

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG5/W/34  
27 November 1987

Special Distribution

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

AGGREGATE MEASUREMENT OF SUPPORT

Note by the Secretariat

Introduction

1. The present note has been prepared in response to paragraph 6 of the Note by the Chairman on the fourth meeting of the Negotiating Group on Agriculture (MTN.GNG/NG5/4) where it was agreed that, in order to facilitate the further work of the Group, the secretariat would prepare a note on the aggregate measurement of support in the context of the negotiations.

2. The basic concepts underlying the Producer Subsidy Equivalent (PSE) as an aggregate measurement of support and protection arising from governmental interventions in agricultural production and trade were covered in the background note Spec(87)37 and discussed at an informal meeting of the Group in September 1987. The present note goes on to outline some of the issues that would need to be addressed at a relatively early stage if it were decided to use a comprehensive measurement of support and protection in the negotiations on agriculture. In a first stage these would include, but would not necessarily be limited to, questions of data collection, the base reference period or the years in respect of which data would be submitted, and commodity and policy coverage.

3. These issues are interrelated and in some cases have somewhat broader implications, at least for the efficiency of the negotiating process. Thus, for example, the broader the policy coverage the more extensive and complex would be the calculations involved. This in turn could influence how many products or sectors it might be feasible to cover. By the same token since policies or measures excluded from the policy coverage would in principle constitute a class of exceptions this could have certain implications for an issue that would need to be addressed at a later stage, namely the question of exceptions generally and in particular the question of de-coupled support.

4. The foregoing is intended merely to flag the interrelationship of some of these issues. In what follows the emphasis is more on the operational aspects of any decision to proceed with the submission of data on aggregate levels of support and protection with some suggestions being made as to how these issues might be approached.

## Submission of Data

### General

5. Given the importance that subsidy equivalent estimates would tend to assume in any negotiating process in which aggregate measurements of support and protection were to play a role, it would seem to be appropriate that participating governments themselves should be responsible for the preparation and submission of these estimates. This would involve drawing up a standardized format for the submission of data together with guidelines that would describe the general methodology involved and how this might be applied by participants in calculating estimates under each sub-section of the format.

6. It may be noted that while the general methodology involved is reasonably well established its application to particular domestic policy situations would not appear to be something that could or should be specified in any rigid way in the guidelines. What would be important is that: (i) there should be a degree of consistency in the way in which the methodology is applied over time for the particular product and country concerned; and that (ii) the process should yield estimates which are generally comparable across countries. In this regard it is assumed that basic data and estimates submitted would be subject to examination which would improve progressively the general soundness of the data and estimates.

7. Since all participants will not be equally familiar with the methodology involved nor have the resources to produce estimates of aggregate support and protection within a reasonable time, consideration would need to be given to the provision of technical assistance to facilitate a task which in a number of cases would initially be a relatively complex one. One point that could arise is whether participants would be expected to submit data on commodities for which their own production or trade is relatively small.

### Format

8. A draft format for the submission and presentation of data is set out in the Annex as a basis for consideration. This, in effect, is a summary page. A complete format would include pages detailing sources of data as well as the calculations. The following paragraphs describe in general terms the data and calculations that such a format would involve, as well as some of the points that would need to be covered in the guidelines. A draft set of guidelines to accompany the format could be issued in due course as an addendum to the present document.

### Production/Prices (Items I to V)

9. For any particular commodity included in the agreed commodity coverage data would be required on the level or quantity of production (Item I) and on its value at internal market prices (Item III). The value of production would be derived from the producer price (Item II) or from a weighted average of prices where the product in question is not homogenous. The value of production at internal market prices plus direct budgetary payments or supplements to producers' incomes (see section VI-B of the draft format) represents the adjusted value of production (Item V).

10. The next section of the format (VI, policy transfers) is directed to quantifying the proportion of the total adjusted value of production that results from governmental intervention by way of: (a) market price support/trade measures; (b) direct payments; (c) subsidies or transfers that reduce the cost of inputs; (d) services provided at less than full cost to producers or to the sector in question; (e) subsidies provided by provincial or state authorities, or by member governments in the case of the EC; and (f) other subsidies or transfers, mainly tax concessions. The sum total of each of these transfers represents the subsidy equivalent or total aggregate support. This in turn is expressed as an aggregate amount of money (Item VII), per unit of production (Item VIII), or as a percentage or proportion of the total adjusted value of production (Item IX).

