

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG5/W/128
27 November 1989

Special Distribution

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

Original: English

COMPREHENSIVE PROPOSAL FOR THE LONG-TERM REFORM
OF AGRICULTURAL TRADE

Submission by the Cairns Group Comprising Argentina,
Australia, Brazil, Canada, Chile, Colombia,
Hungary, Indonesia, Malaysia, New Zealand,
Philippines, Thailand and Uruguay

Introduction

1. The purpose of this paper is to indicate how the Cairns Group sees the individual elements of the negotiating framework fitting into an integrated package designed to meet the negotiating objectives agreed at the Mid-Term Review (MTR). The Group will further elaborate these views as the negotiations proceed.

2. The Cairns Group bases this paper on the MTR Agreement on Agriculture contained in MTN.TNC/11, the long-term objective of which is the establishment of a fair and market-oriented agricultural trading system. As further elaborated in the Mid-Term Review Agreement, this objective is to provide for substantial progressive reductions in agricultural support and protection, sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets.

3. This objective is to be initiated through a reform process based on negotiated commitments on support and protection and through the establishment of strengthened and more operationally effective GATT rules and disciplines. The reform process, to be completed over an agreed period of time, is to be based on commitments on specific policies and measures, on an aggregate measurement of support, or a combination of these approaches.

4. These commitments will also be guided by agreement that special and differential treatment for developing countries is an integral element of the negotiations; that direct and indirect government assistance measures to encourage agricultural and rural development are an integral element in the development programmes of developing countries; and that ways should be developed to take account of the possible negative effects of the reform process on net food importing developing countries.

5. The Cairns Group considers that a competitive, efficient and market responsive world agricultural system would serve the common long-term interest of developed and developing countries alike. The Cairns Group expects that contracting parties will enter into binding commitments on an effective programme for the liberalization of agricultural production and

6. The Cairns Group recognizes that proposals related to non-trade concerns such as food security need to be taken into account in negotiations to achieve the long-term objective outlined in paragraph 2 above. However, proposals which contemplate the long-term retention of restrictions and distortions clearly would be inconsistent with that objective and contravene the Mid-Term Ministerial Agreement. The aim therefore should be to identify means to meet non-trade concerns which are not trade-distorting in nature.

7. The Group also recalls its position as stated in its earlier framework proposals (GNG/NG5/W/21 and 69) which aims at the full integration of trade in agricultural products into the generally applicable provisions within the GATT system.

Nature of the reform process

8. The Cairns Group envisages a reform process, over a period of ten years or less, which is comprehensive, integrated and equitable, which provides no scope for the raising of protection levels for any product except under carefully circumscribed safeguard provisions, which provides for time-limits by which obligations must be met, and which provides for liberalization obligations on policies to which contracting parties are irreversibly committed. To give effect to these criteria, the liberalization process must apply to all measures affecting agricultural trade, directly or indirectly, to all contracting parties and to all agricultural products.

9. To achieve these ends, liberalization commitments should:

- be formula-based in proportion to base period protection and support levels and apply universally across products and participants;
- be consistent with the objectives of special and differential treatment as spelt out in the Punta del Este Declaration and the MTR Agreement;
- be specific both as to policies and products and also as to the time by which obligations must be fulfilled;
- ensure that reductions in import access barriers are paralleled by reductions in export subsidies and internal support measures;
- involve steps for each product for each year of the liberalization period which would be bound.

The final outcome of the liberalization will be in the form of strengthened and more operationally-effective GATT rules and disciplines, with product-specific bindings on the basis of agreed criteria including bound tariffs and disciplines on identifiable measures of domestic support.

10. The Cairns Group reiterates its established position that commitments by countries to change trade-distorting policies must be the primary vehicle for reform. An appropriate AMS approach would complement and assist these policy changes. It could be used to:

- provide a measure of the support levels provided by national agricultural policies in a broadly comparable way, so as to establish points of departure for substantial reductions in support;
- gauge commitments to annual reductions in support;
- monitor progress towards attaining negotiated targets.

The commitments proposed in this paper to phase out or reduce trade-distorting support and protection measures would act to reduce AMS levels.

Reform elements

I. Import access

(a) Reform process

11. The objective is to achieve the liberalization of markets through an access package involving:

- a prohibition on the introduction or continued use of all measures not explicitly provided for in the GATT, including non-tariff barriers and other measures such as variable import levies and minimum import prices;
- the elimination of all provisions for exceptional treatment whether maintained under waivers, protocols of accession, or other derogations and exceptions;
- a binding of all tariffs on agricultural products at low levels or zero;
- phased elimination of voluntary restraint arrangements, consistent with the Punta del Este rollback commitment.

