

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

RESTRICTED

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

UNDERTAKINGS PURSUANT TO PARAGRAPH 15 OF THE  
MID-TERM REVIEW DECISION ON AGRICULTURE

Notification from the European Community

1. At the April meeting in Geneva (5 to 8 April 1989) the participants stated their intentions to reduce support and protection levels for 1990. This could be done either by using an AMS or by taking specific policy measures. The participants also agreed to notify the undertakings for fulfilling this commitment by October 1989.
2. In its proposal on short-term measures (MTN.GNG/NG5/W/62) the European Community already stated that it was ready to commit itself on the reduction of SMUs resulting from measures taken since 1984, if the other principal parties in this context were willing to make equivalent undertakings. Taking into account the fact that the April decision stipulates that credit will be given for measures implemented since the Punta del Este Declaration which contribute positively to the reform programme, it would, however, be appropriate to use 1986 as base year for the reduction of SMUs.
3. The reduction of the total SMUs for the arable and livestock sectors since 1986 is the result of a series of measures which have been introduced in the common agricultural policy in order to achieve a better balance between supply and demand.

These measures include:

- reduction in the institutional prices fixed for each agricultural campaign (cereals, rapeseed, soya beans, sugar, milk);
- reduction in the prices effectively paid to the producers through a weakening of the intervention system (cereals, rice, rapeseed, milk, beef and veal) and the application of co-responsibility levies (cereals, sugar, milk);
- implementation of a system of production quotas (milk, sugar) or maximum guaranteed quantities (cereals, rapeseed, soya beans) which automatically trigger support reduction (lower prices, lower aids, or additional co-responsibility levies) whenever production in that sector exceeds the maximum permitted volume.

4. Against this background the Community undertakes to reduce in 1990 as compared with 1986 the total SMUs:

- for the arable sector, by 10 per cent; and
- for the livestock sector, by 15 per cent.

This undertaking means that in 1990 the total SMUs shall not exceed the following amounts:

Arable sector	ECU 11.6 billion
Livestock sector	ECU 23.8 billion
Arable and livestock sectors together	ECU 35.4 billion

According to estimates the total SMUs in 1990 would be:

Arable sector	ECU 11.2 billion
Livestock sector	ECU 22.9 billion
Arable and livestock sectors together	ECU 34.1 billion

The estimated total SMUs are hence well below the committed amounts and they are also in compliance with paragraph 14 of the TNC's decision providing a freeze of support.

The total SMUs for the year 1986 to 1989 are established as follows:<sup>1</sup>

		(ECU billion)			
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	
Arable sector	13.0	11.5	11.8	11.5	
Livestock sector	28.0	24.6	23.2	23.3	
Arable and livestock sectors together	41.0	36.1	35.0	34.8	

This arable sector includes: wheat, barley, maize, rice, sugar, rapeseed and soya beans; the livestock sector includes: milk, beef and veal.

The total SMUs for the individual products are listed in Annex I.

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<sup>1</sup>The SMUs have been calculated as outlined in document MTN.GNG/NG5/W/96, i.e:

- the fixed external reference price is the average of external prices for the years 1984, 1985 and 1986;
- policy measures captured are "Market price support" and "Direct payments", other than diversion payments.

Compliance with the commitment will be achieved by not increasing the institutional support prices applied in 1989, by applying the existing intervention system and by continuing the existing measures on maximum guarantee thresholds in the arable sector.

The Community has in the cereal sector reduced the entry price (threshold price) by more than 5 per cent since 1986. Furthermore, the monthly increments have been reduced by about 50 per cent. The threshold price for sugar has also been reduced in both 1988 and 1989 by a total of 3 per cent.

The Community will keep under review the threshold prices in the different sectors.

The Community expects other participants to meet their commitments under paragraph 15 of the TNC's decision.

5. The main policy measures influencing the SMUs and protection levels for the products concerned are described in Annex II.

Annex ITotal SMU EC12

	(ECU billion)			
	1986	1987	1988	1989
Cereals	9.3	7.9	8.0	7.9
Rice	0.3	0.3	0.4	0.4
Rapeseed	0.3	0.3	0.4	0.3
Soyabeans	0.2	0.4	0.3	0.3
Sugar beet	2.9	2.6	2.7	2.6
Arable sector	13.0	11.5	11.8	11.5
Milk	15.8	13.4	12.3	11.8
Beef	12.2	11.2	10.9	11.5
Livestock sector	28.0	24.6	23.2	23.3
Arable and livestock sectors	41.0	36.1	35.0	34.8

## Annex II

This Annex contains a description of the major policy measures implemented by the European Community since the Punta del Este Declaration.

