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THE URUGUAY ROUND**

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Group of Negotiations on Goods (GATT)  
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SUMMARY OF THE MAIN POINTS RAISED IN THE COURSE OF THE  
GROUP'S CONSIDERATION OF BASIC PRINCIPLES TO GOVERN  
WORLD TRADE IN AGRICULTURE: 5-6 MAY 1987

Note by the Secretariat

1. The present note summarizes the main points raised in the course of the Group's consideration of basic principles to govern world trade in agriculture in accordance with paragraph 7 of the Note by the Chairman on the 5-6 May meeting of the Group (MTN.GNG/NG5/2 refers).

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2. In the presentation and subsequent explanatory comments on NG5/W/7 it was pointed out that the objectives involved were twofold: one was to set out clearly the basic economic principles that should apply to trade in agriculture, not in the sense that these principles should be accepted here and now but on the basis that they should be reflected on and used as a point of reference or bench-mark to guide the negotiating process in line with a comprehensive approach; the other objective was to underpin the important point that reform of agriculture must include rules in order to nail down improvements and to avoid a recurrence of the sort of major problems which had largely arisen from the past failure to apply certain essential principles to trade in agriculture.

3. The following explanations were given with respect to the approaches or operational principles outlined in paragraph 13 of NG5/W/7. Sub-paragraph (i) embodied the concept of "decoupling" as a principle which ought to guide agricultural policy formulation both domestically and internationally but this was qualified by "wherever possible". Progressive reduction of the gap between administered internal prices and international market prices (sub-paragraph (ii)) could be achieved in two mutually reinforcing ways, through the effect of trade liberalization in raising world market prices in the longer term and through the rationalization of administered internal prices in the short to medium term, thus bringing about a movement towards price equilibrium. Compliance with sanitary and phytosanitary standards (sub-paragraph (iii)) should be determined on the basis of the overall effect of measures applied, in order to avoid the situation where exporting countries were

faced with having to comply with different national standards in respect of the same product. Sub-paragraph (iv) was also intended to capture the idea that, in contrast to the situation under highly interventionist and politicized support policies, producers and agri-businesses would need to have a clearer idea of where things were going in the longer term if they were to make the necessary adjustments, and that the outcome of the negotiations should therefore be structured in a way that would be intelligible to producers, agri-businesses and investors.

Sub-paragraph (v) was intended to capture two ideas: one, that the adjustment costs and therefore the political difficulties are far more manageable where trade is liberalized on a multi-commodity, multi-country basis; the other, that everybody has a contribution to make to this process and some more than others. Given the realities short-term measures had a rôle to play but, as indicated in sub-paragraph (vi), these should be consistent with what is envisaged for the longer term. It was recognized that action was being taken on large surplus stocks (sub-paragraph (vii)) and that these efforts should be pursued and receive a measure of support from the Negotiating Group. Realism dictated that something had to be done about real world problems without, however, diluting the incentive to negotiate on the fundamental issues.

4. A number of points were stressed in the views expressed in support of NG5/W/7 or of the general direction identified in these principles. In this regard it was pointed out that bearing in mind the injury suffered by developing countries, preferential and more favourable treatment should constitute an integral element in the principles to govern trade in agriculture in order to facilitate and promote diversification of the structure of production in developing countries and enable them to take advantage of the benefits to be derived from trade in the agricultural sector. In this view the principles outlined were not based on theoretical considerations but on hard facts which characterized the current situation. Probably in no other sector was there more dramatic evidence of the distortive effects of protectionism than in the case of agriculture or of the drastic consequences of protectionism for non-subsidizing countries. Political will on the part of countries with the greatest responsibility for the crisis was therefore essential if rapid progress was to be made towards altering this situation and achieving the objectives set out at Punta del Este.

