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THE URUGUAY ROUND

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Negotiating Group on Agriculture

SUMMARY OF MAIN POINTS RAISED AT THE TWELFTH MEETING OF THE NEGOTIATING GROUP ON AGRICULTURE

(14-15 November 1988)

Note by the Secretariat

1. The following summary, which has been prepared by the secretariat in accordance with paragraph 6 of MTN.GNG/NG5/12, should be read in conjunction with, inter alia, NG5/W/82 (Submission by the European Communities); NG5/W/83 (Submission by the United States); NG5/W/84 and Corr.1 & 2 (Indian Proposal); NG5/W/87 (Cairns Group Ministerial Statement); NG5/W/88 (Nordic countries Communication); NG5/W/89-91 (Submissions by Jamaica); and NG5/W/92 (Cairns Group Communication).

2. The representative of India said that the basic elements of his country's approach, as outlined already in NG5/W/37 of December 1987, were given more concrete shape in NG5/W/84, particularly the integration of agricultural trade within operationally effective GATT rules. The principal problem to be dealt with in NG5, according to this proposal, was agricultural "productionism" in industrialized countries. In developing operationally effective GATT rules and disciplines, it was essential to recognize the developmental role of agriculture in developing countries. While there was a strong case for the elimination of such "productionism" in industrialized countries, the role of agricultural support measures in the economic development of developing countries had to be fully recognized. He drew the attention of the Group to the six features, particular to developing countries, noted in paragraph 4 of India's proposal. He believed that price support measures and other support measures, including subsidized supply of credits and other inputs, had to be seen as a response to structural imperfections and could not be equated with the restrictive or distortive government interventions prevalent in industrialized countries. It was, furthermore, important to recognize that increasing domestic agricultural production and productivity was the sine qua non of development.

3. A number of delegations agreed in general with what the Indian representative had said and expressed their support for the proposal. It was also indicated that there were many points on which the proposals contained in NG5/W/84 and NG5/W/74 coincided.

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4. The Group discussed the submission by the United States on a Framework for Agricultural Reform (NG5/W/83). The representative of the United States said his country viewed this submission as a means of moving the negotiating process ahead. It was the view of the United States that this paper be considered in the context of Part B of the Chairman's report to the GNG.

5. A number of delegations welcomed the United States submission. One delegation concurred with several of the points in the United States proposal, namely: that there should be agreement on the elements of the long-term reform prior to the implementation of short-term measures; and that such reform should include rules and disciplines on market access and subsidies and measures in the sanitary and phytosanitary area. It was also indicated that some points needed further discussion, such as measures to be exempted, the establishment of a surveillance mechanism and the temporary safeguard regime. Another point raised in this connection concerned the competence of the Ministerial TNC meeting to modify the General Agreement.

6. Some other questions raised in connection with NG5/W/83 concerned: the inclusion of forestry and fishery products; the extent to which countries' freedom to decide their own development plans should be a matter for negotiation; how subsidies and other support measures could be dealt with in the absence of a role for an AMS; the relevance of using distorted world markets as a proxy for free market conditions; whether non-tariff measures included deficiency payments; and how debit and credit fitted into the United States proposal. Questions were also raised about the concept of "tariffication", including how for example non-tariff measures would be measured and why subsidies should be excluded under a tariffication approach.

7. In response to various comments and questions, the representative of the United States indicated that in terms of NG5/W/83 there was no change to the overall policy objectives of eliminating all barriers and support over time and harmonizing health and sanitary measures. There was also nothing in the Punta del Este Declaration that precluded total liberalization. There was no change as concerns an AMS which indeed had a role as a monitoring device. He said the proposal was not only addressing access barriers but that it was moving in all areas. An agreement on concept was needed first, thereafter agreement on specificity would follow quickly.

