

MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND

RESTRICTED

MTN.GNG/NG5/TG/W/12

6 July 1988

Special Distribution

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 THIRD MEETING OF THE
TECHNICAL GROUP ON AGGREGATE MEASUREMENT OF SUPPORT
AND RELATED MATTERS

(23-24 June 1988)

Note by the Secretariat

1. The Technical Group had before it the EC proposal on short-term measures (NG5/W/62), the discussion paper submitted by Poland (NG5/TG/W/10), the statement by Jamaica (NG5/W/66), background notes NG5/TG/W/8 and 9, PSE submissions by the European Community and United States (NG5/TG/PSE/EEC/1 and US/1), and the summary of main points raised at its April meeting (NG5/TG/W/7), as well as those discussion papers, statements and secretariat notes discussed at earlier meetings.

2. With regard to policy coverage, it was observed that there were several possible approaches: (1) reach agreement on the concept of "decoupled" and exclude such policies from measurement; (2) examine those policies included in the OECD methodology and decide which to exclude; (3) identify and exclude non trade-distorting policies; and (4) submit lists of those policies each participant wished to see included in its own and others' PSEs. A number of participants agreed that only trade-distorting policies should be included, and some felt that it would be feasible to work from the basis of the OECD list and exclude certain categories (such as general services) or sub-categories (some sub-national programmes) of policies. Another indicated that a particular case should be made for each exclusion. One delegate suggested that different weights could be assigned according to the distortion effects of policies, but it was generally agreed that the decision on policy coverage required political guidance. The point was also made that the eventual use of the PSE had some bearing on this decision. Furthermore, delegates were reminded that whether or not the PSE were used, a decision would still need to be made regarding which measures and subsidies were included in the negotiation.

3. Several participants raised the concern that whereas the costs of supply control were included in the total PSE figure, the benefits arising from successful supply control practices were not appropriately measured. One noted particularly that if production at high support prices were constrained to the level which would exist if it received world prices,

there would be no distortion of trade nor of output, although the PSE would include the effects of high price supports and of supply control measures. These delegates suggested that the positive effects of supply controls could be reflected if the PSE used that price which would have given rise to the restricted output level, rather than the actual support prices. Some representatives suggested that exclusion of the costs of supply control programmes would be a more pragmatic solution, but one delegate observed that this resulted in the selective treatment of particular policies or types of programmes. The point was also made that the OECD had found it virtually impossible to devise an equitable way of "crediting" supply controls.

4. A number of delegates maintained that the total PSE figure inherently measured the benefits arising from effective supply controls through reduced quantities (see NG5/TG/W/5). One observed that since elimination of supply controls resulted in an increase in the PSE, additional "credit" should not be given for their implementation. Another noted that supplies could be controlled not only through production limitations but also through stocking programmes or quantitative import/export restrictions, and expressed concern that importing countries not bear the costs of reduced government support elsewhere.

5. Several delegates stressed that government-mandated supply controls were contrary to the objective of increasing the role of market forces in domestic agricultural policies. High support prices had effects on cost structures. It was difficult to justify giving "credit" to measures which further distorted resource use. One delegate noted that there was no intention of impeding countries using supply controls, but that their use should not be encouraged.

6. Several delegates agreed that the PSE did not adequately deal with import access liberalization (see NG5/TG/W/8), and stressed the need for negotiations also on rules. They noted that if commitments were made on policies and the PSE used only for monitoring, it was a secondary issue whether changes were always fully reflected in the PSE. One representative observed that the Consumer Subsidy Equivalent (CSE) might be examined in this regard.

7. In contrast, the representative of one country expressed the view that unless there were supply controls, reductions in the PSE would have to result in increased import access in situations where access restrictions existed. Another noted that increased import access would likely lead to tightened supply controls, also affecting the PSE. One delegate observed that it was necessary to distinguish between import access restrictions and the level of imports per se.

8. In discussing the background note NG5/TG/W/9, one delegate observed that as the PSE was an indicator of distortions in resource use, it should also be examined for developing countries. However, commitments from developing countries would have to be in line with their contribution to distorting the world market. Several participants stressed that different

treatment was also necessary for those countries particularly with regard to the concept of decoupling and the inclusion of structural adjustment and development policies in the PSE. One observed that in contrast to the surplus production problems of developed countries, developing countries wanted to increase production. Another noted that many developing countries had very low or negative PSEs. The issue of commodity coverage (see paragraphs 15 and 16 below) was also relevant to the calculation of PSEs for developing countries.

9. Several delegates made the point that liberalization of world markets would benefit net importing developing countries through reduction of instability and the effects of policies by any one country. One noted that the effects on countries' balance of payments should be analysed. The representative of one country expressed the view that calculation of PSEs for developing countries was a desirable but not essential element of the negotiations. Another noted the need to examine the effects of the high inflation rates of many developing countries on their PSEs.

10. The observer from the FAO repeated his organization's willingness to provide technical assistance to developing countries in estimating their PSEs. He noted that the PSE as calculated by FAO was more similar to the Trade Distortion Equivalent (TDE) as it had not included many development or "general service" policies, and took a country specific approach on policy coverage. The small proportion of production which actually entered market channels should be considered. However, he noted the desirability of developing the maximum amount of data, without prejudice to what use the country decided to make of it.