5. With regard to the principle that domestic markets should be open to effective competition from imports, it was pointed out that where import restrictions were unavoidable it would be necessary to ensure that minimum access be provided. In this view it was considered that subsidies and other forms of export assistance should be prohibited as a general rule; that countries adversely affected as a result of subsidies and support programmes adopted by other countries should have speedy and more effective recourse under GATT to redress their problems; that non-commercial disposal of agricultural surpluses should be subject to more effective GATT disciplines; and that differential and more favourable treatment should be applied as a basic principle in the field of agriculture. It was also

pointed out that trade in agriculture had become increasingly politicized, both internally and externally, and that given the past failure to re-structure and liberalize agricultural production and trade it would be difficult to put the principles outlined into practice so long as the necessary political will was not brought to bear in the negotiations. In this view it was indicated that it would have been useful if an attempt had been made in NG5/W/7 to highlight the fundamental and difficult problem of surpluses and, to the extent possible, how it might be tackled.

6. In one general observation made it was pointed out that the principal objective should be the development of more operationally effective rules concerning export subsidies and market access, with sanitary and phytosanitary measures being dealt with as appropriate. While the relevance of market-oriented principles to agriculture was not totally denied, it was suggested that the application of such principles to agriculture needed to be hedged by other important principles. These other principles included food security in agricultural importing countries, stability of supply and the maintenance of a certain degree of self sufficiency. The specificity of agriculture in general should also be taken into account, including the rôle of agriculture in the preservation of land and the environment, and the fact that agricultural production was subject to climatic changes and could not, unlike industry, be regulated at relatively short notice.

7. Another view expressed was that the approach outlined in NG5/W/7 was too simple. It assumed that basing agricultural trade on comparative advantage, opening borders, eliminating subsidies and other obstacles, would somehow lead magically to the negotiations being successful. It was submitted that greater thought needed to be given to the consequences of such an approach since it could lead to a situation in which comparative advantages would be small because of the need to hold massive stocks to ensure supplies for the whole world, and in which the consequent excessive centralization of production would lead to a recurrence of shortages. For reasons which needed to be identified and understood, there were technical, objective and political reasons why decentralization of agriculture was an inevitable and enduring fact. In this view all principles and methods aimed at the centralization of agricultural production through an excessive international division of labour were doomed to failure. In these circumstances the essential problem should be to determine the extent to which this centralization might nevertheless leave a sufficiently large margin for international trade in agricultural products. It was noted in this view that paragraph 13 of NG5/W/7 contained elements which could be a basis for discussions but that everything would depend on the basic approach and focus to be adopted.

8. In a similar vein it was indicated that suggested solutions which did not take account of legitimate national considerations would not constitute a pragmatic and viable approach to putting some reasonable economic order into trade in agriculture and could well, in the case of an approach aimed at achieving greater liberalization based on simple market

price mechanisms, aggravate the situation. As had been pointed out in some other views expressed, experience had shown that price policies had not been used anywhere on an exclusive basis. Instead a rather more pragmatic approach had been followed under which a combination of measures was applied depending on national circumstances. The view was also expressed that the emphasis placed by a number of countries on production policies reflected a realistic assessment of the market situation and did not in any way preclude progress being made with respect to both market access and export competition. On the contrary, progress made in the field of production policies would, in this view, greatly facilitate further positive steps in the other areas covered by the negotiating objectives.

9. It was also pointed out that, by its very nature, a discussion on principles was likely to lead very far and to lose sight of reality, even although it had been emphasized in some of the statements made that the principles were long-term principles. It was therefore one of the virtues of the identification process that it allowed a sense of realism to be introduced into the debate. In this view the question was not whether protectionism should be fought, it should, but why it was that a situation has arisen in nearly all industrialized countries where agriculture was protected in one way or another. The fact was that agriculture was a big social and economic problem in a number of countries and that governments had to respond to this in a situation in which there were large discrepancies within, as well as between, countries in such areas as comparative manpower employed and average farm sizes. These discrepancies explained why different policies were pursued and the negotiations, it was suggested, would not succeed if this aspect were neglected. Realism was therefore essential. It was easier for some than others to make far-reaching statements and, in this view, the negotiations would only be successful if everyone looked to his own domain to see what could be done to promote trade and come to a better situation.

10. In this view there was a need for caution and realism generally in this context, as well as for circumspection about the notion that all was well in the industrial field. If comparative advantage were to be applied to agricultural trade, as suggested in NG5/W/7, it should be applied in all respects. If, for example, the rules on agriculture were to be aligned with the rules applicable to industrial products the result would be that safeguard action would be taken immediately all over the world and would be more severe than the policies currently being applied. It was also noted that the extent to which the principle of comparative advantage was applied by some countries in areas such as footwear and automobiles was an illustration of the need to take account of the broader problems.

