

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG5/TG/W/15

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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 MEETING
OF THE TECHNICAL GROUP ON 10 OCTOBER 1988

Note by the Secretariat

1. The Technical Group pursued its consideration of aggregate measurement of support and related matters on the basis of the agenda outlined in GATT/AIR/2682 and of the relevant negotiating proposals and working papers. One participant reserved its position on the proposed agenda on the grounds that it departed significantly from the basis on which the Technical Group had been working. In so doing this participant drew attention to his reservation on paragraph 4 of the Note by the Chairman on the Tenth Meeting of the Negotiating Group (NG5/W/79, paragraph 19 refers) and expressed the view that, there being no consensus in the Negotiating Group on the use of an AMS, the Technical Group was merely looking at different options for its use. Several participants indicated that their views would be confined to the technical aspects of the matters under consideration.
2. The Technical Group's consideration of options for the use of an aggregate measurement in connection with possible Mid-Term Review commitments focused initially on NG5/W/62. It was suggested that commitments on levels of support quantified in AMS terms and expressed in national currencies could be incorporated in GATT schedules on a product or product-sector basis in much the same way as for customs duties. The duration of these commitments could also be specified (three years or a longer period) and there would be scope for differential rates of reduction in order to avoid creating disharmonies between related product sectors. Under such a system, which could be used for both a short-term freeze and for the longer term, there would be flexibility as regards implementation of commitments and the respective rights and obligations of contracting parties would be readily ascertainable.
3. According to this view an Option II approach involving commitments on specific policies or measures would be administratively cumbersome. Concepts such as "administered prices" would have to be defined and domestic legislation would have to be notified, translated and extensively analysed in order to assess proposed commitments and determine whether a balance of rights and obligations could be established. It was also suggested that the scope for loopholes or policy switching in such an approach would necessitate consideration of additional undertakings to prevent circumvention of commitments.

4. Several participants expressed or concurred in the view that any commitments on an AMS should be solidly backed by undertakings on specific policies and that the primary role of any short-term measures should be to initiate a process of reform that addressed market access, export subsidies and distortive domestic measures. However the AMS might be used, there needed to be some assurance that these areas of policy would be dealt with, although in the short term it might be that things would be treated somewhat differently than might be the case over the duration of a transitional period. Concerns were also expressed regarding the notion of a fixed external reference price. In this regard the point was made that if commitments on an AMS were to be bound under Option I it would be much more critical that support should be measured relative to developments in world markets and reflect fundamental trends in supply and demand. It was also noted that how some of these specific technical issues might be resolved would depend on the general approach to be adopted by the Negotiating Group.

5. As regards the notification of domestic legislation, the question was raised whether an assessment of an overall balance under Option I, in such areas as market access, tariffs and health and sanitary measures, would not also require notification of detailed information on measures and policies such as that provided under Article XVI:1 and the revised AG/FOR/- series. It was also suggested that the concept of "administered prices" could be defined as the realized return to producers through any price set by governments and supported by legislation or government buying-in arrangements.

6. Another view expressed was that while the AMS could play a useful role in the short and the long term, flexibility and transparency were needed on the policy adjustments undertaken to redress the situation in the real world. While Option I provided a great deal of flexibility, contracting parties needed to know that adjustments would be undertaken which would have positive effects internationally. In this view it was considered risky for small participants, given their relatively greater exposure to exogenous factors, to undertake commitments of a legal character on an instrument such as the AMS. Such commitments remained problematic notwithstanding the modifications thus far suggested to deal with some of the deficiencies in an Option I approach.

7. A number of questions were raised concerning the trade effects of reducing support on an AMS/SMU basis and about the nature or extent of the commitments that would be involved in a freeze or reduction of support on such a basis. It was explained that the approach would not address all problems in the negotiation and that other procedures would have to be found if the aims of the Punta del Este Declaration were to be fulfilled. For other products there should be request/offer procedures.

