

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG5/W/2  
31 March 1987

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Group of Negotiations on Goods (GATT)  
Negotiating Group on Agriculture

SUMMARY OF MAJOR PROBLEMS AND THEIR CAUSES AS IDENTIFIED  
THUS FAR AND OF ISSUES CONSIDERED RELEVANT

Note by the Secretariat

1. The present note has been prepared by the secretariat, in consultation with the Chairman, in accordance with paragraph 5 of the Note on the first meeting of the Negotiating Group on Agriculture (MTN.GNG/NG5/1).
  2. In general the summary attempts to present a succinct résumé of specific problems and causes identified and of the issues considered relevant. The summary is intended to serve as a background note for the Group's further work under the initial phase of the Negotiating Plan and is without prejudice as to how the results of this work may be recorded or listed.
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3. The major problems affecting trade in agriculture as identified by participants may be summarized as follows:
    - A. Substantial imbalances between supply and demand for the main agricultural products, together with depressed prices on world markets and large surplus stocks;
    - B. Protectionism through the maintenance of support policies and measures which insulate domestic producers from the normal functioning of an international price mechanism, and the level of government intervention in agriculture worldwide;
    - C. The lack of effective GATT rules and disciplines on agriculture and the unwillingness of many countries to agree to effective international disciplines to liberalize international agricultural trade.

4. Major problems identified in this general context are:

(i) the longstanding and fundamental problem of protectionism in agriculture which had not changed over the last forty years, although the way it manifested itself differed from time to time, from commodity to commodity, and from country to country;

(ii) declining terms of trade associated with depressed international prices and the existence of large surpluses;

(iii) an allocation of resources in world agriculture based not on comparative advantage but on capacity to subsidize and competition amongst exporters characterized increasingly by competition between treasuries;

(iv) protectionist support policies resulting in less efficient producers being faced with nearly unsaleable surpluses which weigh on the efficient and on the less subsidizing or non-subsidizing countries;

(v) agricultural trade disputes which threaten to spill over into the non-agricultural trade sector;

(vi) the development of productivity associated with technological progress resulting in increased self-sufficiency and surpluses. The responsiveness of national policies to international market signals and various factors related to the special role agriculture plays in the national context limit the scope for adjustment;

(vii) the disharmony existing between different systems of national support and the distorting effects that support measures in one country can have on support arrangements in other countries;

(viii) problems related to the specificity of agriculture, together with structural problems linked to the type of production involved and its specific context (net importer, net exporter, industrialized countries, developing countries, densely or less heavily populated countries, intensive or extensive production);

(ix) the high and increasing costs of farm support programmes associated with shrinking international markets, low prices and reduced economic returns to farmers;

(x) erosion of the comparative advantage of heavily populated developing and least developed countries in the production of food grains, together with the impairment of their ability to continue to harness the benefits of the Green Revolution and to improve the income and welfare of subsistence farmers;

(xi) distortions in world agricultural trade and their impact on the income position of countries reliant on agricultural production and trade, in particular the serious macro-economic consequences entailed in terms of savings and investment, import demand, debt servicing capacity and balance of payments equilibrium;

(xii) the failure to give operational effectiveness to the concept of special and differential treatment for developing countries in agricultural trade;

(xiii) the subjection of trade in agriculture over more than thirty years to various protectionist and trade distorting measures alien to basic GATT rules and regulations, causing substantial losses to the interests of many exporting countries, particularly developing countries, and bringing disarray into international trade;

(xiv) the unsatisfactory way that GATT rules and disciplines have evolved and the related failure of governments to pay more than lip service to the need to take into consideration the international consequences of their domestic agricultural policies.

5. Specific problems identified as being common to the major traded commodities, and as relating back to the basic problem of protectionist policies included: highly restrictive import barriers; high support prices, either through transfers from consumers or some type of deficiency payment; government purchasing and stock holding with surplus disposal often at enormous losses. Other specific problems identified were:

- imbalances in the area of rights and obligations
- export subsidies
- so-called hidden subsidies
- price support in the dairy products industry
- variable import levies
- export refunds
- protection of certain sugar producers
- high or escalated custom duties
- import quotas
- restrictions on land tenure and part-time farming
- production quotas and controls of inputs
- intervention prices
- consumer subsidies
- sanitary and phytosanitary measures
- waivers
- the cumulation of various restrictive measures on the same product

