The Uruguay Round Agreement on Agriculture in Practice:  
How Open are OECD Markets?

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The paper provides an appraisal of the short term trade implications of the Uruguay Round Agreement on Agriculture (URAA), with a particular focus on the effectiveness of the three disciplines in bringing about a reduction in the level of production-related support and protection. Given the complexities involved in quantifying the economic impacts of URAA, the main methodology employed is a simple “before and after” approach. Absolute and relative comparisons are made between various trade openness indicators (or their rate of changes) in the six-year period preceding the URAA (1989-94) and in the implementation period of the URAA (1995-2000). In some instances comparisons are also made for the 2000-06 post-URAA implementation period. The main indicators calculated were: trade openness calculated as the average share of agricultural imports plus exports in agricultural GDP; import penetration ratios defined as the ratio of agricultural imports to consumption, Producer Support Estimates (PSEs) and nominal protection coefficients as measures of support and of price distortions, respectively. Both parametric and non-parametric statistical tests were used to attach significance levels to the findings. The “before-after” approach is complemented with preliminary results derived from an estimation of a stylised simple trade model using pooling cross-section and time-series data. The main conclusion is that the immediate quantitative effects on trade and protection levels have been modest. Trade in agricultural and food products has not significantly increased compared to the pre-implementation period.

A number of reasons are identified concerning the weakness of many specific features of the three pillars of the URAA: market access, domestic support and export subsidies.

On market access, OECD agricultural tariffs are still very high and they have become more complex and less transparent. Although tariffication appeared to be a significant step, the process of “tarification” has produced a number of tariffs which were bound well above applied rates. In contrast to manufacturing tariffs, many of which are now of the order of 5-10%, applied tariffs on agricultural products are, on average, above 40%, with tariff peaks of over 500%. In many cases, the gap between in-quota and over-quota tariffs is very large and as the quota often
represents a high proportion of imports, over-quota tariffs are virtually prohibitive. In addition, the fill rate of tariff quotas has been low and decreased over time. Between 1995-2000, on average, TRQs in OECD area as a whole were filled by less than two-thirds.

The discipline on domestic support commitments, although also deemed to be a major achievement, proved to be the least binding in most OECD countries and required only relatively minor modifications to domestic support policies to bring them into conformity with the Agreement. Hence, its direct quantitative effect on agricultural trade and markets has been limited. This is partly due to the aggregate nature of the domestic support discipline and partly due to the exclusion from the domestic support reduction commitments of some forms of support that are not trade and production neutral. In OECD as a whole, 60% of domestic support is excluded from reduction commitments. It is argued that there is a need for designing more rigorous operational criteria for exemption from reduction commitments.

The discipline on export subsidies has had the most significant immediate quantitative impact on agricultural trade. The total amount of subsidised exports has been curtailed and the number of products which were actually subsidised during the implementation period was much smaller than the number permitted to receive subsidies under the URRAA. However, export subsidies are allowed to continue and a number of policies with the potential to affect export competition were excluded from the discipline.

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