

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

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

(19-20 December 1989)

Note by the Secretariat

1. The following summary, which has been prepared by the secretariat in accordance with paragraph 5 of MTN.GNG/NG5/18, should be read in conjunction with documents NG5/W/143, 144, 145 and 146 which contain negotiating proposals or submissions by the Nordic countries, Austria, and the European Economic Community.
2. The representative of the Nordic countries introduced their submission on some elements in a comprehensive long-term agricultural reform programme (NG5/W/143). Noting that the Nordic countries were among those who placed importance on non-trade concerns, he said they were not seeking any broad escape clause but a realistic implementation of the long-term agricultural reform programme. The Nordics saw decoupled forms of support playing an increasing role. As part of a gradual change in levels and forms of border protection they considered tariffication feasible, particularly if stabilizers or safeguards were incorporated into the formula and high initial tariff equivalents were accepted. Variable levies should remain an option, under strengthened discipline. Likewise the negotiations should define the exceptional cases under which quantitative restrictions would be allowed under a revised Article XI:2(c). The Nordic spokesman underlined their readiness to work towards eliminating most export subsidies. Concerning special and differential treatment for developing countries, he noted that this could be implemented through longer time-frames and other forms of flexibility. While some developing countries were in a position to take on more GATT commitments than others, the least developed and the net food importers required specific attention.
3. Commenting on the Nordic submission, several participants welcomed it as representing real progress in keeping with the aims of the negotiation, and noted significant areas of convergence with their own positions. These included the priority it placed on the reform of trade-distorting support and movement to decoupled measures; the endorsement of policy-specific cuts in support with the AMS used in a monitoring rôle; the willingness to work towards eliminating export subsidies; and the acceptance that border protection should be by means other than quantitative restrictions,

especially tariffication. Some sympathy was also expressed for the view that precise drafting of new GATT rules should not be entered into prematurely, though one participant who differed from this view recalled the need for globality in the negotiation. A participant asked what sort of incentives the Nordics had in mind to encourage movement towards decoupled support (e.g. exemption from countervailing measures?). Another queried the compatibility of Nordic thinking on decoupled support and food security, since the latter was presumably linked to a certain production level.

4. A number of participants also endorsed the Nordic countries' concern for non-trade factors and the non-economic goals of national economic policy. Some queried the weight given to commitments on specific policies rather than on the AMS. One enquired what was meant by a "simple and practical" AMS, and suggested that further work on the aggregate measure should go on in the Technical Group or in the Negotiating Group. Another participant agreed with the principle of moving to less trade-distorting support, but diverged on the means. In particular, he doubted that non-economic goals could be met through decoupled support alone. One participant stated that policy-specific commitments would detract from the merits of the AMS. Another welcomed the Nordics' preference for using a total AMS, as well as their line on external reference prices and the treatment of production controls. He sought clarification on the rôle intended for the global AMS, and on the policy commitments intended. The Nordic view on Article XI and on variable levies converged with his own. Concerning decoupled support, he observed that criteria were needed to distinguish among those policies which should be subject to more or less discipline. "Trade distortiveness" was not adequate.

5. Some other participants differed from the Nordic approach to external reference prices, whose freezing could isolate the AMS from market realities. Concerning recognition of supply control measures, a participant felt that, depending on the type of AMS used, these were already given full weight; and there remained the broader question of how to reconcile this approach with greater liberalization. Other queries or concerns included the lack of a specific mechanism for the elimination of export subsidies, and the possibility that some (undefined) could remain. The exceptions envisaged to tariffication needed to be clarified, as did the proposals on initial tariff equivalence and tariff reduction. In this connection, further explanations were also sought as to the nature of the "stabilizers" or "safeguards" foreseen, and as to what was intended by the reference to reciprocity. The Nordic countries were asked how they saw the retention of variable levies as consistent with the tariffication process or with GATT rules, and whether they proposed any ceilings or disciplines on these levies. The proposal's reference to Article XI:2(c) and the possible continuation of quantitative import restrictions drew the question of what exceptional cases were envisaged and in what sectors, whether these exceptions would be available to all contracting parties, and how the point could be clarified if the drafting of new GATT rules was left to the end of the negotiation.

