

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG5/W/23
3 December 1987

Special Distribution

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

Original: English

NEGOTIATING GROUP ON AGRICULTURE, 26-27 OCTOBER 1987

Statement by Jamaica

I should like to begin with some introductory remarks, Mr. Chairman, to echo what you had said, namely that great progress has been made over the past few months and this is in no small measure due to you as Chairman, to the secretariat and above all to the determination of the participants, particularly the major trading partners, in seeing to it that the Punta del Este Declaration becomes an important turning point in the treatment of agriculture in the GATT.

I had the opportunity to look at the various documents and I mention some of them - MTN.GNG/NG5/W/2/Rev.1, W/3 and W/3/Add.1, W/12 and lastly, W/18. We believe that many of the important issues have been identified in these documents. We feel however that some interests have neither clearly nor fully been reflected and those are the interests of the net importers of agricultural products whether for food or for raw materials. We do not believe that the problem of agriculture is a north or industrialized country as opposed to the south or developing country problem. Nor do we feel that it is a north/north problem involving only the industrialized countries. There are several problems in the field of agriculture; one of the main problems from our perspective is the crisis in global food production and consumption. We find a situation where feast and famine sup side by side. We have a situation where there might be over-production in some parts of the world and no production or under-production in other parts of the world. Stagnant demand or over-consumption in some parts of the world and unfulfilled demand and no consumption or under-consumption in other parts of the world. We believe that this is one of the major problems that we must examine in addressing the problem of agriculture.

We have taken note of the chart which was left with us by Prime Minister Hawke when he was here. This chart shows world agricultural exports by country groups, among which the Cairns Group together with the EEC and the United States, that is around twenty-six countries, have 23 per cent of the world's population, 70 per cent of the world's GDP, 70 per cent of agricultural exports and 54 per cent of total exports, of which the share of agricultural exports is over 60 per cent. What I found missing and which would make it a little bit more comprehensive is a table indicating agricultural imports, and the share of agricultural imports in

total imports. When we are talking about agriculture and about access to markets we cannot deal only with exports and exporters, but with imports as well. So I believe we need a fourth force, if the Cairns Group - to paraphrase Prime Minister Hawke - is the third force, so that we can have a comprehensive negotiation covering all agricultural products, including all participants and covering all trade-distorting measures. Looking at these documents, I believe that we are not yet at a stage of precision. I believe we ought to have circulated, and my delegation may do so on one sheet of paper, what is the coverage of agricultural products. We may use the SITC or the BTN and we could try to put side by side the FAO classification of agricultural products. I think it is important that we limit ourselves not only to agricultural products which are more often than not the temperate climate products, but we must include all agricultural products that enter into world trade.* That is point number one.

The second point is that if we are to include and cover all trade-distorting measures affecting world trade, I think it would be useful if we had a better understanding of what in my delegation's view is an important distinction between world agricultural trade and world agricultural markets. Markets we take as places where willing buyers and sellers meet, maybe not face to face but they meet and prices can be determined. Trade we define merely as the statistical compilation of the flow of those agricultural products on a geographic basis; that perhaps is too simplistic, but in some of the submissions we have seen the terms used interchangeably, i.e., world agricultural trade and world agricultural markets. I think the distinction is sufficiently important, especially if a number of net agricultural importers are not in the market place. We ought thirdly to make a very clear economic and conceptual distinction between incentive systems and subsidies which distort trade. I do not wish at this stage to go into depth on this, but clearly it is the prerogative, the right and the obligation of governments to provide incentives for increasing production, increasing productivity. We agree with others that subsidies which distort trade need to be disciplined. We do not believe however that we should continue to confuse incentive systems with subsidies which create distortions. To be more precise, in those parts of the world where there is no production or under-production, we believe it is an obligation to encourage production at the national level and to have international support for incentives to increase production to meet national welfare considerations. We do not, at the same time, believe that this is the same thing as using subsidies which increase self-sufficiency ratios beyond that level which meets domestic consumption requirements and which are used to increase both production and exports.

