

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

CHECKLIST OF ISSUES ARISING FROM THE TECHNICAL GROUP'S WORK
FOR CONSIDERATION BY THE NEGOTIATING GROUP

Note by the Secretariat

Introduction

1. At its meeting on 23-24 June the Technical Group requested the secretariat to identify, for referral to the Negotiating Group, issues which had arisen in its work calling for consideration at policy level. This note, which should be read in conjunction with document NG5/TG/W/12 (Summary Record of the Technical Group's June meeting), sets out the principal issues with a brief account of the extent, or limits, of the Technical Group's work in each case.

Options for use of the PSE

2. The point has been often made that the Negotiating Group's eventual decision on whether the PSE is to be used in the negotiations, and if so how, conditions most of the other questions before the Technical Group. Four possible options were discussed in the secretariat's note NG5/W/4. It seems reasonable for the Negotiating Group to base its discussion on the working hypothesis that if the PSE is used it will be as one, or a combination, of these options. However, account should also be taken of possible variants of the aggregate measure, e.g. those proposed by Canada (NG5/W/46) and the European Communities (NG5/W/62), which could involve some differences from the PSE concept as discussed in previous secretariat notes. These differences involve, respectively, policy coverage and reference prices (see below) which have been discussed at length by the Technical Group. Nonetheless, most of the issues raised below require policy guidance regardless of which aggregate measurement is used.

3. As the Technical Group's discussions showed, few PSE questions are purely technical. The choice of variant of the aggregate measure is bound up with the aims for its use, and this is a political question which concerns the form of the negotiations as a whole. It is possible, for example, that the PSE could be computed differently for use in short- and long-term reform measures, by varying the policy and/or commodity coverage in each case. Other possible variations in the PSE methodology are discussed below. They show the flexibility which is both a strength and

weakness of the device, and suggest that in a number of cases the Gordian knot of technical problems may - if the negotiations are not to be sidetracked - need to be cut by pragmatic political decisions. While it would be unrealistic to expect the fundamental questions raised in this paragraph to be fully resolved before consensus is reached on the various negotiating proposals before the Negotiating Group, these questions must be the parameters of any detailed discussion of the PSE.

Policy Coverage

4. The question of the policies covered by negotiated commitments arises whether or not these commitments are based on or related to an aggregate measure. The Technical Group has focused on the list of policies to be included in the aggregate measure and the criteria to be used in their selection. It is clear that there is no "technical" solution to this problem - i.e., there are no accepted objective standards by which policies can be included or excluded. While there seems to be general agreement that a more selective effect-based treatment of policies than the OECD methodology provides would be appropriate in GATT negotiations, the priorities and values involved in this selection are beyond the scope of the Technical Group. Criteria which have emerged as important to various participants centre on the production effect of policies and their degree of trade distortion (not necessarily equivalent). The idea has been widely canvassed that policies agreed to be "decoupled", i.e., assistance to farmers which has no, or a minimal, effect on production, should be excluded from the PSE calculation. It has been suggested that, as a pragmatic solution, the OECD policy coverage (see NG5/W/34, p. 8) could be used, with exceptions to be agreed by the Negotiating Group. (These might affect category D, "General Services", for example). Another suggestion is the notification by participants of lists of policies - their own and others' - which they see as priorities for inclusion. The treatment of sub-national policies is another question requiring policy decision. The Technical Group's discussion of the secretariat paper NG5/TG/W/8 made it clear that the PSE may not be an adequate negotiating device to deal with participants' concerns in central policy areas such as import access and non-tariff barriers. The Negotiating Group will have to consider the possibility of addressing these issues by other means.

5. Two particular issues of policy coverage have received considerable attention from the Technical Group and require consideration by the Negotiating Group.

(a) Supply Control: this topic has been reviewed by the secretariat in document NG5/TG/W/5 and discussed by the Technical Group on the basis of that paper. The basic policy question remains whether explicit adjustment should be made to a participant's PSE to reflect policies which limit supply. While leaving this question for decision by the parent body, some members of the Technical Group discussed possible methods by which such an adjustment, if agreed, could be made. Technically it appears possible though complicated, involving the "reconstruction" of shadow prices and production levels. It was also suggested that a simpler alternative might be to exclude payments

related to supply control from the PSE calculations. Other participants doubted either that such a procedure would be feasible in the negotiations, or that it needed to be considered, given their understanding that the aggregate PSE would automatically reflect the trade impact of effective supply controls. They queried the consistency of supply controls with the liberalizing aim of the negotiations. No consensus was reached on these points.

