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Sugar and the General Agreement on Tariffs and Trade [1]

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This is part of the Sugar Policy series, which discusses policy issues facing the U.S. sweetener industry in general and Florida's sweetener industry in particular. The objective of this article is to discuss the Generalized Agreement on Tariffs and Trade (GATT); its 1989 ruling against the United States; and the results of the Uruguay Round of negotiations aimed at reducing, and eventually eliminating, agricultural subsidies (including sugar's). Although GATT has been replaced by the World Trade Organization (WTO), the information in this article provides a background to current negotiations.

What Was the General Agreement on Tariffs and Trade (GATT)?

In 1945, the United States initiated the creation of a multilateral international organization that would establish rules of procedure for handling international commercial policy and provide a forum for negotiations. The International Trade Organization (ITO) was set up at a conference in Havana, Cuba. After the U.S. Congress failed to ratify the charter, the United States and other major trading nations entered into the General Agreement on Tariffs and Trade (GATT) in 1947. For more than four decades GATT, which incorporated most of the major principles of the ITO, was the framework within which all multilateral trade negotiations took place. More important than any of the individual rules was GATT's underlying philosophy, built around the concept that the free market works and that the objective of international trade policy should be to reduce trade barriers (Sorenson, 1975). Discussions of issues were conducted through rounds of negotiations. For example, the Dillon Round (1961-62) focused on attempting to liberalize the common external policy of the recently created European Economic Community (EEC). The Kennedy Round (1963-67) initiated separate discussions for industrial and agricultural products. In the last, the Uruguay Round (1986-94) had over 100 member nations engaged in a serious effort to eliminate, or at least reduce, agricultural subsidies, including sugar subsidies.

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GATT's Ruling Against the United States

In July 1988, as a result of drastic reductions in the total U.S. sugar import quota, Australia brought a formal complaint to the GATT, seeking the establishment of a panel to consider the charge that the U.S. sugar quota system was illegal under international trade law. The specific charge was the U.S. violation of GATT's Article 11, which in general prohibited quantitative import restrictions. Australia's complaint was supported by Argentina, Brazil, Canada, Colombia, the EC, and Thailand. The neutral three-member panel ruled that the U.S. sugar quota arrangements were inconsistent with GATT's provisions and should be terminated or modified to make them consistent. The GATT Council accepted that decision in June 1989. The United States accepted the panel's ruling.

The U.S. Response to GATT

Effective October 1, 1990, the United States implemented a two-tiered tariff scheme designed to satisfy the GATT's ruling on U.S. sugar quotas. The first step of the new plan consisted of sugar quotas and a low tariff of 0.625 cents per pound for foreign imports up to 1.725 million metric tons of raw sugar. The second step of the new program involved *no* sugar quotas for imports in excess of 1.725 million tons. However, a tariff of 16 cents per pound would be imposed on all sugar imports exceeding 1.725 million tons.

For designated Caribbean Basin countries and other developing countries receiving GSP status, step one continued to permit duty-free status on sugar imports received within the 1.725 million ton country-by-country quota allocations.

GATT's Uruguay Round of Negotiations

The idea of free, or at least fair, trade has gained momentum in recent years. Leaders of the seven economic powers of the West agreed to work for a gradual reduction of agricultural subsidies when they met in Houston, Texas, in July 1990. This was an explicit support of the Uruguay Round of negotiations. The meeting in Montreal in December 1988 had not produced a consensus for eliminating, or even reducing, agricultural subsidies, though agreement on a new flexible framework for negotiating agricultural reforms during the remaining months of the Uruguay Round was achieved at the Geneva meeting in April 1989.

The agreement encompassed both short- and long-term reform measures. Agricultural supports were to be frozen at the levels existing at the time of the Agreement, and a commitment was made to reduce support and protection levels in 1990. Long-term objectives were included in the negotiating framework, leading to more progressive reductions in agricultural support and protection over a set time period. Although these were steps in the right direction, the major agricultural trading blocks needed the political will to act upon their proposals and to deliver major trading reforms (Borrell and Duncan, 1990). They were unable to do so.

The U.S. Position

The United States has been advocating free trade in industrial and agricultural products, including sugar, for a long time. Its representatives have been a major force in the Uruguay Round, with the U.S. Administration responding with a two-tiered tariff plan to satisfy GATT's ruling against the U.S. sugar quota system. At the same time, public officials have reiterated that the United States is not going to move unilaterally towards free trade in sugar.