6. The following causes were identified as being responsible for, or as having a bearing on, the problems outlined:

(i) the failure to establish operationally effective GATT rules to shape international trade in agriculture and to guide the process of domestic agricultural policy formulation away from price and other output-linked support measures;

(ii) the lack of effectiveness of the multilateral rules and their failure to ensure equality of treatment as between agriculture and other sectors of international trade. The unsatisfactory way that GATT rules and disciplines had evolved was attributable, it was suggested, to the propensity of governments to paper over differences and to agriculture having been dealt with at the margin in previous MTNs;

(iii) protectionism and the unwillingness of many countries to take action that would allow structural adjustment in their farm sectors, as well as the lack of political will to liberalize access to markets and to eliminate distorting measures;

(iv) domestic policies and measures, either generally or in some industrialized countries, were described in several instances as being the primary or the fundamental causes of the problems affecting trade in agriculture. In this regard reference was made to policies under which less efficient producers practically prohibit import access to their markets and use subsidies to dispose of their surpluses, thus displacing the exports of efficient producers from their own markets as well as from third markets. Such policies directly affected the very mechanism of international markets and imposed a disproportionate burden of adjustment on traditional exporters and developing countries whose producers were heavily dependent on, and exposed to, world market forces;

(v) the growing disequilibrium between supply and demand and the nature of agricultural policies pursued were cited as being inextricably linked as causes of the current situation. Supply in developed countries continued to grow in the face of slow or static demand as producers continued to respond to government administered price signals which bore little relationship to market realities. In this analysis income support through producer prices, generally entailing import restrictions and/or export subsidies, was the main cause of the imbalances and of current international strains;

(vi) the widespread development of productivity associated with technological progress which in the case of cereals, for example, had led to a large number of importing countries increasing their self-sufficiency or becoming exporters. In this situation demand might not only continue to stagnate but could well contract in the future. Greater utilization of technology as a means of improving productivity in agriculture was a problem with or without agricultural support.

(vii) deficiency payments, the practices of marketing boards and monopolies, and trade embargoes were also cited as having played a role as regards the surpluses and low prices in the cereals sector. Other causes cited were increased self-sufficiency in certain countries related to national security and balance-of-payments considerations, and the almost generalized extension of production in response to the scarcity of cereals in the mid 1970's and related forecasts of longer term supply and demand trends.

(viii) monetary factors and exchange rate volatility which from one day to another could completely alter market signals and amplify the inherent volatility of markets that were often residual in character. Related to this was the question of effective demand and scarcity of foreign exchange in certain countries;

(ix) the lack of harmony between different systems of support could result in a situation in which support measures applied in one country created distortions within other countries. The availability of cereals substitutes, it was suggested, created surplus production in the dairy and meat sectors and displaced the production or utilisation of indigenous cereals. Technological progress and substitutes were also amongst the difficulties affecting the highly residual sugar market. It was suggested that the fact that production of isoglucose was limited in one group of countries but unrestricted elsewhere led to increasing difficulties and to a situation where measures designed to limit domestic production could be overtaken by events;

(x) a series of causes whose effects were cumulative and which posed difficulties peculiar to the agriculture sector. These included: causes of an economic character, notably the growing imbalance between stagnant demand and increasing supply resulting from, inter alia, productivity and technological progress; objective or natural causes, such as the weather, the soil and other factors of production which played a specific role in the field of agriculture; causes related to political considerations which went beyond simple economic considerations, such as strategic considerations (security of supply), ecological considerations (maintenance of the countryside and the regulations under which farming had to be conducted), and socio-demographic considerations; and, causes associated with deficiencies in the panoply of governmental support policies. One aspect of this was the selection of the type of support system (price support versus other income support measures). Another aspect was the amount of support provided relative to the objectives sought to be attained.

7. The following set of issues was presented for inclusion in the indicative list of issues considered relevant by participants to achieving the Negotiating Objective:

- (i) the need for the fundamental liberalization of agricultural trade;
- (ii) the requirement to apply fundamental GATT principles of liberal trade to disciplines governing agricultural trade;
- (iii) to strengthen and make more operationally effective GATT rules on subsidies and restrictions on access;
- (iv) to freeze and reduce subsidies affecting agricultural trade;
- (v) reduction of high support prices as a matter of urgency;
- (vi) elimination of the use of phytosanitary and sanitary regulations as unjustified import barriers.