

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG5/W/71

27 July 1988

Special Distribution

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

Original: English

NEGOTIATING GROUP ON AGRICULTURE

(13 July 1988)

Statement by Australia

I believe that all participants will know of the decision by Cairns Group Ministers at their meeting in Bariloche, Argentina last February, to identify the Mid-Term Review meeting in Montreal as an important and appropriate opportunity to achieve substantive interim results in the agricultural negotiations. These interim results were seen as including a firm commitment to the elements of a long-term framework, as well as agreement on measures for immediate implementation as a down payment on the long-term reform.

It is, therefore, as a result of the work undertaken since the Bariloche meeting, that on behalf of the Cairns Group I introduce a paper which defines the elements of a comprehensive framework for the long-term and elaborates the Group's ideas for early action. I refer to document MTN.GNG/NG5/W/69.

In bringing forward its more detailed ideas at this time, the Cairns Group hopes that the negotiating processes on agriculture will be actively engaged and that a basis for genuine progress in this vital sector will be registered when Ministers meet in Montreal in December.

Clearly, the negotiating process needs to be stimulated at this stage. While 1987 saw encouraging progress with the tabling of several important proposals, and while political leaders have continued to underline their commitment to negotiations in this area, there has been little evidence in the discussions to date of movement in the positions being adopted by key players.

Circumstances require, and logic dictates, that a means now be found to bridge the wide differences which exist in negotiating positions. We surely cannot allow progress on agriculture to be held forever hostage by the failure of key participants to demonstrate flexibility in the negotiations.

While important differences remain over long-term goals and the means by which they may be achieved, common to all proposals tabled in this forum is a desire to see agricultural support progressively reduced.

It is against this background that the Cairns Group wishes to bring forward ideas which build upon the negotiating position tabled in

November 1987. The result is a framework approach which links short-term, transition and long-term elements of a reform package designed to progressively reduce and eliminate trade disrupting measures.

The basic elements of the Group's approach are the identification of long-term reform objectives; the design and agreement of transitional arrangements and rules; an immediate freeze on trade-disrupting support measures; and a commitment to a "down payment" on long-term reform that involves reducing aggregate support levels in each of 1989 and 1990 through action on measures which are most responsible for trade disruption. All these elements would be part of a single, integrated reform framework.

The ideas being outlined today by the Cairns Group are fully consistent with the objectives of the Punta del Este Declaration and would set in train a comprehensive process of trade liberalization in agriculture. This programme would be of benefit to all countries, including food-importing developing countries whose concerns are fully recognized by the Cairns Group.

The main outlines of the Group's proposal will be clearly evident from the document before you. It is my wish, however, to highlight some of the key features for the benefit of the meeting.

First, the long-term elements. These are set out in Section II. The long-term objective of the Group on agricultural reform is full liberalization of agricultural trade which would encompass rules and disciplines to remove restrictions to the free-flow of trade in agricultural products and prohibit the use of all subsidies having an effect on agricultural trade.

It is proposed that negotiations should commence in 1989 on the long-term rules and disciplines for full agricultural trade liberalization. The Cairns Group's framework approach provides firm parameters to underpin these negotiations. Guidelines would be established providing for a reform process involving a staged, progressive reduction in agricultural support, based on a specific implementation time-table. All policy instruments which distort agricultural trade would be brought under effective GATT rules and disciplines by means of strengthened and more operationally effective rules and disciplines. These would include new and/or amended rules to govern the most trade-distorting policies and bringing into conformity with the long-term régime all waivers, protocols of accession and other measures not based on GATT rules and disciplines.

The generally applicably GATT provisions for consultation, surveillance and dispute settlement, as strengthened by the Uruguay Round negotiations, would apply to agricultural trade in the long-term régime.

I draw particular attention to paragraph 8 under the sub-heading Exempted Measures. As provided for in the initial Cairns Group proposal, certain support measures would not be subject to elimination in accordance with prescribed conditions, including measures decoupled from production and marketing.

Next, transition to the long-term. These ideas are set out in Section III. Countries would negotiate commitments on agricultural reform and on the implementation of schedules of reductions in trade-distorting policies. These commitments would involve concerted reductions in support based on the use of an aggregate measure, and the development of complementary transitional rules to ensure compliance with undertakings.

