

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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Group of Negotiations on Goods (GATT)
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MEASURES TO OFFSET AND COMPENSATE FOR INCREASED
PRICES IN THE SHORT TERM

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1. It is widely recognized that the removal of export subsidies by developed countries will lead to increased import prices for many developing countries and that this is likely to be the case in the short to medium term. There should be agreement in principle on specific and concrete measures to offset and compensate for the adverse impact of such price increases prior to any agreement in the Negotiating Group on the reduction/elimination of subsidies or even on short-term measures, such as a freeze.
2. The first task of the Negotiating Group is to define which subsidies are "trade-distorting" as agreed in the Ministerial Declaration. This should be given priority in 1989. The Negotiating Group should make progress in this area so as to contribute to an overall approach to subsidies in the GATT.
3. In this connection, we draw attention to the important distinction between "export subsidies" which are payments to producers to export their production in quantities which would not have taken place otherwise and "export subsidies" which act as credits (on concessional and non-concessional terms) to importers/consumers to take production without regard to whether this production results from efficient or inefficient production systems.
4. The choice of "export subsidies" instrument is thus important in determining whether the payment to producers is to be considered as "output-based support", or whether it is neutral and considered a credit to importers. This should be examined in the case of each major exporting country on a product-by-product basis to determine the effect on international markets.
5. This distinction is important in seeking to reduce the levels of support to "inefficient production" and their trade-distorting effects, and in drafting strengthened and operationally effective GATT rules and disciplines.
6. Priority attention should be given to this in elaborating specific measures in the context of the trade/finance link, including inter alia

"contingency clauses" in relation to the emergence of unfavourable external circumstances and in facilities within the IMF and IBRD for compensatory and contingency financing and structural adjustment.

Illustration with respect to paragraph 3

(a) Payments to producers for exports (export subsidies) differ among countries in respect of the modalities and may be effected either through direct budget (or off-budget) or consumer transfers. Each participant may reduce the amounts of these transfers according to its nationally determined policy objectives (including fiscal balance). At the same time, where there are multilaterally agreed rules, guidelines or disciplines these will influence the scope for the use of such transfers. The Negotiating Group is charged to develop strengthened and operationally effective rules and disciplines for such subsidies where they are trade distorting.

(b) Credits to consumers for imports (export credits) also differ among countries in respect of the modalities. The standard and accepted practice is via financial intermediation and/or insurance. In respect of export credits for manufactures and capital goods and services supported by the budget, they are subject to multilateral guidelines and surveillance, e.g., OECD Consensus, which however is agreed on exclusively among the governments of the industrialized countries.