies. (20)

The main points of difference between the US and the EC proposals included the scale of the reduction in internal support and border protection, ranging from 30 to 75 percent, the nature and scope of commitments on reduction in export subsidies which participants were prepared to assume some of which went as far as a 90 percent reduction, the reference year for the calculation of the commitments and the exceptions and corrections to be made to tariffication. (21)

There was no sign of compromise between two sides, a situation that continued until December 1990 when the Uruguay Round was scheduled to be concluded in its entirety. At the opening of the December 1990 ministerial meeting in Brussels, however, the US trade representative reiterated the US position that success in the Uruguay Round was not possible without fundamental reform of world agricultural trade. The EC rejected the offer presented by the Swedish chairman of the agriculture negotiating group for a 30 percent reduction in support but using 1990, rather than 1986 as a base. (22) Efforts to break the stalemate between the US and the EC failed.

(20) General Accounting Office, Agricultural Trade Negotiations: Stalemate in the Uruguay Round 11.
(22) Moyer 120.
2. An Explanation of Continuing Deadlock

Perhaps the most important thing that stood out in the July to December 1990 phase of the agricultural trade negotiations is that the forces supporting the CAP in unchanged form seized the initiative and dominated the EC decision making process until the breakdown of negotiations in Brussels in December. The dominant actors on the EC side were the Agriculture Commissioner, the Directorate General for Agriculture and the Agriculture Council. The External Affairs Commissioner who had overall responsibility for the negotiations, his Directorate General and the General Council were never able to control the EC position on agricultural trade policy. None of the many industrial and commercial groups in the EC with a strong interest in a successful Uruguay Round were able to influence the EC agricultural trade policy stance or to successfully trade off EC farm interests.

The explanation for this phenomenon is probably multifaced. (23) First, the farm lobby had the greatest and most immediate interest in the Uruguay Round outcome and hence had the strongest incentive to commit resources to protecting its interests. At the most fundamental level, asymmetric farm lobby pressures on member governments,

(23) Moyer 116.
particularly Germany and France, prevented any concessions that would have threatened the CAP. The support of member governments for the CAP created an environment permissive for the takeover of the agricultural negotiations by the Directorate General for Agriculture, the Agriculture Commissioner, and the Agriculture Council. They, in turn, had every incentive to mobilize their full resources to protect large existing benefits for their constituencies, which would be reduced by a successful agreement.

The structuring of the GATT negotiations and the EC structure of decision making actually shielded the farm interests from outside influences. Creating a separate GATT negotiating group to handle agricultural trade issues made it difficult to bring non-agricultural interests to bear or to trade agriculture concessions for concessions in other areas. The dominant position of the Agricultural Council in the trade policy process created further difficulties because it was extremely receptive to the EC farm lobby and not at all receptive to industrial and services sector interests. It was even hard to bring international political pressures to bear on EC agriculture ministers, because their careers mostly depend how well they serve their domestic agricultural constituencies.

The portrayal of the Uruguay Round agricultural negotiations in the press and elsewhere as a struggle between the US and the EC also strengthened the pro-CAP
forces in the EC debate, limited flexibility, and reduced the EC win-set. Concessions could always be construed as caving in to the US, which was politically unacceptable. (24) This is an example of negative reverberation, where developments at the GATT level of the bargaining process had created impressions that the EC had been defeated.

A number of economic trends and political developments in the policy environment strengthened the pro-CAP elements in the EC in 1989-90. (25) First, although EC expenditures for the CAP were increasing, they were still under budget for 1990 and considerably under the guidelines for agriculture established by the 1988 Brussels Agreement. This meant that finance ministers, prime ministers and EC commissioners holding non-agricultural dossiers had much less incentive to challenge the protectors of the CAP. The liberation of Eastern Europe was an important political development that consumed a great deal of the time of Agriculture Commissioner and his Director General and limited the attention they could give to GATT matters. This also favored the farm lobby.

The December 1990 all-German election was another important political development. It kept Chancellor Kohl from contemplating any sacrifice of German farm interests

(24) Moyer 111.
(25) Moyer 111.
until after the election. This occurred the day before the start of the final Brussels talks—too late for any flexibility. The conflict in the Gulf probably also helped farm interests in that it diverted attention away from the GATT.

Stalemate reinforced agricultural interests in the US as well. According to Robert Paarlberg, almost from the moment that US officials chose to describe agricultural reform as the make-or-break element in the larger GATT negotiations, US domestic farm lobby groups had their own ideas about protecting themselves from the internationalization of the subsidy reduction effort.\(^{(26)}\) They found they had several great advantage on their side. US farm lobbies were assisted by the immediate reluctance of EC and Japanese government officials to join US officials in an enthusiastic embrace of the reform objective. US farm lobbies were also assisted by an excessively ambitious official US negotiating strategy in the Round. The July 1987 proposal was labeled the "zero option" because of the insistence of elimination of all agricultural subsidies that distort production or trade. A surprising number of US farm lobbies began to argue in favor of the zero option.

Because it allowed them to demand several things from the negotiation. First, it allowed them to demand "no unilateral agricultural disarmament" while the negotiations were under way. The slogan helped farm groups to resist some of the domestic farm subsidy cuts that might otherwise have occurred in 1989. Farm groups and farm supporters in Congress said no to such cuts, arguing that unilateral cuts at home would weaken the hand of US negotiators in the GATT talk abroad. The international talks that were intended to facilitate domestic reform, in other words, came to be used by farm supporters as a means to block reform. Second, the arms control metaphor was also seized upon in an effort to demand more subsidies, for use as bargaining chips in the negotiation to win a better agreement in Geneva. More interesting was the reaction of the US Congress, which was all too eager to join the farm lobby in stressing the competitive aspect of the international negotiation. Congress found it easy to agree that agricultural reform was a global problem, and then to view it as mostly a problem of unfair subsidized foreign competition for US farmers. This view allowed members of Congress to support the negotiations and attack farm subsidies without angering any US farmers. The subsidies they wanted the negotiation to attack were mostly subsidies in the EC and Japan. (27)

The US farm lobby went even further in drawing tactical advantages from the Uruguay Round. They demanded additional
subsidies for themselves if and when the negotiations finally do fail. They first did this in 1988, when they secured Congressional adoption of an amendment to the US Trade Act providing for expanded export subsidy spending in the event of a failed GATT negotiation. Of course, they were simultaneously, in 1988, blocking all progress in the negotiation by insisting on no retreat from the zero option. Farm lobbies improved on this tactic, however, in the fall of 1990, when Congress wrote a GATT trigger provision into the final budget. In the event of a failed Uruguay Round negotiation by June 1992, this provision would oblige the Secretary of Agriculture to spend an additional $1 billion on export subsidies, adopt a marketing loan subsidy for wheat and feed grains and waive acreage reductions. If the negotiators were still deadlocked in June 1993, the Secretary would be permitted to reverse all or part of the $13.5 billion in domestic farm budget cuts that were finally imposed on the US Department of Agriculture in the 1990 budget reconciliation bill.