Non-tariff measures

12. Concurrently with action to reduce internal support measures and phase out export subsidies, the Cairns Group favours the conversion to tariffs of

other border measures, including variable import levies, minimum import prices and measures of similar effect, which will introduce more transparency in the reform process. The initial tariff equivalents would be subject to a maximum ad valorem level to be agreed and would be reduced by the end of the reform process to bound, low, ad valorem levels and accompanied by the progressive expansion of tariff quota levels where these are used as a transition mechanism. The objective of the negotiation is to reduce substantially protection and correct and prevent restrictions and distortions. The conversion process must therefore not increase protection levels for any product.

13. Liberalization would be achieved by:

- (a) progressive reduction of the initial tariff equivalents to final bound rates according to an agreed formula(e) with a harmonizing effect. The formula(e) reductions could be supplemented by request/offer negotiations;
- (b) and, where necessary, the creation and/or progressive expansion of global tariff quotas, which would be removed when the final bound rates are implemented.

Whichever approach is used, access must be expanded on a global basis from a starting point of current levels, which should continue on access conditions which are either improved or no less favourable than apply at present. Where country-specific access is involved, tariff quotas would permit its orderly phase out.

14. Where existing policies have had the effect of prohibiting or severely inhibiting imports of an agricultural product, the initial tariff rate (a) or tariff quota (b) should be set at a level that will allow, at a minimum, access equivalent to a specified level of domestic consumption or production.

Tariffs

15. Where conversion of NTMs is not involved, existing tariffs, consistent with the objectives agreed in the MTR Tariffs Agreement, should be reduced on a formula basis so as to deal with tariff peaks to bring them into line with the average tariff rate for industrial products, and to achieve lower and more uniform rates. Through the application of such a formula approach, the target amount for tariff reductions agreed to in the MTR Agreement should be met as a minimum. There could also be, via a request and offer process, specific negotiated reductions going beyond the levels to which a formula approach would otherwise bring them, including the prospect of total tariff elimination in particular cases. The new rates resulting from either formula or more significant reductions would be phased in over an appropriate period of years and would be consolidated within each participant's GATT Tariff Schedule. The base rates for the negotiations would be those agreed for tariffs in the MTR Agreement.

(b) Strengthened rules/disciplines

16. GATT rules and disciplines necessary to remove restrictions to the free flow of trade in agricultural products, including:

- (a) a prohibition on the introduction or continued use of all measures not explicitly provided for in the GATT, including non-tariff barriers and other measures such as variable import levies and minimum import prices;
- (b) the elimination of all provisions for exceptional treatment whether maintained under waivers, protocols of accession, or other derogations and exceptions;
- (c) binding of all tariffs on agricultural products at low levels or zero.

II. Internal support

(a) Reform process

17. Achievement of the objective of the MTR Agreement for agriculture requires an integrated approach to achieve the market orientation of policies across all agricultural sectors, through substantial progressive reduction in those policies which most distort agricultural trade. An essential element of an integrated approach will be commitments on internal support which:

- are consistent with and reinforce commitments proposed in Sections I and III of this proposal on import access and export subsidies;
- provide for minimum adjustments to specific policies while providing some flexibility in meeting overall reform targets;
- bear a relationship to initial support levels and aim to achieve their gradual harmonization;
- provide comprehensive coverage of commodities.

18. Commitments aimed at reducing substantially the most trade-distorting policies will need to encompass:

1. Market price support: measures that raise the market price received by producers and paid by consumers;
2. Direct payments: measures that raise the effective price received by producers for their output, implemented through direct payments from budgetary outlays rather than by raising the price paid by consumers.

19. For commodities for which an AMS can be calculated, target reductions in the above forms of support would include annual commodity-specific cuts to:

- producer support prices; and
- an aggregate measurement of support (AMS) expressed in total value terms.

20. It is recognized that there is a range of commodities for which an AMS cannot be calculated because of various technical and data limitations. These commodities would be subject to commitments equivalent to those applied to commodities for which an AMS can be calculated. These commitments to reduce support outlined in paragraph 18 will be implemented through annual reductions in:

- producer support prices; and
- budgetary expenditure.

21. Other forms of support which have an impact on trade (e.g. input subsidies) should be subject to commitments to target annual reductions in total levels of budgetary expenditure on them and government revenue foregone.

