

MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND

RESTRICTED

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UNITED STATES PROPOSAL FOR NEGOTIATIONS ON AGRICULTURE

The following proposal is submitted by the United States to carry out the objectives of the Punta del Este Declaration on agriculture.

All participants should agree to the following:

- o AGRICULTURAL SUBSIDIES: A complete phase-out over 10 years of all agricultural subsidies which directly or indirectly affect trade.
 - EXPORT SUBSIDIES: Freeze and phase-out over 10 years the quantities exported with the aid of export subsidies.
- o IMPORT ACCESS: Phase-out import barriers over 10 years.
- o HEALTH AND SANITARY REGULATIONS: Insofar as animal, plant and human health and safety are not affected, harmonize health and sanitary regulations. In addition, base domestic regulations on internationally agreed standards and processing and production methods on equivalent guarantees.

As documented in a variety of international studies and recognized in the Punta del Este declaration it is the package of support being provided to producers, including measures taken at the border, that creates international trade problems and requires change. It is therefore this overall level of support--in particular, support which distorts production, consumption and trade--as provided through domestic policies and border measures that requires attention.

IMPLEMENTATION

To reduce overall levels of support the negotiations should proceed on a two-tiered basis. First, measuring devices and an overall schedule of reductions should be agreed to for taking aggregate levels of support to zero over a 10-year period. Second, specific policy changes should be identified by each country to meet its overall commitment of scheduled support reductions, with these changes being agreed to by the other contracting parties.

FIRST TIER

A mutual commitment to a scheduled reduction in aggregate levels of support requires that there first be agreement on a measurement of aggregate support. Agreement would then be reached on an appropriate schedule for eliminating this support. There are three aspects to developing such a measurement. First, a measurement approach must be selected. Second, the appropriate policy coverage must be determined. And third, the appropriate commodity coverage must be decided.

1. Measurement of Support

The first step toward reducing support is to develop a measurement of the aggregate support that countries provide to their agricultural producers.

Previous work at the GATT (COM.II/103, 29 November 1960), the FAO (C 85/19, August 1985) and the OECD (National Policies and Agricultural Trade, 13 May 1987) provides one such approach--termed a Producer Subsidy Equivalent (PSE). A PSE is essentially a measure of the income benefit to producers derived through the policies that each country has in place. PSE's are calculated by measuring Government budget outlays and other financial benefits to farmers. They also include the income benefit to farmers of restrictive border measures which is calculated as the difference between internal and external prices. These various components of support are combined to develop a PSE for each commodity. Commodity PSE's can be aggregated to give an overall measurement of support to agriculture in each country.

2. Policy Coverage

The negotiations are to focus on those policies that directly or indirectly subsidize agriculture. Thus, the following kinds of policies would be included in the aggregate measurement of support, to be reduced and eliminated:

- o Market price support: policies such as price support, import quotas, variable levies, minimum import prices, tariffs, some state trading activities, export subsidies, export credits, Government support of marketing boards, interest subsidies associated with producer commodity operations, Government contributions to stabilization funds, and Government inventory costs.
- o Income support: policies such as deficiency payments, storage payments, stabilization payments, headage or acreage payments, and negative payments such as producer levies.

- o Other support: policies such as subsidized crop insurance, concessional farm credit or interest subsidies, fuel and fertilizer subsidies, some capital grants, marketing programs (including transportation subsidies, processing subsidies and inspection services), research, advisory services, and structural investments.

Certain types of policies would be permitted, and therefore would be excluded from the aggregate measure. These policies would be either production and trade neutral or have such a small effect as to be inconsequential.

- o Direct income or other payments decoupled from production and marketing, including those that provide a safety net against natural disaster or other extraordinary circumstances.
- o Bona fide foreign and domestic aid programs.

3. Commodity Coverage

The negotiation should focus on all agricultural commodities, food, beverages, forest products, and fish and fish products.

SECOND TIER

The purpose of the second tier in the negotiations is to identify and agree to the specific policy changes that countries will make to achieve their commitment to reductions in overall support.

In general, Governments shall retain flexibility in the choice of the means to fulfill their commitments. However, additional commitments may be negotiated to assure parallel reductions in support to certain sensitive commodities or in the support provided by certain types of programs.

Each country's implementation plan will identify, at least provisionally, its policy adjustment commitments for the ten year transition period. The ten year implementation plan will have the character of a GATT binding. Thereafter, during each year of the transition period, the specific commitments made by each country will be examined to determine whether modifications are necessary in light of progress made by that country.

In negotiating implementing plans, Governments may claim credit for measures adopted since the Punta del Este Ministerial Declaration which have contributed to a reduction in the imbalance between production and demand and have enhanced the objectives of the negotiations. Conversely, countries could be charged "debits"

for measures that have worsened the situation since Punta del Este. Such countries would be expected to roll these measures back before receiving credit for other reductions.

A process for monitoring progress as well as special rules for safeguards, enforcement and dispute settlement will be needed during the transition period.

At the same time as Governments agree to present for negotiation their implementing plans, negotiation should begin on the changes necessary to GATT rules to reflect the trading environment that will exist at the end of the transition period.

Finally, rules and procedures governing technical barriers to trade should be expanded:

- o To apply more explicitly to processes and production methods.
- o To give greater recognition to the principle of equivalency of laws and regulations, and
- o To provide a procedure for early technical and policy consultations on legal and regulatory changes that have a high potential for disrupting trade.