C. Confrontations (1991-92)

1. Deadlock in 1991

Following the collapse of the Round, the US, the EC, the Cairns Group negotiators and GATT officials held various meetings to determine if there was a basis for resuming negotiations. In late February 1991, participants agreed on the basis for restarting the negotiations. In spite of the agreement, what concerned the participants in the negotiations was whether the US Congress would grant a two-year extension of the fast-track negotiating authority for the Uruguay Round. In March, President Bush asked Congress to extend the fast-track and in May, he got it after fierce discussion in Congress. In the meantime, the US administration pushed for and won a provision in a 1991 supplemental spending bill that raised the amount of subsidies it could offer US exporters under the EEP. Although President Bush’s stated policy was that export subsidies should be eliminated worldwide, he wanted added authority to use the export program in the hope that it would spur the EC to pull back on its use of subsidies. (28) Members of Congress urged that US government initiate the unilateral action against the EC as a means to put pressure

on the EC to make concessions on the agricultural issues. (29) This can be regarded as an effort by the US Congress to enlarge the EC win-sets.

The EC, however, had its own domestic pressures to contend with. These related largely to the negotiation of a new farm prices package for 1991/92 coupled with difficult negotiations among member states about Commission proposals for the internal reform of the CAP. (30) The EC farm ministers tried, in vain, four times to break the price cut deadlock. (31) Despite the evident tensions, high level political support for the speedy conclusion of the Round appeared to remain as determined as ever. In early June, OECD Ministers urged a substantial and comprehensive conclusion as early as possible, preferably by the end of the year. In July, the heads of government of the seven largest economies at their annual G-7 summit in London committed themselves not only to an ambitious, global and balanced package of results by the end of 1991 but to remain personally involved and be ready to intervene if differences could only be resolved at the highest level. (32)


High level determination to succeed was reinforced by developments that induced the EC to continue negotiations in agricultural issues. (33) As 1991 dawned, agricultural spending began not only to exceed the budget but the 1988 expenditure guidelines as well. This crisis was foreseen in the Commission before the end of 1990 and the Directorate General for Agriculture had prepared a paper. According to it, the problem was in paying too much to the 20 or 25 percent of farmers who produced more than 80 percent of the output while failing to support the incomes of the majority of landholders for whose benefit the CAP was originally established. The paper proposed that prices should be cut to world levels with compensation to small and less prosperous landholders by direct subsidies. The response in the Agriculture Council to the paper was, however, considerably less positive than that in the Commission. The Agriculture Commissioner presented his CAP reform plan to the ministers on February but it was received with a distinct lack of enthusiasm. Faced with the reluctance of the Agriculture Council to come to a decision, the Commission acted within its authority to cut market support expenditures for cereals, beef and milk under the agricultural guidelines in 1991.


(33) Moyer 112-115.
However, the Commission's action was stopgap at best. This left the Agriculture Commissioner with a dilemma. He could let things drift and ask for an increase in the agricultural spending guidelines. However, this would have serious political costs because it would pit him against the budget Commissioner and other Commissioners whose programs would have to pay the price for an increase in agricultural spending. The Agriculture Commissioner's other choice was to press the Agriculture Council to take action to keep expenditures under control. There were two ways that he could do this. One strategy would force reform through the 1991 price package with proposals for support price cuts, production quota reductions, and increased co-responsibility levies (taxes on producers used to pay for production cuts). The other, more long-term, strategy would propose a price package that more or less froze supports at present levels, but insist that the Council come to grips with a thorough-going reform proposal later in the year. The Commissioner seemed to move in both directions. This strategy gave EC negotiators room for flexibility in its position. It seems evident that the changing EC policy environment, particularly the prospect of a budget crisis introduced by agricultural spending, altered the EC political balance sufficiently to increase the EC GATT win-set enough to justify reopening the GATT negotiations.
Another factor which contributed to hope of successful conclusion of the Uruguay Round was that at an EC-US summit on November 9, 1991, President George Bush made a significant move toward the EC position by lowering US demands for cuts to 35 percent for export subsidies and 30 percent in other areas to be effected in five or six years. This situation can be interpreted properly by the two-level games analysis. The small EC win-set for the GATT dictated by the agricultural interest dominated EC and member nation bargaining processes had in fact strengthened the EC bargaining position.

Some of the obstacles at the national decision making level had also been reduced. For example, Germany’s position has moved significantly toward accepting compromise on agricultural trade. The linkages in the GATT of agricultural trade reform with other elements of trade liberalization with clear benefits for Germany strengthened the hand of the groups inside Germany who wanted to restrain agricultural spending. Moreover, the prospect that Germany might have to contribute more to bail out an unreformed CAP was a very unpleasant one indeed,


particularly at a time when German financial resources were heavily committed to the reintegration of East Germany.

2. An Explanation of Continued Deadlock

The most serious obstacle was France. Although the French economy would gain significantly from the non-agricultural elements of a successful Uruguay Round, French agriculture would be a clear loser. The politically weak Mitterrand regime was said to not easily be able to withstand more massive demonstrations by farmers such as occurred in October 1991 although at first stage President Mitterrand warned the farmers that their protests would not secure significant new concessions either from government or from the EC. (36) The farm lobby still had considerable clout in France. The farm lobby arguably accounted for about one fifth of all votes cast. (37) So, even if the government concluded that French interests were served by making concessions on agriculture, one could not be sure that it would be able to pay the political price. Though the Socialists won the 1988 National Assembly elections and regained control over the cabinet, it was widely expected in

1991 that the Socialists would lose in the March 1993 Parliament elections. This situation made any kind of concessions by the French government on agricultural issues almost impossible. Indeed, the French government was using the negative reverberations from the GATT negotiations to strengthen itself by saying that it would never sacrifice French farmers to the interests of the US.
CHAPTER V
OVERCOMING DEADLOCK

To break the deadlock, Arthur Dunkel, GATT Director General, introduced his proposal in December 1991. Based on the Dunkel draft, negotiators tried, initially in vain, to move toward the conclusion of the Uruguay Round. Afterwards, although some participants still showed their opposition to the Dunkel draft and the oilseeds dispute threatened the success of the Round, the US and the EC could narrow their differences by reaching an agreement on agriculture in Blair House in November 1992. The EC CAP reform played a positive role in the compromise on agriculture between the US and the EC. However, French opposition to the farm deal began to be more conspicuous and was thought to threaten the success of the overall Round. Finally, as the Round was wrapped up, France got many concessions not only from the US but also from other members of the EC.

A. The Dunkel Draft (1991-92)

1. Dunkel’s Effort and Reactions

Taking advantage of the US government’s concessions in the agricultural field, GATT Director-General Arthur Dunkel
presented his final compromise proposal to the negotiators in December 1991. This proposal seemed to split the differences between the US and the EC positions. It called for a 36 percent reduction in budgetary expenditures for export subsidies combined with a 24 percent reduction in the subsidized export volume. It proposed domestic support cuts of 20 percent from the average of support in the period 1986-1988, with the reductions phased in over the 1993-1999. It recommended tariffication of all import barriers, with tariffs to be reduced by 36 percent in the 1993-1999 period and the reduction for any single product to be not less than 15 percent.