The fourth point is that I believe we ought to recognize the importance of other policies whether of a macro or micro nature including exchange rates, wages policies and other policy considerations at the domestic level which have an important influence and are an indispensable element in the formation of agricultural policies.

* See Annex I

The fifth point is that in the negotiations we should recognize that there are going to be changes. Some of these changes may even set in train fundamental or structural changes. There will be benefits and there will be costs and we must keep in mind that these benefits and costs will have to be equitably distributed. I will illustrate: my delegation does not believe that the Punta del Este Declaration and the negotiating objectives should lead us into a situation where the terms of trade of a poor developing net agricultural importer would become more adverse. In the past because of our low commodity export prices and our high manufactured import prices, not to mention exchange rates, our terms of trade have been adverse and therefore our purchasing power has declined. We do not believe, as stated in a number of the proposals put forward in this Negotiating Group, that it is to be accepted "willy nilly" that the intention in these negotiations is to raise world market prices for agricultural importers which could have the effect of making our terms of trade worse than they presently are. I saw some statistics, and this is from recollection, that in 1986 alone the purchasing power lost through adverse terms of trade for developing countries amounts to some 3 per cent of their combined GDP's. That is a lot of purchasing power lost through adverse terms of trade. These are some of the points that we believe have not been adequately addressed in the papers.

We should have before us a very clear understanding of the economic principles which should govern international trade and which of course should include agricultural trade. One of the main principles is to give greater respect to the principle of specialization based on comparative advantage but at the same time to provide opportunities for introducing considerations of equity such as in the case of the net agricultural importer who is not in a position to influence the determination of prices on world agricultural markets.

Comments on Australia's intervention

I had stated in an earlier intervention that the very first and basic principle was the economic principle of specialization based on comparative advantage. I also pointed out the importance of net agricultural importers. I take it that the comments by Australia did not refer to the statement made by Jamaica, because in some important respects I could agree with him that we need to be careful that we do not fall into the trap between sound economics and voodoo economics. We believe that economic principles are valid in the market place whether you are a small producer or a large producer. I think our point was very clear that we do believe in the basic economic principles of specialization based on comparative advantage and I said of course that we had to take into consideration matters of equity.

Looking at the Argentinian paper, and I will add that to the list of documents I had mentioned, leads me to emphasize that we cannot limit ourselves and select only some agricultural exports of interest to some countries. We must deal with all agricultural products.

Further, we do not wish to be in bed or out of bed with the United States, the EEC or Japan but what we hope to do in the negotiations is that if a proposal made by any of these countries is a constructive one we would support it and where it is deficient in identifying our interest we would want to be in a position to point this out to them but, as far as I see it, the proposals made so far are as I have said, and I repeat this, very firmly fixed in the OECD framework that talks about excess supply, stagnant demand, over-production and ignores under-production or no production and also ignores the concerns of small agricultural producers and net agricultural importers. On this point, what Korea, Mexico, Switzerland and Egypt said this morning is relevant and I am grateful for the support they have given to the idea of getting the other group together now, which would allow for comprehensive negotiations.

Comments on the paper presented by the European Community

We believe that the paper presented by the European Community is a constructive attempt to begin further elaboration of the issues and to sort out the main elements in the negotiations. Our comments are preliminary in nature and some may be put in the forms of questions.

The Community presentation is rooted in the OECD framework, i.e., that the problem in world agricultural markets is the imbalance between supply and demand. We had occasion to point out this morning that this is one problem but not necessarily the root problem. Secondly, when dealing with agricultural markets we had drawn attention to the distinction between trade and markets and we believe that if we are to rely on market signals, then the price on the international market should clear the supply on that market and bring about balance. If lower prices do not bring about the balance on international markets we wonder whether higher prices will clear the markets. I think we still need to explore further the proposals which seek to increase prices on world agricultural markets.

