

MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND

RESTRICTED

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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 3-4 NOVEMBER 1988

Note by the Secretariat

1. The Technical Group adopted the agenda set out in GATT/AIR/2682. On that basis, the Technical Group pursued its consideration of options for the use of an aggregate measurement of support, first in connection with commitments that might be adopted and remain in force until the conclusion of the negotiations, and second in connection with the negotiation of possible longer-term commitments.

2. Referring to the proposal put forward by a group of countries in NG5/W/69, it was recalled that the AMS outlined therein, i.e., an aggregate monetary level of output-based support, had been advanced as a pragmatic aggregate measure for use in the early steps towards long-term reform. This had been done not only in recognition of the benefits such a measure offered as both a target-setting device and a convenient, if inexact, indicator of equivalence of reform commitments, but also of the technical complexities facing the development of a refined, and more comprehensive in terms of policy coverage, long-term aggregate measure.

3. In this view, the AMS for use in the early steps towards long-term reform should include all output assistance measures (e.g., variable levies, fixed import quotas, export subsidies, target prices, deficiency payments and consumer transfers) which operated to send perverse signals to producers and consumers. Such assistance which undermined the operation of market prices could be defined as the transfer to producers resulting from the difference between world and domestic producer prices and all coupled budgetary transfers to producers, excluding import subsidies, tax concessions and support policies within the category of general services. Downpayments should focus on output assistance as, in practical terms, these were the policies which inflicted most damage on international trade. Distortions caused by other types of intervention should be tackled at a later stage of the negotiations, though they should be subject to a freeze (with exceptions for decoupled assistance) for the duration of downpayments.

4. Other key elements of this proposed AMS, it was submitted, should include provisions for countries with relatively high inflation rates. Product coverage should be as broad as possible, although the use of an AMS could tend, in practice, to be limited to those commodities already covered

by relevant international work programmes. However, as it was essential that trade liberalization be relevant to all countries, governments should commit to minimum adjustments in those policy parameters that were most distorting trade across the range of agricultural products, while problems associated with processed agricultural products would need to be addressed through a rule-based approach. For practical reasons, the existing methodology on reference prices and exchange rate fluctuations used in the NG5/TG/PSE/- series should be incorporated into the pragmatic AMS proposed. As for the base period, countries should use the latest data on which reliable calculations could be made so as to ensure that progress in reforming trade-distorting policies would be gauged against prevailing support levels by using, for instance, a moving average base in 1986-88 for reductions in support in 1988 and 1987-89 for 1990, or by using 1988 figures or reliable estimates for reductions in 1989, and 1989 figures or reliable estimates for 1990. Regarding country coverage, reference was made to the position set out in NG5/W/69.

5. Questions were raised in connection with the proposal for the use of an output-based AMS in the early stages of the long-term reform as set out in NG5/W/69. It was noted that in that proposal the AMS should be accompanied by policy adjustments and that, as a first step, there should be an agreement to an immediate freeze on support for all agricultural commodities. As AMS data were only available for certain products, it was questioned how the proposal would operate with regard to a freeze on other products and whether the list of these policy commitments should be left at the discretion of each contracting party or should be based on defined lists of policies. Furthermore, it was questioned whether a commitment to reduce the level of domestic support by 10 per cent, for instance through reduction in administrative prices, would prevail over a commitment expressed in terms of policy adjustments, for instance a budgetary ceiling on export subsidy expenditures, or vice versa, as this might result in different degrees of obligation according to the support system in use.