On December 19, however, France condemned the result of the Uruguay Round trade talks. Prime Minister Edith Cresson told a Cabinet meeting that France would oppose the Dunkel draft. (1) A meeting of EC trade and agriculture ministers was convened on 23 December. That meeting found the Draft Final Act to be unbalanced, particularly with respect to agriculture, and defined it as a reference document for the final phase of the negotiations. (2) US reaction was swift but less negative. The President of the American Farm Bureau


Federation (AFBF) said that US farmers could not accept a deal on farm trade reform on the terms offered by the EC. He continued that there had to be locked-in cuts in tonnages of subsidized farm produce on world markets. He also stated that the Federation would agree to the lifting of the section 22 in the US law, which protects sugar, peanuts, dairy and cotton farmers against imports only in the context of a multilateral agreement on agriculture in which US farmers received as much as they gave. (3) The AFBF's position on Dunkel's proposal, however, was not direct opposition to it but that the Federation would continue to work for its improvements. (4) Most of the US agricultural lobbies were pleased with most of the Dunkel draft, but protected commodity groups—peanuts, dairy, sugar and cotton—opposed the final package. (5)

In facing the deadlock in the trade negotiations despite US concessions in agriculture, President Bush took a tough trade stance against the EC by reiterating US government intention to provide US farmers with EEP


subsidies to offset an avalanche of subsidized exports by the EC.\(^{(6)}\) He said the US would not halt the EEP program until the EC had cut its own export subsidies.\(^{(7)}\) It was also noted by GATT that the US has taken a measured approach to use its unilateral powers under the section 301 of the 1988 Trade Act and similar procedures. Officials in GATT complained that although no retaliatory measures against unfair traders have been taken in the past several years the US was still using threats of unilateral action.\(^{(8)}\) It was said that the US was considering regional trade deal, conclusion of bilateral agreements, imposition of anti-dumping and countervailing duties and use of Section 301 of Trade Act to push for its economic programs if the Uruguay Round trade negotiations failed.\(^{(9)}\)

On January 16, France officially rejected the Dunkel plan for the conclusion of the Uruguay Round trade talks, which it described as unfair to French interests and unacceptable. Even the French foreign trade minister


accused the US of blackmail and said that there was no reason to conclude a rapid agreement simply to accommodate the US elections. (10)

The EC was split into two main camps. France, Denmark, the Netherlands and Belgium wanted to renegotiate the GATT prescription. The others emphasized instead that compensation to farmers for subsidy cuts under both the Round and EC farm reform should be included in the green box for subsidies which do not distort production and trade. (11)

Under these circumstances, German Chancellor Kohl met President Bush in March. Kohl said that although there had been constructive conversation in the meeting, he had flatly refused calls for Germany to put pressure on France to compromise in the fight over how far to cut the subsidies and quantities of EC farm exports. As a result, negotiations between the US and the EC ground to a halt and the March 31 deadline was missed. Speculation began to spread that if the Round was not completed by late spring, the negotiations were likely to go into limbo until after the US presidential election in November. (12)


meeting with Mr. Jacques Delors, president of the EC, in April also turned out to be a failure.

2. An Explanation of Its Rejection by Both Sides

There were five issues on which the two sides were divided. First, while there was apparent agreement on a 35 percent cut in export subsidies and a 30 percent cut in other forms of support, no agreement has been reached on the base line from which those cuts were to be measured, with the EC suggesting 1986-90 and the US still insisting on 1986-88. Second, the US wanted the cut in export subsidies to be backed up by a limit on export tonnages, while the EC suggested a mixture of volume restraint and cuts in financial support, an approach in which the US has limited confidence. Third, the EC wanted to be able to balance its reductions in support with increases in protection against the cereal substitutes that enter duty free. Fourth, the EC wanted its compensatory payments for price reductions to be in the "green box" of permitted non-trade distorting subsidies, while US deficiency payments should be in the "amber box" of trade-distorting subsidies that were to fall within the limits set upon assistance. The US argued that both sorts of assistance should be in the same box. Fifth, the US wanted the EC to commit itself to further reductions in support after the initially agreed changes have been
implemented. But the EC was prepared only to accept a commitment to a review. (13)

One of the conspicuous factors of the deadlock during this period was the narrow win-set of France. Although it was not clear whether the French government intentionally took an uncompromising stance on farm issues, its win-set was restrained by the gloomy prospect for Socialist victory in the elections which would be held early 1993. But the fundamental reason for the continuous failure of the talks was the opposition by lobby groups from the US and the EC. Their stubbornness narrowed the win-set of both sides and made it impossible for both win-sets to overlap.

**B. Impact of the Oilseeds Dispute (1992)**

In mid-1992, a conflict over oilseeds subsidies became acute. It was reported that the Bush Administration was debating a list of $1 billion in sanctions in retaliation for the EC's oilseeds regime which the US claimed had cost it several billion dollars in soybean sales. The oilseeds dispute first arose in 1987, when the US complained that EC subsidies contrary to the rules of GATT cut into benefits the EC had granted in 1962 when it agreed to allow oilseeds

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in duty-free. An independent GATT dispute panel had twice declared the subsidies unjustified. The EC insisted that US exporters had lost ground to third world exporters rather than because of the subsidy regime. So, it refused to dismantle the regime, instead offering to compensate the US and other oilseed exporters. (14)

Both sides then moved toward confrontation. In the US, the Administration was being pressed by farm organizations and the Congress to make that dispute a test of effectiveness of the GATT by a strong demonstration of discontent. (15) One prominent participant on the US side was the American Soybean Association, whose long-delayed case against the EC oilseeds subsidies - twice won in a GATT dispute settlement panel - might well be enmeshed in a final GATT farm deal. In the hope of avoiding that linkage, the group has been urging the administration to impose $1 billion in sanctions against the EC since August when a 60-day negotiation period under GATT expired. Sixty US senators signed a letter to the administration urging the US to take action to enforce its GATT right. (16) In Europe,


France had threatened to boycott the emergency EC summit if the EC made concessions to the US on subsidized farm trades. (17) The EC also had threatened to counter-retaliate against the US if the US went ahead with trade reprisals over EC oilseed subsidies.

However, the EC showed some willingness to negotiate compensation terms with US. (18) Yet the compensation offers did not address US demands for EC production cuts. The EC was unwilling to cut oilseed output below 9.5m tonnes, while US farm lobbies wanted a 7m tonne ceiling. EC officials said reform of the CAP agreed in May would ensure cuts in oilseed production to 9.5m tonnes. They warned US negotiators that deeper cuts would require the CAP reform package be opened up, raising the risk that EC member states opposing the reforms would unravel other parts of the package. (19)

There were political issues for the French too. The Socialist government faced defeat in 1993 elections. Under pressure from its farmers, it was retreating from its commitments under May's reform of the CAP. (20) As a result,


the US relented and offered to accept the ceiling implicit in the Community's reformed CAP of 9.5m tonnes. But it wanted binding guarantees. (21) The administration's offer, however, has failed to gain the support of the American Soybean Association. Thus in spite of US moderation, no solution was found on oilseeds dispute.

