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FURTHER CLARIFICATION OF SWITZERLAND'S POSITION

1. Introduction

Switzerland set out its overall position in a communication dated 24 October 1989 (MTN.GNG/NG5/W/114). In that submission Switzerland stressed the elaboration of rules applicable to trade in agricultural products, taking account of the special character of agriculture in general and of individual agricultural situations. The ideas expressed in that paper continue to reflect Switzerland's position. However, the Swiss proposal primarily concerns one of the two approaches mentioned in the Mid-Term Review Decision, namely, the rules approach. Switzerland reserves the right to make further specific proposals on the disciplines to be adopted on internal support for agricultural production, and takes advantage of the current phase of clarification to indicate its position on two instruments for reduction of support and protection: the aggregate measurement of support and tariffication.

With regard to the discipline to be established for export subsidies, Switzerland considers that the ideas set out in its submission of 24 October 1989 require no further explanation.

2. Reminder of Switzerland's basic position

Switzerland's position is based on the following concepts:

- each country has the right to pursue non-trade objectives in its agricultural policy;
- each country is sovereign in the determination of those objectives;
- each country has the right to a minimum agriculture to attain the non-trade objectives of its agricultural policy. For countries which are not competitive, this implies maintaining a dual-pricing system;
- the aim of the negotiations is to determine the limits to this right and define the necessary disciplines to ensure that agricultural support and protection are provided in such a way as to minimize their disruptive effects on markets.

Switzerland's standpoint is that undertakings relating to the above concepts must be rooted in revised rules of the General Agreement that are applied and applicable by all. Any commitment on reduction of agricultural support or protection must necessarily be accompanied by strengthened rules that take account of the specific nature of agriculture and of individual agricultural situations.

This basic position is reflected in Switzerland's position on aggregate measurement of support (AMS) and on clarification.

### 3. Aggregate measurement of support (AMS)

Switzerland recognizes the interest of such an instrument as a means of evaluating the undertakings made, but considers that the AMS concept raises the following problems:

- Comparability among countries: national support levels cannot be compared. They depend on the importance of non-trade factors in national agricultural policies and on the standard of living of each country (wages, production costs, etc.). The AMS level is therefore not an adequate indicator of the degree of protection granted to agriculture. This is shown by the fact that some countries with high aggregate support maintain large market access.
- An "aggregate measurement of support" gives a poor indication of the disruptive effect of agricultural policies on world trade. Reduction in support, therefore, does not necessarily imply greater market access. A reduction in domestic prices combined with an easing of supply limitation measures may cause market access to shrink.
- The AMS does not take account of existing market access. For countries that pursue an efficient supply-limitation policy, high producer prices are one of the most efficient means of maintaining agriculture while looking after the interests of their trading partners.

In light of the foregoing, the AMS should be defined on the basis of the following elements:

- Non-trade objectives of agricultural policies

The right of each country to a minimum agriculture in order to attain the non-trade objectives of agricultural policies necessarily implies the existence of some degree of agricultural support. It is neither politically nor economically realistic to seek to pursue non-trade objectives purely by measures that are decoupled from production. For countries whose agriculture is

not competitive, the maintenance of a dual-pricing system is therefore essential. Consequently, Switzerland proposes that two concepts be built into this approach:

- (1) definition of a non-negotiable minimum support to attain the non-trade objectives of agricultural policies;
- (2) account should be taken of the effort (bonus) made by a country to transform the structure of its agricultural support by increasing the proportion of support given by means that are decoupled from production.

- Reference prices

It is important to have a stable base for determining reference prices. Without fixed reference prices, the level of aggregate support varies according to world prices and exchange rates, which have nothing to do with agricultural support. These erratic variations would jeopardize the foreseeability of the undertakings made. Switzerland therefore proposes the use of fixed reference prices expressed in local currency which may be adjusted at regular intervals to take account of medium-term trends in world prices.

- Support measures decoupled from production

Support measures which are decoupled from production should be excluded from the AMS. They consist above all of direct payments of which the amount received by the farmer does not depend on the volume of production. Direct payments pursue other objectives and must be designed accordingly. They are a means of remunerating a service that is of public utility (food security, ecological production, maintenance of the countryside, decentralized territorial settlement). Direct payments must therefore be linked to the provision of such services; that means they must be granted to encourage specific methods and take account of particular production conditions.

- Schemes for the limitation of domestic production

The calculation of AMS should take account of the fact that the market disruption caused by a price support mechanism is diminished if at the same time limits are imposed on domestic production. An undertaking to reduce aggregate support should therefore be weighted by the market-access rate so as to take account of the effects of agricultural protection on the world market.

- The measurement of support should be global

Any direct or indirect commitment relating to AMS should concern all products. This will enable the various countries to adjust

their production and agricultural support according to the relative competitiveness of products and thus minimize the economic cost of agricultural protection while taking account of market signals.

4. Tariffication

The application of tariffication to agriculture - and the ensuing progressive reduction of tariffs - raises fundamental problems. It fails to take account either of the non-trade objectives of agricultural policies or of the chronic instability prevailing in world markets. Nevertheless, some conversion of quantitative restrictions into levies at the border would make it easier to respond to market signals. Such a system should be based on the following considerations:

- Non-trade objectives of agricultural policies

The right of each country to a minimum agriculture in order to attain the non-trade objectives of agricultural policies implies the existence of some degree of agricultural protection. For countries whose agriculture is not competitive, the maintenance of a dual-pricing system is therefore necessary. Each country should set the level of levies that is required to maintain this minimum agriculture, which would become non-negotiable.

- Basis for calculation

The amount of the levy should be fixed in relation to an average reference price expressed in local currency. These levies should be adjusted by a correction factor so as to take account of exchange-rate variations and price fluctuations on world markets. The contractual commitment setting the level of levies could be determined by a five-year moving average.

- Commitments on the reduction of levies at the border

Commitments on the reduction of levies should take account of the market-access rate. To this end the multilaterally agreed amount of reduction should be weighted by each country's rate of self-sufficiency.

- Safeguard clause

Given the technical difficulties inherent in the conversion of non-tariff measures into levies that provide the same degree of protection, a safeguard clause must be provided. Safeguard measures would consist of:

- (1) a tariff quota when the increase in the rate of market access is greater than, for example, 10 per cent;

- (2) quantitative restrictions when it exceeds, for example,  
25 per cent.

- Scope

The products which could be covered by such conversion should be negotiated. Switzerland proposes that this measure be applied first of all to products that are not subject to any effective limitation of domestic production.