

MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND

RESTRICTED

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Group of Negotiations on Goods (GATT)

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

AGGREGATE MEASUREMENT OF SUPPORT AND PROTECTION:  
DISCUSSION PAPER SUBMITTED BY JAMAICA

Points for discussion

- I. How can a PSE contribute to the attainment of the negotiating objective:
- (a) correct and prevent restrictions and distortions (including structural surpluses);
  - (b) liberalize and expand trade under more effective GATT rules and disciplines;
  - (c) increase discipline on use of direct and indirect subsidies etc. including phased reduction of negative effects, and dealing with causes;
  - (d) minimize adverse effects of sanitary and phyto-sanitary restrictions and barriers.

Points to be made

- (1) the results must ensure balanced and mutual benefits;
- (2) the use of the PSE must ensure transparency in the application of the measures;
- (3) the LDCPs interests to be identified. In this context, the PSE should not lead to a worsening of their terms of trade:
  - (i) some LDCPs are major competitors in beef, cotton, rice, soya beans and wheat;
  - (ii) empirical studies show strong co-relation between income growth and import demand in LDCPs;
  - (iii) correlation also shown between strong export earnings and level of agricultural imports;

- (iv) evidence shows vulnerability of LDCPs to variable world prices;
- (v) evidence suggests net food importers will see their import prices increased;
- (vi) the importance of agriculture in LDCPs development process requires special measures.

## II. Special characteristics and modalities of a PSE

- (1) PSE combines the different forms of government intervention in agriculture into a quantifiable single figure for each major product, the entire agricultural sector or both.
- (2) The PSE may be used to compare the levels of government intervention in agriculture across countries, across agricultural commodities or over time. (Paragraph 3 of Spec(87)37);
- (3) The PSE is based on prices, production, consumption and trade under existing policy conditions (OECD-Government Intervention in Agriculture, page 21);
- (4) The PSE may provide a basis for a global approach to the negotiation of commitments on both the level and form of support;
- (5) On the other hand, a number of limitations have been suggested:
  - (a) it does not reflect social, development and other objectives;
  - (b) a technical difficulty arises in identifying and using appropriate external reference/market prices and other exogenous factors;
  - (c) it does not directly reveal the effects on production, consumption, trade and prices arising from the removal of government intervention in agricultural markets (OECD, page 21);
  - (d) it does not adequately reflect the contribution made by the import volume of net importers (see Japan's statement).
- (6) A major assumption made in the OECD model is that reductions in the level of internal support are accompanied by reductions in protection at the border (paragraph 6 of Spec(87)37). It is noted that the use of the PSE is associated with the CSE and both taken together indicate the net transfer from other sectors, through the government, into the agricultural sector (page 21, OECD). Also, there are some policy instruments which are linked functionally and they affect jointly producers and consumers. In these situations the net effect of the package of policies may be more relevant than simply applying only a PSE or a CSE measure;
- (7) Some points that need clarification and further discussion are:

- (i) is it sufficient to rely exclusively on a PSE, and moreover only on positive PSEs? It is possible/likely that many farmers in LDCPs have negative PSEs and perhaps the negotiations should induce a change in this situation, i.e. remove the taxation on them;
- (ii) the Canadian proposal develops a TDE and the secretariat draws attention to other methods (see Annex 1, page 14 of Spec(87)37) - Are these more appropriate negotiating tools?;
- (iii) a negative CSE is a tax on consumers. Should increased prices of temperate zone products be transferred to consumers in LDCPs; this would lead to a tax on them. It would be an additional burden on LDCPs in light of the higher proportion of their income which is devoted to the consumption of food.

### III. Specific measurement issues and use of the PSE

Spec(87)37  
paragraphs  
33-35

#### (1) Base reference period

- (a) should there be general criteria applicable to all countries, representative of a period where (i) exchange rates were stable; (ii) volumes of production, consumption, trade and prices were close to the historical trend, and (iii) there was "balance in the markets", i.e. there was not a build-up of stocks;
- (b) or Criteria specific to each country e.g. focussing on "market shares" at a given point in time.

Spec(87)34  
paragraphs  
19.21

#### (2) Reference prices

- (a) the "large country effects" where domestic prices influence greatly external reference prices - to take this into account in further work;
- (b) external - not always clear that these are market prices; and how to disaggregate the influence on the prices of government intervention; no single world market prices for a number of commodities; market prices to be related to specific commodities and/or to commodity sub-sectors, e.g. wheat, and not cereals, sugar and not sweeteners. To examine the effect of exchange rates both variable and misaligned on levels of support and protection. To assess the effect on terms of trade and purchasing power parities, if any.

(3) Policy coverage

- See Spec(87)37  
Annex II and (87)  
34 paragraphs  
26-29
- (i) should product coverage be determined first to be followed by policy coverage?
  - (ii) should focus be on those policies which affect significantly trade? Note different levels of government responsibilities (federal/common market);
  - (iii) possibilities should remain open for bilateral/plurilateral negotiations;
  - (iv) exceptions and identification criteria to be used;
  - (v) joint measures (see Annex II, OECD - Concept and Measurement of PSE, pages 111 and 112;
  - (vi) a major point to focus on is the measures for Market Price Support as distinguished from Direct Income Support. Should there be extensive exceptions of measures under direct income support, it may be assumed that correspondingly larger reductions may be sought for those measures identified as market price support, and consequently resulting increased prices will be passed on to importers. At the same time, maintaining the incomes of producers (and relieving the pressure on the budgets of the producers' governments) may not reduce necessarily overall levels of income support (increased income of producers may be envisaged in certain circumstances).

(4) Production coverage

- Spec(87)37  
paragraphs  
29-30
- (i) coverage of the agricultural sector as a whole for all countries;
  - (ii) temperate zone products only or in the main;
  - (iii) major products produced and/or traded;
  - (iv) commodity by commodity, or sub-sector, e.g. cereals, fruits and vegetables;
  - (v) special attention to LDCP agricultural imports which compete with or substitute for domestic production, e.g. vegetable oils (this will be of great interest to LDCPs whose exports are subject to severe restrictions including high tariffs etc.);
  - (vi) the inclusion of processed products will need to be considered carefully;

- (vii) selection only of those products in "structural surplus", or where markets are considered to be distorted, or where there is limited competition.

(5) Country coverage

Spec(87)37  
paragraphs  
31-32

This is related to coverage of products and policies.

(6) Hypothetical use of the OECD PSE estimates

This should be explored as part of the further work of the Technical Group. In this connection, the Canadian approach in its Statement W/27 (November 1987) should be considered.