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### 1. Cereals

Until 1986, cereals could be sold to intervention agencies at the intervention price throughout the marketing year provided the cereals complied with certain conditions, in particular, in respect of quality and quantity. The intervention price was subject to monthly increases phased over the whole of the marketing year in order to take account, among other things, of storage costs and interest charges for storing cereals. In addition, durum wheat attracted production aid determined by reference to the area harvested.

In 1986, it was decided to buy cereals into intervention during only part of the marketing year (eight to ten months) and to pay a lower price for cereals of lower quality. A co-responsibility levy was introduced with a view to making farmers more aware of the financial consequences of their participation in an unbalanced market.

In 1987, the intervention system was further alleviated by stipulating that buying-in would be activated only if the average market price was below the intervention price. Furthermore, the cereals would be bought in at 94 per cent of the intervention price and the monthly increases were reduced. Finally, it was decided to apply the monthly increments only during the period November to May inclusive.

In 1988, the monthly increments were again reduced. In addition, the so-called "stabilizers" were introduced. The stabilizers as regards cereals are based on a guarantee threshold set for the marketing years 1988/89 to 1991/92 at 160 million tonnes (all cereals combined). A stabilizer levy of 3 per cent of the intervention price of bread wheat is charged provisionally at the first-purchaser stage. If production exceeds the guarantee threshold the stabilizer levy is considered as definitive in proportion to the overrun (with a maximum of 3 per cent) and the overrun (independent of the level) entails a 3 per cent reduction in the intervention price for the following marketing year.

In 1989, the overrun of the guarantee threshold in 1988 led to a reduction of the intervention price of 3 per cent, the monthly increments were further reduced and the intervention period was again shortened (1 August to 30 April in Italy, Spain, Greece and Portugal and 1 November to 31 May in other Member States).

In 1990, the intervention price will again be reduced by 3 per cent as a result of the overrun of the guarantee threshold in 1989.

On import into the European Community of cereals, a levy equal to the threshold price less the c.i.f. price is charged. The threshold price is increased with the same monthly increment as that applied to the intervention price. The first increment takes place the second month of the marketing year and continues until the second last month (ten times).

During the period examined the European Community has reduced the threshold prices for cereals by more than 5 per cent and the monthly increments by almost 50 per cent.

## 2. Rice

Until 1987, rice could be sold to intervention agencies at the intervention price throughout the marketing year provided that it complied with certain conditions, in particular, in respect of quality and quantity. The intervention price was subject to monthly increases phased over the whole of the marketing year in order to take account, among other things, of storage costs and interest charges for storing rice.

In 1987, it was decided to buy rice into intervention during only part of the marketing year (eight months) and at 94 per cent of the intervention price. The monthly increments were reduced and it was decided that they should apply only during the period January to July inclusive. In addition, a production aid was introduced for rice of "Indica" varieties to encourage conversion of production to the rice in greater demand by consumers.

In 1988 and 1989 the monthly increments were further reduced.

In 1989 the intervention period was shortened to 1 January to 31 July.

On import into the European Community of rice, a levy equal to the threshold price less the c.i.f. price is charged. The threshold prices for 1989 are slightly below those in 1986 and the monthly increments have been reduced by almost 40 per cent.

## 3. Rapeseed

Aid is granted for rapeseed harvested in the Community based on the difference between the target price and the world market price. From 1982 until 1986, a guarantee threshold system operated for rapeseed whereby production (based on the average of the last three years production) above the guarantee threshold triggered a cut in the intervention and target price for the next marketing year.

In 1986 this was replaced by a new system in which the price penalty was calculated on the basis of one year's production, rather than a three year average, and was applied in the same marketing year as that in which the overproduction occurred. Thus on the basis of production estimates at the beginning of the year the unit amount of aid was reduced in proportion to the production in excess of the maximum guaranteed quantity (MGQ) up to

a limit of 5 per cent of the target price. This reduction could be adjusted in the following marketing year if the final production figures were different. For the 1986 marketing year the MGQ was fixed at 3.5 million tonnes.

Until 1987 rapeseed could be sold to intervention agencies at the intervention price throughout the marketing year provided that it complied with certain conditions, in particular, in respect of quality and quantity. The intervention price was subject to monthly increases phased over the whole of the marketing year in order to take account, among other things, of storage costs and interest charges for storing rapeseed.

