

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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NEGOTIATING GROUP ON AGRICULTURE

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Introduction

1. The negotiations in the area of agriculture must, in addition to conforming with the specific objectives adopted for negotiations in this area, conform to the "Objectives" and the "General Principles" which have been adopted for the Uruguay Round of Multilateral Trade Negotiations. Among the Objectives of the negotiations are:

- "to bring about liberalisation and expansion of world trade to the benefit of all countries, especially less developed contracting parties";
- "to strengthen the inter-relationship between trade policies and other economic policies affecting growth and development".

The General Principles governing negotiations recognise that these negotiations would be conducted in order to ensure:

- "mutual advantage and increased benefits to all participants"

and would not require less developed contracting parties:

- "to make contributions which are inconsistent with their individual development, trade and financial needs".

2. The negotiating plan includes:

(A) Major problems and their causes including all measures affecting directly or indirectly agricultural trade;

- B) Information on measures and policies affecting trade;
 - C) Basic principles to govern world trade in agriculture.
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- A. Major problems and their causes including all measures affecting directly or indirectly agricultural trade
 - B. Information on measures and policies affecting trade
 - (i) Production and trade policies of major industrialised countries and their effects on trade

3. Since the entry into force of the GATT some forty years ago, its principles, rules and disciplines have largely been ignored by contracting parties in the field of agriculture. In the period immediately after the war, developed countries found it necessary to support and provide incentives to the farm sector to revive agricultural production from the destruction inflicted by war, to ensure adequate standards of living, and secured waivers or exceptions to protect their agricultural sectors. Support policies were designed to achieve income parity for workers in the agricultural and industrial sectors, attain minimum levels of agricultural production, and prevent the movement of workers out of agriculture. In most cases it was possible to achieve this either by guaranteeing to agricultural producers, prices for their products which were higher than international prices, or by making deficiency payments, and by constructing barriers against imports.

4. The national policy objectives pursued in the field of agriculture were in recognition of its special character and importance. Many, but not all policies designed were perfectly valid and legitimate for social,

economic and political reasons. Over time the "restrictions and distortions" grew with the pressure for larger subsidies and more stringent protection by special interest groups. Thus the stage today at which agriculture in most developed contracting parties has arrived - excessive production and export subsidies and highly protectionist barriers. These run directly counter to the liberal economic principles on which GATT was founded - specialization based on comparative advantage leading to the expansion of trade, efficient allocation of resources and increased global welfare. It must be recalled that GATT for "free" trade complemented the Bretton Woods institutions, the World Bank for investment and the IMF for ensuring stability through fixed exchange rates.

5. The break-down of the Bretton Woods consensus and the protectionist policies pursued by governments have had a direct effect on creating and aggravating the major imbalances between supply and demand of several of the products produced by the developed contracting parties. Despite existing excess supply and huge stocks, and in the face of stagnant demand, production continues to be subsidized heavily. Other factors, demographic changes in developed countries, increased productivity, with further increases expected due to developments in bio-technology, are contributing to this situation.

6. Three sets of problems in international trading relations in the field of agriculture converge to create serious problems for exporters and importers.

Firstly, domestic support policies and subsidization have provided inducements to increased production of those agricultural products for which the countries have no comparative cost advantage, leading to misallocation of resources. Some contracting parties which were net importers have become net exporters, thereby denying the competitive suppliers of such products, including less developed contracting parties their legitimate shares in international markets.

Secondly, since such excess uneconomic production can be disposed of in international markets only through further subsidisation of exports, it often results in prices in international markets being unduly depressed and to distortions in international trade.

Thirdly, such sales of subsidised agricultural products are increasingly eating into the shares in third country markets of competitive suppliers from both developed and less developed contracting parties.

7. These problems are further aggravated by the volatility of exchange rates, increased speculative trade in commodities resulting from the integration of financial markets, and the fall off in demand for raw materials due to more efficient production processes, among others.

