

**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

DEVELOPING COUNTRIES AND THE PSE:

Issues Related to the Possible Use of an Aggregate
Measure of Support

Background Note by the Secretariat

Introduction

1. At its meeting on 22 April 1988 the Technical Group requested the secretariat to prepare a background note on the aggregate measurement of support in relation to the interests of developing countries. The present note aims to respond to that request by, firstly, examining the comments which participants have made on this issue to date, and secondly by considering the options for possible use of a PSE-type measure in the light of these concerns.

PART I

General observations on use of the PSE in negotiation

2. It may be useful to begin by briefly recalling some of the essential features of the aggregate measurement device (PSE) as it has been discussed so far. In keeping with the Punta del Este Declaration and the negotiating mandate of NG5, interest in using a PSE-type device in the negotiations has arisen from the need for an instrument capable of quantifying, on a common or comparable basis, an array of intrinsically heterogeneous policies. This should facilitate negotiating in a balanced and reciprocally acceptable way a simultaneous reduction in support policies while making more acceptable domestically the subsequent necessary process of adjustment in the agricultural sector.

3. However, concern has been expressed, notably by some net food-importing developing countries, that, at least in the short term, PSE-based changes would tend to operate more on the supply side of the market than the demand side (see paragraph 11, below). A complementary concern is that this process of policy changes, to be effective in major producing and exporting countries, would tend to impose greater disciplines on the use of certain domestic policy incentives which, if extended to developing countries, could undermine their development efforts.

4. To clarify the possible treatment of these concerns in PSE terms, it would seem appropriate to discuss them in relation to the questions of PSE coverage - policy, commodity and country.

Policy coverage

5. In GATT discussions of the PSE to date the point has frequently been made that subsidies (or incentives) aimed at improving agricultural productivity in developing countries - e.g. infrastructure projects - embody legitimate aims of national development and should not be treated in any PSE - type approach in the same way as subsidies granted to developed countries, whether or not trade-impacting; i.e., the PSE should not be used in a way which would prohibit or limit the possibilities by developing countries of having recourse to these policy incentives.

6. It is useful to underline here that the PSE itself does not prohibit or limit anything; it simply measures. The treatment of subsidies is for negotiation in line with the Punta del Este principles. But there nonetheless appears to be a wide agreement that - though data should be collected for all policies as per TG/W/6 - subsidies paid for development purposes should to an extent be valued differently when using the PSE in negotiation, whatever option may be chosen. (The developed-country corollary is the proposal that "decoupled" support such as direct income aid should also be valued differently from more trade-impacting support). The main question to have emerged so far in this connection is whether special PSE treatment should be limited to non-commodity-specific subsidies, as advanced in several negotiating proposals, or whether, as a number of developing countries have argued, the differing needs of their development programmes in various sectors mean it should extend to commodity-specific policies as well.

Commodity coverage

7. Thus far in the discussions of the Negotiating Group and the Technical Group different views have been expressed concerning the commodity coverage which would be desirable (or possible) in any hypothetical use of the PSE. A broad commodity coverage would seem, logically, to be necessary if developing countries are to be fully involved in the process - at least their major imports and exports should be included. This may raise questions concerning interaction with the Tropical Products negotiating group; but it should be kept in mind that the collection of PSE data, on the broad commodity basis suggested in TG/W/6, is without prejudice to the eventual resolution of such questions.

8. Participants have also pointed to technical problems such as lack of product homogeneity as potential causes of difficulty in PSE coverage of some products of interest to developing countries, such as fruit and vegetables. How severe such problems may be should become clearer as participants actually undertake the collection of PSE data - on a best endeavours basis, it should be recalled. The PSE's capacity to contribute usefully to consideration of processed products is more clearly in doubt (cf. NG5/W/34) and it may be that other negotiating approaches will be needed here.

Country coverage

9. The point has been made by several participants that, since the problems of world agricultural trade are not in the main caused by developing countries, there is less - or no - need to involve them in any use of the PSE (ref. the options suggested in TG/W/4.) Some have doubted whether it is necessary even to collect PSE data for developing countries. An associated point is the country basis on which special and differential treatment in PSE terms might be applied - i.e. across-the-board or selectively. While these questions involve decisions which are the Negotiating Group's to take, the following considerations may be relevant.

10. While use of the PSE may not be essential to a satisfactory multilateral result of these negotiations, the full participation of the developing countries clearly is. Might it then be possible to use the PSE for developed countries and not for developing countries? Technically, yes - but such a course seems inadvisable on several counts. It would undercut the transparency of the negotiations, and their comprehensiveness. Contrary to the need expressed by numerous participants to make special and differential treatment for developing countries an integral part of the negotiation at each stage, it would risk making the interests of developing countries an afterthought. On the other hand, developing countries' participation in whatever use of the PSE might be decided on could supply a more detailed objective basis for special and differential treatment, and (as discussed in more detail in paragraph 14 below), possibly also assist them in their own planning and development. It could also help them in analysing the significance of developed-country PSE data.