Commitments to reduce support during the transition phase would encompass the negotiation of target annual reductions in aggregate support, both across agricultural sectors and for individual commodities. In addition, a set of minimum annual adjustments to specific policy parameters would be negotiated. The value of the commitments to annual reductions would be gauged by the use of an aggregate measure.

A third, and key element outlined in Section IV deals with the first steps to long-term reform. In order to get the process of multilateral reform under way, the Cairns Group proposes a freeze on trade-distorting support and a concerted multilateral reduction in support, during 1989 and 1990, as a down payment on the long-term objectives.

Heavily subsidizing countries would commit themselves to reduce the aggregate monetary level of output-based support for the widest possible range of agricultural products by ten per cent in each of 1989 and 1990 as a first move towards more fundamental reform during the transition period to the long-term reform objectives. Reform commitments would also be made by other countries which have intensified their level of trade distortions during the 1980s.

It is envisaged that countries would have some flexibility in achieving this initial reduction in support, but it is also proposed that the reform commitments should encompass specific minimum adjustments to policy parameters embracing the most trade-disrupting measures. The policies that should be focussed on include export subsidies, administered prices and market-access restrictions, with disciplines also on stock disposals and the maintenance of existing production control and acreage reduction programmes.

The specific minimum adjustments to policy parameters are the means through which the umbrella commitment to reducing aggregate support can be achieved and through which action can be taken against the most disruptive support measures. The sub-elements of the early action package therefore in a critical way, provide the link which the Cairns Group seeks between short- and long-term reform.

The final two sections of the Group's paper deal with the subject of differential and more favourable treatment for developing countries and the question of sanitary and phytosanitary measures.

The Cairns Group's proposed framework approach reiterates the position endorsed in our initial proposal of October 1987, that the principle of special and differential treatment, as embodied in the GATT and related

instruments, applies to all areas of our proposed reforms, including the down payment phase. It is proposed that the general ideas on differential treatment advanced in our original proposal should be agreed at the Mid-Term Review and elaborated, and their modalities defined, as the detail of transitional arrangements and the long-term framework is developed. Importantly, however, the Group proposes that developing countries, which cannot as a whole be held responsible for significant distortions in world markets, should be exempted from contributing to the first steps to long-term reform. This is a practical and significant way of demonstrating the determination of the Cairns Group to apply the principle of special and differential treatment.

In accordance with the negotiating mandate on agriculture agreed on at Punta del Este our framework approach also provides for negotiations aimed at minimizing the adverse effects that sanitary and phytosanitary measures can have on trade. Agreement would be reached at Montreal on the framework for negotiations on these measures in 1989 and 1990.

In presenting this paper as a basis for further discussion within the Negotiating Group on Agriculture, I would like also to discourage anyone from the thought - should it exist - that the task which we are here to undertake is rendered in any way less urgent by the recent recovery in world-market prices for many commodities.

Agricultural trade reform is needed just as much now as a year or two ago when commodity markets were depressed. The reason is obvious: the upturn in markets is cyclical. None of the fundamental causes of the agricultural crisis of the mid-1980s has disappeared.

Many of the output assistance measures used, such as variable levies, fixed-import quotas, target prices, deficiency payments, and export subsidies continue in the worst case to transmit the opposite signal to their domestic producers and consumers, or in the best case to transmit signals of the correct sign but of a greatly diminished magnitude.

In these circumstances, surpluses have, for an extended period, escalated rather than diminished. The period of low-world prices has been extended and the ultimate magnitude of the price declines increased. Those countries left to trade in the residual world market suffer proportionately larger farm income falls and much greater adjustment costs than would have been the case had output assistance measures not disrupted the market.

Prices on international commodity markets are, of course, now rising and markets could conceivably remain buoyant for the next two to three years. However, this cyclical upturn will inevitably be replaced by a sharp and prolonged downturn if the history of the last forty years is a guide.

Indeed, history indicates that the magnitude of these downturns is tending to become more severe and prolonged. It is vital, therefore, that members of this Negotiating Group are not lulled into a false sense of

security by the recent - and welcome - improvements on world markets. The sobering fact is that these improvements will be transient unless governments can agree to the systematic scaling back, and eventual elimination, of those measures that continue to disrupt agricultural trade.

This puts into sharp focus the need for a substantive interim result on the long-standing problems of agriculture at the Mid-Term Review. A substantive result is necessary to give direction to the negotiations in 1989 and 1990; to improve the negotiating climate for the remainder of the Round; to energize the agricultural reform process.

