

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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SUMMARY OF STUDIES ON PROBLEMS AFFECTING
TRADE IN AGRICULTURE AND THEIR CAUSES

Note by the Secretariat

Addendum

OECD: National Policies and Agricultural Trade

This OECD report, released in May 1987, follows a mandate given to the Organization by its 1982 Ministerial Council. The work focused primarily on the impact of domestic policies on trade in agricultural products and on the market effects of a reduction in assistance to the agricultural sector. Its results are presented in a Synthesis Report, summarized here, and eight annexes which detail various aspects of the analysis. The Synthesis Report has the approval of the OECD Council; the annexes remain the responsibility of the Secretary General.

The report starts from an evaluation of the problems in agricultural trade from the OECD viewpoint - excess supply, depressed prices, market instability, competitive subsidization. It judges that these have reached critical proportions. A spiral of increasing budget costs results as countries attempt to deal with them by using the same policies which, in the OECD's view, helped cause the problems in the first place. The OECD does not question the validity of the various national aims embodied in the agricultural policies of its member States, but it does show that the costly policy instruments used to pursue them (especially output-related assistance linked to border measures) have generally not achieved these aims efficiently or equitably, while they have distorted trade.

The study measures levels of OECD assistance to agriculture by country and by commodity through PSE and CSE: Producer and Consumer Subsidy Equivalent. PSE, the more important measurement, is defined as the payment that would be required to compensate farmers for the loss of income resulting from the removal of a given policy measure. The PSE calculation groups assistance via direct payments, price enhancement and indirect aids to depict the overall level of support to producers of a given commodity, e.g. as a percentage of total output value. CSE measures the implicit tax on (or subsidy to) consumers of a product subject to a price maintenance policy. While these measurements have limitations of coverage with respect to time (1979-81, though they are being updated), policy measures (e.g. health and sanitary restrictions are not fully included) and geography (OECD members only), they show very clearly the generally high level and widespread incidence of assistance to agriculture.

PSE is not a measurement of trade effects. However the aids which it seeks to quantify - price supports, deficiency payments, border measures, supply management - all have adverse effects on trade, the report notes. To measure these, the PSE and CSE data were used in a multi-country, multi-commodity economic model which gave an indication of what would have been observed for production, consumption and trade after four or five years of adjustment if assistance in OECD countries had been reduced in 1979-81 (other economic factors and the policies of non-OECD countries taken as constant).

The model simulated a 10 per cent cut in aggregate OECD assistance, applied according to 5 different scenarios (though the "practical modalities" of the reduction in assistance were left open). All tended to show overall:

- Production declines for most products. (All less than 1 per cent, but significant in trade terms.)
- Price increases for several (livestock) commodities on the world market, most notably milk (+ 5 per cent).
- OECD export volumes decline by about 1 per cent overall, but for some products (e.g. dairy, beef) this is offset by improved world prices.
- OECD imports increase for certain products.

In broader economic terms these adjustments imply generally reduced budget costs, some moderation in OECD consumer food prices, and the possibility of reducing stock-piles.

The quantitative results of the model endorse the OECD's descriptive analysis of the state of agricultural trade. Examining the prospects for agricultural markets on the present basis it describes the outlook as "fairly dismal". Policies already tried - stock-piling, commodity agreements, unilateral or bilateral interventions, state trading - have generally had negative effects. Existing GATT rules and disciplines have been inadequate to counter the deterioration in the functioning of the market.

Only a multilateral, multi-commodity reduction in output-related assistance, the report concludes, offers a solution. Assistance reduction must be complemented by relaxation of trade barriers and improved international trade rules and disciplines. The adjustments should be "gradual and balanced", and any short-term measures (e.g. production restraints) should be taken in the context of the longer-term process. Differences of opinion are noted among OECD members, however, as to the relative priorities of short and long-term actions and the forms these might take.

The OECD Council of Ministers has instructed the Secretariat to further deepen its work and update and improve the analytical tools it has begun to develop.