

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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NEGOTIATING GROUP ON AGRICULTURE

Elaboration of the United States Proposal on Agriculture

The Aggregate Measure of Support

1. At the July 1988 meeting of the Agriculture Negotiating Group, the Chairman, in response to issues raised by the technical group on the Aggregate Measure of Support, requested that delegations submit papers elaborating their views on the issues concerned, in particular the role which the Aggregate Measure of Support should play in the negotiations. This paper conveys our views on this subject. However, it should be understood that it is presented in the context of our overall objectives for agricultural commodities, food, beverages, forest products and fish and fish products in the Uruguay Round. That objective is to achieve greater liberalization of trade in these products and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines. While the Aggregate Measure of Support can be a useful device providing transparency to the negotiations and allowing for some comparisons of vastly differing policies, it is not the substance of the negotiations. Our ultimate objective continues to be the negotiation of GATT disciplines that will lead governments to change those policies which distort world trade.

Use of the Aggregate Measure of Support

2. At the outset, it should be noted that the United States views the aggregate measure of support (e.g., PSE) as a somewhat generic concept. That is, this general approach to the measurement of subsidies is sufficiently flexible to make it adaptable to the needs of the negotiation. At the same time, there are limits to the modifications that can be made in the basic methodology if the results are to have meaning and application. In adapting this type of measurement concept to the GATT context the considerable work done elsewhere on such measures should be drawn upon as appropriate.

3. While several possible applications of an aggregate measure of support have been suggested for the negotiation, it is important to recognize that support received by producers is the result of the policies that each country has put into place. An aggregate measure of support is a device that simply measures the level of support being provided. Although an aggregate measure can be used to assess the effect of policy changes in terms of support provided, the aggregate measure is not itself an instrument of change.

4. Because trade distortive support results from specific policies, it remains the view of the United States that binding commitments can only be made in terms of those policies. However, an aggregate measure of support could assist in the formulation of plans by providing a common frame of reference for their development. In addition, the transition from trade distortive subsidies and access barriers will require that equitable paths of reduction be undertaken. An aggregate measure of support could facilitate the appraisal of plans for policy reform by providing a common basis on which to evaluate the sufficiency and equivalency of reforms proposed by others.

5. The monitoring of the reform process must involve the tracking of specific policy commitments undertaken by countries. However, it might prove useful if aggregate levels of support were measured during the transition period. This additional source of information would provide helpful transparency in assuring that levels of support were, in fact, being reduced. Such transparency might well serve as a deterrent to the substitution of new trade distorting policies for those policies being changed or eliminated. A family of aggregate measurements drawing from the same data base might be considered for this purpose. It would be possible, for example, to calculate aggregate support on the basis of actual exchange rates as well as some moving average of exchange rates.

Policy Coverage

6. The issue of policy coverage really involves two considerations. First, what types of policies will the negotiation address? And, second, how might the ways in which policies are included in an aggregate measure affect its application in the negotiation?

7. An aggregate measure can be developed that will reflect the level of support provided by whatever policies a country has chosen to put into place. Thus, the measurement of support for purposes of the negotiation will depend on the policies that Contracting Parties decide to address through the Uruguay Round. It is the view of the United States that the negotiation should take as its starting point all policies that distort production, consumption and trade. Therefore, notable exclusions would be support to producers that does not affect production and bona fide food aid. The United States has also proposed (MTN.GNG/NG5/W/55) that for certain developing countries non-commodity specific subsidies for long-term economic development could be excluded from coverage. Beyond these exceptions, if Contracting Parties believe that other policies should be excluded, the case for doing so needs to be made.

8. A second issue relates to the way that policies are included in an aggregate measure and what this might mean for the application of an aggregate measure in the negotiation. As discussions of the Technical Group have revealed, the important market price support component of overall support is the result of a mix of policies, some domestic and others implemented at the border. While the aggregate measure can reflect the support provided jointly by these policies, it is unable to differentiate among them. Thus, the aggregate measure can reveal how much market price support is being provided but not specifically by which policies. This is one reason for the United States proposal that specific policy commitments must be agreed if an equitable reform process is to be undertaken.

