

**NEWS  
OF THE**

# URUGUAY ROUND

OF MULTILATERAL TRADE NEGOTIATIONS

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## **SUTHERLAND CALLS ON GOVERNMENTS TO COME CLEAN ON CONSUMER INTERESTS IN THE URUGUAY ROUND**

**Consumers should demand an end to high prices for no purpose**

The GATT Secretariat today released a short report on the cost to the consumer of protectionism and the potential benefits the Uruguay Round will bring.

Commenting on the report, Mr Peter Sutherland, Director General of GATT said:

"It is high time that governments made clear to consumers just how much they pay - in the shops and as taxpayers - for decisions to protect domestic industries from import competition. Virtually all protection means higher prices. And someone has to pay; either the consumer or, in the case of intermediate goods, another producer. The result is a drop in real income and an inability to buy other products or services.

"I cannot help thinking if governments were to announce that they were deliberately keeping prices high, there would be a public outcry - but that, in effect, is what they are doing in failing to conclude the Uruguay Round.

"The picture is made worse by the fact that the effects of protection almost always fall most heavily on the poorest sections of society. It is they who, because of low income, have to spend the highest proportion of their household budget on necessities like clothing, footwear and basic food products. And it is exactly in these areas that protection is most common and intense.

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"Maybe consumers would feel better about paying higher prices if they could be assured it was an effective way of maintaining employment. Unfortunately, the reality is that the cost of saving a job, in terms of higher prices and taxes, is frequently far higher than the wage paid to the workers concerned. In the end, in any case, the job often disappears as the protected companies either introduce new labour-saving technology or become less competitive. A far better approach would be to use the money to pay adjustment costs, like retraining programmes and the provision of infrastructure.

"The Uruguay Round is not the answer to all the consumer's problems. But, as this brief report shows, it should help considerably. Certainly, it is an issue that should remain firmly in view when governments consider the final phase of the negotiations in the coming months. If not, consumers would be justified in asking some very tough questions about the high prices they are paying for trade protection serving little or no purpose.

The full report follows.

# TRADE, THE URUGUAY ROUND AND THE CONSUMER

## THE STING - HOW GOVERNMENTS BUY VOTES ON TRADE WITH THE CONSUMER'S MONEY

When trade policies are discussed - nationally or internationally - people as consumers are largely forgotten. Despite their numbers, they do not carry the weight that producers and other lobbies command. Individually, consumers are seldom informed about how the availability, quality, price and choice of the hundreds of items which they buy in the shops each year are affected by trade policy decisions. If they knew how much of their household budgets are determined by decisions to protect individual industries - and for how little effect - they might be shocked.

Equally, when the Uruguay Round is debated publicly, the benefits that would fall to the consumer are usually ignored. The following pages are an attempt to put the consumer interest squarely in the public arena. The figures have been taken from official government sources and independent researchers.

### *1. How do government decisions on trade affect the consumer?*

Virtually all protective policies mean higher prices for the consumer. And if it is not a consumer who pays, it will be a domestic producer. These are some of the main actions taken by national authorities.

**Tariffs:** governments frequently (and, for the most part, legally within their GATT obligations) raise revenue and protect domestic industries by imposing duties on imported products. If a product has a 25 per cent tariff, the price in the shop will normally be 25 per cent more than its price at the port or airport.

**Quantitative restrictions:** global quotas and other numerical limits on imports are sometimes legal within the GATT, sometimes not. Either way the intention is to restrict access to the market in such a way that domestic producers of the same product can raise their prices without being forced out of business through lack of competitiveness. Quotas are frequently preferred by those demanding protection because the impact on prices is less obvious than with a tariff. Once again, prices go up in the shops and the limits may be so narrow that goods disappear from the shelves altogether.

**Voluntary export restraints:** these are quotas of an even more costly kind for the importing country. They allow foreign suppliers to charge higher prices than would be possible under a tariff or normal quota. By "bribing" the exporter in this way, opposition to the protection is reduced. These restraints have been used to protect the automobile and domestic electronics industries in North America and the European Community.

**Subsidies:** subsidies are sometimes paid to domestic producers to help them compete with import competition by keeping their costs artificially low. This keeps prices down. Unfortunately, the consumer as a taxpayer ends up paying for the subsidy. In so doing, he is prevented from keeping more of his income to spend on other goods - which may be produced by more efficient industries.

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One thing is sure; once industries get used to subsidies, it is very hard to wean them away.

**Anti-dumping and Countervailing Duties:** GATT rules permit governments to impose extra duties on imports where products are shown to be dumped (sold below the normal price in the exporting country) or subsidised, and where the effect of dumping or subsidisation is demonstrated to damage the corresponding domestic industry. While these duties may be justified, they nevertheless always serve to raise the price for consumers or to knock products completely out of the market. Yet very few, if any, countries give much weight to consumer interest when deciding whether to impose such penalty duties. And their use has grown disturbingly in recent years.