After the collapse of talks in Chicago in November 1992, the US announced it would slap 200 percent tariffs on European white wine exports and other farm products if dispute were not settled in 30 days. (22) The French farm minister urged the EC to counter-retaliate against US sanctions in the oilseeds disputes and congratulated himself and his predecessors on standing firm against the very bad GATT deal offered by the US. (23) However, French demands for retaliation were fended off during an informal two day meeting of EC trade ministers with German and British ministers calling for a quick return to the negotiating table.


During this period there was no progress in the Uruguay Round agricultural talks either. European perceptions of domestic politics in the US prolonged the negotiations. The Europeans were aware that the reason why US negotiators could not be more flexible in their negotiating position was strong influence of the lobby groups. Europeans were often bemused by the power of these lobbies. It was reported that a breakthrough over agriculture in the GATT Uruguay Round was all but achieved when it was vetoed by the president of the American Farm Bureau Federation. EC officials were also aware that President Bush badly wanted a deal because of the Presidential election, and they were most likely to get their best offer before November.

The oilseeds dispute gave the EC negotiators the impression that the US government could take unilateral actions against European countries when the US government thought them necessary. This situation also seemed to make the EC think that the dispute would lead to continuous conflicts with the US that would not be beneficial to the EC and, as a result, the Uruguay Round might fail. This perception by the EC toward the US government’s measures taken on the oilseeds dispute helped EC negotiators to think

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that at any case, confrontation should be avoided. However, this situation did not bring about concessions from the EC and could not enlarge the win-sets of France. The influence of the domestic constituents in the EC and France was stronger than pressures from the US to make concessions.

C. The Blair House Accord (1992)

1. The Accord and French Rejection

The farm policy reform by the EC gave a fresh impetus to the Uruguay Round negotiations. On May 21 1992, the EC agreed on the most radical overhaul of the CAP in its 30 year history. At the center of package was a 29 percent cut in cereals prices over three years, which should lead to cheaper feeds for livestock, enabling a 15 percent cut in the beef price supports and a 5 percent cut in the butter price. Sheep and beef were made subject to production quotas. The cuts were designed to move EC agriculture towards world prices. Farmers were expected to be fully compensated for them directly, but big farmers had to take 15 percent of their land out of production to get these payments.

The Cairns Group was cautiously optimistic that the changes would inject fresh spirit into the talks. French and German farmers, however, greeted the EC farm policy reform with outrage. US trade representative implied that there was still a gap between the new CAP changes to internal EC market supports and continuing distorting effects on international trade that are a central concern of the Dunkel draft. The American Farm Bureau has also responded bitterly to EC officials’ suggestion that the US should make further concessions in GATT. The Bureau president said the EC reforms fell far short of the proposed agricultural agreement put forward by Dunkel and further short of what the Bureau would expect to achieve in the talks. (27)

In spite of the development in agricultural trade talks, the US and the EC remained stuck in apparently close but irreconcilable positions on farm subsidies. US was immovable on its central demand that the EC cut its volume of subsidized food exports by 24 percent. The EC external affairs commissioner was understood to have offered a 20 percent cut, with 5 percent swings within sectors, so that, for instance, in cereals, the EC could export more wheat if it exported less barley. But the most the US appeared

willing to accept was to extend the cuts over seven to eight years. Another difference was an EC demand that the US accept that compensation to be paid to farmers for cutting output and setting land aside be defined as not distorting to trade. The annual G-7 Economic Summit held in 1992 in Munich could not narrow the difference and just adopted a Communique agreeing that success in the Round was essential for economic recovery in the industrial, former communist and developing countries, but the leaders limited themselves to an expectation that an agreement could be reached before the end of 1992.(28)

There were efforts to enlarge the win-set of France by leading industrial exporters. For example, a US farm economist in Europe published a report claiming that successful completion of the Uruguay Round create an export boom for French farmers in the high value processed products that account for 70% of current farm products. It was clearly intended to fuel the propaganda war between France and leading industrial exporting countries. In response to this report, Mr. Jim Rollo, a farm trade expert at the Royal Institute for International Affairs in London said "Things are not going to be as bad as the French say, but nor are they going to be as good as the Americans say. France will do well out of the realignment of EC agriculture and is

likely to gain a lot in Europe's internal market, perhaps at
the expense of German, British or Italian farmers. But
there is quite a lot of adjustment to go through."(29) In
the meantime, France had pulled out every stop to get
Germany to back delay on GATT, arguing that the government
would fall and rioting by French farmers would ensue if
agriculture subsidy cuts in the Uruguay Round were
agreed.(30)

On November 20 in Blair House, the US and the EC
settled their long-running disputes over subsidized food
exports, averting the threatened trade war. The Blair House
agreement on agriculture was more favorable to the EC.
Under it, EC oilseeds production would be restricted to the
5.128m hectares sown area contained in the EC's reform of
the CAP, instead of being subject to a formal tonnage limit
as has been previously discussed. The CAP implied taking 15
percent of land out of production, but the agreement reached
on May 20 obliged the EC to set aside only 10 percent of
oilseeds land. The overall volume of EC subsidized farm
exports would be cut by 21 percent, rather than the 24
percent prescribed in the Dunkel text. Direct payments to

(29) David Dodwell, "US fires new salvo in Gatt propaganda
of this story in the Financial Times, however, does not show
specifically who wrote the study report.

(30) David Gardner, "Delors in Maastricht-Gatt trade-off,"
EC farmers in compensation for CAP price and production cuts would be exempt from GATT cuts. The US also undertook to monitor exports to the EC of its cheap cereals substitutes in exchange for EC export restraint. This met the so-called rebalancing demand, which had been made by both France and Germany. (31)

The EC-US deal was expected to reactivate the multilateral negotiating process in Geneva. Following a meeting of the GATT Trade Negotiations Committee (TNC) on 26 November, further negotiations were scheduled for market access and initial commitments in services with the hope that they would be pushed sufficiently far to permit a meaningful but rapid negotiation on specific adjustments to the draft Final Act to take place before the end of the year.