22. Countries may be accorded flexibility in choosing the policy mix they would use to achieve the agreed reductions in trade-distorting support.

23. Some forms of support considered not to be linked to production or trade because they meet clearly-defined and multilaterally-agreed criteria, would be exempted from the reform commitments. Surveillance of the use of these policies will be required to ensure that recourse to them does not create new trade distortions. In that event, disciplines may need to be considered.

24. The commodity and country coverage of AMS calculations should be as wide as possible. It is proposed that 1986-88 be the base period for the AMS. The use of a multi-year average to establish the base period AMS would ensure that it is not unduly affected by short-term fluctuations.

25. Commitments to be undertaken by countries with relatively high levels of inflation should be determined in a way which ensures that the real burden of adjustments for each country would be equitable. This is to be achieved through the use of a deflator, with the specific policy, and/or other commitments being adjusted according to such countries' rates of inflation.

26. With regard to the AMS, further consideration will need to be given to the treatment of developing countries and the use of such a measure for monitoring reductions in support.

(b) Strengthened rules/disciplines

27. Internal support measures could be categorized into: (1) prohibited; (2) permitted but subject to discipline; and (3) permitted. Negotiations will need to clarify which programmes and policies fall within each category.

28. To bind the results of the reform process, the first two categories of support will be subject to clearly-defined rules and disciplines on policy-specific parameters, including:

- producer support prices;
- commodity-specific and non-commodity-specific budgetary expenditure and Government revenue foregone;
- levels of support for each commodity.

29. Measures falling into the permitted category would need to meet prescribed and tightly circumscribed criteria to ensure that their effects on output and trade are negligible. Consistent with the Cairns Group proposal of October 1987 (MTN.GNG/NG5/W/21), these could include measures with humanitarian objectives (including grant food aid and disaster relief), direct income support decoupled from production and marketing, resource redeployment assistance and non-commodity-specific aid for infrastructure development.

30. There need to be improved international disciplines on countervailing practices so as to enhance predictability and stability in agricultural trade. Redress for any violation of the rules must be pursued through GATT dispute-settlement procedures. Any remedial action must be consistent with agreed multilateral procedures.

III. Export subsidies

(a) Reform process

31. A key Cairns Group goal is to prohibit new, and phase out existing, export subsidies. The subsidy practices involved will need to be clearly identified and defined. The phase-out process should take the following form for each commodity:

- (a) current maximum level of export subsidies (per unit and total outlay) would be frozen as a first step;
- (b) in each year thereafter these maximum levels would be progressively phased out in accordance with an agreed time-table and formulae.

32. If export assistance for commercial shipments is progressively reduced, there is a risk that participants will shift export assistance into concessional food aid shipments. All food aid should therefore be

provided on a grant basis and to the maximum extent possible, bearing in mind legitimate donor priorities, channelled through existing relevant international organizations. Governments should strictly comply with existing international commitments and understandings in regard to bilateral food aid shipments.

(b) Strengthened rules/disciplines

33. Prohibition of export subsidies.

34. Appropriate amendments to Article XVI (and relevant articles of the Subsidies and Countervailing Measures Code) will be required. An associated rule, to be incorporated in the General Agreement, but linked to FAO/CSD procedures, would be that all food aid be provided on a grant basis.

IV. Export prohibitions and restrictions

35. As part of a satisfactory, comprehensive reform package, the Cairns Group stands ready to consider relevant proposals. It notes that this would be without prejudice to measures applied consistent with, among others, Article XX of the General Agreement.

V. Sanitary and phytosanitary measures

36. The Cairns Group has recently submitted a proposal on sanitary and phytosanitary measures to the Agriculture Group (MTN.GNG/NG5/W/112). This will be further elaborated as the negotiations proceed.

VI. Product coverage

37. The Cairns Group considers that a precise definition of the product coverage of the negotiations in the Negotiating Group on Agriculture is required. In this context, it notes that the agriculture negotiations should not prejudice the objectives of the Punta del Este Declaration nor the decision of the MTR Agreement to the fullest liberalization of trade in tropical products, including in their processed and semi-processed forms.

VII. Developing countries

38. A competitive, efficient and market-responsive agriculture serves the common long-term interest of developed and developing countries alike. In achieving that long-term objective the reform process in agriculture must provide the framework and opportunity for a dynamic process of structural adjustment to take place both in the developed and developing countries. The implementation in developing countries of reform commitments regarding a more market-oriented agriculture must be coupled with the effective application of special and differential treatment. Developing countries in due course should be prepared to participate more fully in the framework of rights and obligations under the General Agreement.

