

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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Group of Negotiations on Goods (GATT)

Negotiating Group on Agriculture
Technical Group on Aggregate Measurement
of Support and Related Matters

SUMMARY OF THE MAIN POINTS RAISED AT THE FIRST MEETING
OF THE TECHNICAL GROUP ON AGGREGATE MEASUREMENT
OF SUPPORT AND RELATED MATTERS

(23-24 March 1988)

Note by the Secretariat

1. The Technical Group had before it the annotated agenda (NG5/TG/W/1), the negotiating proposals, the discussion papers submitted by the United States, the European Communities and Canada (NG5/W/44-46), statements by Jamaica and the Nordic Countries (NG5/W/48 and 49), as well as secretariat notes Spec(87)37 and NG5/W/34.

2. A number of representatives raised the point that the way in which a PSE-based aggregate measurement of support might be used in the negotiations had a direct bearing on most of the technical aspects under consideration. If commitments were made on the basis of a PSE (Producer Subsidy Equivalent) much greater precision would be necessary than if the PSE were used for general monitoring purposes. Jamaica presented a statement regarding how PSE might contribute to the negotiating objectives and some other issues for consideration, including its views on the technical aspects under discussion (NG5/TG/W/3). Some delegations questioned the relevance of the PSE to developing countries, with it also being noted that it would be prudent to withhold judgment on this matter until it became clearer how negotiations on such a basis might be translated into concrete commitments on access and export subsidies. Several delegations also stressed that new GATT rules were the most critical concern.

3. With regard to a possible reference year for the calculation of a base reference PSE, some delegates felt that the year of the Punta del Este Declaration (1986) was most logical, whereas others expressed preferences for using an average of the two- to five-year period prior to or including 1986. One delegate questioned whether it would be possible to select a reference period in which there were no structural surpluses or major exchange rate fluctuations, whereas another raised the possibility of selecting different reference periods for different products.

4. In discussing the selection of reference prices, a number of delegates considered that the OECD approach, of using as appropriate an import price a country actually paid or an export price received for each commodity to compare against its producer price, was logical. The difficulty of finding mutually agreeable common reference prices was noted, particularly for less homogenous products and for processed products. It was further noted that even where a "common" reference price was used in the OECD methodology, this price had then to be adjusted for freight, handling and other charges to convert it to a comparable price in other countries.

5. One delegate stressed the linkage between exchange rate fluctuations and reference prices, but it was observed that this was a problem only if commitments were expressed in terms of PSEs. Another noted that for monitoring purposes, the exchange rates and reference prices used in the base period could be maintained, with adjustments being made at intervals to keep the measurement tied to market realities. Several delegates noted the possibility of calculating PSEs on production for internal use on the basis of higher c.i.f. prices, and PSEs for exports on an f.o.b. basis, so that as a country moved temporarily from being a net importer to a net exporter, its PSE for the product concerned would not increase abruptly as a result of recalculating its entire PSE at what could be a relatively lower f.o.b. export price.

6. Although some delegates expressed the concern that actual world prices were depressed by government policies, others argued that it was desirable to take account of the actual world situation in examining domestic policies and in calculating PSEs. Liberalization of policies could be expected to result in increasing world prices whose effects would automatically be reflected in subsequent PSE estimates.

7. It was observed that currency fluctuations would not be of major importance if the reference prices were averaged over a number of years. Furthermore, if PSEs were used for monitoring only, other indicators could also be examined to assess whether, and the extent to which, changes in PSEs were primarily due to exchange rate changes. It was noted that in such circumstances it would then be necessary to precisely spell out the procedures for monitoring and adjustment. It was also suggested that the possibilities of using moving averages or a basket of currencies should be explored.

8. With regard to country coverage, a number of delegates argued for the widest possible coverage, and some noted that all countries should be asked to submit the necessary data for calculation of their PSE without prejudice to its future use. Some delegates expressed the view that the existing methodology for calculating PSEs, particularly its measure coverage, was perhaps not appropriate in the case of developing countries given their agricultural development needs and objectives and the fact that they were not the cause of the problems in international trade in agriculture.

9. A number of delegates expressed sympathy for the ideas in the Canadian discussion paper (NG5/W/46) on categorizing policy measures according to their trade effects. It was questioned whether the "non-distorting" category of measures would be subject to GATT rules or monitoring and, in terms of partially-distorting measures, how it would be decided whether penalties on over-quota production were "effective". In this regard, the Canadian delegate noted that new GATT rules and disciplines should be applied to all measures. Several delegates noted the need to take account of supply control measures, since these measures could offset some of the negative effects of excess support. Another argued that supply controls could have spill-over effects and did not necessarily result in improved market access. Others observed that supply control policies were adequately reflected in PSEs. One delegate commented on the need to further elaborate the concept of decoupling. The concern was raised that PSEs calculated only in percentage terms could be reduced by the shifting of support from output to input subsidies, without any reduction in per unit support. Another point raised was that PSEs were not related to actual trade volumes or flows and thus did not recognize the contributions of importers.

10. In terms of product coverage, some delegates expressed the view that the current OECD product coverage was adequate given that it covered the major commodities and a large proportion of international trade in agriculture. Several noted the need for disciplines on subsidies on processed products but did not feel it was necessary to calculate PSEs for these items in view of the difficulties involved, and because reductions in support on the primary products could also result in reduced support to processed products. In this regard one delegate stressed that it would nevertheless be necessary to ensure that subsidization was not shifted from primary to processed products.

11. It was noted by the Chairman that in the light of its discussion the Technical Group would as a practical matter use the OECD PSE methodology and estimates as a working hypothesis in the further work of the Technical Group. A number of delegates indicated that they would intend to submit their PSE data and estimates. Some other delegates expressed the view that it would be appropriate if the Negotiating Group on Agriculture were to take the decision on the submission of PSE data at its next meeting.

12. The secretariat was asked to prepare notes on the measurement of supply controls in the calculation of PSEs and on options for using the PSE in the negotiations. It was agreed that the question of submitting PSE data and estimates should be referred to the Negotiating Group on Agriculture for consideration and decision at its forthcoming meeting and that the secretariat should prepare a draft set of general guidelines for the submission of PSE data and estimates by participants. The Technical Group agreed to hold its next meeting on 22 April 1988.