Market Price Support/Trade Measures (Item VI-A)

11. Policy transfers or subsidies resulting from market price support are generally calculated on the basis of the differential between a representative internal market price and a representative external reference price expressed in local currency using an average market rate of exchange. This differential is deemed to implicitly quantify the income transfer effects of border measures and of other related trade or internal measures, including the effects of import controls operated through marketing boards and state trading organizations. The differential (so many units of account per ton, for example) multiplied by the total quantity of domestic production represents the aggregate subsidy equivalent of the measures in question. If the internal price is less than the external reference price the subsidy equivalent would be negative and would thus operate to lower the overall aggregate PSE.

12. As regards the selection by participants of prices to be used in the calculation of internal/external price differentials, one of the main guidelines would need to be that the prices selected should be representative and applied consistently from one year to another. Consideration could be given to the inclusion of a number of representative external reference prices for each product in the guidelines. Guidelines would also need to be developed as part of any format for the calculation of subsidy equivalents where the principal source of protection and market price support is a quantitative restriction or a voluntary restraint agreement. In such cases an external reference price other than the actual (possibly inflated) c.i.f. import price would seem to be appropriate.

Direct Payments (Item VI-B)

13. Data relating to direct payments to producers would be derived from governmental financial accounts or the reports of relevant governmental agencies. In most cases transfers associated with deficiency payments, disaster and diversion payments are commodity specific and thus readily ascertainable. Where this is not the case, or the available financial data is not commodity specific, the usual practice would be to allocate the expenditure involved amongst products in proportion to their share in the total value of output.

Input Subsidies (Item VI-C)

14. A similar approach is employed to calculate subsidy equivalents arising from policies which operate to reduce producers' input costs. Thus, where there is an identifiable financial outlay, for example in the case of a direct subsidy on fertilizers, the manner in which the subsidy or transfer is calculated would depend mainly on whether the expenditure involved is commodity specific or a general payment to the agricultural sector.

15. Some input cost reducing subsidies may result, not from identifiable outlays, but from revenue forgone. In such cases an estimate of the government revenue forgone becomes the measure of the subsidy equivalent of concessionary interest rates, of concessionary fuel taxes, and concessionary insurance premiums. The differential between the concessionary interest rate and the commercial interest rate, between the concessionary fuel price and the market price, and between concessionary and commercial premiums for the insurance cover, would thus form the basis for calculating the subsidy to producers.

General Services (Item VI-D)

16. Outlays under General Services (Item VI-D) would generally not be commodity specific and, if included in the policy coverage of the format, would be allocated to end users or product sectors on some conventional basis. In some cases, such as infrastructure outlays, it would be necessary to make a further distinction between benefits accruing to the agriculture sector and those accruing to the community at large.

Sub-National Transfers (Item VI-E)

17. This would generally include payments or transfers of the types described under Items VI-B to D of the format but effected through provincial or state bodies.

Other (Item VI-F)

18. The main source of support covered by this item would be the subsidies or transfers implicit in more favourable tax provisions related specifically to the agricultural sector. Measurement of tax concessions would involve estimates being made of revenue foregone.

Base Reference Period

19. Some of the general considerations relating to the selection of a base reference period are outlined in paragraphs 33 to 35 of Spec(87)37. In addition, the base period selected would have a bearing on the issue of credits and debits. The comparison of a recent aggregate support estimate with a relatively remote base period would in theory allow greater scope for capturing the direct and indirect effects, positive and negative, of intervening policy measures. It is assumed that offers to reduce or modify support and related trade measures would be expressed as being equivalent to a defined reduction in the base aggregate support level, with account being taken as appropriate of the changes that have in fact occurred in aggregate support levels in subsequent years.