11. With regard to the foregoing it was indicated that from the point of view of substance what was important was not so much the fact that the rules on manufactures were imperfect but that nobody disputed the fundamental principles underlying the system. It was suggested that there were some similarities between the present situation, in which it was

maintained that agriculture is special and different and that caution and realism were dictated by the many political pressures on policy makers, and the situation that existed when the task of drafting a set of rules on how to reform trade in manufactures was begun. The question of export subsidies on manufactures was an immensely difficult subject to deal with at that time yet agreement was reached on a phase-out over a long period. This was one of the reasons for setting out at this stage basic economic principles, which worked and which were sensible, in order that they might be reflected on and serve as a point of reference in the negotiating process.

12. It was suggested that participants might therefore reflect further on NG5/W/7 and on what was implied in the paper. The general thrust of the approach outlined was that there was a need for a comprehensive approach as opposed to approaches that would deal only with part of the problem. It was recognized that such an approach would have to contain a range of elements: fundamental principles to govern world trade in agriculture, and the approaches that would need to be applied in the process of negotiations. In this regard, a major effort had been made to recognize other people's problems, such as surpluses for example, the implication being that there was a need for transitional arrangements and for gradualism. And finally, there was the question of improved rules and disciplines as an integral element of a comprehensive approach.

13. The following are specific questions that were raised, together with the initial responses thereto, regarding the approaches or operational principles outlined in paragraph 13 of NG5/W/7:

(i) whether it was envisaged that the separation of income from production and prices, and the reduction of the gap between internal and world market prices, would be matters for direct negotiation or would they be the consequence of whatever is negotiated? Response: in principle they would be the consequence of trade liberalization given the sensitivities and adjustment difficulties involved, although the possibility of other approaches should be maintained. The principles would have mutually reinforcing rôles to play in domestic policy reform and in the process of international reform;

(ii) if all policies as distinct from all products (paragraph 13(v) of NG5/W/7) were to be put on the negotiating table would there in fact be some policies which would not need to be on the table or which could be maintained provided they were changed? For example, something should happen to marketing boards if they affected trade by subsidizing, or by stopping imports or encouraging production. Is a separate commitment required in order that all policies should be on the table and if so, is there to be some overall measurement? Alternatively, is the procedure to be one that is based on request lists? In principle, all products should be covered but on the other hand there were differences of degree between products as others had correctly recognized. So is there in fact a uniform negotiating

approach for everything? Response: there is genuine scope for analysis of the influence of marketing boards on trade. Some boards did have a direct impact on trade but they also performed an essential rôle in the market conditions that prevailed internationally. In principle the rôle of marketing boards was a matter that would depend on whether there was going to be a trading régime that was governed by rules and by some underlying economic rationality. With regard to the multilateral, multi-commodity approach it was necessary to distinguish between the need for a clear-cut long-term view of how trade is to be conducted and the actual process of negotiating implementation and transitional arrangements. The latter would have to be undertaken against the background of the real differences that exist. What is essential is that while there may be differences in the pace at which adjustments can be made with respect to individual countries and commodities, these differences should not be allowed to derail a progressive multilateral move towards greater liberalization.

14. An other view expressed was that one of the most fundamental and urgent problems was the gap between demand and supply. The gap had arisen from the supply side and it was a welcome sign that countries which had been increasing budgetary support and production were now moving towards normalcy. The modalities to be employed, whether through prices or income support, should not in themselves be a matter for negotiation. The price gap approach could not be used in any systematic way because world market prices were formed by subsidized exports and were influenced by erratic and radical currency fluctuations. Moreover the choice of means should depend on the particular socio-economic circumstances and should be self-initiated. On the demand side, importing countries could help exporting countries to achieve their objectives, and were already making efforts in this direction by undertaking major budgetary cuts and by introducing measures to reduce and control production. Thus to the extent that major export subsidizing countries took long overdue corrective action, the importing countries could collaborate through further self-initiated policy actions, possibly towards market-oriented policies. In this view, flexibility in carrying out policies, rather than the alignment of support policies on some model that might be good for one country but not for others, was important.