9. Finally, the issue of "credit" for supply control policies continues to be raised. The effects of supply control on support to producers in a country that pursues this type of policy have been demonstrated by the Secretariat and others to be reflected in at least one form of the aggregate measure. Yet, it is argued that further credit is due because this type of policy reduces supplies in the world market and thereby creates price benefits to producers in other countries. However, all countries take actions from time to time that at least marginally improve (or worsen) the trading environment for others. If the negotiation is to proceed, it is imperative that broad classes of policies be agreed for inclusion in the negotiation and that an aggregate measure deal with the first-order effects of those policies.

Country Coverage

10. All countries have a major stake in the successful conclusion of the Uruguay Round negotiation on agriculture. A number of studies have shown that countries that do not participate fully in the negotiation can be expected to disadvantage themselves. The possible use of an aggregate measure in the negotiation therefore argues strongly that all countries should pursue the development of appropriate aggregate measures. At a minimum, as the Secretariat has noted, it seems "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." To this end, the offer of assistance by both the GATT Secretariat and the FAO to those countries that have limited experience in this area should facilitate country coverage and participation in the negotiation.

Product Coverage

11. Previous calculations of aggregate measures of support have tended to focus on those commodities that are most important in trade or as a proportion of production. The OECD product coverage utilizes a criterion of this type and provides a useful starting point. Of course, the United States and other Contracting Parties have stated that product coverage need not be limited to those commodities covered by the OECD work on aggregate measurement of support, but rather should be as broad as possible.

12. Support to processed products can seriously distort agricultural markets. However, the support to processed products is believed to be less pervasive than for raw, bulk commodities. The justification for such support is often tied to support of basic commodities, and is reflected accordingly in an aggregate measure of support for those basic commodities. If support to basic commodities is effectively dealt with through the Uruguay Round negotiations, a simpler, more direct, rules-based treatment for processed products may be possible.

Reference Prices

13. The United States believes that the OECD methodology on reference prices which, in general, involves the use of observed border prices should be adopted. The only exception at present in the OECD methodology is for dairy which is based on a comparison of country farm prices for milk with the New Zealand farm price.

14. The issue of using fixed (i.e., for a period of years) external reference prices in an aggregate measure must be approached with caution. Of greatest concern is the fact that actual support levels will be represented only in the year from which the reference price is taken. Also, if the external reference price is fixed, changes in support brought about through changes in some border measures (e.g., export subsidies) will not be directly or fully reflected. Only changes in internal prices (or other domestic support) will be measured. To the extent that increases in market access or reductions in export subsidies actually occur there will be an effect on internal prices that would be reflected in an aggregate measure based on a fixed external reference price. The fact remains, however, that an aggregate measure of support based on a fixed reference price will not reflect distortions relative to world market conditions.

Exchange Rate Fluctuations

15. Exchange rates are a part of the international economic environment within which agricultural trade takes place. If support levels in a country increase because of the interplay of world prices and exchange rates it reflects a policy rigidity that is inhibiting the flow of world price information into that country's agricultural sector. However, exchange rates are often argued to be a factor that is distinct from agricultural policy, per se.

16. The importance of "smoothing" the effects of exchange rate movements in an aggregate measure calculation importantly depends on the use to which such a calculation is put in the negotiation. The United States has proposed that an aggregate measure could usefully guide the tabling and appraisal of plans for policy reform with commitments expressed in terms of policy changes. In this context, it would seem reasonable that an average of recent exchange rates could be used. It has also been suggested by the United States that a family of aggregate measures might be calculated over the transition period as a source of information on the policy reform process. Included among this family of aggregate measures might be calculations based on both actual and moving averages of exchange rates.

Base Period

17. The choice of a base period against which progress in the reform of policies distorting agricultural trade can be gauged should be representative of prevailing support levels. In general, support must be dealt with in a manner that as closely as possible reflects current conditions. This logically argues for the most recent period possible for which data are available.