**Technical trade barriers:** governments usually impose standards of safety, quality, public health and environmental protection for good reasons - often in the interests of consumers - and the GATT contains nothing to prevent them from doing so. Sometimes, however, the standards and the procedures which enforce them are no more than hidden protection for domestic producers. In imposing unnecessary measures on imports, governments penalize consumers through higher prices and the non-availability of goods.

## 2. *Protection - some of the price tags*

Independent research on the cost of protection to consumers is stronger in some areas than others. The following examples we believe to be reliable and soundly based.

**Agriculture (general):** the following table gives estimates by the OECD of the total transfers, in terms of higher prices and taxes, from consumers to producers during 1992 to pay for government support for agriculture<sup>1</sup>.

Country	US\$ billion totals	US\$ per head of population
Australia	1.6	89
Austria	4.2	530
Canada	9.1	330
EC	155.9	450
Finland	4.5	910
Japan	74.0	600
New Zealand	0.1	15
Norway	4.1	970
Sweden	3.2	370
Switzerland	5.8	840
United States	91.1	360
OECD Total	353.7	440

**Sugar:** the US Commerce Department estimated, in 1988, that sugar subsidies added an average of \$3 billion a year to American consumers' grocery bills. In 1990 the average US wholesale price for sugar was 23 cents per pound while the average world price for sugar was just 12 cents - the difference being maintained by import restrictions<sup>2</sup>.

For the European Communities, the cost of sugar support arrangements to EC consumers is estimated to have averaged some 3 billion ECUs (\$3.3 bn) a year over the period 1979-89. This is an added cost of 40 ECUs per family of four per year for just one item in their shopping bag<sup>3</sup>.

**Rice:** Japan has maintained a ban on rice imports since 1967. It has ensured high prices for Japanese consumers. Rice selling for \$45 to \$50 per hundredweight in US shops sells for \$175 to \$250 in Tokyo. Partly as a consequence, Japan's per capita consumption of rice has fallen from 118 kilograms a year in 1962 to 70 kilograms a year in 1990<sup>4</sup>.

**Chicken, eggs and dairy products:** Canada operates a system of supply management with respect to egg, poultry and dairy farming. The system means that access to the market is restricted for imports while levels of domestic production are controlled by government agencies. Other countries - like the EC, Norway, Mexico and Finland - operate similar systems. The result is inevitably higher prices. For instance, in 1990 it was shown that consumers in Buffalo (US) were paying C\$1.16 for a dozen large eggs while those in Toronto paid C\$1.65. Milk cost C\$1.23 for a half-gallon in the US and C\$2.81 (2 litres) in Canada. The Buffalo consumer paid C\$2.55 for a kilogramme of chicken and C\$4.25 for 500 grms of cheese; the same products costing C\$5.03 and C\$5.20 in Toronto<sup>5</sup>.

**Automobiles:** the US and European Community car markets have long been protected from Japanese competition either by formal quotas or through so-called "voluntary export restraints" which require Japanese authorities to maintain limits on the number of cars being exported to particular markets. In 1989, it was estimated that the French limitation on Japanese car imports was raising their prices by 33 per cent at a total cost of around \$1.7bn a year to consumers. Taken together, the restrictions which existed at that time in France, Italy, Spain, Portugal and the UK cost consumers around \$7bn a year. The same study warned that if individual national restrictions were rolled into a single EC-wide quota it would cost West German consumers - who were at that time unaffected by any restrictions on Japanese car imports - \$1.6 bn a year<sup>6</sup>.

The National Consumer Council in the United Kingdom showed, in their 1990 study, that the sales price in the UK of some Japanese cars could be up to 70 per cent more than in the Japanese market. For instance, the average price for a small to medium size Japanese car in Japan was £5,227 while the same car cost £7,642 in the UK<sup>7</sup>.

Domestic car producers in the United States, under the protection of a restraint agreement with Japan during the mid-1980s, chose to raise their prices by an average of \$750 to \$1,000<sup>8</sup>.

**Textiles and Clothing:** the principle means of protection for the textiles and clothing sector in the industrial countries is the Multifibre Arrangement which permits bilateral quota restraints on exports from low-cost producers, largely in the developing world. Where quotas are absent, tariffs protect.

Several studies during the 1980s showed the high cost of protection to consumers. For instance, the cost of clothing protection in the United States has been estimated to be between \$8.5bn and \$18bn, while for textiles and clothing combined it could be up to \$27bn. Protection costs to the consumer on clothing have been estimated at £500m a year in the United Kingdom and C\$780m a year in Canada<sup>9</sup>.