In 1987 it was decided to buy rapeseed into intervention during only part of the marketing year (eight-ten months) and only at 94 per cent of the intervention price, less the abatement under the MGQ mechanism. The monthly increments were reduced and it was decided that they should be applied only during the period November to May inclusive. In addition the target price was reduced and the limit on the penalty under the MGQ system was raised from 5 per cent to 10 per cent of the target price.

In 1988 the monthly increments were further reduced. The MGQ was fixed for a period of three years at a level below that of production recorded in previous years (4.5 million tonnes EC10, 12,900 tonnes Spain, 1,300 tonnes Portugal). Each 1 per cent excess would result in a 0.45 per cent cut in the target price (0.5 per cent in 1989 and 1990) with no limit on the size of the price cut.

In 1989 the intervention period was shortened by one month (1 August to 30 April in Spain and Portugal, 1 November to 31 May in other Member States), and the monthly increments were reduced.

Rapeseed is duty free on import into the Community.

#### 4. Soya beans

When the guide price is higher than the world market price for soya beans aid equal to the difference between these two prices is granted to purchasers who conclude contracts with producers providing for payment of a price not lower than the minimum price.

In 1987 both the guide price and the minimum price were reduced. In addition, a maximum guaranteed quantity was introduced for soya and was set at 1.1 million tonnes. As for rapeseed, the unit amount of aid was reduced in proportion to the production in excess of the MGQ up to a limit of 10 per cent of the guide price. Adjustments if necessary could be made in the following year.

In 1988 the MGQ was fixed at 1.3 million tonnes for a period of three years. Again, as for rapeseed, each 1 per cent excess production would result in a cut of 0.45 per cent of the guide price in 1988 and 0.5 per cent in 1989 and 1990 with no limit on the size of the price cut.

Soyabbeans are duty free on import into the Community.

5. Sugar

The underlying principle in the sugar sector is that it should be self-financing through the application of levies on producers. Until 1986 this consisted of levies on all production covered by quotas and at a fixed percentage of the white sugar intervention price.

Production quotas are set for A and B sugar. The levy is charged at a rate of 2 per cent of the intervention price for all quota production. In addition, a second levy is charged on B quota production of between 30 per cent and 37.5 per cent of the intervention price, as necessary, to cover the cost of disposal of surplus production. Production outside the quota (C sugar) is excluded from the support system and is exported by producers without refund.

In some marketing years, the yield from the production levies fell short of requirements and an elimination levy was introduced in 1986 to cover the accumulated deficit from the period 1981/82 to 1985/86. This would be charged at a rate of approximately ECU 80 million per marketing year over a five-year period 1986/87 to 1990/91 inclusive.

In 1987 a special elimination levy was introduced to cover the losses arising from the 1986/87 marketing year not covered by the production levies applicable in that year.

A similar levy was introduced in 1988 to cover the 1987/88 marketing year and also for the years 1988/89 to 1990/91 to absorb annually the losses not covered by the normal production levies.

A storage refund is paid on A and B sugar to ensure regular disposal of the sugar throughout the marketing year. This is financed out of a storage levy charged on manufactures.

In 1989 the basic price for sugar beet and the intervention price for raw and white sugar were reduced by 2 per cent.

On import into the European Community of sugar, a levy equal to the threshold price less the c.i.f. price is charged. During the period examined the European Community has reduced the threshold price for sugar by 3 per cent and thereby diminished the price at which imported sugar can penetrate the European Community market.

In addition, the Community operates a system of preferential imports for the ACP states<sup>1</sup> and approximately 1.3 million tonnes of white sugar equivalent is imported levy free.

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<sup>1</sup>Protocol No. 7 to the Lomé Convention; agreed between the Community and sixty-six ACP States, with the objective of promoting economic development of the ACP States and trade co-operation between the ACP States and the Community.



6. Milk

The milk producer pays a co-responsibility levy on delivered milk, calculated as a percentage of the target price for milk, with partial exemptions for small producers and producers in less-favoured areas. Subsidies, financed out of the co-responsibility levy, are paid to small milk producers and are paid for the improvement of milk quality, the promotion and advertising of milk and milk products and research into expanding the market. A temporary scheme was in operation for the non-marketing of milk and for the conversion of dairy herds to meat production. In 1984 a production quota system was introduced in the milk sector whereby a supplementary levy on over-quota production had to be paid.