* * *

While I have the floor, I would like also to draw attention to a paper which has been distributed today in Australia's name. I refer to document MTN.GNG/NG5/W/70/Rev.1. This paper, which draws upon analysis conducted within the Cairns Group, details a set of minimum commitments to specific policy parameters which would, in our view, contribute to, and underpin, the umbrella target reductions in output-based support for each commodity. These suggested adjustments are as follows.

First, we see a need to reduce total export-subsidy payments for each commodity by a minimum of ten per cent in each of 1989 and 1990. This has obvious importance given the disruption caused by the recent history of subsidies and counter-subsidies.

Second, there is an equally obvious case for a mechanism to increase access to markets without prejudice to accelerated liberalization negotiated either bilaterally or in a GATT context. This is important for all exporters and is crucial to efficient non-subsidizing exporters in general and to developing countries experiencing debt problems in particular.

Third, we place a particularly strong emphasis on the need for subsidizing countries to reduce administered prices in nominal domestic currency terms by a minimum of three per cent for all products with percentage PSEs above ten per cent. This threshold level, of course, safeguards the interests of the majority of developing countries, which tend on balance to tax rather than subsidize their agricultural sectors. But it would require the majority of developed countries to at least meet the minimum price reduction. In many cases this could be achieved within the context of current domestic legislation. However, where the bulk of support is delivered through price support, achieving umbrella ten per cent annual reductions in support would require countries to exceed that minimum.

Fourth, supply controls are a fact of economic life and some flexibility in down payment and the transition is required to allow countries some manoeuvrability between price reductions and supply controls. However, it is important to point out that manipulating supply controls is not part of the long-term strategy for reforming agriculture, but pragmatism requires that it is part of the strategy for the down payment and transition.

Finally there are disciplines on stocks. The underlying aim should be that stockholders should be encouraged to release stocks in a fairly rapid, though non-disruptive way, subject to disciplines that stocks are not simultaneously regenerated. Grain stocks in North America can, of course, be expected to fall substantially as a result of the current drought. However, the 1983/84 drought in the United States Corn Belt illustrates how quickly the market can recover from weather-induced shortages. Continued high levels of production support in North America and the European Community will provide impetus for stocks to build up once weather conditions return to normal. Permanently managing the stock problem - which is a symptom of the problems of agricultural trade rather than a cause - will require in the first instance the type of action described in the first four elements of the down payment package. However, this must be reinforced by an effective transitional process and by binding long-term rules if supply and demand are to be brought into close alignment and if agricultural trade is to be placed on a sound economic footing.

What we are proposing on down payment is, let me make clear, within the bounds of commitments that have been agreed to by the major industrial countries in recent times. We cannot, of course, claim that all of the reforms that we consider to be a necessary part of down payment are being implemented by heavily subsidizing countries. But we are encouraged, for example, by the buildup of political will for reform evidenced by:

- the recently announced decision in Japan to reduce the producer price of rice by 4.6 per cent in 1988, following the 5.9 per cent reduction in 1987;
- the decision to liberalize Japan's beef import arrangements;
- the Community decision to freeze the support price of most agricultural products in 1988/89 in ECU terms;
- the decision reached at the Brussels Summit on Agricultural Stabilizers which represents an important, though limited, step in the direction of CAP reform; and
- the US commitment to reduce target prices for the principal crop programmes by three per cent in each of 1989 and 1990.

This list is by no means exhaustive. What it shows is that domestic policy-makers are attempting to grapple in practical ways with the problems caused by high-support systems. An equally important point to note, however, is that the efforts of policy-makers can be reinforced and made more effective if they are part of a multilaterally co-ordinated process. That is why we emphasize down payment and the links that should both bind and guide early reform and the the transition to a liberalized, or substantially liberalized, system of agricultural trade.

Early action as envisaged by the Cairns Group points the general way to worthwhile long-term reform. This may undoubtedly require further refinement in discussions within this Group and in capitals. However, we

submit that the broad strategy elaborated by the Cairns Group meets the practical requirements to achieve substantial reform and that it should become the focus of discussions within the Negotiating Group on Agriculture in the period leading up to the MTR. If it does, or if some ambitious yet pragmatic variant emerges, then it seems fair to conclude that the MTR will produce concrete results, not the least of which will be to map out the direction of agricultural negotiations over the next eighteen months to two years.