Expressing these estimates in current 1993 dollars (ie. by adjusting for inflation) results in the following costs per 4-person household: United States - \$200-420/year, Canada - \$220/year and United Kingdom - up to \$130/year.

**Domestic electronics:** products like video recorders, televisions, compact disc players, electronic typewriters etc are frequently subject to high tariffs, voluntary export restraints and anti-dumping duties. The National Consumers Council of the United Kingdom has estimated that the total consumer cost of these measures in the European Community is almost \$1.3 bn a year<sup>10</sup>.

### **3. *Are many other consumer products affected by trade protection?***

Many. Among them are: alcohol, apple juice, brooms, ceramic ware, fish, fruit, glassware, handbags, ice cream, luggage, medicine, orange juice, peanuts, shoes, tents, and tobacco. Each of these products, along with thousands of others, is affected by one or more measures of protection in most countries.

### **4. *And the effects are far worse for poor families than for the better off***

Protection tends to be loaded towards the products which are essentials for any family. Consequently, since the essentials command the biggest proportion of the household budgets of poor families, protection acts as a regressive tax.

Clothing is a good example. The Multifibre Arrangement acts on low-cost products, raising prices and restricting availability; meanwhile up-market goods are seldom affected. Moreover, for the poor consumer, the effect is further exaggerated. Foreign producers will tend to export higher quality and, therefore, more expensive goods, in order to maximize their profits from the quota. This quality upgrading effect not only reduces disproportionately the supply of lower-priced clothing, but may also affect the supply of children's clothing. Where there is the case, the regressive tax effect of the MFA quotas is worsened for the younger, poor families needing to buy children's clothing.

One study found that while a Canadian family belonging to the highest income group earned six times more than a family in the lowest category, the costs borne by the former group due to protection (tariffs and quotas) on clothing were only about twice as high<sup>9</sup>.

### **5. *What about consumers in developing countries?***

Developing countries often protect themselves against imports. As a result, their consumers certainly have to pay higher prices or, very frequently, are unable to obtain many goods.

But protectionist policies in the industrial world make things much worse. If they cannot export, developing countries cannot import. One recent study<sup>11</sup> showed the effect of quota restraints aimed at the clothing and textiles industry in Bangladesh, one of the poorest countries in the world. The quotas, first introduced in 1985, initially closed many factories and put many people - especially women - out of work. Growth in the industry has re-started since and, as a result, many families are able to buy food and other products which were previously out of their reach. Nevertheless, the MFA continues

to restrain the potential growth of the industry and further improvements in the welfare of consumers in a still very poor country.

#### **6. *Consumers do not just pay more, they lose out on choice***

Consumers have enjoyed an enormous growth in the range and quality of products in their shops as a result of the multilateral trading system. Many fruit and vegetables are available - even out of season - throughout the year. Exotic foods, never seen just ten or twenty years ago, are now commonly found on supermarket shelves. Cut flowers are being transported fresh by cargo plane daily from Latin America to Europe and North America. The range and sophistication of domestic electronic products would have been unimaginable had their development not been spurred by the availability of a global market.

But protection sets the clock back. Consumers may find products disappear altogether. For instance, quotas and voluntary export restraints on Japanese cars have sometimes meant that lower-cost cars have been excluded from the markets in the EC in favour of filling the allocated share of the market with up-market, high profit-margin models. Ironically, the effect of the arrangement has been to give higher profits to Japanese car companies which have then been able to afford expensive development programmes to produce ever-more sophisticated models.

#### **7. *Household costs are not the only consumer costs which go up***

Many industries are also consumers of imported goods. Manufacturers can depend on cheaper and better products from overseas in order to maintain their own competitiveness in their domestic market and, especially, in their export markets.

The best example is steel. Many companies require either specialty steel or basic steel products at the lowest possible prices. Unfortunately, because of export restraints, formal quotas, anti-dumping and countervailing duties and high tariffs, companies in North America, the European Communities and elsewhere are often required to pay prices for steel well in excess of those in the world market. Sometimes they cannot even find the precise type or quality of steel they need. They are, therefore, put at a huge competitive disadvantage.

Semi-conductors and other electronic components are also subject to this self-defeating form of protection. Just as the price of steel puts up the price of automobiles, so high tariffs, anti-dumping duties and quotas on electronic components puts up the prices of video recorders, personal computers and other advanced consumer electronic products. Meanwhile foreign competitors continue to buy their semi-conductor inputs at world market prices.