In 1986 it was decided to reduce the quotas by 2 per cent for the 1987/88 marketing year and by a further 1 per cent in 1988/89. Producers who definitively ceased milk production would receive compensation payments over a period of seven years. In addition, there was a temporary suspension of quota of 4 per cent in 1987/88 and 5.5 per cent (an additional 1.5 per cent) in 1988/89. Compensation for this scheme is paid over five years on a reducing scale. Also, the rules of application of the quota scheme were tightened up and the levy rate raised to 100 per cent of the target price for all over-quota deliveries. This meant a total reduction of deliveries of 9.5 per cent.

These quotas are effectively a production restriction and if they had not been implemented it is likely that production in 1990 would have been 136.9 million tonnes. To take full account of the benefits of this supply management instrument, the SMU calculation is based on the lower producer price which would have been necessary to achieve this lower level of production.

Until 1987, butter and skimmed milk powder could be sold to intervention agencies at the intervention price throughout the marketing year, provided that they complied with certain conditions, in particular in respect of quality and quantity. In 1987 it was decided to suspend intervention of skimmed milk from 1 September to 28 February, and also that the suspension could be brought forward if the quantity bought in reached 100,000 tonnes in a marketing year. For butter, intervention buying could be suspended once quantities bought in after 1 March 1987 exceeded 180,000 tonnes. This situation was reached in June 1987 and conventional intervention has since been suspended and replaced by a tendering procedure. Intervention may be started again if market prices reach 92 per cent of the intervention price if stocks purchased after 1 March 1987 remain below 250,000 tonnes, or 90 per cent if they exceed 250,000 tonnes.

In addition, in 1987 the aid paid to small producers was discontinued.

In 1989, the co-responsibility levy was eliminated in less-favoured areas and was reduced from 2 per cent to 1.5 per cent of the target price elsewhere. The intervention price for butter was reduced in two steps by 4 per cent. In addition, the milk quotas have been increased by 600,000 tonnes in line with a ruling of the European Court of Justice in respect of those producers who ceased milk production under earlier Community schemes.

On import into the European Community of milk products, a levy is applicable. To this end milk products are grouped together into homogenous groups and a "pilot" product selected for each group, for which a threshold price is fixed. The levy charged on import into the European Community of pilot products is equal to the difference between the threshold price and the free-at-frontier price. Levies for other products are derived from the levy for the "pilot" product, adjusted for differences in fat and protein content.

In addition, the Community operates a system of tariff quotas under the GATT, liberalizing entry of certain products provided that a free-at-frontier price is respected.

In 1989, due to a revised assumption about the fat content/protein content ratio, the level of the threshold prices for butter and skimmed milk powder were altered although the overall level of protection in the milk sector remains unchanged.

#### 7. Beef and veal

Until 1987, beef from male animals could be sold to intervention agencies on a seasonal basis (forequarters in summer and hindquarters in winter) provided that it complied with certain quality criteria of the Community scale. In addition, producers received an annual headage payment for calves and for suckler cows and in the United Kingdom a deficiency payment system operated through a variable slaughter premium.

In 1987 it was decided that intervention buying would be authorized only if the average Community market price was below 91 per cent of the intervention price and if the average market price at national level was below 87 per cent of the corresponding intervention price. The actual buying-in price would be calculated from the weighted average of the market prices in the Member States plus 2.5 per cent of the intervention price, but must at least be equal to the highest market price entering into the calculation.

The suckler cow premium was increased and a special premium introduced for male animals raised to an adult age.

In 1988 it was decided that the clauses concerning the level of the buying-in price could be suspended in certain circumstances, particularly on the basis of the differences between market prices in the Member States, thus further alleviating the intervention system.

In 1989 the calf premium and the variable premium scheme were discontinued but the suckler cow and special premiums were both increased. Intervention buying would be authorized if, for a period of two weeks, the average Community price fell below 88 per cent of the intervention price and the average market price at national level fell below 84 per cent of this price. Also, a ceiling of 220,000 tonnes per annum was put on intervention purchases and the buying-in price determined under a tender procedure.

On import into the European Community of beef and veal a levy is charged equal to the difference between the guide price and the free-at-frontier offer price plus the customs duty.

During the period examined the level of protection in the European Community has remained unchanged.

In addition, under the GATT the Community opens annual tariff quotas for the import of certain cattle or meat at a fixed level of duty, and also establishes a balance sheet each year determining the level of imports of frozen beef/veal for processing and young male cattle for fattening, with full or partial levy suspension.