

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

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Negotiating Group on Agriculture

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

(10-12 July 1989)

Note by the Secretariat

1. The following summary, which has been prepared by the secretariat in accordance with paragraph 5 of MTN.GNG/NG5/14, should be read in conjunction with documents NG5/W/96-102 which contain the full texts of the European Community proposal concerning an aggregate measurement of support, a discussion paper by the United States concerning tariffication, a communication by the United States concerning international scientific organizations, and statements by Switzerland, the Nordic countries, Egypt (on behalf of net food-importing developing countries) and Mexico. A note by the Nordic countries concerning the TBT Code and sanitary and phytosanitary questions was also available (NG5/WGSP/W/5).

2. A representative for the European Economic Community introduced its proposal concerning the applicability of an aggregate measurement of support (AMS) (NG5/W/96) saying that the idea of an AMS had found an expression in the results of the Mid-Term Review and needed urgent consideration. The present document had been elaborated on the basis of previous Community papers. The new paper clarified a number of points and made the concept of the support measurement unit (SMU) less abstract by showing examples of how it could be used. The Community proposed commitments both in terms of a unit SMU and a total SMU using a fixed external reference price (1984-86 average). The base year would be 1986 and fixed for a period of five years. Although the paper concentrated, for policy coverage, on market support and direct payment, other measures could be included as necessary. The Community was, moreover, of the view that special allowance should be made for supply control measures because of their influence on prices.

3. Many participants welcomed the Community proposal, indicating that it was a useful start to the discussions on the future use of an AMS. Although comments were still of a preliminary nature, interest was expressed in the calculations provided to illustrate the use of an AMS. Some delegations questioned the choice of base year, arguing that the SMU calculations would be significantly different if a fixed external reference price based on an average of 1986-89 world prices was used instead. Also, it was argued that a fixed external reference price did not by itself

eliminate the issue of exchange rates and world price movements. When choosing an external reference price, it was important not to lose sight of the economic realities negotiators were trying to capture in an aggregate measurement. The question was raised as to the possible use of a moving average reference price instead of a fixed one, in order to take into account these economic realities. Some participants also questioned the usefulness of 1986 being set as the base year since by the time participants started to implement the results of the round, economic realities would have changed considerably. Several participants welcomed the indicators in the EEC paper that the SMU would only be one of the techniques in a package to deal with border and other measures.

4. Several delegations wanted the product coverage of a future SMU to be as broad as possible and to include products of export interest to all participating countries. Others indicated a preference for the product coverage used by the OECD. As concerns the policy coverage, some participants shared the EEC view that negotiations should concentrate on those measures which had the greatest trade effects. It was also said that input subsidies could be excluded from coverage unless they were commodity specific, in which case they tended to become more trade distorting. Questions were raised as to the advisability of excluding subnational support measures, since these could also have trade-distorting effects.

5. Several delegations questioned how the AMS would be reduced - on the basis of a flat percentage reduction, for instance, or a formula such as the Swiss one used in the Tokyo Round. One participant, favouring the use of an AMS as a monitoring tool with commitments on specific policies, suggested that the conversion of non-tariff barriers to tariffs would make an AMS easier to calculate. Furthermore, he expressed concern about the suggestion that special allowance be made for supply controls since these resulted in the misallocation of resources and were contrary to the objective of a fair and market-oriented trading system.

6. The representative of the Community, in answer to some of the comments and questions concerning the EEC paper, said that the paper was not intended to address all the questions in this context and a number of points would have to be tackled in the future. The Community was trying to provide a basis for furthering agreement or consensus on an AMS, before giving more precise indications of how support could be reduced. Product coverage was limited to the one used by the OECD for the time being, but reflection on how to enlarge coverage was continuing. He agreed that there were policy elements in other categories, besides in the two mentioned in the paper, that needed to be covered by a future AMS; work would continue on this aspect. Commenting on the base year and fixed reference price, he was of the opinion that 1986 was now the anchor of future deliberations since it was mentioned in the Mid-Term Review Agreement. The reference price, though, was open to discussion, but the Community would prefer to avoid too high a reference price. Special and differential treatment for developing countries was not currently addressed in the EEC paper. He indicated, however, that although the EEC saw special and differential treatment included in the SMU approach (to be elaborated later), he did not want to exclude the possibility of applying the SMU approach to some but not all developing countries, albeit with some modifications.

