

## SAVING GATT: HOW TO PREVENT A TRADE WAR

The United States and the European Community (EC) stand at the brink of a trade war that easily could spiral out of control, leading to a spate of tit-for-tat protectionism with a worldwide decrease in industrial production and higher prices, lost jobs, and increased international tensions.

The immediate cause of the danger is the November 4 decision by the U.S. government to target \$300 million worth of European products for a 200 percent tariff. This will go into effect on December 5, 1992. In a classic case of brinkmanship, the U.S. aim is to achieve a breakthrough in the stalled negotiations under the Uruguay Round of the multilateral General Agreement on Tariffs and Trade (GATT). These talks, designed to reduce tariff and other barriers to worldwide trade, have reached an impasse because of European intransigence on reducing agricultural subsidies—agreement on which has become pivotal to the entire GATT round, launched in Punta del Este, Uruguay, in 1986.

While the Europeans are at fault on the issue of farm subsidies, however, the GATT negotiations must not be allowed to collapse. If necessary, the U.S. should agree with the Europeans to drop agriculture from the round in order to achieve agreement on the rest of the package.

The Uruguay Round seeks to liberalize international trade by achieving agreements in such areas as the protection of intellectual property, foreign investment, subsidies, the sale of services, and agriculture. Most of the work in each of these areas is virtually complete—with the exception of politically sensitive agriculture.

The benefits of a full agreement would be immense. If negotiators accept the deal favored by the U.S., it could mean as much as a \$200 billion annual increase in global business activity. U.S. Trade Representative Carla Hills has asserted that a successful GATT agreement could expand global economic output by as much as \$4 trillion by the year 2000.

**Imbalance in Subsidies.** At the outset of the negotiations, the U.S. sought to reduce European Community agricultural subsidies and supports by 98 percent, while agreeing to similar cuts in American agricultural subsidies. U.S. negotiators argue that the EC provides about \$50 billion in total annual agricultural supports, or about 38 percent of the value of Europe's agricultural production. By contrast, the U.S. provides about \$32 billion in total annual supports, or about 27 percent of production. These figures include all internal supports, export subsidies and credits, and additional supports such as government-funded research, administrative costs, and low-interest loans. The U.S. maintains that the imbalance in these costly subsidies distorts international prices, making it harder for American farmers to compete with subsidized European products. European farmers argue, however, that they are less competitive than America's "high-tech" farmers and need more subsidies.

This dispute over agriculture has held the entire Uruguay Round of GATT hostage at various times during the negotiations. In December 1989, for instance, the round temporarily collapsed because of the EC's refusal to meet U.S. demands for a cut in agricultural subsidies. In 1990, the Bush Administration sought and obtained from Congress a two-year extension of its "fast-track" trade negotiating authority, which prohibits Congress from amending any internationally agreed trade treaty during the ratification process. This helped revive the negotiations. Yet after two more years of talk, the EC remains unwilling to reform its agricultural policies.

Some of the European Community's agricultural policies are particularly harmful to American farmers. The EC, for example, provides about \$3 billion a year in subsidies to its oilseed farmers. Oilseed crops, which include soybeans, are used to make such products as animal feed and cooking oil. The GATT's dispute settlement body has declared the EC's oilseed subsidy policy to be a violation of the GATT code. The U.S. threat to impose a 200 percent tariff on about \$300 million worth of agricultural goods is a high-stakes gambit to force the Europeans to accept the GATT ruling and so achieve success in the Uruguay Round.

**Danger of Retaliation.** The danger, of course, is that European politicians may feel compelled to retaliate rather than concede. The EC states already have requested the EC Commission to draw up a "hit list" of American products for possible retaliatory tariffs if the Americans carry out their threat to impose tariffs on European goods. European retaliation and U.S. counter-retaliation quickly could escalate into an all-out trade war between the U.S. and the EC. This would be a serious blow to both Europe and America, which are struggling to recover from recession.

To avoid this situation, and save the Uruguay Round, what is needed is quick statesmanlike action on both sides to draw back from the brink and consolidate the progress already achieved. Specifically, U.S. and EC governments should instruct their negotiators to:

- ✓ **Remove agriculture from the current Uruguay Round agreement and finalize the remaining issues.** Agriculture is only a small part of the overall GATT agreement, but curbing agricultural subsidies is an explosive political issue in certain countries, such as France. Negotiators in past GATT rounds have found it necessary to drop agriculture from the agenda in order to reach an agreement. That may be necessary again. But as part of a GATT agreement without agriculture, a separate panel on agriculture should be created by GATT members to continue working on an agreement in the coming months. A deadline should be established, with a specified course of action to be taken if an agreement is not reached during that time.
- ✓ **The incoming Clinton Administration should immediately seek an extension of the "fast-track" negotiating authority, due to expire in June 1993.** Fast track is needed in order to pass a multilateral trade agreement as complex as the Uruguay Round. Without it, Senate ratification would collapse quickly amid special interest demands to alter the agreement. And the Clinton Administration itself must resist the temptation to put its own mark on the agreement by making new demands. If the Clinton Administration believes that the current Uruguay Round does not take into account its own interests and policies, it should address them in future rounds of negotiations.
- ✓ **Submit a completed GATT agreement, minus agriculture, to the respective legislatures early in 1993.** A trade war must be avoided at all costs. It is vital that the Uruguay Round does not end in failure. If it does, the global economy could drift into a dangerous period of nationalistic protectionism, which would hurt every country in the world.

Many policy makers argue that agriculture must be included in the Uruguay Round if the agreement is to be worth saving. While these policy makers are right that agricultural subsidies should be ended, they are not right in their contention that the other features of the Uruguay Round are insufficiently important to avoid a breakdown by dropping agriculture from the round. The power and short-sightedness of the European farm lobby should not be allowed to derail a historic trade agreement.

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