#### **8. *How does the cost to consumers measure up against the cost of saving jobs?***

Consumers might feel good about paying more for their household purchases if it was money well-spent in saving domestic jobs. Unfortunately, the process is not cost-effective. Evidence shows

that the cost of "saving" a job using tariffs, quotas, subsidies or other measures is normally far greater than the wage attached to the job itself. These are costs that accrue year after year.

The Australian Industries Assistance Commission found, in 1990, that protection of the textiles, clothing and footwear industries cost A\$20,000 a job while it cost A\$17,000 for every job protected in the motor vehicle industry<sup>12</sup>.

In the United States, the cost of saving a single job in the clothing sector has been estimated at between \$36,000 and \$82,000. In the United Kingdom, the figure is around £21,000<sup>8</sup>.

Another study in the United States showed the costs per job saved at \$240,000 in the orange juice industry, at \$135,000 in the ceramic tiles industry, at \$420,000 in the colour TV sector and at \$1m for specialty steel. The cost per cow of protection in the dairy sector worked out at \$1,800!<sup>13</sup>

For agriculture, the OECD has shown that transfers from taxpayers and consumers to support the agriculture sector work out at between \$1000 (New Zealand) to \$38,000 (Norway) per full-time farmer equivalent per year. The figure for the EC is \$13,000, for the US \$20,000 and for Japan \$21,000. Calculated in terms of transfers per hectare of farmland the figures show the EC at \$795, the US at \$97 and Japan at \$9,708<sup>1</sup>. Despite this, the numbers employed in agriculture in all countries is falling.

Clearly, governments would serve taxpayers and consumers better by concentrating on alleviating the costs of adjustment to competition rather than seeking to prevent the adjustment. In particular, that means aid for training, retraining and mobility of labour.

## **9. *What will the Uruguay Round do for the consumer?***

A successful conclusion of the Uruguay Round will benefit people as consumers worldwide.

**Tariffs:** the overall target is to reduce tariffs by an average of one-third. However, the chances of a much more ambitious result are good. Tariffs in several product areas may be eliminated completely. Already on the table are pharmaceuticals, construction equipment, medical equipment, steel, beer, furniture, agricultural equipment and distilled spirits. It is hoped that other products will also be considered for this zero tariff treatment. In addition, other items - chemicals are an example - should end up with harmonized tariffs at a low level. One way or another, import duties on all household items will be reduced substantially over a period of years.

**Quotas:** the quantitative restrictions which have most damaged consumer interests - namely the voluntary export restraints - would be removed over a period. This does not mean that governments could not take emergency action to protect domestic industries from import competition. However, it would have to be done in a disciplined and transparent manner, and such controls would have to be dismantled after a period.

**Competition rules:** new rules on anti-dumping duties and countervailing duties should help avoid their indiscriminate abuse.

**Subsidies:** these will be subject to tighter disciplines in the industrial area.

**Agriculture:** domestic support for farmers which encourages over-production and export subsidies will be wound down over a number of years. At the same time, access to markets for agricultural goods will be improved.

**Textiles and clothing:** the Multifibre Arrangement will be dismantled gradually. The rules for offering protection to this sector will ultimately be the same as for all other sectors.

**Counterfeit products:** the Uruguay Round package will include the first multilateral agreement aimed at eradicating trade in counterfeit goods. This is important with respect to the reliability and safety of some products which have been the object of counterfeiting (car brake linings, for instance).

Taken together, these and others of the agreements which make up the Uruguay Round will mean significant improvements in prices, choice and quality for consumer products across the board.

**10. *But is one of the prices a lowering of public health and safety standards?***

It has been suggested that some aspects of the existing draft agreements in the Uruguay Round will lead to a lowering of safety standards - for example, restrictions on chemical residues in food. The principle target of this charge is the draft agreement on "Sanitary and Phytosanitary Measures". In essence, this agreement seeks to ensure that measures to ensure safe food for consumers and to prevent the spread of pests or diseases among animals and plants do not amount to unjustified barriers to trade.

The first point is that if there is some justification for them, these measures - even if they restrict trade - are completely permissible within the GATT and would still be permissible after the conclusion of the Uruguay Round. The main objective is to make them transparent, to discourage arbitrary decision-making and discrimination and to minimize any restriction on trade.

The second point is that the new agreement would encourage governments to establish measures consistent with international standards and guidelines - GATT, however, will not itself be establishing such standards. This is important because it could mean a general raising of standards: in many areas even advanced industrial countries do not meet international standards on food safety.

Third, the agreement explicitly permits governments to impose more stringent standards than those agreed internationally. The only condition is that a government so doing might, if challenged, be required to show scientific evidence or some kind of risk assessment to support the measure.

It should also be noted that with the reduction of agricultural subsidies which encourage unlimited production (those supporting farmers' income directly will still be permitted) consumers should see more products produced by less chemical-intensive farming methods in the shops.

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