7. The representative of the United States introduced a discussion paper on tariffication (NG5/W/97) stating that if the objective set out in the Mid-Term Agreement of establishing "a fair and market-oriented trading system ... and provide for substantial progressive reductions in agriculture support and protection" were to be achieved, fundamental reforms were needed in all policy areas - market access, internal support and export competition. Tariffication would be an important part of the reform programme in the area of market access. It would apply only to import access barriers and should not be viewed in isolation. Tariffication, he said, should be seen as a first, logical step towards liberalization of access and was not intended to be an end to reform in this area: substantial progressive reductions in the tariffs thus established would follow.

8. A number of participants welcomed the United States discussion paper as an important contribution to the discussion on possible techniques to be used to reduce barriers to trade in agriculture. Several participants stressed that if this technique were adopted, it would be one of a package to be put together before the end of the negotiations. Some participants were enthusiastic about the possibilities for tariffication to help reduce agricultural support and protection. It was seen as an instrument to be used in combination with an AMS, each technique dealing with different aspects but complementing each other.

9. One participant pointed out that all measures were not suitable for tariffication due to such concerns as food security. Concerns were raised that tariffication would pose problems for many participants if they had to commit themselves, by the end of the Round, to tariffication of all non-tariff barriers as well as eventual elimination of the tariffs thereafter. The question was raised whether 1986 would not be a more appropriate base year than the most recent year, since that was the year in which the Round started, as well as being the year proposed by the EEC as the base year for the AMS. However, it was also said that the base year, any base year, would have to be constantly updated in any technique used. The question was asked, as concerns coverage, whether tariffication would embrace all non-tariff barriers, whether or not GATT legal. Concern was expressed on how to accommodate special and differential treatment in the tariffication concept.

10. One participant suggested that it would be easy to imagine a scenario whereby all terms of market access could be subject to ceiling bindings. Another participant thought that the formula proposed in the paper was reasonable and simple to apply. Some participants asked that the United States illustrate by some simple examples how tariffication would work in practice in order to facilitate the examination of the concept. One participant maintained that it was pointless to discuss border measures unless support, the central issue of the negotiation, was dealt with. As concerns policy coverage, tariffication should transform non-tariff barriers into tariffs; therefore, variable levies had no place in the use of this concept.

11. The representative of the United States, commenting on the discussion of the tariffication paper and concept, observed that the purpose of the

paper was to generate debate and he was pleased to note, in particular, that some participants had recognized how essential a market-oriented and comprehensive approach to the agricultural negotiations was. He stressed that tariffication would be but one part of the reforms the negotiators were talking about. A more complete package which would address all the issues would be prepared for this autumn. Responding to some of the questions raised, he observed that the suggestion concerning tariffication was for this Negotiating Group only. He further said that the intention of the United States was that all non-tariff barriers would be covered by tariffication and that all participating countries, be they developed or developing, would convert to tariffs. As concerns sanitary and phytosanitary measures, once harmonized as suggested, only those that were scientifically justified would remain, thus eliminating their use as unjustified trade barriers.

12. The representative of the United States observed that the April agreement with regard to sanitary and phytosanitary regulations was an excellent basis for the negotiations on this matter and what was now needed was to get the relevant expert organizations active in the development of harmonized standards. It was for this reason that in its paper, NG5/W/98, the United States suggested formal GATT contacts with the expert organizations to encourage them to develop the standards that could be used in the GATT context.

13. A few delegations expressed concern that the expert organizations not be requested to do work that should be done in the GATT. It was pointed out that it was up to the GATT contracting parties to determine what were the suitable principles of equivalency, what type of notification, consultation and dispute settlement procedures were most appropriate and desirable, and how to use which selected standards. It was recognized, however, that the GATT itself could not create standards but rather make use as appropriate of those established elsewhere. One delegation further noted that there were other relevant expert organizations in addition to the three mentioned in the April agreement, in particular the UN Economic Commission for Europe and the OECD.