20. However, the selection of the base reference period for negotiating purposes and the selection of the period for which participants might agree to initially submit data are separable, although in practice they could well turn out to be closely related. Decisions on a base reference period would appear to depend on broader considerations including how in fact aggregate support estimates would be used in the negotiations. Any earlier decision to submit or to begin work on submitting data for certain years would not seem to prejudice these broader issues and could if selected judiciously facilitate their consideration at the appropriate stage.

21. In these circumstances consideration might be given to the submission of data for the latest two or three-year period preceding the decision to negotiate for which relevant price and government financial data are readily available.

#### Commodity Coverage

22. The determination of the commodity coverage would be influenced by a number of general and practical considerations. On general grounds, the commodity coverage should be broad enough to cover a large proportion of international agricultural production and trade, as well as the main interests of the participating countries. On practical grounds, account would have to be taken of the fact that it may not be feasible to undertake aggregate support measurements for commodities in respect of which representative international prices and relevant government financial data are not readily available.

23. The commodities for which aggregate measurements have been developed for certain countries are: wheat, coarse grains and rice; soyabeans and rapeseed; corn gluten feed and manioc; milk and dairy products; sugar; beef, pigmeat, poultry and sheepmeats; eggs; and wool. One of the issues that might arise if the above listing were to be taken as a basis for the Group's consideration of commodity coverage would be whether the coverage might be extended in some cases to include a wider range of competing products (e.g., other fats and oils, or sugar substitutes) and whether certain of the listed products might be negotiated under other procedures.

24. A related issue would be the applicability of the aggregate support approach to products other than the major internationally traded commodities and to processed products. To apply the internal/external price differential in any systematic way to a sector whose composition is as heterogeneous as that of fruits and vegetables or to processed products generally would be an extremely complicated endeavour, even assuming that comparable internal/external price data could be amassed for the many different products and qualities that would be involved.

25. The objectives of the negotiations relating to "all direct and indirect subsidies and other measures" apply to all agricultural products. If the commodity coverage of the aggregate support approach were to be limited to a defined range of internationally traded products it would be necessary to consider at the appropriate stage negotiating procedures which would address subsidies and other measures, as well as border measures

affecting products not covered under an aggregate support approach. Although the existence of policies and measures affecting these products are notifiable under the current AG/FORMAT, there is at present no requirement to quantify such subsidies or transfers other than perhaps under the general Article XVI:1 notification procedures.

Coverage of Policy measures

26. The issue here would concern the definition of the policy measures (Items A to F under Part VI of the annexed format) for which measurements of support would be calculated and notified, independently of whether some of the policy transfers notified might subsequently be treated as "decoupled" support under certain conditions. Nevertheless, any discussion of policy coverage would inevitably involve some consideration of exceptions generally.

27. It might be argued that all policy transfers influence production and trade and should therefore be covered. In the interests of negotiating efficiency, only those policies and measures which significantly affect trade, or which have the potential to do so, should be candidates for inclusion. On this basis consideration might be given to the following policy coverage:

A. Market Price Support

1. Trade measures and related internal policies measured jointly<sup>1</sup>

B. Direct Payments

1. Deficiency Payments
2. Diversion
3. Negative Transfers (levies, fees)
4. Other direct income payments

C. Reduction of Input Costs

1. Capital Grants
2. Interest Concessions
3. Fuel
4. Fertilizer
5. Transport
6. Insurance

D. Sub-National

E. Tax Concessions

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<sup>1</sup> Measures and policies measured jointly would include, for example, tariffs, variable levies, minimum import prices, import quotas, export subsidies and credits, government storage costs and contributions to price stabilization funds.

28. The above policy coverage would involve the possible exclusion of disaster payments and transfers in respect of the policies mentioned under "General Services" (Item VI-D in the annexed format). Compensation for losses arising from natural disasters can be regarded as trade neutral. Transfers associated with research, advisory services, training, pest and disease control, improvement of structures and so forth could generally be regarded as having limited direct trade effects. Moreover in a number of cases these policies are directed to improving the overall efficiency and structure of agricultural sectors, a process that needs to be encouraged in many countries. The complexity of the calculations and the rather hypothetical nature of the transfers involved would also be relevant considerations.

