

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG5/W/62
10 June 1988

Special Distribution

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

Original: English/
French

SHORT-TERM MEASURES (OTHER THAN IMMEDIATE MEASURES)
IN THE FRAMEWORK OF THE MEASURES PROPOSED BY
THE EUROPEAN COMMUNITIES

Submitted by the European Communities

I. Basic position

1. In the proposal for multilateral trade negotiations which it submitted to the Negotiating Group on Agriculture on 26 October 1987, the Community proposed a first stage comprising two parallel and complementary types of short-term actions: emergency measures and other short-term measures. The Community presented proposals on emergency measures on 16 February 1988 to the Negotiating Group on Agriculture and it maintains these proposals which represent an integral part of the short-term measures. The present communication sets out in more detail the proposals on other short-term measures. In this regard the global approach presented by the Community last October envisaged a concerted reduction of support aimed at halting the rising trend in existing imbalances and thereby initiating the process of restoring healthy market conditions. It indicated the following:

"The other measures would consist of undertakings concerning reduction of support resulting from internal or external measures, which the Contracting Parties would undertake to maintain or adopt so as to prevent the exacerbation of existing imbalances. Such undertakings would have to be of equivalent scope.

"Given the interest in using certain elements of work already done by international bodies and the fact that some Contracting Parties have already put in hand programmes designed to make an impact on production, an evaluation of support should be carried out beginning with the 1984/85 marketing year, which immediately preceded the commitment to hold multilateral trade negotiations. On that basis, action already taken unilaterally and measures resulting from subsequent concerted decisions which have a positive effect in bringing production under control would be taken into account. To ensure satisfactory progress in the negotiations, equitable burden-sharing and maximum impact, undertakings should be given in the following sectors, where the problems are particularly serious: cereals, rice, sugar, oilseeds, dairy products and beef/veal."

2. The Community recalls also that the short-term measures should only be the first of two stages in the phased reduction of the negative effects of support on international markets and that both stages, the one comprising the short-term measures and the other comprising the longer-term measures, should be part of a single package. Consequently, undertakings to be made in the context of the short-term measures could facilitate the long-term agreements which are likely to result from the agricultural negotiation on the matter of support, without prejudice regarding the modifications which might prove necessary for this type of agreement.

3. Such short-term measures are as necessary today as they were last October when the Community submitted her global negotiation proposal. Even if a certain improvement has been noted on world markets, for prices as well as for the outlook as regards the quantities traded, the situation remains precarious. This precariousness must be stressed in particular in the absence of a common orientation for agricultural policies of the member countries of the GATT.

II. Instruments to be implemented

1. Short-term measures can only serve their double goal, of restoring markets and advancing the agricultural negotiation, if these measures are agreed upon in 1988 and implemented in the first half of 1989 at the latest.

Under these circumstances, a pragmatic approach that would not prejudge the detailed approach to be agreed in the context of final agreements at the end of the negotiations appears appropriate.

Most of the contracting parties which have submitted proposals for the agricultural negotiations, have stressed the need for a unit of measurement of agricultural support in the context of a phased reduction of the negative effects of support on international markets, as foreseen in the Punta del Este Declaration. In this respect they have referred to the "Producer Subsidy Equivalent" (PSE) as developed by the OECD, while stressing that certain adjustments would be needed to these PSEs before they could become an instrument for the negotiation and for the surveillance of progress in reduction of support. Taking into account the complexity of the subject, discussions in the Negotiating Group on Agriculture on the details of the Support Measurement Unit (SMU)* and of its use in the context of the negotiation, are progressing satisfactorily. Until an agreement is reached on all the elements and aspects of such a measurement unit, provisional use should be made of the measurement developed by the OECD with a limited number of modifications, as detailed below, without prejudging the shape of the final SMU that would be established in the context of the long-term agreements.

* Unité de Mesure du Soutien - UMS - in French

2. The Community suggests, at this stage, making three adjustments to the OECD calculations and these concern the policies to be included in the measurement unit, the taking into account of production limitation measures and the question of the external reference price.