We believe that the EEC proposal points in a very constructive direction because it does not only draw attention to the past but also draws attention to the changing environment. We believe that the Swiss proposal is also constructive in this regard. In perhaps one of the most interesting articles appearing in the daily press, an article in the Financial Times of 6 September 1987 draws attention to the bio-technological revolution and suggests that with these advances it is possible that there would be substantial expansion in productivity in grains, in dairy products and the like. Perhaps if the occasion is given I would draw attention specifically to some of the projections made in this article in respect of the increased productivity gains arising from bio-technology. We assume that some of these innovations come from subsidies given by governments.

We agree with the Community that this concept of decoupling, that is, the separation of income transferred directly from income transferred via prices is ambiguous. We have said in the past that it is not clear how it would be possible to justify paying farmers not to produce, to maintain a

level of income and purchasing power which could be denied to farmers in other countries where governments do not have the possibility of making direct transfers from their treasuries. So I believe that much further work needs to be given to this idea of direct income transfers to farmers.

As regards the dual-pricing system, this raises some important questions. It is not clear whether a dual-pricing system envisages higher domestic prices and lower international prices. We hope that this will become clearer.

Another question which requires some clarification is in respect of sub-paragraph (b) on page 3 in the English text.

Finally, we believe that the general formulation, and it is only a general formulation, will need to be spelt out more precisely, although we do find it to be a constructive approach in respect of the section on developing countries. We do not believe that exceptions, not rooted in sound economics, should be raised under the heading of "special and differential treatment" so that they can be easily argued against. We believe therefore that the approach taken by the Community in suggesting that there cannot be an abstract unitary model to cover all countries is a good one and we agree with that approach. We agree, consequently, that one must take account of the social and political realities while doing justice to sound economic principles.

Comments on the Cairns Group proposals

The first point regarding these proposals is the objective. The Cairns proposal in paragraphs 2 and 3 has been limited to the liberalization of trade. But Ambassador Oxley quite rightly said that these negotiations are not being conducted in a vacuum, that they are part of the Uruguay Round and the main objective of the Uruguay Round is the expansion and the liberalization of trade. We do not believe that we could only liberalize trade and find ourselves overwhelmed by some large producers without expanding trade. Now if we look at paragraph 2 and we look at paragraph 3, we see the analysis here of massive over-production and stagnant demand in some parts of the world and unfulfilled demand in others. It does not say under-production and unfulfilled demand. We believe that in this respect the Cairns proposal does not reflect the major objective of any trade liberalization which is to lead to the expansion of trade.

Secondly, as regards the approach, we agree with the Canadian and the Cairns approach that it should be comprehensive. We believe however that the Cairns approach is less than clear in its different parts regarding the inclusion of all agricultural products and perhaps even all participants. In agreeing to the comprehensive approach and supporting it we do not believe that it necessarily means a uniform application of measures to different agricultural situations, but we believe that there is need for a comprehensive approach and, dare I say it, on an individual case-by-case basis somewhat like the debt problem.

The third point is the matter of the major problem. I sense that the Cairns proposal identifies as the root problem the cause of the imbalances. I think New Zealand was the one that made it explicitly clear that the major problem is excessive subsidization and resulting imbalances. We believe that a major problem is the fact of not being able to provide sufficient incentive for production in a number of net agricultural importing countries because of a trade situation which has developed over the past twenty or so years. We do not believe that these problems have been adequately addressed in the Cairns proposal.

The fourth point is the PSE-type measurement, as Cairns calls it. We have said that we wish to distinguish very clearly between incentive systems and subsidies which distort trade or prices in world agricultural markets. In the informal meeting on the subject my delegation raised a number of questions* regarding its validity as a universal measure applicable to different agricultural systems where input and output are not necessarily easily measured. In some countries one can identify the inputs and outputs and therefore can see the level of subsidies that increase production. In others this is not the case. We have heard from the EEC of a dual-price system and we have raised a question but we do not believe that it was answered. I am struck that perhaps the middle course could be pursued using the Cairns approach which is to use the PSE as an interim measure. But we believe that before there is any final agreement on a PSE-type measurement we would need to look at its implications for consumer subsidy equivalents and many other elements that go into the policies that are affecting agriculture.