Equity of adjustment

11. Some participants have expressed concern that the use of the PSE in a negotiated reduction of support to agriculture might not ensure a "balance of benefits" between producers and consumers; that in fact such a process could, by raising prices, transfer the burden of adjustment onto developing countries who are net food importers. Whether or not this happens depends on more than just the PSE, which technically speaking, may be affected by commodity price movements but is not a direct cause of them. Hypotheses which suggest some price rises as one result of trade liberalization have done so on the basis of a number of assumptions concerning (e.g.) the use of the PSE, which in practice would be for negotiation. Furthermore it is worth noting that models such as the OECD's also assume a reduction in trade barriers as well as in support. As even those developing countries which are at present net importers of agricultural products generally have export crops with potential for further development, an improvement in export opportunities (and prices) should counter, to a greater or lesser extent, any rise in import costs. Finally, it should be borne in mind that price rises affecting developing - country imports can also occur in other ways - through the operation of commodity agreements, for example, which are not associated with any compensating liberalization of trade. And in any case the Punta del Este Declaration does not stipulate strict reciprocity within each sector.

PSE measurement issues

12. Though this note suggests that the political decisions concerning developing countries' use of the PSE are of greater specific importance than the more strictly "technical" questions attaching to the nature of the device, the latter should not be left without comment. The technical issues discussed in the secretariat's papers Spec(87)37 and NG5/W/34 are not exclusive to any one group of countries. Developing countries (though perhaps not only developing countries) may encounter problems in the collection of PSE data along the lines proposed by the secretariat in TG/W/6. As has been stated, technical assistance can be made available in such cases by the secretariat, which will also involve the FAO as appropriate. The collection of this data should, in turn, help to achieve a better and more specific understanding of the concerns raised so far.

PART IIDeveloping countries and the options for PSE use

13. On the assumption that any possible use of the PSE in these negotiations will involve one, or a combination of, the options discussed in the secretariat's paper TG/W/4, it is worth considering these options and their implications in connection with the concerns expressed by developing countries.

14. Options 1 and 2 are conceptually similar insofar as the PSE has a substantive negotiating role in both, either as the object of bindings or as the frame within which policy bindings will be set. As the measurement device bears the most weight under option 1, so do the developing countries' concerns outlined in Part I. Option 2 would allow more scope for the individual treatment of policies, countries and commodities, and for complementary negotiating procedures. But it seems clear that if the negotiation were to follow either of these options then it would be hard to conceive of the developing countries not being fully involved in the PSE, though political decisions would obviously be needed concerning the terms of their participation. There is general agreement that the timing of the implementation of commitments would be a clear case for special and differential treatment. It should be noted, however, that most developing countries can be expected to have low, even negative, PSEs on many products; their commitment, in the case of a more or less PSE-based negotiation, could thus in effect contain a substantial special and differential element from the start. In fact, such policy adjustments as might be undertaken by developing countries in a PSE-based negotiation could favour rather than limit improvements in production and export. They would therefore appear to be consistent with most national development aims. The negotiating use of the PSE might in this case become a useful adjunct and reinforcement to domestic policy reform. Cuts in PSE levels would become indicators of changes in domestic agricultural policies in the sense of their increasing responsiveness to market signals. PSEs, per se, are, of course, not indispensable to carry out this process, but their use in the negotiations, under whatever option, would clearly underscore an

endorsement of the need for these changes. In concrete terms, for many the acceptance of this process, in parallel to or following changes in the same direction of the agricultural domestic policies of major producers and exporters, would seem to imply that their own farmers are going to be less penalized in the future vis-a-vis both other domestic economic sectors and foreign farmers.

15. Under option 3 the differences between the PSE treatment of developed and developing countries (and their importance) are likely to be less. The policies, commodities and commitments that the PSE would be called to monitor may reflect some negotiated exceptions and differential treatment, but all participants would appear to have a general interest in consistent and transparent application of a measurement device used in this way. Likewise, as noted above, most of the technical questions which would arise here would be of common interest to all.

16. Possible use of the PSE in improving GATT rules (option 4) could be of particular interest to developing countries insofar as it seemed likely to contribute to an improved negotiating result on market access and trade barriers. As several developing-country participants have noted in the work of technical group and NG5 (see, for example, NG5/W/60) improved market access for their exports is vital to their development effort. While the changes in domestic policy and resource allocation concerning agriculture that use of the PSE could assist (paragraph 14 above) may have their own internal logic and rewards, in order for developing countries to gain the trade benefits from them - and from this negotiation in general - the access question is crucial. Interest in the possibilities of a mutually - strengthening composite of PSE and revised GATT rules should of course not be confined to developing countries, but for them it could be one way of ensuring a balance of benefits from the negotiation, as discussed in paragraph 11.