15. In connection with the foregoing views, it was observed that it was not only excess supply which influenced world prices but the interaction of supply and demand. Significant access barriers maintained by large importing countries depressed world prices and thus entailed some responsibility on their part for the problems in world agricultural markets. On this point it was observed that demand in world markets was not stagnant because of import barriers, which it was confirmed were on the negotiating table, and that major responsibility for the current crisis lay on the supply side as a result of the spectacular enlargement of subsidized production.

16. It was indicated that one could not approach a better trading environment for agriculture, which broadly speaking was the objective of the negotiation, without addressing production and the fact that there was surplus production in the world. In this view reducing production and getting a better balance between supply and demand made a contribution to the world agricultural market. If production were not to be addressed, any consideration of domestic policies would be excluded because domestic policies are about production, at least as an effect of those policies. It was, moreover, absolutely impossible for account not to be taken of non-economic considerations in domestic policies. All governments did so and that was quite normal. As NG5/W/4 illustrated, almost all countries supported their agriculture. On the other hand efforts were being made to insert economic considerations as much as possible into domestic policies. This was a difficult matter if only because economic considerations differed as between the products and the countries concerned.

17. In this view, it was considered that the principles outlined in paragraph 8 of NG5/W/7 and the very fine observations made about them were completely unrealistic, and that if paragraph 8 were to be applied, there would be no need for differential and more favourable treatment. Paragraphs 12 and 13, however, came somewhat closer to earth and to the Uruguay Declaration. In this connection it was noted, firstly, that the separation of income support from production and prices was a very touchy subject as regards how it is done, what type of support is to be included, and whether there is an impact on production. Whether deficiency payments are a form of separated income support would be a very fundamental question. (The reply to this point was that the concept of "agricultural income support measures" in paragraph 13(i) of NG5/W/7 was intended to cover all measures including deficiency payments.) Secondly, the price gap approach referred to in paragraph 13(ii) would not, in this view, take sufficiently into account fluctuations in world market prices and exchange rates. In the absence of a system of managed exchange rates it would be difficult to conceive of an international market price as a reference point, since so-called comparative advantages would be distorted and the competitive situation completely changed. Thus exposing farmers to such a situation could only be envisaged with great difficulty. Thirdly, the reference to sanitary and phytosanitary measures did not appear to mean very much because such measures were never disguised barriers to trade, at least from the viewpoint of the countries applying them. Fourthly, with regard to the strong emphasis in sub-paragraphs 13(iv) and (v) on liberalization, it was pointed out that liberalization was only part of the venture embarked upon in Punta del Este and that the creation of a competitive environment was also one of the Group's tasks.

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18. The following introductory comments (including paragraphs 19 and 20 below) were made on the principles outlined in NG5/W/5. The objectives outlined represented objectives for the negotiations, not a negotiating proposal. The system described was market oriented, there was an explicit

focus on domestic policies, and the principles covered the three major points in the Ministerial Declaration. The first principle contained two points: that there ought to be a market-oriented system and that this system ought to be embodied in GATT rules. The second principle dealt with domestic policies. The elimination of government intervention did not mean that domestic programmes should be eliminated or that farmers should be got rid of. What mattered was not how many farmers there were or how much was produced but that farmers should compete with farmers and not against governments. The third principle, on market access, said two things: there should be no intervention in imports and that as a minimum the basic GATT principles referred to should apply. The fourth principle dealt with export assistance but was somewhat broader than that. There should be no intervention in exports directly or indirectly through production subsidies, processing subsidies, transport subsidies or any other kind of subsidies that help exports. "Commercial exports" were referred to because it was assumed that food aid and some other things were consumer subsidies and, in principle, were not export assistance. The reservations mentioned in this respect could be discussed. The fifth and last principle dealt with health laws and regulations and resembled the concepts underlying the Code on Technical Barriers to Trade. Something broader than the Code was envisaged and procedures would be needed to make a broader arrangement work.