6. It was replied that NG5/W/69 proposed a freeze to apply to all agricultural commodities. As regards a freeze on support in relation to an AMS, this matter was not yet settled within the group of countries which had sponsored the proposal contained in that document. In the view expressed, it was argued that the nature of AMS data available could make the AMS approach difficult to apply either to other countries or products. The focus of the reform process in the early steps should be on those policy measures which most distort trade, thereby excluding, in this first phase at least, measures such as input subsidies and general services. NG5/W/69 foresaw the reform of agricultural domestic policies as a continuing process. Therefore, countries should have an overall target to yearly reduce their level of support by 10 per cent, which would be expressed in terms of an AMS but that should be achieved through minimum policy adjustments, notably of the most trade-distorting measures. It was possible that in the presence of significant movements in world commodity prices, these policy adjustments might, at the end of the negotiations, result in some countries having credits while others would have debits in terms of AMS, but the whole point was that countries should design these policy adjustment packages in such a way as to achieve the 10 per cent reduction each year.

7. Another view expressed was that the use of an AMS in the first steps towards long-term reform should be seen only in relation to downpayments and not to the freeze. In this connection, the use of an AMS should be to provide a way of measuring the level of trade distortion in a base period from which it would be possible to calculate how much of a change would be needed in each country in each of the two years as a downpayment and then to negotiate, on that basis, implementation plans based on binding policy commitments that should achieve the targeted changes. In the short term, downpayments would also have to be limited for practical reasons to those commodities for which reliable AMS data were available. With regard to the base period, another possible option which would require serious consideration would be to agree on a multi-year fixed base period, i.e., the three most recent years for which data or reliable estimates were available.

8. One view expressed was that short-term commitments were conditioned by an agreement on commitments to the long-term reform. Therefore, short-term measures should be viewed as first steps in the long term reform and by no means isolated from a long-term agreement.

9. Another view expressed was that the acceptance of an AMS in the negotiation depended on the way it would be used, bearing in mind that some methodological issues such as those related to direct payments and supply controls were still unresolved. The AMS as such could not be an instrument for reducing support to agriculture. For this, agricultural policies would have to be weighted according to the positive or negative effects they effectively had on world markets. Thus, for instance, export subsidies that had distorting effects on world markets could be weighted by a highly negative factor, while decoupled payments that had no effects on world trade could be neutral or could lead to a credit. Production control measures would also be considered as credits. This AMS system should also take into account factors such as food supply security, ecology and other related issues. Regarding the options for the use of an AMS defined so far by the secretariat, in the view expressed it was considered that Option I could be envisaged only if the weighting system outlined above were also taken into account. Option II was an interesting approach insofar as the AMS would be primarily used as a monitoring device with each country being relatively free to establish its own level of reductions in support and on the basis of the same weighting modalities described above. As for the base period it would be useful to take into account, with some flexibility, measures that had had positive effects on world markets. Reference prices should reflect effective production costs or an hypothetical equilibrium point in a world market from which export subsidies would be absent. Monetary fluctuations and rates of inflation should also be taken into account so that the real picture of each country's domestic support would not be distorted. Particular attention should be paid to specific problems of developing countries, notably least developed countries.

10. In another view expressed it was reiterated that adjustments to AMS data would be required and an agreement should be reached in the Technical Group in order to take into account programmes in force during the base period which effectively limited domestic output and were in conformity with GATT provisions. This because, in AMS terms, countries which had

engaged in these programmes would otherwise not be treated in an equitable way with respect to countries which had relied on an open-ended system of support.

11. A number of remarks, although preliminary, were made regarding the feasibility and the appropriateness of introducing a debit/credit system of adjustment in AMS calculation. Concern was expressed in this regard. It was argued that although the underlying political considerations might be understandable or arguable, if non-economic and non-quantifiable considerations were to be introduced into the AMS calculations this would in fact undermine the whole purpose of having an AMS, this being to measure with the maximum possible precision the amount of money transferred to farmers from other sectors. Moreover, this would pose serious technical difficulties. It was also said that considerations of that nature should rather be taken into account when the overall package and outcome of the negotiations can be assessed.

12. Several views were also expressed regarding the need for adjusting the AMS so as to take into account effective supply control programmes. It was stated that the proposed output-based AMS already took this issue into account and that to the maximum extent possible. It was also argued that because supply controls were generally introduced and maintained in response to tensions created from supply situations generated from high domestic support, these policies should not be part of any liberalization package. In any case, variations in AMS data expressed in terms of total monetary value already reflected supply control measures and therefore did not require any additional credit. Another view was that supply controls must be taken into consideration and an adjustment of AMS for that purpose was justified because they provided an effective way of limiting production and were therefore one of the possible options which contributed to the general objective of reducing and eliminating surpluses.