Now fifthly, on special and differential treatment. I sense that Canada's proposal and Canada's statement are somewhat at variance with the Cairns approach. The reason I say that, is that the Canadian approach states clearly that at a certain stage, and only at a certain stage at the end, could they envisage agreement in principle on the nature of special and differential treatment for developing countries. Now it is my view, and I have heard it shared by others, that the interests of developing countries have to be an integral part of any framework of rules, disciplines, interim measures and the like, and not put at the end of a process where, in principle, they could be taken into account.

Finally, we believe that the Cairns proposal is extremely helpful but not as yet clear in drawing attention to structural adjustment in paragraph 21 of its presentation under "Exceptions - the Promotion of Structural Adjustment". We believe that this is an important aspect of the transitional stage. I had indicated that when we go through changes of a structural nature in the agricultural sector there will be benefits and costs but we are not sure structural adjustment should be treated as "exception". We believe that this should be taken fully into account in the negotiations when we are considering the rules and the disciplines

* See Annex II

because after all the agricultural sectors of developing countries are undergoing structural changes. All in all, we feel that these proposals are constructive and valuable just as the proposals are of all the other participants. We however are not sure in one important respect if, when the Cairns proposal deals with differential and more favourable treatment for developing countries, whether this applies to the developing countries in the Cairns Group because if, as we have been told, the Cairns Group of countries are efficient producers, maybe they do not need differential and more favourable treatment. It is those of us who are not in the Cairns Group who require such treatment.

Comments on United States Statement

The statement by the United States representative is in my view a very positive one in that it suggests some movement on the original statement contained in the document W/14. I do not think it is necessary to elaborate but I was struck by the emphasis given to trade-distorting elements of any governmental support as distinct from support which in our view might be considered incentives to production and perhaps even to consumption in developing countries.

I have some specific comments to make but before I do so I would just like to say that in the informal consultations regarding the PSE, my delegation had raised a number of questions and we do not think it necessary now to raise them again, but we would certainly like to have the opportunity for a fuller exchange so perhaps we might circulate the points raised in those informal settings on the question of the PSE and its use.* I will limit myself here to ask whether since the PSE and the CSE were concepts which apparently were jointly developed to capture all measures and policies related to agriculture, why is it that the PSE exclusively is being suggested as a measurement. Not being sufficiently familiar with the evolution of the concepts and the discussion, since this has been conducted mainly in the OECD and more recently at a very preliminary stage here, I think it is useful to have a better understanding of the value and the utility of these measurements to a number of countries. However I said earlier that it is possible to make a prima facie case that PSE's would not apply to countries like my own to the extent that we do not distort trade through governmental support.

My second point is more specific and it relates to the effect of the PSE, and I am looking at the OECD document in paragraph 7 where PSE is related to direct income support. Direct income support I think is one of the elements that goes into the calculation of the PSE. In the OECD document it says that "direct income support implemented through the budget does not raise the price paid by consumers". So it is possible, and this is linked to the so-called trade neutral or the decoupling support, that income transfers made directly from the budget may not raise the price to consumers but to the extent that the PSE or aggregate support increases

* See Annex II

international market prices which a net agricultural importer, like Jamaica for instance, would have to take as given, the price would therefore be passed on to the consumers in the importing country. But I am not myself yet convinced from a theoretical point of view that it is accurate to say, as it is in the secretariat document Spec(87)37 paragraph 27, that policy-related income transfers to farmers through trade neutral or decoupled income transfers have little or no impact on their future investment, production or trade decisions regarding agricultural products. I am not convinced that theoretically that is so. I understand that in any adjustment process one of the important aspects of that process is to move factors of production of which I take it the farmer is one. So, I would hope in conclusion but by way of summary first that these are relatively new concepts which my delegation is seeking to grapple with, seeking to see how and if it could apply or would be sought to be applied to countries like my own. I suspect not, but in doing so if we are to develop it as a measurement it would be useful for the secretariat in preparing any discussion paper to try to relate it to countries and to agricultural support which is quite distinct from the agricultural support policies that have been in place in the major industrialized countries over the past thirty or forty years. It would give us some comparative basis at which to look to see how the PSE and the CSE concept could apply universally.