11. Discussion of reference prices took the proposals on short-term action presented by the European Community to the Negotiating Group (NG5/W/62) as their point of departure. The Community's representatives expanded on the concept of the SMU which took a different approach to reference prices from other PSE variants. The Community explained that the aim of the SMU was to measure trends in support in a given country relative to its own reference price. Hence a uniform reference price for all countries was not needed, but the individual reference prices used should be fixed. All the reference price snapshots need not be taken at the same time. The base year for the external reference price in each case was not in fact crucial - normally the lowest price available should be used - but the base year for the commitment on support levels as measured by the SMU was. The EC proposed 1984 as the base year; an SMU thus computed using a fixed external reference price and 1984 support levels would be the ceiling of permitted support, and the criterion against which subsequent reductions in support were evaluated. The EC noted that the external reference price should be as close to reality as possible. It would be desirable to provide for a review of them at intervals - e.g. when moving from short-term to long-term actions. The merits the Community saw in their proposal included its elimination of exogenous fluctuations in support measurements - for example those caused by exchange rates - and thus a clearer measure of real support levels. In answer to questions the EC representative confirmed that the focus of their measure was on internal support changes, not on the market or external factors.

12. In their reactions to the EC's proposals some participants discussed alternative techniques for establishing reference prices while others concentrated more on the conceptual limitations of the SMU as they saw them. Among the former was a proposal that the external reference price used should be the relevant border price - i.e., f.o.b. for exporters and c.i.f. for importers. Another approach suggested that a c.i.f. price should be used as the external reference for production up to 100 per cent self-sufficiency and f.o.b. for all production beyond that. Instead of fixed reference prices the result would be individual ones for each country and commodity which would effectively be weighted in relation to the importance of production for export. One participant stated that in light of the need for a constant external reference price to be as close as possible to actual levels, the latest available price should be preferred to the lowest. Another participant favoured the use of the border price of the competing or substitutable product in each case. In addition, a participant called for reference prices to take account of differences in product quality between countries.

13. A number of participants expressed differences with the overall approach represented by the SMU's fixed reference price. They agreed with the EC that the use to which the aggregate measure was put would be the crucial determinant of technical questions such as this. In that light they queried the Community's concentration on internal support, and emphasized the need to keep trade distortion in view. Levels of support related to actual market conditions and border prices had therefore to be taken into account. Otherwise, the logic of the Community's proposal led to little more than an index of internal prices. One participant expressed concern that for countries like his own where internal and external prices could often be the same, the SMU could actually increase autonomously through market price rises or exchange rate changes relative to the fixed reference price. Another noted the proliferation of alternative reference price techniques and urged that these be firmly related to aims; on this basis he questioned the EC approach, especially its provision for review of fixed reference prices which could change the whole basis of the PSE at intervals. It was observed that, by focusing the aggregate measure on internal support, the EC proposal threw more weight on the need for other GATT approaches to elements in the negotiation such as market access, GATT rules, etc.

14. Several delegates noted that the use of fixed reference prices could eliminate most of the difficulties arising from exchange rate fluctuations for those countries with relatively rigid internal prices. However, in countries whose farmers received world prices, a devaluation would increase their PSE if measured with a fixed reference price, even in the absence of any change in government policies. The representative of one country observed that a country's exchange rate was dependent on its debt situation, so the base period and reference prices selected were of critical importance. Another pointed out difficulties arising from the

high rate of inflation in many countries and suggested that for these countries PSEs could be calculated in a more stable currency. One delegate noted that these concerns could be resolved by using a deflator to discount inflation and by ignoring the resulting aggregate measurement if support to farmers were actually reduced or eliminated. It was observed that as with many other issues before the Technical Group, exchange rate fluctuations were more of a problem if binding commitments were made on the PSE itself rather than on policy measures.

15. It was brought to the Technical Group's attention that agricultural trade involved about 3,000 tariff line items, whereas PSEs to date had been calculated for less than twenty-five major primary commodities. Many delegates agreed that all products should be subject to the negotiations, although not necessarily on the basis of the PSE methodology. One expressed the view that the focus should initially be on those major commodities causing problems in world trade, and if the PSE methodology proved workable for these products consideration could be given to widening its coverage. Another indicated that countries should be encouraged to submit PSE data and estimates on as many products as possible, not just those which represented a certain proportion of their total production.

16. The representative of one country identified as possible alternatives for PSE coverage the inclusion of all products identified by OECD (although he observed that the product categories were not the same for all countries), or only agricultural products in surplus production in OECD countries, or only those for which an international reference price existed. He questioned whether, in light of FAO calculations of primary product equivalents for several processed products, inclusion of processed products in the PSE raised technical difficulties or political ones.

17. The Technical Group was informed that PSE data and estimates had been received from the European Communities (NG5/TG/PSE/EC/1), United States (NG5/W/TG/PSE/US/1), Australia and New Zealand, although these latter two had not yet been circulated. A number of delegates indicated the intention of their governments to submit PSE data in the coming months.

18. Most delegates observed that virtually all of the issues discussed, and others including the base period and options for use of the PSE, required eventual decisions by the Negotiating Group (see NG5/TG/W/11). Further progress in the Technical Group was to some extent hampered by lack of political guidance. It was suggested that pending such guidance, the Technical Group should focus on a more limited set of problems based on written submissions from countries.