

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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PROPOSAL BY CANADA REGARDING THE MULTILATERAL
TRADE NEGOTIATIONS IN AGRICULTURE

The purpose of this note is to set out Canada's views on the conduct of the negotiations on agriculture. It has been developed in the light of the preparatory work carried out by the GATT Committee on Trade in Agriculture (CTA) and draws on the recent work of the OECD as regards the linkages between domestic agricultural policies and agricultural trade reform.

Background

Recent international meetings have revealed broad agreement on the imperatives surrounding agricultural trade reform. Most, if not all, governments are convinced that: fundamental agricultural trade reform can only occur if there is a parallel reform of domestic policies (in particular a shift to production-neutral, and more market-oriented support); major reforms are easier to implement if they are carried out on a multi-commodity basis and are perceived to be part of a generalized move to improve the agricultural trading system; adjustments should be phased-in progressively over time and governments should retain some flexibility in the choice of policy instruments (support systems vary widely between countries and it is not necessary to achieve homogeneity in agricultural policies in order to achieve agricultural trade reform).

The three major elements of agricultural trade reform which the Punta del Este Declaration identifies (access, subsidies and technical regulations) are inseparable, in the sense that failure to deal effectively with one element is likely to prejudice any gains which may be negotiated in the other areas. Just as the value of access concessions can be impaired by domestic import replacement subsidies, so can access commitments be subverted by the imposition of technical regulations as disguised barriers to trade.

The linkages between the different instruments of national agricultural policies, the linkages between commodities, the diverse nature of the policy instruments and the disparate range of commodity interests of contracting parties, all argue in favour of a comprehensive approach to the negotiations.

Past GATT negotiations have revealed clearly the limitations of a commodity specific, request and offer approach. The experience of seven previous rounds suggests that adoption of a request and offer approach would doom the agricultural negotiations in the Uruguay Round to failure.

The credibility of the GATT's applicability to agricultural trade is severely strained by the large number of exceptions and waivers and by the absence of rules to deal with such important agricultural trade measures as: variable import levies, "voluntary" export restraints, minimum import price systems and "unbound" tariffs.

The effectiveness of the GATT's dispute settlement machinery has been severely jeopardized by the vague, unpredictable and, hence, virtually unenforceable rules on agricultural subsidies. The rules on subsidies thus far have been effect-oriented. The current rules are unsatisfactory in that they do not provide any guidelines to the subsidizing countries on what is internationally acceptable behaviour. Moreover, they place on the affected party the onus to seek redress and to demonstrate injury after the damage has been done.

The work of the CTA and the OECD clearly reveals that disciplines need to apply to all subsidies affecting trade, domestic as well as export subsidies. The Punta Declaration requires the phased reduction of the negative effects of all direct and indirect subsidies affecting agricultural trade.

Proposal

The conclusion Canada draws from the foregoing is that the political will necessary "to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines" is beginning to emerge. However, in order to achieve the objectives set out in the Punta del Este Declaration, Canada is convinced that the only negotiating approach which holds any real prospect for success is one which encompasses all GATT members, all agricultural commodities and all trade distorting measures -- in short, a comprehensive approach.

In Canada's view such a comprehensive approach must deal with two interrelated issues: (1) improve and secure access and reduce trade distorting subsidies, and (2) provide national policy makers with equitable, predictable and enforceable international rules against which national agricultural policy decisions could be taken.

More specifically, Canada proposes the adoption of a comprehensive approach which would result in:

- the elimination of all subsidies which distort trade and of all access barriers, over a period to be negotiated; as an initial phase of this process, and consistent with the above goal, a major reduction in all trade-distorting subsidies and a major improvement in secure and predictable access should be phased-in over, say, five years.
- the provision of equitable rights and obligations among contracting parties, such that all exceptions and waivers would be phased-out, access under each tariff line would be bound, and variable import levies, minimum import price systems and all other measures affecting access to markets would be brought under the purview of effective and enforceable GATT disciplines.

A negotiating technique which could achieve the objectives of the Punta del Este Declaration would include:

- the use of a single measure which converts all access barriers, administered price systems and trade distorting subsidies into a single aggregate "trade distortion equivalent" (TDE). The TDE would be based on the OECD "producer subsidy equivalent" measure but would omit those elements which by agreement would be deemed to have a neutral impact on trade (e.g. direct income transfers unrelated to production). Such a measure could, for example, be reduced by (x) percent, over five years, in aggregate for each contracting party; for each major commodity group for each contracting party the reduction would have to be at least (x-10) percent over five years so as to ensure that all major product groups are dealt with equitably. Exclusion of production neutral income transfers from the calculation of TDE's should assist in encouraging the development of national agricultural policies which are more market-oriented and less trade distorting. In calculating TDE's, "credit" could be given to those countries which effectively limit the output eligible for direct or indirect income transfers.
- agreement to introduce no new trade restrictions or trade distorting subsidies;
- agreement to enshrine in the GATT rules which would clarify what practices would be permissible within the overall framework set out above, including which counteraction practices would be allowed;

- strengthened commitments to prohibit the use of technical regulations as disguised trade barriers, encouraging the use of international standards where possible, and agreeing to minimize the trade effects where harmonization of technical regulations is not feasible.

Canada recognizes that the development of a new and untried negotiating technique such as the TDE runs the risk of slowing down the negotiations. Since this risk increases with the complexity of the approach, Canada is of the view that the simplest possible approach is preferable.

The above elements are part of an integral whole which cannot be separated. Canada proposes that agreement be sought in the first instance on the nature of the negotiating technique to achieve trade liberalization, i.e. define the elements to be included in the "trade distortion equivalent" and the appropriate base period against which to measure reductions. Following agreement on the depth of cut and the phase-in period, which would be accompanied by a binding commitment not to introduce any new import barriers or trade-distorting measures, the second stage would involve each country tabling a proposed implementation plan indicating in detail how it proposes to implement its commitment to reduce the "trade distortion equivalents" by the specified percentage. It would also then be necessary at an appropriate time to consider differential and more favourable treatment for developing countries as provided for in the Punta del Este Declaration.

Since negotiations on improved rules are regarded as an integral part of the comprehensive approach, draft texts would need to be prepared for consideration at the same time a decision was taken on the depth of the "trade distortion" cut.