13. It was questioned, in some views expressed, why a distinction had been introduced between the use of an AMS for a freeze and its use for short-term commitments, as the task of the Technical Group was to find solutions for the use of an AMS which would be relevant for a freeze as well as for whatever further steps Ministers might be able to agree on at the Mid-Term Review. It was replied that an AMS was not required for a freeze as its purpose was rather to measure the magnitude of changes which would be necessary to undertake the process of reforming agricultural domestic policies. What was required was an undertaking by countries to freeze existing policies at their current levels and not to have recourse to additional or new trade-distorting measures. In addition, as the freeze should apply to all agricultural products, the question of data availability would also prevent the use of an AMS in this respect. On the other hand, it was also argued that a freeze based on AMS would be more transparent, as it would capture a whole range of policies which may otherwise escape if a more selective approach were used. In this connection, it was recalled that in NG5/W/69 the proposed policy coverage of the freeze was much wider than the policy coverage associated with downpayments.

14. It was also argued that while commitments in the case of a freeze should be taken on policies, the AMS could constitute a possible indicator of which products or sectors should be subject to the freeze. A view was expressed that discussion on this issue at this meeting represented a new development or an evolution of previously stated positions and it would require careful consideration.

15. The Technical Group further discussed options for the use of an AMS in connection with the negotiation of possible longer-term commitments. Several views were expressed that the role of the AMS should essentially be the same in both the downpayments and the longer term, although the type of AMS could differ in terms, for instance, of policy coverage.

16. Discussion then focused on the approach (SMU) outlined in NG5/W/82. It was noted that what was presented in that document was a possible methodology rather than a proposal for the longer term and that, in any case, there was general agreement that this should constitute just a partial approach to agriculture negotiations. A number of questions were raised regarding the product and policy coverage of the SMU as well as the possible use of deflators in its calculation. It was also questioned whether SMU bindings would refer to the agricultural sector overall or to amounts to be specified on a product-by-product basis and how a binding system based on a 1984 reference year and fixed external prices which could refer to different years could operate in terms of the suggested review process. Concern was also expressed with respect to the consultation and dispute settlement mechanism foreseen in NG5/W/82.

17. It was replied that NG5/W/82 referred to a situation in which a freeze had already taken place and short-term measures had been put into effect. On that basis, a methodology had been outlined for the long term which provided a basis for a concerted reduction of domestic support in each country. This system was based on SMU bindings which were aimed at measuring the way in which the support had evolved in each country from 1984 to the date at which they would be measured. It was a system similar in many respects to the original tariff binding system which appropriately foresaw a review process at the end of a given period, i.e. on a three years basis which could be extended to five years in the SMU system because of the type of data required. Clearly, a system like this would require, in terms of its GATT consistency, procedures for consultation and dispute settlement. NG5/W/82 only outlined the technical issues involved in such a system, irrespective of whether certain products should be treated as a sector or individually but considering that, because of sector interrelationship, reductions in support in some products would have effects on other products as well. In this system, external reference prices should be used in all cases and not just, as in the presently used methodology, in the case of market price support. The use of a deflator in certain instances, such as a high inflation rate, was considered to be necessary for the system work properly, but this question required further examination and common efforts to find appropriate solutions.

18. The description of the way in which the SMU system would operate gave rise to concern in some of the views expressed. Such a system, it was argued, while reducing support levels might give a free hand to the

maintenance of, or even an increase in, the most distorting trade measures. In addition, as SMU binding would be limited to products for which data could be made available, there was a need for a better understanding on how balanced commitments could be achieved so as to include other products, such as for instance vegetables, horticultural products or wine, which were of a key interest for certain countries. It was also stated that to be acceptable to some, the base period should be representative of currently prevailing levels of support and that a 1984 base period would simply not meet this requirement. It was argued that modifications to currently used AMS methodology should be resisted and it was noted that the proposed use of fixed external reference prices implied that import and export border measures could no longer be reflected in the aggregate measure. In this view, the technical debate had indicated that the degree of precision which could be obtained in AMS calculations would suggest that these data should be more appropriately used for monitoring than for binding purposes.