6. The Nordic proposal's chapter on sanitary and phytosanitary measures was generally welcomed, and further detailed examination of it was looked forward to in the Working Group.

7. The Nordics' approach to special and differential treatment for developing countries was also endorsed by several participants, some especially noting its provision for varying levels of undertaking. Its recognition of the development aspect of agriculture was welcomed, as was the attention paid to the special case of net food-importing developing countries. One such participant, however, stated that the language used concerning the net food importers was weaker than in the Mid-Term Agreement, and asked what the Nordics had to say about the submission (NG5/W/119), made by a group of net food-importing developing countries, concerning the possible negative effects on them of the reform process.

8. The representative of the Nordic countries said in reply that many of the questions raised were matters for negotiation in 1990, and therefore it would be more appropriate to come back to them then.

9. The representative of Austria presented the submission contained in document NG5/W/144. He underlined that the object of the negotiations, as defined in the Mid-Term Agreement, was not the total elimination of agricultural support and protection. Austria adhered to the objectives as fixed by ministers, but at the same time national policies aimed at securing food supply and other non-trade concerns had to be maintained. Measures taken by contracting parties to pursue overall socio-political objectives should remain outside of new and strengthened GATT rules and disciplines provided that they were not aimed at market access or export competition and were decoupled from products or producer prices. The Austrian representative emphasized that the illustrative list set out in Section 6 of NG5/W/144 should in no way be understood as an escape clause. He also referred to the proposals regarding credit for positive measures taken since 1986 which Austria had made in an earlier submission (NG5/W/107).

10. A number of participants saw common ground between Austria's position and their own, especially concerning non-trade factors and non-economic policy goals. The Austrian paper gave a promising lead on how to take account of these. One shared much of the Austrian approach on treatment of production controls and on GATT rules (though not the distinction between internal support and border measures), another on the AMS. Another participant welcomed the coverage of the interests of net food-importing developing countries, and especially endorsed the call for recommendations on this point to be embodied in the final document of the Uruguay Round.

11. Others noted the treatment of export subsidies, the classification of internal support measures (e.g. paragraph 6) and the focus on support reduction through specific policy undertakings as positive features, though they saw the proposal as more defensive than reform-oriented, consisting mainly of a statement of political concern about the Mid-Term Review Agreement. They did not share the Austrians' emphasis on non-trade factors; one stated that the negotiation was not about these but about structural adjustment.

12. The representative of Austria replied that the points raised by participants were for discussion in further meetings, rather than immediate reply.

13. The representative of the European Economic Community introduced the EEC's global proposal (NG5/W/145) and outlined the elements on which it was based. It was essential to maintain a mechanism which would permit markets and prices to be regulated, in order to avoid cyclic crises. This was why the Community held to its two-price system, whose existence was not and would not be negotiable. They wished to correct the excesses of the mechanism, not destroy it. Therefore no proposal which envisaged the elimination of the Community's system would be accepted; total tariffication or total decoupling were thus excluded. Seeking to implement the Mid-Term Agreement against this background, the Community had three main ideas. The first was the use of a global instrument to measures support and negotiate its reduction. The EEC representative confirmed that in the Community's view it was not enough just to address border measures or other selected policy areas; support had to be considered as a whole. The use of an overall measures also offered the only equitable and global way to deal with heterogeneous policies. Secondly, in order to avoid a repetition of unproductive debate concerning the ultimate aims of the negotiation, the EEC had a new proposal that participants should agree on support reductions over (say) five years and then review the situation. It would be a delusion to think the state of markets ten or fifteen years hence could be predicted. Thirdly, the calculation of the reduction in support and protection must start from the base year of 1986. This, also, was not negotiable.