(ii) Production and trade policies of less developed contracting parties and measures and policies affecting their trade

8. Competitive producers, and particularly less developed contracting parties as a group have suffered from the production and trade policies described above. Less developed contracting parties like others have the obligation to increase production of food to meet their own needs, to ensure that farmers and labour in the agriculture sector attain reasonable levels of income, and that the poor and other vulnerable groups have at least an adequate diet. These are important policy objectives and an integral part of their development strategies aimed at transforming backward agricultural sectors into productive engines of growth. In pursuing these objectives, governments of these countries have made substantial public investment to improve the physical infrastructure in

rural areas including health and education services, extend irrigation and institute flood control, support research and extension services for agricultural development, and assist in price stabilization schemes. They also seek to offset the disadvantages which their agricultural producers suffer by subsidizing the high cost of imported inputs, such as fertilizers and pesticides without which productivity can not be raised. Food imports for low income groups are also subsidized even where export subsidies are provided.

9. Finally, the economic environment of slow growth, disturbed financial markets, currency volatility, and debt problems limit their capacity to make productive investments and maintain their import levels. Their lack of effective demand or purchasing power is not only a constraint on their own development but is a drag on the international economy.

10. In many developing countries, the adoption of such policy measures, the application of science and technology, improved methods of cultivation, and the introduction of new strains have improved productivity and yields. But this should not obscure the fact that in a large number of these countries domestic food production is far from adequate to meet basic needs. For low income groups concessional food imports sometimes fill the gap. Effective demand at the national level is also inadequate to stimulate production to adequate levels. This is the paradox facing net agricultural importing developing countries. In recent years moreover, some of these countries had to curtail imports of even essential food items, because of the financial crisis and serious balance of payments difficulties, resulting in a further decline in already low levels of per capita consumption of food. Some developing countries, particularly those in Africa are facing serious problems because of recurring drought and environmental degradation. The resulting shortage of food has led to large scale deprivation, famine and loss of many thousands of lives.

11. Excess production in some industrialised countries and surpluses on international markets do not translate into excess supply at the global level. "Feast and famine" exist side by side. The real problem is insufficient purchasing power in developing countries to clear markets. The real and lasting solution to the problems in trade in agriculture cannot therefore be found through unilateral actions by the governments of developed countries to reduce production levels and availability of supplies in world markets, leading to increased international prices of agricultural products for importers in developing countries. Nor is the solution to be found in the uncontrolled expansion of subsidized agricultural exports which create disincentives for increased production in these countries and for efficient producers.

12. The new rules to be negotiated should reflect the continued need for "food aid" to those developing countries facing critical shortages of food. The rules and disciplines for these transfers should be truly multilateral and not be set and administered exclusively by "donors". More innovative approaches, including wider use of monetization should be encouraged and increased investment flows.

13. The negotiations should not be limited only to the policies and actions taken by governments, but also to the effects which the practices of transnational corporations and State trading enterprises have on agricultural production in less developed countries and on their trade. For many agricultural products traded, transnational corporations are important producers and dominant actors in international markets. In some cases, it is the transnational corporations which create international markets. Commodity exchanges and international financial markets which have a large influence on, or determine prices for traded agricultural products should also be taken into account in the negotiations.

(iii) Summary

14. The policies pursued by individual less developed countries reflect the realities of their agricultural sectors and in the negotiations their interests must be fully reflected. The package of measures constituting the incentive system implemented by them are qualitatively different from the subsidy policies for production and export of those contracting parties. These subsidies neither reflect market signals nor meet social objectives. These subsidy policies are among the main causes, and effects of the imbalances described and the sources of friction in international agricultural trade. There are several major problems and they are limited neither to imbalances nor excessive subsidies. The most serious problem facing the international community is the existence of high levels of production and demand in the industrialized world on the one hand, and the inadequate levels of production (stagnation and decline) and the absence of effective demand to meet even basic needs in many parts of the developing world. The challenge then is to match global supply with effective global demand and to bring about an equitable distribution of the benefits of increased productivity in agriculture. It is projected that by the year 2000 the world's population will require a 50-60% increase in agricultural output as compared to 1980. Most of this increase should come from developing countries to meet domestic demand. This can be done by the judicious blend of national support policies designed to increase production where most needed, and by adopting policies which take account of market signals.