ANNEX I

Classification of Agricultural Products
Under Different Nomenclatures

The classification of the agricultural products shows some variations from one nomenclature to another.

The Standard International Trade Classification (SITC) has been created mainly for statistical purposes, while the "Customs Cooperation Council Nomenclature" (CCCN) was used primarily for tariff purposes. "The International Convention on the Harmonized Commodity Description and Coding System" known as Harmonized System (HS) is used both for tariff and statistical purposes.

In the CCCN and HS nomenclatures, the agricultural products are defined as being goods falling under chapters 01 to 24, while the SITC treats the products in sections 0, 1, 4 and Division 22 as the agricultural sector.

The products listed on the next page which fall under chapters 01 to 24 of CCCN (and HS) and as such are treated as agricultural products are not however classified in the agricultural sector of the SITC.

| <u>HS</u> | <u>CCCN</u> | <u>Description</u> | <u>SITC Rev.2</u> |
|-----------|-------------|--|--------------------------------------|
| 0503 | 0503 | Horsehair and horsehair waste, whether or not put up on a layer or between layers of other material | 268.51 |
| 1108 | 1108 | Starches; inulin | 592.11 |
| 1109 | 1109 | Wheat gluten, whether or not dried | 592.12 |
| 1209 | 1203 | Seeds, fruit and spores, of a kind used for sowing | 292.50 |
| 1211 | 1207 | Plants and parts of trees, bushes, shrubs and other plants used in perfumery, pharmacy, or for insecticidal, fungicidal ... purposes | 292.40 |
| Ch.13 | Ch.13 | Lacs; gums, resins and other vegetable saps and extracts | 292.20 + 292.91 |
| Ch.14 | Ch.14 | Vegetable plaiting materials; vegetable products n.e.s. | 292.30 292.92 292.93 292.98 |
| 1519 (ex) | 1510 (ex) | Fatty alcohols | 512.17 |
| 1520 | 1511 | Glycerol and glycerol lyes | 512.18 |

It should be noted that products listed below, though of agricultural origin, are not treated as such under the three nomenclatures mentioned above:

Wool
Cotton
Mohair
Jute

ANNEX II

Points raised by Jamaica at the informal meeting on
quantitative measurement of support producer
subsidy equivalent (PSE)
24-25 September, 1987

1. What is the concept of "aggregate support"? Does it refer to the agricultural sector as a whole or to the range of primary agricultural commodities?
2. Is the coverage of agricultural products agreed? Is there comparability between the agricultural sectors of the industrialized countries and the majority of developing countries? How to treat processed agricultural products?
3. Can the issue of Producer Subsidy Equivalent (PSE) be dealt with in isolation from Consumer Subsidy Equivalents (CSE)? Can one address PSE's in the agricultural sector and not that in the industrial or capital goods sectors, and increasingly in the relevant services sectors in assessing overall balance?

Calculation and measurement issues

- (a) More information is needed in order to be able to assess whether measurement is capable of being applied to all agricultural products or whether it would be useful only for a selected range of primary agricultural products, particularly those produced by major developed exporters?
- (b) If a satisfactory and generally accepted index can be found, how can it be applied to participants at different stages of economic development and different contributions of the agricultural sectors?
- (c) The selection of the base period will have to be carefully thought out as the use of large subsidies over a long period will result in improved efficiencies in a number of product areas, making them less reliant on continued support?
- (d) Can the PSE be a useful measurement if direct income support is excluded? In such a scheme would not the farmers have an advantage over those whose governments were unable to afford budgetary transfers?
- (e) Is it feasible to focus only on PSE's granted through government intervention and ignore the important and possibly even more significantly valuable subsidies given through private companies e.g., marketing, research, distribution and other measures including those directly related to the levels of production?
- (f) Can the PSE account for "productivity" increases?