14. In presenting its paper in respect of the applicability of the Code on Technical Barriers to Trade (TBT) to the agreed objectives on sanitary and phytosanitary regulations (NG5/WGSP/W/5), the representative of the Nordic countries emphasized that this was not a proposal but a factual analysis of the provisions and discussed revisions of the TBT in respect of the Negotiating Group on Agriculture's concerns in this area. They concluded that although there were some limitations, the TBT addressed many of the concerns, particularly if it were modified as proposed.

15. Several delegations noted that it was useful to examine the TBT, and that some of its provisions with respect to notification and consultation might serve as a basis for developing the procedures envisioned in the April agreement.

16. The Negotiating Group was informed of the contacts which the secretariat had already established with the Codex Alimentarius Commission, the International Plant Protection Convention and the International Office

of Epizootics. It was agreed that these contacts should be formalized and intensified, and the further co-operation of these expert organizations solicited. The point was also made that it was up to the contracting parties to direct their representatives to these organizations to speed up their work on the harmonization of, and acceptance of, sanitary and phytosanitary standards. It was also agreed that the Working Group on Sanitary and Phytosanitary Regulations would continue, and would hold its next meeting close to the next meeting of the Negotiating Group on Agriculture.

17. The representative of Mexico introduced a statement on special and differential treatment for developing countries which was circulated as document NG5/W/102. He noted the present provisions in GATT rules and disciplines concerning developing countries as set out in document NG5/W/95, and commented that progress in the negotiations must result in improving on the existing situation. To classify certain internal subsidies as prohibited, for example, would in fact worsen the present position. In this connection he drew attention to reactions his country had given in the Negotiating Group on Subsidies. The representative of Peru fully agreed with the points made by Mexico.

18. A number of other representatives also endorsed the statement of Mexico. Several emphasized the clear and specific provision made for special and differential treatment in the Mid-Term Review decisions of the TNC. They recalled that this was to be an integral part of the negotiations and of the improved GATT rules and disciplines; that developing countries' domestic programmes were recognized as part of their development effort and that the interests of net food-importing developing countries called for special attention. The April discussion gave the Negotiating Group a clear mandate in this area. It was essential, therefore, that the negotiations on liberalizing agricultural trade should accommodate the development needs and objectives of the developing countries in the agricultural sector. The necessary inputs to foster this development should not be treated as subsidies. It would also be necessary to allow developing countries an extended time-frame and a measure of flexibility in order for them to be ready to apply new rules in the long term. Developing countries were not asking for a separate set of GATT rules, but that special and differential treatment should be reflected in all aspects of the Round and its results. These points were seen as central to broadening the participation of developing countries in GATT.

19. Several participants emphasized that there was an urgent need to translate the principles agreed in April and earlier into concrete proposals working towards the implementation and application of special and differential treatment. The time for general statements was past. The relevant provisions of the April TNC agreement should be reflected in the detailed proposals called for under the work programme so that special and differential treatment would be an integral part of the various elements of the negotiation. Proposals tabled so far had tended to be deficient in this respect. Participants also recognized the responsibility of the developing countries to contribute to this process, and several stated that they hoped to submit more operationally specific proposals in the near future, either individually or as members of a group.

20. The representative of Egypt introduced a statement on behalf of a number of net food-importing developing countries, containing elements to take into account the negative effects of the reform process on such countries. This was circulated as document NG5/W/101.

21. A number of representatives supported the views expressed by Egypt. The two main objectives identified - alleviating the burden of increased prices and enhancing the productive capacity of the countries concerned - were seen as particularly important. The principle of taking account of these negative effects being admitted, one participant pointed out that the means of achieving these objectives needed detailed consideration. Some relevant questions included whether compensation should be on a bilateral or multilateral basis; whether it should take the form of financial aid, food aid or special credits; and whether the use of the resource thus made available should be determined solely by the recipient country or within the context of a multilateral development programme. It was noted that a choice among these measures was difficult at present and that they need not be mutually exclusive. However, the preferred options for this participant were a multilateral framework, financial aid (and credits) and the channelling of these resources directly into agricultural development.