29. The inclusion or exclusion of transfers associated with tax concessions would not be a straightforward matter since the trade effects can be significant, particularly in the case of export performance related tax concessions. Since taxation systems differ widely from one country to another the inclusion of all tax concessions could give rise to difficulties quite apart from the complexity of the calculations that would be involved. A factor which could influence the scope of the policy coverage would be the nature of the conditions to which excluded policies might be subject. If it were decided to exclude some of the policies under "Reduction of input costs" on the grounds, for example, that market price support and direct payments account for the bulk of support and trade distortion, it could become necessary to consider a general proviso under which excluded policies should not be applied in a manner which nullifies negotiated commitments, or to consider more specific limitations.

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30. The foregoing is essentially concerned with a range of operational issues related mainly to the submission of data on aggregate levels of support, although some of the broader aspects have also been touched on. Issues that are more closely related to the specific role envisaged for aggregate measurements of support and protection, such as decoupled support, supply control measures, credits and debits, and exchange rate fluctuations, would also need to be addressed at the appropriate stage.

ANNEXDRAFT FORMAT: Aggregate Measure of Support

	<u>UNITS</u>	<u>YEAR 1</u>	<u>YEAR 2</u>	<u>YEAR 3</u>	<u>AVERAGE</u>
I. Level of production	'000 tonnes	0.0	0.0	0.0	0.0
II. Producer price	per tonne	0.0	0.0	0.0	0.0
III. Value of production	value (million)	0.0	0.0	0.0	0.0
IV. Direct payments	value (million)	0.0	0.0	0.0	0.0
V. Adjusted value of production	value (million)	0.0	0.0	0.0	0.0
VI. POLICY TRANSFERS		0.0	0.0	0.0	0.0
A. <u>MARKET PRICE SUPPORT</u>	value (million)	0.0	0.0	0.0	0.0
1. (Trade measures and related internal policies measured jointly)	value (million)	0.0	0.0	0.0	0.0
B. <u>DIRECT PAYMENTS</u>	value (million)	0.0	0.0	0.0	0.0
1. Deficiency payments	value (million)	0.0	0.0	0.0	0.0
2. Disaster payments	value (million)	0.0	0.0	0.0	0.0
3. Diversion	value (million)	0.0	0.0	0.0	0.0
4. Levies, fees (-)	value (million)	0.0	0.0	0.0	0.0
5. Other	value (million)	0.0	0.0	0.0	0.0
C. <u>REDUCTION OF INPUT COSTS</u>	value (million)	0.0	0.0	0.0	0.0
1. Capital grants	value (million)	0.0	0.0	0.0	0.0
2. Interest concessions	value (million)	0.0	0.0	0.0	0.0
3. Fuel	value (million)	0.0	0.0	0.0	0.0
4. Fertilizer	value (million)	0.0	0.0	0.0	0.0
5. Transport	value (million)	0.0	0.0	0.0	0.0
6. Insurance	value (million)	0.0	0.0	0.0	0.0
7. Other	value (million)	0.0	0.0	0.0	0.0
D. <u>GENERAL SERVICES</u>	value (million)	0.0	0.0	0.0	0.0
1. Research, advisory, training	value (million)	0.0	0.0	0.0	0.0
2. Inspection	value (million)	0.0	0.0	0.0	0.0
3. Pest and disease control	value (million)	0.0	0.0	0.0	0.0
4. Structures/infrastructures	value (million)	0.0	0.0	0.0	0.0
5. Marketing and promotion	value (million)	0.0	0.0	0.0	0.0
6. Other	value (million)	0.0	0.0	0.0	0.0
E. <u>SUB NATIONAL</u>	value (million)	0.0	0.0	0.0	0.0
F. <u>OTHER</u>	value (million)	0.0	0.0	0.0	0.0
1. Tax concessions	value (million)	0.0	0.0	0.0	0.0
2. Other	value (million)	0.0	0.0	0.0	0.0
VII. Total PSE	value (million)	0.0	0.0	0.0	0.0
VIII. Unit PSE	per tonne	0.0	0.0	0.0	0.0
IX. Percentage PSE	%	0.0	0.0	0.0	0.0

NOTE: This format is based on a model currently used by the OECD Secretariat.