8. The representative of Hungary introduced the Cairns Group Ministerial statement issued in Budapest on 12 November 1988 (NG5/W/87). One delegate commented on the relationship between the long-term and short-term elements outlined in this statement and queried whether a long-term commitment was a precondition for agreement on short-term action. He also sought clarification of whether "initial steps" were distinct from short-term action and whether such "initial steps" would be linked to the relationship between the short-term and long-term commitments. This delegate referred to the lack of any adequate reflection of the concern of many developing countries that a less than transparent and comprehensive set of reductions

in trade-distorting subsidies could lead to increased prices in the short term in respect of which offsetting and compensating arrangements would be needed.

9. It was explained that NG5/W/87 was a re-statement of the Cairns Group's proposals tabled in July. The Cairns Group had always envisaged that short-term measures should be a downpayment on long-term reform. It was for this reason that initial steps were featured in the Budapest communiqué. Furthermore it was indicated that there was a net welfare gain in the removal of fluctuations and distortions in capital investment, of blockages to market movement and therefore in income earned by some countries. Agriculture was of fundamental importance to the Cairns Group countries and the opinion expressed by others, that failure at Montreal to achieve momentum in agriculture would have repercussions not only for agriculture but for other areas of the Uruguay Round process as well, was therefore fully endorsed.

10. Another representative said that he shared the Cairns Group's desire to achieve positive results on agriculture at Montreal but recalled that Montreal was a mid-term review and that one could not expect all problems to be solved there. He agreed with the Cairns Group that it was necessary to show a degree of negotiating flexibility in order to reach results at the Mid-Term Review. His group of countries believed that the causes of the distortions and problems in agriculture, the imbalances between supply and demand, had to be tackled. As long as these causes were not tackled it would be difficult to resolve the long- and the short-term problems in agriculture. The negotiators had to develop a framework approach which included short-term options in line with long-term rules concerning the reduction of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade.11. A number of comments were made regarding the proposal contained in NG5/W/82. Although welcomed as an important contribution to the work of the Group, in many of the views expressed it was stated that NG5/W/82 was disappointing in that it failed to indicate both the extent and the nature of the long-term reform of agricultural policies. It did not make explicit any clear linkage between the stated objective of concerted reduction in support levels and the procedures proposed to achieve this objective. The proposal was also considered to lack specificity with respect to certain fundamental questions, such as the target and the timing of both the process of negotiation and implementation. Rather it seemed to propose negotiating modalities that would maximize flexibility to adjust support policies in accordance with domestic political and economic priorities. Policy flexibility, it was argued, needed to be judged against the requirement for international predictability.

12. It was also noted that the thrust of the proposal seemed to be a five-year binding of the level of protection expressed in SMU terms. However, the proposal did not offer any clear vision regarding the long-term regime required for agricultural trade after this initial five-year period, including with respect to the treatment of non-economic factors under new GATT rules and disciplines, nor did it address the issue of reducing and rationalizing export subsidies and variable levies.

Regarding the use of an AMS or an SMU in the negotiations, it was argued that the option of using such a device in the long-term context should be examined after having taken into account the results of its experimental use in the short term. Clarification was also sought in relation to the specific treatment of variable levies and on how compensation for non-economic aspects of agriculture would be reflected in SMU calculations.

13. It was noted that the proposal called for the binding of support levels through SMUs with an obligation for each country to identify the policy measures to be included and to consult thereon if so requested. There would also be flexibility to modify unilaterally the identified measures during the period envisaged for their application subject only to further consultations. Questions were raised as to the legal status of these consultations in the event of disagreement on the proposed policy changes. It was suggested that this system would not guarantee that the most trade-distorting measures would be reduced or eliminated in accordance with the objectives of the Punta Declaration. Rather they could even be increased as long as the bound level of support was respected overall.

14. It was further noted that no agreement had been reached in the Group on product coverage and that limiting bindings on support to only six products was not adequate and indeed constituted a basic shortcoming of the proposal, particularly as traditional request/offer techniques could not deal adequately with the whole range of problems affecting the trade of other agricultural products.