19. These principles were described as being the best principles for the country proposing them, which had a growing export base that could be sustained without subsidies, and for most other countries as well. Domestic policy, however, had to reflect what was happening in the rest of the world. If an international system could be negotiated where farmers compete with farmers, protection and subsidies would not be needed. A situation in which farmers had to compete against governments and in which there were closed markets and export subsidies, left little choice but to use the domestic market to get what could not be got from the world market. This meant higher protection for the domestic market and export subsidies to remain competitive. Such a policy was expensive and did not make a great deal of sense, which was why it would be worthwhile to try and negotiate a market-oriented international trading system for agriculture.

20. These principles were considered to be the best for other countries because in the long run, adjustment to markets had to take place. The problem, it was submitted, was long term in nature and could not be handled by managing markets and attempting to cut production in the short run: nor were such approaches a basis for planning long-term domestic policies. Self sufficiency policies lowered standards of living because they were expensive, not only for governments but for consumers who had to pay the high prices involved. It was also questionable whether it was really possible in a small world for countries to protect themselves through so-called food security policies. Furthermore policies involving protection and subsidies inhibited economic growth in all countries. Developed countries could surely get more for their money in other ways

than producing products that nobody wanted. The problems facing developing countries were well described in MTN.GNG/NG5/W/6. Experience had shown that income growth in developing countries had been a positive element in world agricultural trade, but this growth and the ability of developing countries to finance their debts would continue to be stifled if they were not given access to markets. Thus it was considered that to go down the road of supply management would be to invite countries to protect their markets and subsidize their exports, which were precisely the sort of problems that should be got rid of. On the other hand reform would raise living standards, promote growth and provide for orderly trade. The more countries that went in this direction, the easier reform would be.

21. Amongst some of the general observations made on these principles reference was made to what was described as their very generic and superficial character and to the appearance given that they had been taken from a text book. In reply it was pointed out that the choices that were faced in the long term, which had been outlined in the introductory remarks, were clear and what had been proposed reflected this. Moreover the paper was intended to be simple but could be developed further.

22. It was also observed that NG5/W/5 fitted in well with the objectives of the Punta del Este Declaration but that, as was illustrated by the contrast between recent developments in world markets and the principle on export assistance, a sense of realism was needed when talking about principles. There was a real world with real farmers suffering real hardship, and what should be sought in the negotiations were real solutions to these kinds of problems. In reply it was noted that there was clearly an interest in what could be done between now and whenever the negotiations ended to deal with the problems on world markets. While there was not a great deal to offer so far as an agreement was concerned, action had been taken to cut domestic prices and authority to continue to do so on a more flexible basis was being sought. Countries that took action in the direction of reducing incentives to production and opening markets should get credit for that in the negotiations. Such actions, however, should be consistent with the longer term objectives which were the main focus of NG5/W/5. It was also noted that what had been outlined by others in terms of operational principles was of some interest.

23. Another general observation was that while it was agreed that market forces were important, it had to be recognized that it was very difficult to get this message across to farmers given the fluctuations which had taken place in international commodity markets and which had been compounded by monetary factors. The view was also expressed with regard to the operation of market forces that while market signals were important in determining production and supply, aspects related to specificity and food security were also relevant. In addition reserve stocks were only a partial solution to the food security problem. Experience with embargos had resulted in efforts to diversify sources of supply but psychologically this kind of situation continued to haunt large net importing countries. Food security was therefore an understandable and reasonable concern. Principles based on market orientation and comparative advantage, while not entirely ruled out, should be applied in combination with other factors.

24. It was pointed out in another view expressed that the problem was not to agree on the general principle of liberalization but to determine the exceptions to this general principle. The subject of income support for farmers was considered to be one of a number of points which could well create more difficulties than would be solved under such an exception. Hence the need for clarity about the sort of principles on which some general understanding would ultimately have to be reached on the basis of proposals made.