14. Concerning rebalancing, the Community representative stated that there were aspects of tariffication which could be helpful in better organizing protection. There were imbalances everywhere, and while the name of the corrective process did not matter, the process did. He also noted that deficiency payments had tended to escape attention hitherto. These must be in any list of measures to be tariffied. Given these points, the Community was ready to introduce a certain number of elements of tariffication. Furthermore, this must apply to products covered by the SMU, and the Community envisaged the resultant duties as having a fixed and a variable component, the latter operating within limits to be negotiated. Overall, he emphasized that the Community proposal must be taken as a whole. It stood in the middle ground between other proposals, and represented a real compromise. Its basic principles as outlined above were, however, not for negotiation.

15. Several participants expressed agreement with the EEC's approach, endorsing for example its acknowledgement of the specific characteristics of agriculture. One stated that reconciling these with GATT rules was a fundamental question for the negotiation. The Community's attention to non-commercial concerns in agricultural policy was also welcomed, though some participants would have put more specific emphasis on these. Various approaches to reducing support and protection should be permitted as long as their effects were equivalent. Another participant agreed with the emphasis placed on the links between support and protection, and agreed that deficiency payments must be included in reduction commitments.

Concerning rebalancing, this participant said that there were distortions which should be able to be dealt with, in the context of overall reduction, in a pragmatic way.

16. A number of participants welcomed the Community's coverage of special and differential treatment, e.g., the priority given to agricultural development and the recognition of a need for flexibility in the reform process. Several disagreed, however, with the idea of distinguishing among developing countries. One added that special and differential treatment was to be integral to the GATT system, not a kind of exception during the reform programme. Concerning developing-country measures to reduce input costs, it was noted that in many cases these had to be commodity-specific, and clarification of the scope of this concept was sought. A participant reaffirmed that net food-importing developing countries were committed to the reform process and wanted to share in its benefits. They wanted to improve their production capacity and have some sort of cushioning against possible negative effects of liberalization. These countries were liable to face an increased import bill of around \$1 billion, so the cushioning commitment was essential. He agreed with the EEC concerning the need to maintain concessional sales, and that these should be notified under Article XVI. However he did not agree that compensation for negative effects should be restricted to the least developed; it was those who would suffer the most who needed it most. The EEC also, he stated, ignored the implementation aspect of this problem, concerning which he recalled the proposals made in NG5/W/119. Other participants endorsed these views. One added that priority should be given to improving market access for products of export interest to these countries.

17. A number of participants found more to welcome in the EEC's position than they had previously, while still noting significant areas of disagreement. One described the proposal's major problem as the lack of an assured path towards real and substantial liberalization. Encouraging elements were seen as including the admission of weaknesses in current policies and the fact that the EEC apparently saw an agricultural package as involving mutually-reinforcing commitments in different areas. Furthermore they did not seem any longer to insist on the SMU as the only means of reform, but seemed prepared also to negotiate more concrete commitments. However several participants strongly opposed the rebalancing proposal as tantamount to an increase in protection and hence contrary to the aims of the negotiation. One stated that linking progress on other issues to rebalancing was unacceptable, and another added that for his authorities rebalancing was not negotiable.

18. Apart from rebalancing, some saw the possible beginning of discipline on the variable levy and moves towards tariffication as positive first steps. The proposal for a fixed and a variable element in protective duties aroused interest, and further clarification, with examples, was requested. In particular it was asked how, in the EEC's case, the fixed element would be set; what was meant by "absolute value" (specific or ad valorem duty?); what was the "corrective factor" (and was it to be progressively reduced?); and whether the arrangements proposed for broader protection on products covered by the SMU would also apply to non-SMU products? Some duplication was noted in the EEC's treatment of deficiency

payments under tariffication and under the SMU. Furthermore, since the EEC proposed to tariffify internal support as well as frontier protection, one participant asked how programmes would be treated which were only triggered when prices fell, e.g., deficiency payments made within stabilization programmes operating at or below world prices. Another asked whether the Community envisaged specific commitments on elements of tariffication such as those listed in paragraph 5, or whether these were to be subsumed in the basic SMU commitment. Another participant recalled that he had shared the EEC's criticism of tariffication, and was thus surprised to see them suggesting even a limited form of it.