15. In one view expressed, it was considered that to bind support levels as proposed in NG5/W/82 would not be acceptable since this would allow undue latitude for manipulation. It was also argued that there was a need for much greater clarity as regards "readjustment of external protection". Although this concept appeared to be an essential element of the proposal it had not so far been explicitly dealt with. Another view expressed was that since the proposal and its policy coverage were not clear, precise and transparent, this would not be likely to lead to the attainment of the negotiating objective nor to a balance of benefits, in particular for small developing countries which were not only net importers but also exporters dependent on market access. It was also suggested that imprecision regarding the definition of what could constitute "compensation" in the event of infringements of SMU bindings would also add an additional dimension of uncertainty. Views were also expressed regarding the need for greater elaboration of the proposal as regards the application of differential and more favourable treatment for developing countries.

16. A number of specific questions were also raised as to whether a 1984 base year would prevent some countries from taking further measures in the initial period of operation of SMU bindings; regarding the period during which external reference prices would remain fixed; as to how supply controls could be incorporated into an SMU system; and as to whether the use of SMUs expressed in real terms would allow countries to increase administrative prices by the rate of inflation.

17. In replying to the various points made, it was pointed out that NG5/W/82 was only concerned with certain aspects of the basic approach to the agricultural negotiations which had been outlined in NG5/W/20 and which remained unchanged. However, NG5/W/82 provided greater precision on at least two aspects of this basic approach. First, it suggested that negotiating on support levels was preferable to negotiating on policy instruments as this would facilitate the discussions by keeping them at a truly multilateral level and thus avoid a series of bilateral negotiations. Second, it suggested a willingness to search for lasting solutions to the problems of distortions on agricultural markets. Many of the questions raised, however, were understandable and legitimate. Regarding how access to markets and competition should be treated in the long term, it was recalled that in NG5/W/20 it was already indicated that the approach suggested in this respect was to reinforce the GATT rules and disciplines and make them more operationally effective. Regarding differential and more favourable treatment for developing countries, it was noted that NG5/W/82 was only concerned with one aspect of this issue, notably its relation with SMU bindings and concerted reductions of support. It was recognized, however, that the issue was more complex and required further discussion of the various options which had been put forward.

18. Regarding the operation of SMUs, it was recalled that NG5/W/82 proposed a binding of support levels and not of policy measures that were subject to national sovereignty. However, it was felt that procedures for identifying and consulting on the policies which constitute the level of support was useful and could contribute to greater transparency. This process, in line with traditional GATT practices, would also require procedures for compensation, which could cover non-economic factors, as well as appropriate procedures for dispute settlement. It was further noted that SMUs, like the standard PSE methodology, captured the effects of variable levies through price-gap quantifications. The six products or groups of products which were initially proposed for SMU bindings were those on which generally greater support was being provided and which accounted for the largest share of international trade. Additional products might be added at subsequent stages, but in any case it was felt that traditional negotiating techniques such as offer and request lists could be appropriate to deal with these products. Fixed external reference prices were required, it was submitted, to achieve the objective of freezing and reducing the level of support without interference from currency fluctuations or erratic market changes. This approach worked irrespective of how long a given price might remain fixed. However, in order to avoid unwarranted perverse effects, this methodology should be adapted for countries which had low levels of support and in which domestic prices paid to farmers reflected world market prices, and for those countries subject to high rates of inflation. Regarding supply controls, in the short term a possible method for "credits" had been suggested which was based on so-called shadow prices, but other methods could be discussed. In any event, it was recognized that the method needed to be adapted for the long term. A 1984 reference year had been proposed because in that year considerable efforts were made to reduce domestic support, thus that year represented an appropriate target for subsequent years as well.

However if, in subsequent years, a country were to have levels of support lower than in 1984, it should not increase them to their 1984 level.