25. A number of specific points were raised in connection with the principles outlined in NG5/W/5 and these are summarized, together with the initial responses provided, in what follows:

(i) it was noted that no specific reference was made to special and differential treatment for developing countries and that the approach embodied in the principles would not appear to take account of all concerns, particularly those of importing developing countries. It was indicated in reply that the approach was to first define the principles and then to consider whether any exceptions or variations would need to be made in respect of developing countries. Nothing specific had therefore been proposed at this stage. The same approach would apply in the case of importing developing countries. In general the principles would be applicable to both developed and developing countries because it was considered that protection hurts and thus needed to be looked at carefully by all countries;

(ii) it was a positive factor that under the principle on domestic policy the possibility of providing some support to farmers had been left open. The third sentence stated that such support should be provided without government intervention in market prices or production decisions. What farm support would be left? Response: the rules can be written without having to specify what form of support would remain. Governments would have some flexibility but income support in the case of domestic policy is what is in mind. There are export programmes which do not have much effect on international trade but this would be for discussion in the negotiations;

(iii) the principle on export assistance related to policies affecting commercial exports. Non-commercial disposals of surplus stocks could also cause market disruption. It was considered that such disposals should not cause any market disruption. What views were there on this? Response: the principle was that non-commercial exports should stay non-commercial. It was acknowledged, however, that this was a subject that also needed to be looked into;

(iv) the formulation on market access and export assistance was curious. What did eliminate policies mean? That measures are to be policies applied as if there is no policy? Response: what was envisaged is the elimination of most of the kinds of policies which affect trade but that it was not expected that all policies would disappear. A rather wide and sweeping reform of agriculture policies

was therefore envisaged but the intention at this stage was not to attempt to define the universe;

(v) a move from price to income support is difficult politically, since support is given to one group but not to others. If one is prepared to support farmers in this way is that not somehow an endorsement of the specificity of agriculture? Response: this is what is going on under existing programmes. One difference would be that support would be more visible if taxpayers rather than consumers are made to pay;

(vi) in the principle dealing with health laws and regulations, is the concept of "equivalent effect" intended to be an alternative to compliance with standards? Even if standards exist equivalence of effect is difficult to determine. Response: something similar to what is contained in the TBT Code was envisaged;

(vii) can the principles outlined be applied on the basis of existing legislation or are legislative changes required? Response: legislation would be required. In terms of the General Agreement, would the 1955 Waiver have to be changed or eliminated? Response: we will have to get rid of our Section 22 import quotas and other things like that. Our agriculture sector has been told these things are on the table and it is not going to be easy.

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26. A further suggestion made was that world trade in agriculture should be conducted under principles of equality and mutual benefit. This would involve: firstly, gradually reducing highly restrictive tariff barriers so as to create a better environment for the trade of both developed and developing countries; secondly, phasing out quantitative restrictions, particularly highly restrictive sanitary and phytosanitary measures, which are not compatible with basic GATT rules; thirdly, working out a reasonable and effective solution to the major problem of subsidies affecting trade in agriculture; fourthly, taking account of the interests of the developing countries and their need for special and differential treatment under the measures adopted to solve the agricultural trade problems; and fifthly, problems being discussed and solved in a spirit of consensus through consultations, starting with the easier problems and going on progressively to deal with the more complex and difficult issues so as to quicken the pace of the negotiations.

27. In a number of the views expressed it was also emphasized that it was of fundamental importance that the principle of differential and more favourable treatment for developing countries should be translated into concrete and measurable results in the negotiations. The situation of agriculture in many developing countries, including agriculture's dominant rôle in their economies and its relatively greater reliance in many cases on the external environment, could not be compared in equal terms to the situation of agriculture in the industrialized countries.

28. It was also submitted that it was not correct to assume that the problems of developing countries were a pale image of the problems preoccupying the major industrialized countries or that solutions to these problems would constitute a solution to the problems of the system as a whole. One view expressed in this connection was that it would be difficult to accept any indiscriminate liberalization of trade in agriculture, or to accept that the participation of countries in trade should be defined exclusively on the basis of the principle of comparative advantage. Care was therefore required in order to ensure that agricultural trade liberalization would promote the trade and economies of developing countries.

29. In this general context it was noted that special and differential treatment was not the only concern and that there were much wider interests in the agricultural negotiations. It was also pointed out that the application of the principles of special and differential treatment in well defined cases should not represent an indefinite and unfair departure from strengthened GATT rules or from consensually adopted new GATT rules and disciplines. In this view effective application of the principle of differential and more favourable treatment would instead constitute a useful tool to prepare developing contracting parties to fully undertake their responsibilities in GATT, without prejudice to their economic development goals.