19. It was questioned whether the policy coverage of the proposed SMU bindings would also include sub-national or national policies in the case of supra-national entities and how commitments expressed in a supra-national unit of account could be protected from movements in national currencies whose average was reflected in this unit of account. Questions were also raised concerning the way in which supply management problems could be taken into account in the SMU and the possible use of SMU on a per unit basis rather than in its aggregate monetary form. The rationale for taking 1984 as the base period was also questioned.

20. It was replied that NG5/W/82 did not expand on policy coverage because this was a political rather than a technical issue. The approach was that measures should be included that had a significant effect on agricultural trade, these being those maintained at national or sub-national level. But, it was argued, a more precise identification of these measures would also require a better understanding of what measures could be deemed to be effectively decoupled from production. However, if in the end only certain policies were retained in SMU bindings, it could be appropriate to have a monitoring system of some kind for those policies which would be excluded. Regarding product coverage, it was stated that, although negotiations should cover all agricultural products, certain products in structural surplus did require priority attention. Other products could be subject to a traditional exchange of concessions, but if some of these became worthy of priority attention, then further consideration should be given to the issue of how to deal with them. It was recognized, in this view, that supply management programmes were a real issue which required further efforts to identify solutions although it might be more difficult to handle in a long-term approach. The use of total monetary or unit SMUs was also a political choice linked to the type of commitments which might be taken on SMU bindings. It was therefore a question open to further discussion. The relationship between national currency fluctuations and the unit of account on which commitments would be taken was explained as an internal matter which would not affect the value of commitments expressed in terms of this unit of account. Regarding the rationale of taking 1984 as the base period and the concerns about the flexibility which an SMU approach could give to countries, this was a key feature of the proposed approach which was primarily aimed at identifying the net effect of changes in support over a

period of time. Fixed external reference prices would eliminate the impact of currency and world market price fluctuations and would make it possible for national authorities to enter into commitments knowing precisely what

they were committing themselves to. On the question of how border measures would be reflected in SMUs, it was noted that the existing methodology did not offer any better solution to this problem.

21. Interest was expressed in connection with the point in NG5/W/82 which referred to the possibility of combining reductions in SMU bindings with a request to each country to identify and consult on the national policy instruments they intended to adjust in order to comply with the obligation undertaken. It was also noted that certain products which were of priority concern for some countries could never be in surplus not because of the difficulties they might face in international trade but simply because of their perishability. Concern was also expressed that the SMU approach outlined in NG5/W/62 and W/82 would provide for commitments which would be dependent neither on market signals nor on the level of domestic prices. This concern reinforced the opinion, it was stated, of those who had proposed that commitments should be taken on policy measures, including on administered prices and that reference prices be related to the most recent period possible.

22. In replying to these points, it was recalled that the approach outlined in both NG5/W/62 and W/82 was only part of a more general approach to negotiations in agriculture. Concerted reductions in support were an important aspect but to have an effect on markets and therefore on increased access opportunities they had to be taken in conjunction with other measures or approaches including a readjustment of existing border protection. In terms of SMU, the suggested commitments were clearly on the level of support and on possible reduction thereof and not on the domestic mechanism through which these commitments would be respected.

23. The Technical Group was informed that PSE data and estimates had been received to date from six countries and it was reminded that technical assistance could be provided in this respect on request.

24. It was agreed that the Chairman would submit, on his own responsibility, a written report to NG5 at its next meeting on 14-15 November 1988. It was also agreed that the date of the next meeting of the Technical Group would be fixed at a later stage in consultation with delegations.