22. A participant suggested that an additional element to those outlined by Egypt in connection with achieving the objectives could be the eradication of insect pests and plant and animal diseases. This participant underlined the dual aim of increasing domestic purchasing power through assuring the availability of agricultural products at a reasonable price, and of increasing foreign exchange earnings through improved exports of these products, which meant improving access to markets. Another participant noted that his authorities had set out other elements of this issue in their statement circulated as document NG5/W/94, which was fully in harmony with the paper presented by Egypt. He called for the guidelines put forward in NG5/W/101 to be developed into specific mechanisms, and emphasized in particular the possibility of action by international financial institutions.

23. A participant raised the question of how to define a net food-importing developing country but noted that they existed, and had problems which must be dealt with. These countries, like developing countries in general, did not create the present crisis in international agricultural trade and should not have to pay the price of correcting the situation. Concerning the two main objectives identified by Egypt, this participant recalled his country's consistent support for proposals aimed at increasing export market access for all developing countries; likewise all developing countries should be enabled to develop their agricultural production, through facilities such as those listed clearly by Egypt. Regarding document NG5/W/94, this participant noted that Peru, its author, was committed to liberalization of agricultural trade, and that the document did indeed parallel NG5/W/101, especially in proposing possible measures to deal with the problems of net food-importing developing countries. A number of delegations had thus outlined areas where specific action was possible. As he had done in the discussion on Mexico's statement, this participant said the time had come to give these proposals a more concrete form.

24. A representative who associated his delegation with the Egyptian statement described it as an initial effort to give more concrete form to this item in the work programme agreed in April. He recognized the importance of making more specific proposals, which he hoped would be stimulated by this initiative. He described his country's perception, backed by the available evidence, that liberalization of trade in agriculture would result in net welfare gains to the developed countries who were largely responsible for the current distortions. In the short to medium term there would be increases in international prices, which would benefit exporters. Net food-importing developing countries would therefore be faced with increased import prices. In order to ensure that all participants benefited, these effects of liberalization must be taken into account, by means such as those outlined by Egypt.

25. This participant added that not only food, but also animal feed imports, were increasingly important to developing countries as their consumption patterns changed. The expected price increases for these products should also be taken into account. In the long term, he could envisage that generally higher prices for agricultural products could stimulate domestic production in developing countries. However, stimulation of domestic production and income was likely to be accompanied by an increase in food and feed imports, so that the situation had to be looked at in a dynamic way. The foreign exchange burden of food imports on developing countries, especially those with heavy debt service payments which already constrained investment and growth, was of great significance. It could limit import possibilities, with implications for nutrition levels. Decisions taken on these issues in the Uruguay Round might be implemented as appropriate in co-operation with international financial and development organizations, in order to broaden the range of possibilities.

26. The representative of Egypt, in reply, noted that NG5/W/101 had been based on dialogue with other participants. For example, the word "compensation" did not appear in it; the language of the April TNC text had been adhered to. He emphasized that other developing countries were not expected to contribute to the "assistance and support" outlined in the document. The net food importers sought rather their understanding, and were pleased to have received it. He agreed that more concrete proposals should, and would, be submitted. These would also be the result of a dialogue with other participants of all shades of opinion, so that they would not be unacceptable.

27. Following the above discussion, a participant raised the question of observance of the short-term commitments under the Mid-Term Review. He expressed anxiety in particular concerning reports of possible increases in EEC milk production quotas. His own authorities had adhered strictly to the April short-term undertakings despite domestic political pressure, and continued multilateral observance was important in helping them to do this. The representative of the EEC agreed that the April agreement should be implemented scrupulously. There had been no decision taken yet on the Community's milk quotas. He also noted that it was not due to the EEC that supply control measures were not included specifically in the agreement.