In fact, the new multilateral process received less impetus from the Blair House agreement than expected. The TNC meeting confirmed that agriculture was only one of the many difficulties among participants and that all had to be bridged in an inter-linked approach if a successful conclusion of the Round was to be achieved. The situation was particularly exacerbated when it became clear that significant differences remained between the major players.

on industrial tariffs-especially with respect to the zero-for-zero process and some sensitive high-tariff products—and in the services area. (32)

2. An Explanation of the Rejection

As soon as the Blair House deal was announced, the French Premier and Agriculture Minister both denounced the pact as unacceptable. The French parliament also voted against the US-EC compromise in farm subsidies and called on the government to veto the agreement, if necessary. However France’s business chiefs warned that a veto of the agreement would greatly damage French companies’ interest. US oilseed farmers also were bitterly disappointed as details of the settlement trickled out. Farmers in France and other EC nations continued protests against the farm pact from November 25 through December 1. More than 50 French police were injured in clashes with farmers in Paris. Farmers also broke into the Paris stock exchange and briefly halted trading. A rally in Strasbourg, France, home of the European Parliament, drew 40,000 European farmers on December 1. The French protests against the pact were an expression of fear over the continuing decline of agriculture in France. (33)

France had two options in relation to the US-EC farm deal. If it accepted the agreement, the unpopular Socialist government, desperately hoping to win back public approval in the four months before general election in early 1993, would almost certainly face stormy protests from the farm lobby. However, if France rejected the agreement, it would not only risk triggering a trade war with the US but also finding itself isolated within the increasingly fragmented EC in the throes of this autumn’s currency crisis and the acrimonious debate over the ratification of the Maastricht Treaty.

Other participants regarded the French government refusal to accept the US-EC farm trade accord as a rational but high-risk game. The signs were that Paris was playing for time so that it could find a way to calm down the farmers and accept the deal without provoking too much domestic unrest. They also saw that the Socialist administration at the same time had to threaten to veto the deal to guarantee its own survival. Part of the French government’s problem was analyzed as tactical. It had sold CAP reform, with great difficulty, to its farmers as a shield against further American demands in GATT. But, there were genuine difficulties in gauging the CAP reform’s impact on future EC exports. Paris smelled a Brussels sell-out to

the US here, because, using different assumptions, France forecasted that CAP reform would of itself result in a smaller reduction in cereal shipments.

However, the real problem was pure politics. One French official privately admitted the power of France's farm lobby to be out of all proportion to its electoral or economic importance. France's 1m working farmers may contribute 16 percent of the country's export, but they account for only 6 percent of the electorate. Yet, much of France's population was spread out across the country in small towns and villages, making up the treasured rural area whose well-being was dear to the French psyche. This rural area, including all those whose livelihood depends indirectly on farmers' incomes, makes up nearly 20 percent of the electorate. The turnout rate among farmers at elections was high too. Their political loyalties also were very effectively divided. While about 80 percent of country-dwellers voted for the political right, there was particularly among small holders in the south a tradition of supporting the radical and Communist parties. For a Socialist party, which depended on Communist support to keep it in power, this was very important.

In June 1992, the government came within three votes of falling to a censure motion over CAP reform, because the communists voted against the government. That was not an experience the government wanted to repeat over GATT, where
the communists could be counted on to vote against anything they thought might be in the American interest. Precisely for fear of being seen to do Washington's handiwork, France's manufacturing sector and, even more, its service sector—both of which could expect to do well out of an overall GATT deal—barely raised their voice against the farm lobby. (34) These situations in France could not lead to enlargement of its win-set. What the French Socialist government did was wait and see by playing for time until the election.

Outside observers argued that France had three tactics to get a best deal in the negotiation process. First, France would continue to threaten directly or indirectly to use its veto at all stages of the EC decision making process. Second, by playing for time, it would be busy calling its cards with potential allies within the EC. Key to this effort was the backing by Germany. Third, France could ask extra EC income support for its small southern farmers in the process as a compensation for its acceptance of the deal.

The US and the EC really could have narrowed differences in their win-sets motivated by US concession in the process to the Blair House accord. However, French politics and threat of use of veto by the French government

in the EC finally led to no overlap of their win-sets.

President Bush’s willingness to strike a deal in the Uruguay Round trade negotiations was regarded by the French government as an opportunity to take advantage of the US situation in their interests. So, it was not as willing to reach an agreement as US negotiators were. This is because they thought that the win-set of the US was getting larger than before while their win-set was as narrow as before.

Although the result of the presidential election was anybody’s guess to the end of the race, most opinion polls showed that President Bush was behind Governor Clinton in popularity. So, it was widely expected that President Bush would lose the election. The prospect of President Bush’s defeat in the election should have played a positive role in breaking the deadlock by narrowing the difference of the win-sets of both negotiating parties because the Clinton administration would inherit no binding obligations from president Bush’s trade negotiators. In other words, it was possible that President Clinton would impose his own trade priorities on the long-delayed Round talks. He might also direct the imposition of sanctions against the EC for its refusal to reform its oilseeds subsidy regime so as to eliminate damage to US farmers. (35)

In the meantime, the fast-track mandate would expire by March 2, 1993. This factor could also have contributed to the acceleration of the negotiations. However, it turned out that this could not have much impact on negotiation processes because French elections were just two weeks after the expiration of the fast-track. In addition, the Clinton administration had scarcely any time to decide what to do. Later, President Clinton requested the extension of the fast-track authority.

D. Adoption of the Final Text (1993)

1. From Deadlock to Agreement

In late 1992 and early 1993 the Uruguay Round ran into two additional sets of difficulties. Before Christmas, the legal text of an agreement on new trading rules was opened up to a flurry of amendments on issues ranging from intellectual property to textiles. Then, in January, the negotiations between the US and the EC over what tariffs to cut by how much reached an impasse. The US wanted to eliminate tariffs on items such as electronic and non-ferrous metal. The EC insisted that the US make cuts in sensitive areas such as textiles.

The Blair House accord itself was partly to blame for all this. Having given away so much to the EC on farm
trade, the US felt that it had to make up ground where it could. On the eve of leaving office, the Bush administration stressed that only a maximum package would win Congress's approval. Likewise, the Clinton administration has given little away by criticizing the farm deal for being too soft on Europe. For its part, however, the EC felt that it made concessions, even at the risk of isolating France, which was against the deal. The EC wanted the US to recognize this by moderating its demands. (36) In the meantime, the EC's External trade Commissioner urged the Clinton administration to seek extension of the fast-track. In April, it was reported that the US government would ask the congress to grant the extension of the fast-track and in May, President Clinton won the extension of the fast-track authority.

The March 1993 French election yielded a new majority in the National Assembly. President Mitterrand named Edouard Balladur premier of France following a general election landslide victory for the nation's traditional conservative parties. His appointment meant that France's government would again represent a "cohabitation" between a conservative premier and a socialist President.