(b) Development Assistance: as discussed in the secretariat's note NG5/TG/W/9, there appears to be a widespread understanding that assistance in developing countries related to economic development goals should not be evaluated in the same way for PSE purposes as developed-country subsidies. Clarifying such an understanding is a question for the Negotiating Group, as is the consequent question of whether commodity-specific policy measures should be included in the special treatment.

Country Coverage

6. The point concerning developing countries in paragraph 5b above is relevant here as well, as is paragraph 9 of NG5/TG/W/9, which points out that questions of the extent and variations of PSE country coverage are policy matters for the Negotiating Group to decide. The main points made on this issue in the Technical Group have been, firstly, that the larger the part played by the PSE in the negotiations the more important country coverage becomes, and secondly that a comprehensive collection of data covering as many countries as possible - without prejudice to eventual use of the PSE - is desirable to assist further consideration of both technical and policy issues.

Product Coverage

7. The Punta del Este Declaration speaks of the need to address problems in the agricultural sector as a whole, with no identification of specific commodity sectors. On the other hand, the PSE technique has to date been applied to only a very limited number of temperate commodities (fourteen in the OECD work, twenty-three in USDA). Furthermore, PSEs have not been calculated on all of these products for each country, but only on a selected number of trade interest to any particular country. For some countries, PSEs have been estimated for only one commodity.

8. Products for which PSEs have been calculated are primarily grains, dairy products, sugar, meats and some oilseeds. Virtually no tropical, horticultural or processed products have to date been included. Considerable data would be required for application of the PSE methodology to these types of products. Determination of income transfers to producers in the case of processed products poses some technical difficulties.

9. If the decision is taken to use the PSE in the negotiations, the issue of its expansion to cover other commodities must be considered. Alternatively, another negotiating technique must be agreed for those products outside the scope of the PSE.

10. In addition to the major policy issues regarding policy, country and commodity coverage, a number of technical aspects relating to the PSE methodology can have substantial policy consequences. These include the selection of reference prices, the handling of currency fluctuations, and the base period used. As noted above, the importance and implications of these issues are largely dependent on the use made of the PSE in a negotiating context. If commitments are made on policies and the PSE used only for monitoring, these concerns are of much lesser incidence than if the PSE is more directly linked to the commitments themselves.

Reference Prices

11. For those agricultural support policies which do not stem from budgeted government programmes, the PSE methodology requires comparison of internal prices received by farmers with some representative external reference price. For each country, the OECD methodology identifies a specific reference price for each commodity for each year. This price is frequently considered to be the price at the country's border, i.e., import c.i.f. price or export f.o.b. price, with adjustments for quality, transportation, etc.

12. Substantial discussions have centred on identification of common (to all countries) reference prices for each commodity, i.e., identification of a single world market price. In practice, this has been done only for milk. It has been argued that a common reference price would permit more accurate comparison of the price distorting effects of particular national policies. On the other hand, such "world prices" are seen as being themselves distorted by the effects of subsidies and other policies, and not representative of the particular quality and standard of a country's domestic production.

13. It has also been proposed that the PSE be calculated through comparison of internal prices with a periodically adjusted, constant reference price. This would to a large extent eliminate the effects of exchange rate fluctuations on the internal/external price comparison, and depending on the particular reference price selected, could also minimize the effects of subsidies and other measures on the price differential. It is argued that a fixed reference price would provide a more manageable and comprehensible basis against which commitments for domestic action could be undertaken.

14. In contrast, use of a constant reference price is not seen as furthering the objective of making domestic policies more responsive to world market conditions. To reduce the isolation of domestic policies from the world market, reference prices reflecting the changing world situation should be used. For countries whose farmers essentially receive world prices, the use of a fixed reference price could give rise to distorted PSE calculations simply because of exchange rate changes.

Exchange Rate Fluctuations

15. Closely related to the above issue, because of its effects on the internal/external price differential, is the issue of exchange rate fluctuations. Reductions made in a country's support policies may not appear as a reduced PSE if exchange rate fluctuations result in an increased difference between internal prices and an external reference price when converted to local currency. Use of a fixed or constant reference price eliminates much of this problem but raises the issues noted above. Further complications may arise for countries with high rates of inflation, in which case the use of a deflator or calculation of PSEs in a more stable foreign currency have been suggested.

Base Period

16. Changes in a country's support policies as measured by the PSE require comparison with a selected base period. Use of a single year versus a several year average has been discussed. The level of a particular country's PSE during whatever base period is selected compared with existing or future levels could determine the extent of further action to be taken. Any particular base period will arguably have been affected by "special factors" which are to the advantage or disadvantage of individual countries.