8. It was pointed out that although the SMU only covered domestic support the extent to which trade measures were covered would depend on the technical aspects of the system and the level to which support was reduced. In the case of variable levies, if the reduction were small there would be little impact but technically support could be reduced to levels where access would be created. Unless a reduction in internal prices were offset

by world price movements export subsidies would also decrease. These aspects were at least partly covered by the system, although they were not as such part of the measurement system and participants would retain flexibility in responding to or following world price movements. On the other hand the fact that external reference prices were fixed for a period did not mean that there was no linkage to the world market situation. The linkage, it was submitted, was addressed but in a different way. Under Option I or Option II the impact on the world market situation of a reduction in the level of support or of a specific commitment to reduce administered prices would be indeterminate. Any impact would only be ascertainable at the end of a review period. The difference between the two options, it was suggested, was therefore rather limited.

9. Questions were raised as to whether an SMU type freeze would also trigger a freeze on variable levies or export subsidies, or prevent any relaxation of existing domestic supply controls. It was explained that the commitment was to respect a level of support which was quantified or specified in relation to a fixed external reference price. The level of support to which the commitment related would not therefore be affected by changes in border measures and export subsidies that were not as such part of the measurement system. Thus if the world market price were to fall below the fixed external reference price export subsidies might be increased but so long as the internal price and other elements of internal support covered by the measurement system remain unchanged there would be no breach of the commitment. One observation made in this context was that a freeze which did not mean that things would not get worse would be difficult to explain to ministers.

10. In response to another question it was indicated that monetary compensation amounts would not play a role at the multilateral level, although they could have a role internally in making adjustments in connection with support commitments. It was noted in response to a question concerning co-responsibility levies, as well as budgetary and non-budgetary transfers, that to avoid loopholes it would be important, as outlined in NG5/W/62, that policy coverage should be comprehensive and well defined. Another point raised in this connection was that important loopholes for granting indirect support and circumventing commitments could be created if tax concessions were not included and uniformly treated in countries' AMS estimates. This, it was noted, was a matter of particular concern to countries which taxed their agricultural sectors in the same way as other sectors of their economies.

11. With regard to the proposals for short-term action outlined in NG5/W/69 it was indicated that, as it would not be possible to reach agreement on all aspects of a sophisticated AMS before Montreal, a simpler yardstick would need to be for down payment purposes. It was suggested, firstly, that the methodology of such a measure should be uncontroversial, a requirement which could be met by an aggregate monetary output-based support measurement. Secondly, the measure should be stable enough to indicate the approximate magnitude of reform and the rough equivalence of reform efforts between countries. While this requirement was more relevant for the transition, a reasonable degree of stability could be achieved for the short-term by using a moving average of world prices and exchange rates

with the possibility, when commitments were reviewed, of making adjustments as necessary to the prices from which base year comparisons would be made. Thirdly, the measure should as far as possible accurately reflect the extent of support within the constraints of data availability.

12. It was noted that a pragmatic approach along these lines would be without prejudice to the development of a longer term AMS incorporating supply control policies, non-tariff measures decoupled assistance etcetera. What in this view was needed was acceptance of such an uncontroversial measure so that the Negotiating Group could turn its attention to how policies were to be adjusted and by how much. Policy coverage should initially include those policies which are output based and most distortive of trade. Such policies would accordingly be the targets for the initial steps towards long-term reform.

13. One view expressed was that one of the merits of the NG5/W/69 approach was its broad but reasonably specific policy coverage. If the concept of administered prices were to be used as a proxy for distortive domestic subsidies in the short term it would be important to guard against switching to other kinds of support. An aggregate measure based on output-based support, which accounted for about 75 per cent of support, could therefore be a useful starting point with the broader AMS itself being used to monitor commitments and to provide transparency in the area of preventing policy switching.