19. The Group discussed the report on the Working Group on Sanitary and Phytosanitary Regulations and Barriers (NG5/WGSP/1). Several participants indicated their readiness to undertake further work on the basis of the points contained in NG5/WGSP/1. The view was expressed that substantive progress in the area of sanitary and phytosanitary barriers and measures was an indispensable part of any agreement in agriculture. Other views stressed the need for increasing transparency as a basis for enhancing GATT as a forum for the settlement of disputes in this field. It was also argued that, within the framework of international acceptance of general principles on which negotiations should continue, consideration should be given to concepts such as free-zone or free-area and minimum risk as opposed to those of free-country and zero-risk.

20. The representative of Jamaica introduced a communication, circulated as NG5/W/89, which set out short-term actions on sanitary and phytosanitary regulations and barriers which, in the view of his delegation, should be taken into account at the Mid-Term Review. Several participants supported the proposals presented in NG5/W/89. Another communication on sanitary and phytosanitary issues was submitted by the Nordic countries and circulated as NG5/W/88.

21. The Group discussed the report by the Chairman of the Technical Group on Aggregate Measurement of Support and Related Matters on options for the use of an AMS in connection with possible commitments which might be adopted at the Mid-Term Review (NG5/TG/1). One participant considered that the two options presented in NG5/TG/1 were not the only possible options. According to this view, although it was correct that the Technical Group had focused its attention on the two options outlined, there were other options which should be considered before any decision could be taken on the subject. Some other participants reserved their position on the question of the use of an AMS both in the short and in the long term.

22. Regarding the application of the "freeze" concept in downpayment, a communication on behalf of the Cairns Group was presented and subsequently circulated as NG5/W/92. A communication on measures to offset and compensate for increased prices in the short term and a discussion paper on aggregate measures of support were outlined by Jamaica and subsequently circulated as NG5/W/90 and 91 respectively.

23. Some participants found it difficult to understand how, in light of the different views expressed, it could be possible in the short time available before the Mid-Term Review to agree on any operational use of an AMS. The acceptability of such a device was very much dependent on the possibility of finding technical solutions to a number of issues, such as reference period, inflation, currency fluctuations, treatment of non-economic factors, and so on. It was, therefore, argued that this aspect of the discussion was premature and it required further work in the Technical Group.

24. The Negotiating Group considered the draft of the Chairman's report to the GNG for the Mid-Term Review. The Chairman said that in accordance with the guidelines proposed by the GNG, his report should contain two parts, the first briefly outlining the work done so far by the Group and the second setting out points for decision by Ministers at the Mid-Term Review. He noted that the second part of his report, Part B, remained to be drafted and that the document proposed for discussion was a checklist of issues on which it was intended to consult further with delegations with a view to presenting a full report before the meeting in Montreal.

25. A number of drafting suggestions as well as points for inclusion were advanced on some aspects of Part A of the draft Chairman's report. Reactions were also offered and points made in connection with the checklist of issues outlined in Part B. Several views were expressed that it was necessary for the Negotiating Group to dispose of a written document by the Chairman stating clearly the alternative approaches and the different positions put forward as a basis for political discussion and decisions at the Mid-Term Review. It was stressed, in one view expressed, that Part B of the Chairman's report should clearly indicate that the aim of the negotiations should be to terminate the special treatment of agriculture under the General Agreement. It was also stated that Part B of the report should facilitate Ministerial appreciation of the long-term goals of agricultural trade liberalization without engaging in a renegotiation of the Punta mandate. It was suggested that this might be achieved through: reaffirmation of the need to pursue vigorously all the objectives identified in the Punta Declaration; reaffirmation of the need to design new and reinforced GATT rules and disciplines covering all measures affecting import access and export competition; common understanding of the need to take into account in the new rules and disciplines of factors such as those relating to regional, social and environmental issues, including food security; common understanding of the need to increase market orientation in agricultural policies by bringing about gradually an improved "re-coupling" of domestic and international markets. Consideration should also be given to possible uses of an AMS in achieving this objective as well as to ways and means of minimizing the adverse effects on trade of sanitary and phytosanitary measures and regulations. Regarding the long term, it was suggested that Ministers should be called on to outline procedures to be followed in the process of agricultural reform, including the possibility of requesting each participant to prepare individual implementation plans identifying specific adjustments to its agricultural policy. Short-term actions were required to demonstrate tangible progress in the negotiation and to sustain and further improve the situation in international markets. This could be based either on an operational decision by Ministers at Montreal, or on a decision to entrust the Negotiating Group with the task of working out details of such actions by mid-1989.

