

MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND

RESTRICTED

MTN.GNG/NG5/W/92
25 November 1988

Special Distribution

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

Original: English

APPLICATION OF THE "FREEZE" CONCEPT IN DOWNPAYMENT

Communication by the Cairns Group

The recent Cairns Group proposal on agricultural reform (MTN.GNG/NG5/W/69) advocated that Ministers at the Mid-Term Review should agree "to an immediate freeze on support and subsidization which distort trade and not to introduce any trade restrictive or distorting measures not explicitly provided for in the GATT" (paragraph 17). It was envisaged that such an agreement would constitute a first step towards long-term reform and would apply to all agricultural commodities.

To be effective, such a freeze must be transparent gauged against prevailing regimes and applied to all countries, commodities and to policies as defined below. In the light of the debate this year on the AMS, the Cairns Group has concluded that an AMS approach to a freeze cannot meet these criteria. However, the Cairns Group remains committed to playing a full part in the development of an AMS, in conjunction with its negotiating partners, which can contribute to the systematic reduction of aggregate support, along with policy-oriented and rule-based approaches to achieve the objectives of the negotiation.

The Cairns Group proposes that the freeze be made operational by governments agreeing that those policy settings which determine agricultural support not be increased from current levels and that governments refrain from initiating new programmes that could have the effect of undermining this commitment. The freeze would apply to output-based support (e.g. intervention prices, target prices, export subsidies, price stabilization policies, tariffs, production and import restraints) and to input subsidies to be agreed (including in particular commodity specific subsidies on capital grants, concessional credit, storage and other inputs). This would not of course preclude governments from lowering support levels unilaterally.

It is envisaged that the freeze on output-based systems of support would be overtaken quickly by specific minimum adjustments to policy parameters under the downpayment concept. However, unless specifically overtaken by unilateral reform actions, it would be necessary for the freeze to continue to apply for the duration of downpayment (i.e. 1989 and 1990) in the case of input subsidies as above. Associated trade distortions would be dealt with in the proposed transitional arrangements

and rules required to achieve a reformed long-term framework for the conduct of agricultural trade.

The Cairns Group proposes that in implementing the freeze governments agree to the following:

- . first, refrain from adjusting assistance policies in a manner that would lead to an increase in the realized per unit return to producers;
- . second, refrain from adjusting policies in a manner which would further restrict access to markets and/or increase subsidized exports; and
- . third, refrain from adjusting input subsidy policies, as above, in a manner which would further subsidize costs of production and distribution.

The Cairns Group further proposes that governments give operational effect to these "umbrella" undertakings by agreeing:

- . not to determine the integrity of a freeze by introducing new trade restrictive or distorting measures not explicitly provided for in the GATT;
- . not to increase current (i.e. 1988) administered prices, measured in national currency terms, at which government purchases are made, which determine the size of output subsidies, and which are a key feature determining the size of levy paid on each imported unit;
- . not to increase current specific or ad valorem import tariffs;
- . not to reduce current access levels maintained through import quotas, VRA's and like arrangements;
- . not to increase the per unit import levy above the maximum levied during 1988;
- . not to increase the per unit export subsidy above the maximum paid during 1988, and, as appropriate, not to increase total expenditure on export subsidies above current levels nor the extent of product coverage and/or quantities eligible for subsidy;
- . not to reduce committed supply and acreage control programmes; and
- . not to increase total expenditure on input subsidy arrangements as above.

For countries with relatively high rates of inflation, suitable hard currencies should be chosen as the basis for making relevant calculations related to the above commitments.

There would be an exemption from the freeze for countries in respect of commodities where the level of output-based support is negative. Exceptions to the freeze would apply in cases where assistance is provided for humanitarian reasons, disaster payments, infrastructure development and the promotion of structural adjustment (including research and development), and where assistance is fully decoupled from production. For the reasons set out in the Cairns Group proposal (MTN.GNG/NG5/W/69), developing countries would not be required to contribute to the first steps towards long-term reform, including the freeze.