14. In response to questions regarding the legal status of commitments on specific measures it was indicated that, in line with paragraph 11 of NG5/W/69, levels of the aggregate measure would not be subject to GATT bindings and that the consequences of a failure to respect commitments to reduce aggregate monetary levels of output-based support had not yet been addressed. As to whether the proposed reduction of export subsidies would be on a global or on a product-by-product basis, it was indicated that, in terms of NG5/W/70/Rev.1, total export subsidy payments in domestic currency would be reduced by 10 per cent in each of 1989 and 1990. A total AMS, as opposed to a per unit AMS, would be used to measure support reductions in 1989 and 1990 since this would enable some account to be taken of supply control measures. Export subsidies, it was explained, would include traditional export subsidy payments which compensate sales to world markets at prices below those operating in the domestic market. Deficiency payments would in certain cases be captured by the concept of administered prices. Whether a nominal reduction in a variable levy would qualify as an increase in market access opportunities would depend on whether the resultant relationship between landed and internal prices created import access. This could come about by increasing levy free quotas or through levies which covered less than 100 per cent of the difference between domestic and international prices. As illustrated in NG5/W/70/Rev.1 variable levies and quantitative restrictions would be subject to commitments on access, and to a base level of access in the case of import barriers which prohibited access by third countries. The position with respect to supply control measures was that there should be no relaxation in the way in which these measures were currently being applied.

15. It was also indicated with regard to a question on the technicalities of a freeze that, in line with paragraph 17 of NG5/W/69, there would be a ceiling on support and on current policies but that this would not be expressed in aggregate measure terms. Just how such a freeze would be applied was still under consideration but it would need to be policy specific and framed in a way which prevented policy switching. As outlined in NG5/W/70/Rev.1 each participant would make its own calculations and come forward with its programme of specific policy adjustments. The sequence involved would comprise a commitment to reduce output-based support underpinned by commitments on specific policy programmes, with the transition to the long-term framework being negotiated over the balance of the Round.

16. The question was raised whether there was an empirical basis for determining which support measures or subsidies caused trade distortions. It was suggested that it was an accepted view that all subsidies and trade barriers distorted international trade in agriculture in that they changed the incentive to produce from that which would have been provided by an open and competitive international trading system. This applied in particular to input subsidies and output assistance measures. Hence the initial focus of NG5/W/69 on measures that had the most distortive or disruptive effects and which accounted for about 70 per cent of assistance provided in OECD countries. Another view expressed was that such a sweeping approach was questionable because subsidies applied under adjustment programmes could improve efficiency or equity in the agriculture sector. It was also suggested that a freeze covering a limited range of temperate agricultural products that were traded in hard currencies could lead to higher prices for net importing developing countries. In this view it was also considered that the stock disposal proposals in NG5/W/70/Rev.1 did not reflect the importance of levels of reserves for food security purposes or levels of stocks that would ensure that world market prices were fair to consumers as well as to producers.

17. With regard to the possible short and long-term uses for an AMS outlined in NG5/W/75 it was explained that since it was existing policies that gave rise to distortive support and protection it was these policies that should be changed. While the focus should be on specific policies an AMS could play a useful role in expressing political will to change these policies, in providing a common framework for evaluating the sufficiency, equivalency and equity of proposed implementation plans, and in formally monitoring reform actions and resulting levels of support. Such a use of the AMS was described as falling between Options II and III.

18. In this same view it was considered that, as there was no one correct answer to certain of the technical issues involved, there should be scope for using a family of AMS measurements (based, for example, on nominal and actual exchange rates, on a moving average of prices, and in both nominal or real terms) to provide an overview of developments in support levels and to prevent policy switching. While the short and long-term uses of an AMS should in principle be the same, things could be handled somewhat differently in the short term in order to get a reform process started. Thus the concept of administered prices could serve as a proxy in the short

term, although the exclusion of certain policies such as transport subsidies might need to be reviewed.

19. In reply to a question regarding Option IV as an alternative for achieving long-term reform in the agricultural sector as a whole rather than for a limited range of products, it was indicated that as past efforts to reform the GATT rules had not been very successful it was considered necessary to find an operational means, such as using Options II and III, for dealing with existing support programmes and to make the adjustments that would make it possible to change the rules.