26. It was suggested that liberalization of trade in agriculture should be clearly based on the mandate established by Ministers at Punta del Este. In this view any attempt to renegotiate this mandate at Montreal should be resisted since to do so would harm the interest of developing countries, especially if progress in other negotiating groups, such as tropical

products, were to be conditional to the achievement of early results in temperate agriculture. Special and differential treatment for developing countries should be an integral part of a reinforced system of GATT rules and disciplines and not be dealt with on a case-by-case basis or as a catalogue of exceptions linked to a number of selected economic indicators. This would be contrary to the Punta Declaration and Part IV of the General Agreement. Increases in prices of agricultural commodities had in recent years caused considerable costs to the economies of developing net food importing countries which should be recognized and compensated in the short term. Confronted with this situation, these countries must be free to develop their own agriculture and their domestic policy objectives. It was further stated that the Negotiating Group had so far addressed issues relating to access to market in a secondary way only. In the most recent years, developed countries had increased their protectionist policies, while, under pressures from international financial agencies, developing countries were requested to adjust and liberalize their external sector. This had resulted in a sharp deterioration of the term of trade of these countries and had created serious bottlenecks for their economic development. In this view it was urgent, therefore, to find at Montreal concrete ways to solve access problems in the short term.

27. In another view expressed, it was argued that it was too early to discuss the modalities of the short-term measures without having a clear agreement on the purpose of the reductions sought. If their purpose was to address the major problems of world agricultural markets, they would have to be designed so as to have the greatest possible impact on those markets that suffered from oversupply and should, therefore, be concentrated on policy measures that had caused those market disturbances. Short-term measures designed to improve the overall negotiating climate might have a very different design. In this view, the reference to the need to elaborate guiding principles for long-term reform was too vague and could lead to misunderstanding. The business of GATT was to provide a regulatory framework for international trade. GATT could not and should not attempt to regulate national policy. It was up to each contracting party to ensure that its national policy was in compliance with its international commitments regarding trade in agriculture. According to this view the Group had not yet progressed enough to discuss the modalities of a reduction of agricultural support which was not an end in itself but a means. Before discussing these modalities it first was necessary to agree on the future framework which would regulate trade in agricultural goods.

28. Having noted that Part B of the Chairman's report was for the time being just a checklist of issues, one participant argued that the checklist should be completed so as to cover in a balanced way all the points raised, and that equal treatment should be afforded to all subjects for consultation. This view was shared by some other participants who referred to food security and longer time-frame for structural adjustment as issues to which appropriate attention should be given in the checklist.

29. Another participant agreed with those who considered the checklist as an opportunity for further consultation to arrive at report for submission to the GNG prior to the Montreal Meeting. This participant proposed a

number of drafting suggestions to the checklist. In particular, regarding the long term, the addition of a point referring to the need to establish modalities for addressing problems of developing countries that were net importers of food and agricultural products. In this regard it was suggested that should any such freeze and reduction of trade-distorting measures have adverse effects on developing countries, provision should be made for concrete compensatory measures to be agreed and take effect in the same time-frame. It was also recalled that the modalities of such a freeze and reduction were yet to be agreed multilaterally, including their application to developing countries. Several participants supported this view. Other views were expressed that reference to special and differential treatment for developing countries should also be included in part of the checklist referring to the short term.

30. There was general agreement that the checklist addressed issues relating to sanitary and phytosanitary regulations and measures in an appropriate way. However, views were expressed that this subject should not be treated as a separate section of the report but as an integral part of any action or decision to be taken both in the short and in the longer term.