15. The application of GATT rules and disciplines and any new ones to be adopted in the area of agriculture must reflect these realities, the circumstances prevailing in contracting parties at different stages of economic development, and the importance of agriculture in the country's overall economic performance. Special and differential treatment will have to be extended to the agricultural sector of less developed contracting parties in recognition inter alia of their national objectives:

- (i) ensuring food security through increased self-sufficiency and a stable supply of imported agricultural products at equitable prices;
- (ii) securing economic transformation through modernization of the agricultural sector. This will require increased investment (innovation and technology);
- (iii) encouraging employment generation and efficient use of foreign exchange;
- (iv) creation of economic linkages with other sectors;
- (v) restoration of ecological balance in agricultural areas.

16. The further deterioration in the terms of trade due to sharp increases in the prices of agricultural imports would only worsen the already critical situation of developing countries.

C. Basic principles to govern world trade in agriculture

17. The Objectives, General Principles governing negotiations, the negotiating objective and plan for Agriculture in the Uruguay Round will require inter alia the following:

- (i) the adoption of policies and measures based on economic principles, inter alia, comparative advantage, competition and the equitable sharing of global economic welfare from expanded trade;
- (ii) respect for GATT rules and prompt observance of the disciplines, in particular the findings of panels;

- (iii) recognition that agriculture is an important sector in most economies because of its unique role in providing food, employment and balanced development;
- (iv) recognition that to meet policy objectives ranging from national security, health standards and other key social, regional or political objectives, governments will adopt support measures in the field of agriculture. These should not lead to distortions on international markets.
- (v) at the outset and at each stage of the negotiations, the specific measures to be included for special and differential treatment for less developed contracting parties will be incorporated in the rules and disciplines. These measures cannot be treated as Exceptions only, but as integral elements of rules and disciplines. Special and differential measures should recognize, inter alia:
 - (a) that the governments of developing countries will need to adopt policies and measures to modernize their agricultural sectors. Such an incentive system would thus be explicitly recognized, would provide adequate protection without distorting international markets and would be compatible with their GATT obligations;
 - (b) that the governments of developed contracting parties in providing differential and more favourable treatment for less developed contracting parties will:
 - i) ensure that their domestic policy measures do not result in raising international prices of their exports above prices prevailing in national markets, in effect transferring the burden of increased prices to consumers in third markets; nor in providing income support to farmers while decreasing import prices;

ii) maintain under multilaterally agreed rules, the flow of food aid at adequate levels to developing countries facing serious food shortages. A review in the context of the Uruguay Round of those rules and practices, such as Usual Marketing Requirements (UMRs) for surplus food disposal and other multilateral arrangements with a view to increasing transparency and equity is required.

- (vi) due recognition of micro- and macro-economic policies affecting agriculture and its inter-relationship with other industries and sectors; support for international commodity price stabilization agreements and the importance of monetary and financial policies supportive of growth and development.

D. A Multilateral Approach

18. The negotiations have set in train some changes which will affect all participants. In keeping with the Objectives and General Principles a multilateral approach is required, including exporters and importers of all agricultural products and all trade restrictive and distorting trade measures. For less-developed contracting parties, particularly those who are net importers of agricultural products, the results must be balanced to ensure that their contributions are not inconsistent with their development, trade and financial needs.

19. A range of techniques and modalities are envisaged. Some proposals, particularly from the major developed exporters call for the use of an index of measurement in calculating support by governments. These are a

Producer Subsidy Equivalent (PSE), a PSE-type, and a Trade Distortion Equivalent (TDE). The comments and clarifications sought by a number of participants suggest that there is as yet no consensus on its use. The possible use of a Consumer Subsidy Equivalent (CSE) has not been discussed.

20. An exchange of views should help in clarifying the coverage to be extended to "all agricultural products" proposed by several participants.