In May, the new French government unveiled its positions on the stalemated Uruguay Round talks. It

(36) "The Uruguay round...and round," The Economist January 23, 1993: 68.
rejected a trans-Atlantic agreement on farm subsidies reached in November, rebuked the US for reprisals and argued that liberalism in world trade was not sufficient in itself at a time when many European jobs were threatened. The statement appeared to be addressed principally to the US government. It defended some European subsidies and revived a French belief that the cultural heritage of Europe needed to be defended. In relation to agriculture, France rejected particularly a clause saying that EC grain exports should be cut 21 percent over the next six years.(37)

In June, however, France accepted the EC-US oilseeds pact when the EC agreed to increase compensation to French farmers. In July when the Tokyo G-7 Summit meeting began, a lot of countries expected a compromise on all the difficult fields of Uruguay Round trade talks. When it came to agriculture, however, the Summit gave nothing more than a worthy promise.(38)

In August, the French government tried to persuade members of the EC to give France some sort of compromise so that the French government could placate farmers and sign the deal. The French effort was focused on German Chancellor Kohl. As a result, Mr. Kohl surprised


(38) "Playing to the balconies," The Economist July 10, 1993: 57.
negotiators from other countries when he said that Germany shared some French concerns about the Blair House accord after meeting with French prime minister. (39)

In September, French farmers once again went to the streets to oppose the Blair House agreement. Members of France’s wildcat farm union succeeded in sporadically blocking some roads and rail lines around Paris. Nevertheless, there was split of opinion within the EC about the farm issue. The French continued to raise its four main complaints about the Blair House accord. First, the 21 percent cut in the volume of subsidized exports for each crop over six years was too severe. France wanted to spread the cuts over a longer period, to prevent cuts being largest during the first year, and to aggregate the cuts over many crops, thus letting France choose where the cuts should fall. Second, the European Commission breached its mandate by exceeding the reform of the CAP. The entire Blair House accord should be scaled back. Third, the accord contained a peace clause, preventing one side from making further complaints about the farm trading practices of the other. But, this lasted for only six years; France wanted to be left in peace for longer. Fourth, in the light of the summer’s turmoil in the European currency markets, there should be protection against fluctuating exchange rates,

which might make it harder to live up to the accord. (40)
The British agriculture minister said that the UK would
strongly object to any backtracking on the Blair House
agreement. (41) The position of France had whole-hearted
supports from Spain and Ireland, but only partial support
from Germany.

In October, because there was no progress in the
agricultural trade talks, France floated the idea that GATT
negotiators should aim to reach an interim trade accord in
1993, leaving difficult issues such as agriculture and
audiovisual broadcasting to be resolved later. The French
call for a partial GATT was, however, regarded as a switch
of tactics for Paris, which has been insisting on a global
deal with other countries making concessions in the 14 non-
farm areas to balance out any sacrifices made by France in
agriculture. The tactical change seemed designed to avoid
France being accused of obstructing all progress with its
demands for a revision of the 1992 trans-Atlantic farm
deal. (42) The French government also seemed to try to take
advantage of anti-American mood rising among its people.

(40) "The Uruguay Round: French dread," The Economist
September 18, 1993: 78.

(41) Andrew Hill, David Buchan and Deborah Hargreaves,
"French warn of crisis over farm accord," Financial Times

(42) David Buchan, David Dodwell and Nancy Dunne, "France
wants Gatt to leave farm issues," Financial Times October
12, 1993: 7.
France felt the need not merely to stand up to the Americans, but also to be seen to be doing so. Instead of seeking to cover up its difference, as other friendly nations were expected to do, France shouted about them from the rooftops. (43)

Many participants in the negotiations, however, thought that dropping agricultural issue out of the agenda of negotiations was not possible because developing countries who were being asked to open up their markets to developed countries banks and insurance companies said that they would only do so if the industrial North, in turn, opened its markets to their farm products. (44)

There was, however, some sign that France still had interest in striking a deal on overall Uruguay Round trade talks in spite of the differences in agriculture. The new French prime minister began to widen domestic debate by calling in representatives from all parts of political and business life. For the first time, the public was hearing about the advantages of trade liberalization. After nearly a year of silence, the main employers' organization has publicly urged the conclusion of a GATT deal by mid-December. France's exporters of wine and spirits said that


a failure to reach an agreement would be catastrophic for them.(45) To get a best deal in other area of negotiations than agriculture, the prime minister also sought to broaden the French position, shifting the focus away from the sole issue of agriculture to a more comprehensive list of demands. He then embarked on intensive negotiations with France’s EC partners, trying to capitalize on any doubts about GATT they might have. In addition, he has sought to assuage the nation’s farmers by announcing that they would receive fresh subsidies of 1.5 billion francs ($257 million).(46)

The US government also tried to use different tactics to persuade the EC and France. The Clinton Administration threatened that if the EC did not show more flexibility in the stalemated global trade negotiations, Washington would move quickly to develop an alternative trading association with Asia. Some US government officials said that they were treating the Pacific rim economic summit meeting in Seattle in November as an opportunity to lay the groundwork for a possible trading association, if the stalled negotiations with Europe over the GATT were not completed. Explaining this tactic, the Administration official said that the

(45) "Reculer pour mieux faire le commerce?" The Economist October 23, 1993: 56.


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French in particular would never make the necessary concessions unless they believed they were the only ones standing in the way of a successful GATT agreement. Passage of the North American pact and a successful Asia-Pacific meeting would enhance those prospects and put additional pressure on the French. (47)

The expected cost of failure in the Uruguay Round began to be emphasized and this also played a role in making participants in the trade talks continue to try enlarging each other's win-sets. It was expected that if the world forsook the Uruguay Round, it would lose significant benefits. Estimates by the World Bank and the OECD suggested that these additional reforms could eventually be worth some $213 billion- $274 billion each year to the world economy. These would be just the most visible opportunity costs of a Uruguay Round failure. The eventual costs could be much higher still. Even with the big powers on their best behavior, a failure of the Uruguay Round would have repercussions for the world trading system. At best, the result might be a gradual corrosion of the open-trading mechanism. But, if the big trading powers were to begin playing tough, the descent into protectionism could be much faster. Ultimately, therefore, the value placed on a

successful conclusion to the Uruguay Round depended as much on the uncertain and speculative costs of a collapse as it did on the more readily quantifiable gains from success.\(^{(48)}\) A dim prospect of getting another extension of the fast-track also played a positive role in narrowing the differences in win-sets of the US and the EC. President Clinton’s authority to negotiate a global trade deal effectively was going to expire on December 15. So, if an agreement could not be reached by then, the Administration would have to win Congressional approval of an extension, which could be difficult in light of the fight over the North American Free Trade Agreement.