1. Development objectives

39. Government measures on assistance, whether direct or indirect, to encourage agricultural and rural development are an integral part of the development programmes of developing countries. These measures are, among others, basic infrastructure development, physical support facilities such as storage for agricultural products, extension services, research and development, skill and human resources development and measures necessary to develop long-term staple food production capabilities at internationally competitive levels. Therefore, measures in these fields should not be included in any list of support measures subject to reduction commitments by developing countries.

2. Reform process commitments

40. In order to enable developing countries to make necessary and gradual adjustment towards more market-responsive agriculture consistent with their individual trade, financial and development needs it is indispensable that they be provided with necessary flexibilities in designing their programmes and implementation schedules. The modalities for the application of the differential treatment principle at this particular stage will be structured around the following terms:

1. Longer time-frame

The time-frame for implementation and completion of the reform commitments for developing countries must be extended for a certain period to be agreed upon with a view to allowing a gradual adjustment in their agriculture sectors and avoiding possible disruptive effects in the reform process. Such an extended time-frame could be readjusted, on a case-by-case basis according to multilateral procedures to be defined, as certain genuine difficult circumstances arise.

2. Differential treatment in the application of commitments

The principle of differential and more favourable treatment will be reflected in the reform commitments both in the areas of import access and internal support.

(a) Import access

The depths of cuts in import access barriers for developing countries will be lower than the generally agreed target.

For products of priority export interest to developing countries, the negotiations should seek to provide reductions in trade barriers and internal support policies by developed countries on an accelerated basis.

(b) Internal support

Commitments to reduce internal support measures which form an integral part of the development programmes in developing countries will not be required in the negotiations.

Internal support measures which form an integral part of the development programme of developing countries will not be included in the AMS commitment or other internal support reduction commitments. For trade-distorting support measures, the depths of commitments to reduce support levels by developing countries will be lower than other countries.

3. Developing net food-importing countries

41. In the process of implementing long-term reform of agriculture, the specific needs of net food-importing, developing and least-developed countries must be taken into account. In taking into account their needs, the following aspects should be the guiding principles:

- (a) measures for net food-importing countries could be divided into those which:
 - (i) are feasible in the context of GATT;
 - (ii) need to be taken outside GATT;
- (b) definition of net food-importing developing countries should be made more specific. In this context we refer to those least-developed countries and developing countries which face critical food shortages, critical balance-of-payments problems and critical shortage of foreign exchange reserves. In determining further the criteria based on balance-of-payments considerations, co-operation with the IMF is needed;
- (c) for the purposes of (b) above, food is defined as basic foodstuff normally considered as the staple food in the country concerned and consumed by the low income segment of the population;
- (d) countries without critical balance-of-payments problems and with an acceptable level of foreign-exchange reserves should not be eligible for whatever measures might be agreed upon to meet the seriously affected importing developing countries.

VIII. Non-trade concerns

42. The Cairns Group notes that certain developed countries have raised particular concerns in relation to food security, the quality of the social and physical environment, and regional issues such as income parity, employment and security. The Cairns Group does not believe that these concerns should be met through recourse to policies which distort agricultural production and trade. Many of the latter concerns also apply to other sectors and are handled without recourse to trade restrictions.

43. Food self-sufficiency policies are an inappropriate, ineffective and costly means of achieving food security objectives and directly damage the interests of other countries. Secure supplies of food can be achieved through means such as:

- the maintenance of adequate food and feed grain stockpiles to ensure against shortages;
- the diversification of sources of supply.

44. Other non-trade concerns should be addressed by recourse to forms of support that are not linked to production or trade, such as retraining and relocation assistance, improved social security arrangements and policies designed to encourage land use adjustment.

IX. Implementation and surveillance

45. Commitments made by individual countries at all stages and under all elements of the reform programme would be binding. They would be subject to multilateral surveillance and other procedures necessary to ensure compliance. The final results of the Round would be incorporated into the General Agreement and related instruments to ensure continued compliance.

X. Safeguards

46. The Cairns Group recognizes the importance of adequate safeguards during the transitional period. The full range of existing mechanisms in the GATT, including balance-of-payments and safeguards provisions, are fully applicable to the agricultural sector. The pace of liberalization, and the methods used to achieve liberalization, can themselves be designed to cushion countries from immediate competitive effects. Additionally, the Cairns Group is ready to explore the concept of a special safeguard mechanism, applicable only during the transitional period, providing for a temporary interruption to agreed tariff reductions where non-tariff measures have been converted to tariffs.