That position became clear in the U.S.-Canada Free Trade Agreement (FTA) that went into effect on January 1, 1989. Under the FTA, all tariffs on agricultural products will be phased out within 10 years, direct export subsidies on agricultural products shipped to each other will not be used, and both countries shall work together in the elimination or reduction of import barriers. The accord, however, contains a few exceptions, and sugar is one of them. Quantitative restrictions, duties, and fees on imports of sugar and sugar-containing products from Canada remain in force (Economic Research Service, 1989).

The U.S.-Canada FTA is consistent with U.S. sugar policy. The tendency to move towards free markets, despite the opposition of specific groups with vested interests in several countries, is strong. The United States, however, is seeking a unified approach to the question of free, or fair, trade. Lackman (1989) has proposed two basic ideas for the elimination of dumping practices. First, subsidized sugar exports must be phased out; and second, import markets, including the United States, should be gradually opened to receive sugar priced not below production costs and no lower than consumer prices in the exporting country. Lackman (1989) further stated that:

> [Such an agreement] would end unfair competition, shift production toward the more efficient producers and strengthen the economies of less-developed sugar producers... It makes no sense for the U.S. to move unilaterally towards free trade in sugar... Until we have fair competition in world sugar markets, the U.S. must maintain its existing production and refining capacity. To do otherwise would harm everyone involved in the domestic sugar trade. Furthermore, it would preclude the U.S. from having a role in the more rational, free trade sugar economy which must eventually evolve (p. 49).

Those basic ideas remain valid more than a decade after they were first proposed. It has yet to be seen if that challenge will be accepted by the countries negotiating under the World Trade Organization (WTO). The point of departure can be analyzed from the results of the Uruguay Round.

Sugar Provisions of GATT

GATT represents a broadly based multilateral approach to trade liberalization. In December 1993, over 100 nations agreed to reduce tariffs and non-tariff barriers, covering a wide variety of agricultural and non-agricultural products and services.

The new GATT agreement was expected to take effect on July 1, 1995. Provisions of the Agreement were to be phased-in over a six-year period for developed countries and 10 years for developing countries, beginning July 1, 1995.

The four basic tenets of the agricultural provisions of GATT were reduction in *export subsidies* by developed countries, reduction in *internal price supports*, *tariffication* of non-tariff barriers and tariff reduction, and minimum *market access*.

Export Subsidies

Under GATT, export subsidies of developed countries would have to be reduced 36 percent by value and 21 percent by volume of exports, with reductions applied on a commodity-by-commodity basis.

Since the United States does not subsidize sugar exports, this provision would not have had any direct effect on Florida sugar producers. However, this provision could have influenced the world market for raw sugar if sugar export subsidies of the European Union were reduced or curtailed.

Internal Price Supports

Each nation's trade-distorting subsidies and price supports would have been reduced 20 percent in the aggregate from the 1986-88 base period levels. Reduction would not have been required on a commodity-by-commodity basis.

The U.S. agricultural programs were "GATT-ready" under the provisions of the 1985 and 1990 general farm acts, which required that commodity price supports be lowered (on average) by more than 20 percent. Because of this fact, there was no requirement from GATT that the loan rate of 18 cents per pound for Florida raw sugar production should be reduced.

Tariffication

With GATT, non-tariff barriers (e.g., import quotas) were to be converted to tariffs. (The process of converting import quotas, for example, to tariffs that provide the same level of protection is known as tariffication.) These tariffs would have then be reduced by 36 percent for developed countries and 24 percent for developing countries, on average, for commodities, with a minimum reduction of 15 percent for developed countries and 10 percent for developing countries for each commodity.

The United States applied this tariffication process to sugar imports in 1990. Sugar was the first U.S. commodity converted to tariffication, well ahead of the requirements of the Uruguay Round of GATT.

The second-tier tariff rate for sugar imports into the United States would have been 17 cents per pound for raw value. Under the GATT agreement, the U.S. second-tier tariff rate would have been reduced by 15 percent, reaching a level of 14.45 cents per pound in the sixth year of the Agreement.

Market Access

The GATT agreements required a minimum access equal to three percent of domestic consumption at initiation. Individual countries were required to increase minimum access to five percent over the six years of the Agreement.

Since the United States imports approximately 15 percent of its sugar consumption annually, minimum market access in sugar would easily have been achieved. Nevertheless, under the GATT agreement, the United States agreed to import 1.25 million tons of sugar annually, which was considerably above the minimum access rules of GATT.

Conclusion and Implications

The Uruguay Round Agreement on Agriculture, completed in 1994, was a first step in the process of global agricultural policy reform, although it included a provision for resumption of negotiations on agriculture by December 31, 1999. Those negotiations, now carried out under the World Trade Organization (WTO), were not initiated successfully in Seattle, Washington, in November 1999. The new negotiations have been conducted in Geneva, Switzerland, since March 2000.

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