Finally on December 7, the US and the EC reached agreement in agriculture with US concession. It included

\(^{(48)}\) "The eleventh hour," The Economist December 4, 1993: 23-24. It is mostly private observers such as editors of newspapers and major economic groups who began talking about the dangers of the Round collapse. However, there was an indirect implication by the negotiators about the danger of failure of the Round. The two powers, the US and the EC, have insisted that an unsatisfactory deal would be rejected, even if that meant no deal at all. Such statements actually contained an element of bluff: yet there was still a stark inconsistency in official attitudes. At the same time as governments publicly professed their readiness to countenance failure, they insisted with equal conviction that no issue had more far-reaching implications for the future prospects of the world economy than the successful conclusion of the Uruguay Round. This means that even though it is unclear where the idea of the possible loss from the failure of the trade talks originated from, it seems that the negotiators aimed not only at getting concessions from their counterparts but also at persuading the people, particularly lobby groups, whom they represent, to accept the possible deal.
exempting the EC's grain stocks from the reforms and basing Uruguay Round cuts in farm subsidies on 1991 and 1992, rather than 1986-89 when output was lower. In return for US concessions in agriculture, US trade representative said that the EC has agreed to scrap tariffs worth $5 billion to American exporters in a number of politically sensitive areas, including wood and paper products, most non-ferrous metals and some electronics. (49) Having got what it wanted from the US, France has turned on other EC countries. It wanted promises of compensation if French farmers suffered. (50) At EC summit on December 10th, Europe's leaders agreed to compensate France's farmers if, because of GATT, they should have to take more land out of production than envisaged under the 1992 reform of Europe's CAP. (51)

2. An Explanation of How Agreement Was Possible

Domestic politics in both the US and France prolonged the Uruguay Round negotiations. As is the case with most new administrations, the Clinton Administration's negotiating team was slow to take positions on various

(49) "The Uruguay round: The very, very end," The Economist December 11, 1993: 75.

(50) "The Uruguay round: The very, very end" 76.

(51) "EU and GATT: Drinks all round," The Economist December 18, 1993: 49.
issues in the Round. Agriculture was one of the unresolved areas to the new negotiating team too. As Mr. Kantor, new trade representative of the US mentioned, the US government felt that Bush administration had made too many concessions in agriculture. So they believed the negotiation would not be progressive without the EC making some concessions in other areas. This intention of the US government was often shown in the negotiation process. It was also clear that some segments of the administration were more sympathetic with industrial protection and openly talked about having more managed trade and an industrial policy. In addition, there were efforts by the administration to find areas where the US could get concessions. They found the trade liberalization of audio-visual services, chiefly film and television programs to be one of the areas. The EC protected its film and television industry by manipulating both output with quotas on local content and input with subsidies. In France, the grand total of subsidy to the film and television industry was FFr2.1 billion. However, negotiations hit a stumbling block in the form of French demands that audio-visual services be exempted from the Round. Protesting that liberalization would sweep away Europe’s last defenses against a flood tide of American

mass-market entertainment, France argued that culture was too important to be abandoned to the free market. (53)

The intention of the new US trading team of raising the audio-visual issue, for the first time during the Uruguay Round, seemed clear: to use the concessions in the agriculture as a bargaining chip for the US to get concessions in this area. The US film exports were the nation's second largest after aerospace with sales in Europe alone of $3.7 billion in 1992. So, Mr. Kantor maintained US government's firm stance on this issue by saying that "No Uruguay Round of trade talks will be finalized unless this issue is resolved." (54)

French positions were frozen up until and even after spring 1993 election. The new cabinet in France was also against the farm deal reached between the US and the EC. This was because the conservatives could do well in the election under the same campaign promise as the Socialist government did: opposition to the Blair House accord. Both sides also recognized that the agriculture was not the only obstacle blocking the successful conclusion of the Uruguay Round. Negotiators were also at odds with each other on tariff reduction, textiles, services, particularly opening


of markets to film, and electronics. These failures have begun to overshadow the entire Round. So, during this period, those factors helped restrict the overlap in US and EC win-set.

Nevertheless, signs of hope emerged due to several factors. First of all, it was undeniable that most of the participating countries wanted the Round to be successful because of the benefits it would bring. During the last seven years, this factor has been moving force in the negotiations when participants faced numerous failures in the agricultural trade talks. In addition, the expected cost of failure in the Round began to be mentioned. This situation pushed negotiators into further efforts to find solutions to their different positions. Second, the US government tried to show the EC that it was eager to shift its attention from European countries to Asian countries if the stalled negotiations with Europe over GATT were not completed. The US government’s threat of use of unilateral action also moved the negotiations forward. Third, new French government also showed some sign of trying to find exit to the stalemate. As a gesture of it, the French government asked face saving compensation to its farmers and the EC, whose members had been eager to reach a agreement in the Round, gave France what it wanted. The French government also gave its farmers extra money to soften the blow. These factors propelled the negotiating process and
contributed to the enlargement of win-sets of the US and the EC.
CHAPTER VI
CONCLUSION

Robert Putnam's two-level analysis of international negotiations provides a way to explain why agricultural issues threatened success of the Uruguay Round. Both the US and France found it difficult to agree on agricultural issues in the Uruguay Round because both faced strong agricultural lobbies able to veto ratification of any international agreement they did not like. The fact that the farm issue in the Uruguay Round has become highly politicized also made farm lobby groups take a tough position.

Although the 4.9 million working farmers in the US made up only 2 percent of the population, they continued to hold power and influence in Congress and in the White House. Thus neither the Democratic nor the Republican party has dared challenge the basic premise that the government had a responsibility to support farmers. At stake were the hearts, minds and votes of a pivotal special interest group spread throughout the nation's breadbasket. Farmers occupied important political and financial positions in nearly every state and in a large percentage of congressional districts, where they were usually well-organized and well-versed in making their feelings and opinions known to political office seekers. In addition,
well-placed political contributions could buy access for adroit Washington representatives. Direct financial backing was distributed through political action committees funded mostly by agribusiness, chemical and food companies, and related manufacturers. Agricultural interests also spread far beyond the farm, embracing a host of farm equipment, seed, and fertilizer suppliers, truckers, traders, rural bankers, and local shopkeepers, who together with farmers made up slightly more than one-fifth of the nation’s labor force and produced goods and services totaling nearly one-fifth of the US gross national product. While the individual interests within the nation’s huge food and fiber system often has clashed, this economic universe began with, and always revolved around, the farmers.

The farm lobby had considerable clout in France too. Though farming occupies only about 5% of the labor force, it is not 40 years since that figure was four times as high. Farming remained an element not only of the French economy but of the French soul. La France agricole was a reality even to millions who formed no part of it, while to millions still living in the towns and villages of the countryside, the prosperity of its most visible industry was theirs. These people also vote. Their turnout rate is also high. If added by families and other closely associated voters, the farm lobby arguably accounted for about one-fifth of all votes cast. Nor were farmers insignificant in the economy.
France was the world’s second-biggest food exporter, only next to the US.

The success of French intransigence in the Uruguay Round rested on two features of the negotiation. First, the Round involved negotiators from all over the world and dealt with 40 issues besides agriculture. Success in the overall trade talks required compromises in all areas of conflict, including agriculture. Since there were 15 independent GATT negotiating groups for different issues, it was not possible for the interests of other sectors of the Round to influence the negotiations in the agricultural sector.

That alone does not explain French success, however. By itself, France was a significant but not a major negotiator. As part of the EC it could be a major negotiator if it could control EC decision-making. It is this second Level I game - the regional game within the global game - that permitted France to gain such advantage. The EC Council of Ministers’ practice of unanimous decision making allowed the most recalcitrant member government to block decisions. So, the European Commission had to take national positions into account before preparing any agricultural trade policy proposal if it harbored any hope of Council approval. The cost of no-agreement in agriculture to the Level II constituents of France was so low that EC negotiators had little flexibility in their choice of alternatives in the negotiations either. Under
this context, the French government effectively threatened to wield a veto power on EC decisions if it regarded the matter as sufficiently important.