19. A number of participants were attracted by the proposed use of the SMU as the vehicle for commitments. Various questions remained, however, such as the treatment of supply control and input costs. Decoupled support and other payments related to non-trade concerns should be excluded from SMU commitments, as should developing country measures aimed at infrastructure and development. It was suggested that the Technical Group on Aggregate Measurement of Support, or a new group, should renew detailed consideration of the outstanding technical questions. Other participants registered their continuing opposition to commitments made exclusively in SMU terms. They wanted at least complementary commitments on specific support policies or parameters, on export competition and on access. They also noted several aspects of the SMU itself which were open to question, such as the reference price, the base period and the product coverage. Concerning the latter point, other participants observed that the SMU product coverage was limited, and insisted that the reform process should cover all products. The question of how the EEC proposed to determine equivalence of commitments, including those for processed products, was also raised. A number of participants disputed the view that a base year for reduction commitments of 1986 had been agreed in the Mid-Term Review. One also asked by what amount the Community proposed to reduce SMUs, and how this would be done (i.e., by a formula or at a flat rate). Figures of 10-15 per cent which had been circulating unofficially were negligible in relation to 1986 levels. The EEC was also asked what it had in mind in proposing a five-year first stage of reductions; assuming a continuing negotiation was envisaged, were the reforms achieved in the first few years to be bound and then built on? How would they be bound? And how would a five-year negotiation on agriculture be consistent with the need for globality in the results of the Uruguay Round?

20. One participant saw it as an important first step that the EEC was prepared to limit export subsidies. But, together with others, he considered this was not enough; all direct export subsidies should be phased out over ten years. Another participant saw no inconsistency between the EEC's global approach to support and protection, which he shared, and the progressive reduction and elimination of export subsidies. It was suggested that deficiency payments should be disallowed on production for export if they guaranteed prices above world levels. Clarification was also sought concerning the proposed relationship between the export subsidy and protection levels; did it apply to the variable element in border protection?

21. Some participants supported the EEC's proposal for a revised Article XI. It was suggested by one that this also could be studied further in a working group. The EEC was asked to elaborate on the "certain exceptional circumstances" which it envisaged in connection with Article XI. Some other participants stated that a régime of exceptions could not be perpetuated; the only possible scope for quantitative restrictions should be safeguard action or transitional exceptions.

22. On sanitary and phytosanitary measures, several participants noted an increasing convergence of views, and welcomed the EEC submission (NG5/W/146) as a constructive contribution for further examination in the Working Group.

23. Replying to the questions noted above, the EEC representative assured developing country participants that the measures mentioned in paragraph 19 above (e.g., assistance to development and infrastructure) would not be included in the SMU calculation in their case. He sought to dispel any ambiguity concerning product coverage; the Community had listed those products which should have priority for reform. But all products were in the negotiation, though some called for different techniques. Concerning strengthened and improved GATT rules, he recalled that the Community's earlier submission on this subject (NG5/W/106) remained valid, and added that the rules should rather be dealt with once the substance of the negotiated agreement was known. Regarding "exceptional circumstances" and Article XI, he recalled the obvious need for this Article to be clarified, but this - though important - was not a central issue. On the possible percentage reduction in SMUs, he repeated that this was for negotiation. The figure of 10-15 per cent referred only to the Community's short-term commitments. On the other hand the base year of 1986 had been settled in the Mid-Term Review Agreement. Other matters which remained for negotiation included the fixed and variable elements in border measures; the latter was to respond to market and currency fluctuations within strict limits to be negotiated, and would apply to import and export. The fixed element would be a per unit charge, not ad valorem. Whether or not the reduction in it would be on a linear basis depended, inter alia, on the product involved. What would happen after the first five-year stage of reform was a matter of common sense. The Community had not said the process would end there. The EEC representative added, as a clarification, that the last paragraph of the chapter on special and differential treatment was intended to apply to net food-importing developing countries. Finally, he repeated that the Community proposal was conceived as a whole and must be taken as such.