20. It was also explained in response to questions concerning the role of an AMS in the approach outlined in NG5/W/75 that national plans describing how existing policies would be changed could in essence take a legal character in the form of GATT bindings on the proposed changes in specific policies but that these changes would be guided by the overall political goal. The AMS would have a role in laying out the bounds within which implementation plans would be formulated as well as in monitoring the implementation of commitments during the transition and in determining whether aggregate levels of support were being reduced. One of the differences compared to an Option I approach would be that action would not be limited to reducing internal prices but would also cover such areas as market access and export subsidies. It was also noted that in dealing with access barriers one would also be dealing with consumer transfers but not direct consumption subsidies.

21. In reply to a question as to whether existing policies could only be reduced under this approach, or whether there would also be scope for extending certain policies and introducing new policies, it was indicated that it would be necessary at the appropriate stage for the Negotiating Group to identify policies which are either not trade distortive or which significantly minimize distortions to trade (decoupled support). It was suggested that this was an issue that would have to be faced regardless of whether an AMS were to be used in the negotiations because ultimately what policies were to be tolerated or not tolerated under GATT was what the negotiations were all about. It was also indicated that actions taken during the first few years of a reform process should be binding and provide the stepping-off point for further reform action. As regards the situation where administered prices were reduced to, or below, prevailing world market levels, it was suggested that internal prices were generally only one element of a larger bundle of distortive domestic support and protection and that the approach outlined was not focused on price levels or relationships as such. Another view expressed was that the gap between internal and external price levels could be closed rather quickly by a rising world market price but that this would not necessarily imply that any structural adjustment had taken place.

22. A number of views were expressed on the possible role of a deflator to take account of inflation. One suggestion made was that commitments should be expressed in real terms in national currencies. Another suggestion was that the expression of commitments in percentage AMS terms could provide a possible answer to the problem. It was also pointed out that the use of hard currencies as opposed to a domestic price deflator would not be appropriate for developing countries because of the linkage that would be established with exogenous factors.

23. It was pointed out, in the context of the long-term use of an AMS and of the approach outlined in paragraphs 10 to 12 of NG/W/69, that scheduled commitments to change specific policies would be the primary vehicle for reform during the transitional period and that a more elaborate AMS would need to be developed for the purpose of monitoring levels of assistance and developments in the most distortive or disruptive policies. In relation to a question regarding the extent to which world market price levels would be taken into consideration under this approach, it was indicated on a preliminary basis that it would not be deemed appropriate to continue to reduce administered prices below prevailing world market levels where progress was being made towards the achievement of the overall goals of the reform process, and that there could need to be a safeguard under which countries were relieved from having to take administrative steps when they were no longer necessary. However what would be important, in this view, would be that progress made by countries during the reform process should be locked-in under the transitional arrangements in order to prevent back tracking.

24. Another view expressed was that Option III (monitoring) and Option IV (rules) would become more important in the long term and that greater emphasis would need to be given to the scope for using an AMS in connection with these Options. In this view, policy and country coverage would also acquire relatively greater importance in the longer term as would question of inflation. The coverage of sub-national measures was cited as an example of an area of assistance that would become more important in the long term from the point of view of encouraging positive substitution and discouraging switching.

25. In another view expressed it was questioned whether preoccupation with the AMS would not result in attention being diverted from reducing and binding tariffs, from the elimination of NTBs, and from the improvement of GATT rules and disciplines on subsidies. It was also questioned whether the disproportionate amount of negotiating resources involved would be in the interests of developing countries in terms of the product coverage of the exercise and its transparency. In this regard the question was raised whether an AMS should not be considered in the context of a trade policy review mechanism.

26. A paper was submitted to the Technical Group on the calculation of reference prices (f.o.b versus c.i.f.) and it was agreed to revert to this matter at the next meeting (TG/W/14 refers).

27. The Technical Group was informed that technical assistance had been provided to one developing country participant at its request and that other requests for technical assistance in connection with the preparation of AMS estimates were expected.

28. For the next meeting of the Technical Group interested participants were invited to submit more detailed and complete versions of their proposals as they relate to the use of an AMS in order to facilitate an early report by the Technical Group on Options for the use of an aggregate measurement in connection with possible commitments which might be adopted at the Mid-Term Review.