The expectation that the Socialist government in France would not win the March 1993 National Assembly elections froze the French government’s positions on agricultural reform issues and led to the stalemate of the negotiations from early 1990 through 1993. The US concessions therefore could not play a positive role in placating the French government to accept the farm deal reached between the US and the EC in November 1992. Instead, the French negotiators tried to take advantage of the US negotiating team’s weakened positions caused by President Bush’s loss in the presidential election.

Thus the intransigence of French lobby groups and their influence in French politics were major factors in stalemate of the Round. With a narrow win-set and a low cost of no agreement on its side, France could make use of others’ eagerness to gain agreement.

However, there were also other factors which contributed to the successful conclusion of the Uruguay Round. The fact that most of the participating countries wanted the Round to be successful because of the benefits it would bring led the negotiators to make more efforts to compromise in the Round in the final stage of negotiations. Reforms in the Uruguay Round were expected to be able to
bring about more than $200 billion worth of benefits to the world economy. France was no exception to these benefits because as the world’s fourth-biggest exporter, it was in the French interests to agree on trade with less barriers. It was also believed that the failure of the Round would promote a surge in new trade frictions generated by increasing resort to unilateral trade actions and the proliferation of discriminatory bilateral and regional trading arrangements. (1) By the same token, negotiators could not ignore the expected cost of failure in the Round. It was not difficult either to expect that consumers, other sector companies than agriculture and unemployed would care about the effects the farm support programs would have on their income and employments. One found that more than 2 million jobs would be created in the EC if the Community’s farm policies were abolished. In the US, the budget deficit could fall by almost $50 billion a year without support policies. (2) One study done by two Australian economists also found that the average cost of farm protection to consumers and taxpayers amounted to about $1,400 a year for


(2) "Agriculture survey," The Economist December 12, 1992: 8.
each non-farming household in 1990, and that it would amount to $1,800 a year by 2000.(3)

The threat of blocking progress by the Cairns Group in other negotiating panels if reform on agriculture was not forthcoming was not without success.(4) Participating parties in the negotiations from the US and the EC had to consider the presence of the Cairns Group when they were in negotiations. It is true that this situation was exploited by the narrow win-set of the French negotiators in the first stage of the Round. However, along with increased mentions about the possible losses incurred to the world economy by the failure of the Round, the Cairns Group's threat to walkout of the whole Round if no reform agreement on agricultural trade was forged was effective in the final stage.

The CAP reform was also a good sign for the Uruguay Round. Differences in positions among member countries of the EC could be narrowed in the CAP reform discussion. Side payments given in the final stage of the negotiations by the French government to its farmers as a compensation soothed a little the angry responses of the farmers to the reduction of the government support programs. In the same context,

(3) "Agriculture survey" 7.

(4) Richard A. Higgott and Andrew Fenton Cooper, "Middle power leader and coalition building: Australia, the Cairns Group, and the Uruguay Round of trade negotiations," 628.
without concessions by the US such as exempting the EC’s grain stocks from the reforms and basing subsidy cuts on 1991 and 1992 when the subsidy was lower and a pledge by other members of the EC that the EC would compensate French farmers losses which may be caused by the farm deal, success of the Uruguay Round would have been hardly achieved. The EC pledge was a side payment. Finally, the possibility of refusal by US Congress to grant another extension of fast-track negotiation authority to the administration also pushed negotiators into making further efforts to come to compromise their differences.

France got what it wanted in relation to agricultural trade issues. It therefore comes as no surprise that the final text on agricultural reform in the Uruguay Round is very different from what the US first proposed but rather similar to what the EC proposed. France also succeeded in removing the film and broadcasting industry from the Uruguay Round text. From the point of view of the US, however, these issues could be regarded as negotiating leverages to get more concessions in other areas. So, the Uruguay Round did not turn out to be just a zero sum game only for France. In return, the US could also secure steep tariff cuts in products including wood, paper, fruits nuts and pork, opening the way for greater American exports to Europe.
APPENDIX

CHRONOLOGY OF THE URUGUAY ROUND

1985

November: GATT members agree to establish a preparatory committee to draw up an agenda for the new round, but arguments persist over inclusion of service, agriculture and the priority to be given to Third World interests.

1986

August: Fourteen food exporting countries set up Cairns Group to represent their interests.

September: Uruguay Round launched in Punta del Este.

1987

January: Formal negotiations begin in 15 subject areas.

July: US tables a plan to scrap all farm subsidies with 10 years. EC reacts negatively.

1988

December: In Montreal mid-term review, agricultural discord prevents agreements on intellectual property, safeguards and textiles. Ministers agree a negotiating framework for
services, lower trade barriers for tropical products, improved disputes settlement.

1989

April: Framework agreement on agriculture is reached. It called for substantial progressive reductions in agricultural support and protection sustained over an agreed period of time.

October: US submits a comprehensive proposal where it insists that three areas of internal support, market access, and export subsidies should all be addressed.

December: EC submits a comprehensive proposal where it maintains that an agreement needs only to specifically address internal support.

1990

July: Chairman of the Agricultural Negotiating Group, Mr. Aart de Zeeuw, puts forward a proposal aimed at establishing a common approach in the negotiating subjects.

July: Leaders of the seven biggest industrialized nations pledge to complete the Round by the end of the year. (Houston) This pledge is repeated in 1991 (London), 1992 (Munich) and 1993 (Tokyo), stretching G7's credibility.

October: US submits a proposal based on the de Zeeuw paper.

November: EC submits a modest agricultural proposal.

Differences between the US and the EC proposals include the
scale of the reduction in internal support, export subsidies and reference year for the calculation of the subsidy cuts. **December:** Trade ministers from 107 countries fail to conclude the Round. Discussions again founder over agriculture.

**1991**

**May:** Congress grants President Bush a two-year extension of "fast-track" negotiating authority.

**December:** Arthur Dunkel, GATT Director General, puts forward draft final act. France denounces the agricultural text and the EC demands substantial improvement to the draft.

**1992**

**May:** EC members agree plan for radical reform of the Common Agricultural Policy, reducing export subsidies and cutting support prices.

**May-November:** US and EC go into a direct confrontation over oilseeds dispute. Trade war between the US and the EC is mentioned to be imminent.

**November:** US and EC agree terms for reducing exports of subsidized farm goods. The "Blair House" accord paves the way for resumption of the negotiations but is bitterly contested by France.
1993

January: President Clinton takes office after an unsuccessful last-ditch attempt by the US and the EC to patch up differences.

March: French election yields a new majority in the National Assembly with the Conservatives taking over cabinet.

June: US Congress grants new "fast-track" negotiating authority requiring President Clinton to notify by December 15 his intention to sign a Uruguay Round accord and submission of the final deal to Congress by April 16 1994.

December: Countries formally agree to submit the final Uruguay Round package to their governments for approval.
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