

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG5/W/82

21 October 1988

Special Distribution

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

Original: English

AN APPROACH FOR A CONCERTED REDUCTION
OF SUPPORT IN THE LONG TERM

Submitted by the European Community

Introduction

In pursuing the objectives laid down in the Punta del Este Declaration the European Community proposed in its proposal of 26 October 1987 that contracting parties should undertake "to carry out, in a second stage, a significant, concerted reduction in support coupled with a readjustment of their external protection in order to achieve a reduction of the distortions which are the source of, or contribute to the present world market disequilibria".

Proposals submitted by other contracting parties also refer to reduction in support, even though such reduction in some proposals is linked to a total elimination of support.

The European Community submitted on 10 June 1988 (MTN.GNG/NG5/W/62) its viewpoints as regards the treatment of agricultural support in the framework of short-term measures (other than immediate measures).

The purpose of the present document is to outline technical aspects of a concerted reduction of support with a view to establish a sound basis for long-term actions in this area. The document does not deal with the readjustment of external protection in order to achieve a reduction of distortions. The Community will revert to this subject at a later stage.

Procedure in relation to bindings of support level

The most expedient way of binding support levels would be by reference to an aggregate measure of support. Such a method would clearly define what the discussion is about, namely support and would allow to consider support as a whole. It would avoid detailed examinations of national policies and their interactions and would also avoid loopholes. This method could be combined with a request to each contracting party to identify the national policy instruments they intend to adjust in order to comply with the obligations undertaken.

The identified measures could, on request, be subject to consultations with interested parties. The contracting party would have the possibility to modify the identified instruments during the period envisaged for their application. In such cases other contracting parties should again have the possibility to request consultations as regards the amendments.

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UR-88-0499

Periods during which bindings should remain unchanged

Bindings of support levels should remain unchanged during a period to be determined as originally done in respect of tariff bindings.

In GATT contexts a three-year period is often considered as appropriate. As regards support levels a commitment for such a period seems, however, to be too short because it would be difficult within that period to establish reliable data for more than one year. A three-year period would therefore not be sufficient to initiate a new negotiation on modifications or withdrawals and a longer period should be provided for. This period should, however, not be too long considering the possible need for alignments with market developments. A period of five years could therefore be envisaged. At the end of that period a general review of the commitments could be conducted on a multilateral basis. Moreover, under exceptional circumstances a contracting party might be authorized to modify its commitments. In reviewing the commitments the contracting parties should as referred to in Article XXVIII(2) of the GATT endeavour to maintain a general level of reciprocal and mutual advantageous commitments not less favourable than previously.

Procedures for compensation and dispute settlement

Claims for compensation could arise in relation to modifications or withdrawals of commitments, or in cases where support levels have been exceeded. It would not be possible to treat such cases in the same way as customs duties, because the area to be covered would be a new one and prejudice would in many cases not occur exclusively in relation to trade. To that end a procedure including the following elements could be envisaged: the contracting party owing compensation submits offers to make additional reduction of support. Are these offers accepted by the other parties, the matter is terminated. Should the offers not be acceptable for the other parties, these parties may suspend the application of equivalent obligations under their commitments. If agreement cannot be reached in this manner, the parties requesting compensation shall meet with a view to determine which concerted actions would be justified in order to restore mutual economic advantage and balance of rights and obligations.

In relation to the application of such new rules it appears appropriate also to establish specific dispute settlement procedures.

Aggregate measure of support

The European Community is proposing to use the measurement device of SMUs as described in our document MTN.GNG/NG5/W62 also in relation to long-term actions.

In order to use this measurement in the framework described above a solution must be found on certain open issues. To this end the European Community presents the following comments:

(a) Policy coverage

During the discussions several proposals have been made aiming at excluding certain measures which have not a significant incidence in trade from the aggregate measurement. At this stage it appears therefore appropriate to keep the policy coverage as comprehensive as possible until the ongoing discussions lead to greater clarity on the measures to be excluded.

Having defined the use of an aggregate measure, the European Community supposes that it will be easier to find a common solution on policy coverage.

In any case it would be useful to monitor support measures, which are not included in the aggregate measurement.

(b) Product coverage

In its original proposal the European Community stated that the reduction of support should apply to the main agricultural commodity sectors. Under this expression the European Community wants to include the following sectors:

- cereals;
- rice;
- sugar;
- oil seeds and oleaginous fruit;
- dairy products;
- beef and veal.

This list shall not necessarily be considered as complete and other sectors may be added if the process of the negotiation so warrants. It should also be taken into consideration that the sectors mentioned are interrelated with other sectors, for example, measures in the cereals sector would considerably influence the pigmeat and poultry sectors.

(c) External reference price

A fixed external reference price would ensure that the foreseen level of maximum support would not be distorted by fluctuations of world market prices nor would the level of reduction of support be distorted.

The European Community is therefore proposing also to use a fixed external reference price in relation to long-term actions. This method would permit the contracting parties to determine from the outset how to reduce their support, because the amount by which the support has to be reduced will not change during the period in which the reduction has to be implemented.

As already indicated in document MTN.GNG/NG5/W/62, the level of a fixed reference price could be determined taking into account any economically justified criteria. It should also be reiterated that a fixed external reference price should not exclude price increases on the internal market of a country. In cases where the internal prices are determined exclusively by the prices on the world market and not affected by national policy programmes.

It has been pointed out that inflation in a given country could make it impossible for certain countries to undertake commitments as regards a maximum level of support. It is supposed that this problem could be solved by using a deflator. The deflator could be established in several ways but further examinations would be necessary. The examinations could concentrate on the consequences of using a gross domestic price index, Purchasing Power Parities or Special Drawing Rights of the International Monetary Fund.

(d) Supply management

The manner in which production control measures and reduction of the use of production factors should be captured was addressed by the European Community in its paper on short-term actions. The principles referred to in that document should also be applied, mutatis mutandis, as regards long-term actions.

(e) Reference year

In document MTN.GNG/NG/W/62 the European Community advocated a freeze of SMU at the level established for 1984. It would, therefore be logical to use this support level also as a basis for progressive reduction in long-term actions.

Differential and more favourable treatment for developing countries

Without prejudice to a special treatment for the least developed countries, the procedure in relation to bindings of support, the periods during which bindings should remain unchanged and the procedure for compensation and dispute settlement as referred to above should also be applied by developing countries, in particular those occupying a competitive position for certain products and having a high production volume. Differential and more favourable treatment should, however, be granted by means of the aggregate measurement. To that end it might be envisaged to apply a restricted policy coverage which would allow those countries flexibility, e.g. with a view to developing basic infrastructure and improving production and productivity in the agricultural sector taking into consideration the demand on their internal market and on the world market.