- (a) In her proposal of last October, the Community was of the opinion that only those measures having a significant incidence on trade should become subject to a discipline on global support. Other contracting parties more or less agreed. What is missing so far, however, is an agreement on the type of these policies. Under these circumstances and without prejudging possible future evolutions, it would seem best to exclude from the discipline, at this stage, certain measures, in particular the payments which exclusively represent a direct and immediate compensation for the reduction of the use of production factors. Such an approach is justified, not only from a logical point of view since these payments reduce production rather than encourage it, but also for political and economic reasons. Without such an exclusion for these measures, contracting parties might be tempted to reduce their global support to agriculture by eliminating such measures.
- (b) Production control measures, such as production quotas for example, or other measures having a similar effect, should be taken into account for the same reason as is reduction of the use of production factors. Applying an appropriate formula for measures of this kind would encourage their being upheld in the countries and sectors concerned and would equally encourage their introduction in other countries where for political reasons the option of price reduction cannot, at this stage, be applied.
- (c) The external reference price used by the OECD is in a general way based on a price close to the world market price. This price, however, is distorted by monetary fluctuations and others resulting from influences, often both important and unforeseeable, which are largely independent from agricultural policies.

Taking into account such fluctuating prices would not be very conducive to undertakings on support levels, considering, moreover, that undertakings on support levels would constitute a novelty in the GATT context. The use of a fixed external reference price would, in contrast, have the advantage of bringing to the foreground the internal adjustment process of the policies of the contracting parties.

Furthermore, certainly in the context of short-term measures, a calculation of support levels with respect to an external fluctuating price would only create complications. Moreover, considering the probability of certain improvements in market conditions as a result of short-term measures, such as proposed here, the taking into account of world prices would reduce the effectiveness of the adjustment process.

The Community considers therefore that, in any case for short-term measures, the use of a fixed external reference price is the best available option. The level of such a fixed external reference price is of little importance. It could be the lowest price observed recently, for example, or any other economically justified price level.

The expression of the reference price in the currency of the contracting party concerned will facilitate the entering into undertakings.

III. Undertakings to be made

1. The negative effects of support policies were felt particularly at the beginning of the 1980s, which entailed, as from 1984, policy reforms in a number of countries. One should take into account this fact which also contributed favourably to the adoption of the agricultural part of the Punta del Este Declaration, and provide that contracting parties undertake to freeze their support expressed in SMU for the various sectors of products mentioned at the end of paragraph I.1. and for which OECD calculations already exist. This freeze, in total SMU or unit SMU, according to a decision to be taken by the contracting parties, would be at the level established for 1984 and remain valid until a final agreement is reached in the context of the Uruguay Round. Such a freeze would constitute a starting point and a basis for all later undertakings.

Such undertakings could, at least for the short-term, be taken by the contracting parties for which PSEs have already been calculated in the context of the OECD and by those willing to participate in an exercise of this kind.

2. A number of contracting parties, including the Community, have taken reform measures since then, that vary, of course, in concrete terms, but have had globally positive effects. The Community for its part considers that this progress since 1984 deserves to be made durable by appropriate undertakings in the interest of all the contracting parties and could thereby constitute also a step towards the solution to be found in the long-term.

Under these circumstances, the Community is ready, moreover, to commit itself on the reduction of SMUs resulting from measures taken by it since 1984, if the other principal contracting parties in this context are willing to make equivalent undertakings. For contracting parties or sectors where actual performance has not yet reached an equivalent level, a period of catching-up of in principle two years should be agreed upon.

3. The contracting parties should define the character and the legal scope of such undertakings, as well as the consequences that the non-respect of undertakings by a contracting party could have. As to the latter, the Community considers that the contracting party in question should compensate other contracting parties having a legitimate interest and who have themselves participated in the exchange of undertakings as

mentioned above. A clause should, however, be foreseen which would come into play in particular situations where an increase of SMUs would result not from political measures but from other factors such as, for example, an abundant crop due to exceptional climatic conditions. The surveillance of these undertakings would be in the hands of the Negotiating Group on Agriculture according to conditions to be agreed upon.

4. With reference to the particular situation of developing countries and the fact that short-term measures are involved, it seems appropriate to adopt a flexible approach for these countries. However, for those occupying a particularly competitive position for one or other product and having a high production volume, it would be in their interest to participate, for the products concerned, in the above-mentioned undertakings by undertakings from their side to be determined. In fact, such participation would give them the right to ask for compensation in case of non-respect of undertakings by other contracting parties. Countries not participating, at this stage, in undertakings of this kind would nevertheless benefit, in particular from generally improved world market conditions.