

MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND

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Group of Negotiations on Goods (GATT)

Negotiating Group on Agriculture

CLARIFICATION AND ELABORATION OF ELEMENTS OF DETAILED PROPOSALS
SUBMITTED PURSUANT TO THE MID-TERM REVIEW DECISION

Note by the Secretariat

1. The present note has been prepared by the secretariat on its own responsibility in response to the agreement recorded in paragraph 4 of MTN.GNG/NG5/19 and is intended to facilitate the work of the Negotiating Group at its forthcoming meeting on the elaboration and clarification of elements of the detailed proposals submitted pursuant to the Mid-Term Review Decision.
2. The elements that have been selected by the secretariat for greater clarification and elaboration in this note relate to detailed proposals submitted by the United States, the Cairns Group, the European Community and Japan on internal support, tariffication and import access, and export competition. This selection is without prejudice to the scope of the clarification exercise to be undertaken in the Negotiating Group on the basis of the proposals before the Group.
3. In each case written questions were submitted to the participants concerned and the replies thereto were subject as appropriate to further clarification by the secretariat. The results of this exercise, upon which participants have reserved the right to comment further, are set out herein.

INTERNAL SUPPORTUNITED STATESQUESTIONSCOMMITMENTS AND POLICY COVERAGEGENERALREPLIES

We have grouped those policies into three categories: those to be phased out ("red light" category); those to be disciplined ("amber light" category); and those which should be permitted ("green light" category). Our answers provide indicative lists of the proposed contents of each category.

We see the red light category as being phased out over the transition period. Individual commitments should be on a policy-specific basis within that category. Since even within the red category countries have different policies in place to support producer prices or producer incomes the United States could envisage some flexibility as to which of those policy instruments are to be reduced. But those instruments which are not reduced should nonetheless not increase.

The reason the United States can envisage such flexibility was because at the end of the transition period those policy sets that provide support, whether price or income or a combination of policies, are to be phased out.

Policies in the "amber" category are less distorting and should be subject to disciplines. The United States suggests that an AMS be used here (see below). Its policy coverage should also be defined.

No specific disciplines are envisaged on the "green" category policies per se but the indicative list of those which the United States has proposed would have to be made more precise, with definite criteria - as indeed would those for the other two categories.

INTERNAL SUPPORT
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(cont'd)

QUESTIONS

Could the United States please provide more details and illustration of the second ("amber") category in its policy classification, i.e., "policies to be disciplined" (NG5/W/118, page 8)?

REPLIES

The United States envisages that the policies in all three categories (red, amber, green) would be identified in country-specific plans which each country would submit to GATT.

The agricultural negotiations should encompass all domestic government programmes (including programmes of sub-national units of governments and government-sponsored organizations) unique to that sector. Government programmes which affect agriculture along with other sectors of the economy are more appropriately addressed in other Negotiating Groups. Examples include rural development programmes or rural electrification programmes that provide the same subsidy to all rural residents (small-town residents as well as farmers or processors of agricultural products).

Our three policy categories are intended to cover all domestic government programmes providing subsidies exclusively to any or all producers and consumers of the products listed in Annex 1 of our proposal. The "disciplined" (or "amber") category incorporates all domestic government programmes subject to agricultural negotiations that are not included in the other two categories. A comprehensive listing of the policies to be included in the "disciplined" category must wait until the other two categories are precisely defined. However, the following is a more detailed discussion of some of the programmes to be included in this category, namely input and investment subsidies.

Many governments subsidize production inputs or capital investments. The operational mechanisms for such programmes are very similar. Most of these programmes operate through preferential pricing arrangements (for physical inputs such as

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fertilizer, water, breeding stock), government provision of subsidized loans (low interest rates, loan guarantees, debt or interest-rate forgiveness), or direct grants (physical inputs or financial grants for the purchase of inputs, breeding stock, perennial stock). The major difference between these two types of programmes is that one refers to variable input costs while the other affects longer-term production costs (durable inputs or capital investment). Both types of government subsidies should be included in the agricultural negotiations.

Input and investment subsidies can be provided without specifying the beneficiary commodities. For example, a producer or processor might need to meet certain financial requirements to be eligible for low-interest loans, but these financial requirements are less distorting among commodities than requirements which condition the subsidy on production of a specific commodity or group of commodities. Also, while a farmer may need to produce in a certain region to be eligible for water subsidies or subsidized grazing programmes, such programmes can be designed to apply to producers of all commodities in that region. Hence, the specific disciplines we propose depend on the range of commodities covered by such programmes. If the programme design does not require production of a limited range of commodities, then the programme is included in our category of "policies to be disciplined". Otherwise, we believe that programme belongs in our category of "policies to be phased out".

The following list provides some concrete examples of input and investment subsidies in our "disciplined" category. These examples provide a broad indication of the kinds of programmes to be included in the category.

INTERNAL SUPPORT
UNITED STATES
(cont'd)

QUESTIONS

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Examples of input subsidies include:

- irrigation subsidies (India, the European Community and the United States); grazing fees (United States); fertilizer subsidies (Thailand, Mexico and New Zealand prior to 1987); seed production subsidies (Switzerland); fuel subsidies (Switzerland, Finland, Austria and Canada prior to January 1990);

- production credit programmes: operating loan programmes of the Farmer's Home Administration (United States); similar programmes of the State Bank for Agriculture (Norway), the Agricultural Co-operative Bank (India).

Examples of investment subsidies include:

- long-term loans: ownership loan programmes of Farmer's Home Administration (United States); similar programmes of the Farm Credit Corporation (Canada), the Rural Adjustment Scheme (Australia), land banks (India), agricultural modernization loans (Japan);

- capital grants and infrastructure programmes: "start money" and other grants (Finland), grants under the Agricultural Development Fund (Norway), integrated large-scale agricultural development programmes (Republic of Korea), farm modernization schemes (the European Community).

Conceptually, the policies contained in the so-called "amber" category are a residual of the other two categories. All policies that do not meet the detailed criteria for the "red" or "green" categories would automatically be considered "amber" policies. However, we believe an indicative list of existing policies must be contained in an interpretative note to the GATT. The interpretative note would also allow for the addition of new policies.

Are the policies included in the "amber" category, and hence by the AMS, also to be defined or listed in an interpretative note to the GATT (NG5/W/118, page 10), or are they just a residual of the other two categories?

INTERNAL SUPPORT
UNITED STATES
(cont'd)

QUESTIONS

As in question on page 9 below, how will commitments on the "red" category (NG5/W/118, pages 9 and 11) be implemented? Will each step be bound? Is a formula reduction possible? In what cases would commitments not be made by commodity as well as policy (NG5/W/118, page 11, A)?

Countries employ a variety of policy instruments to provide price, income and other support identified in our so-called "red" category. Therefore, it seems appropriate to allow some flexibility in the choice of specific mechanisms to reduce support.

REPLIES

Commitments will be made relative to the level of support provided by the specific policy in a base period. We have proposed a 1986-1988 average for import access. The same base period could be used for internal support. One objective of these negotiations is for each country to reduce support provided by domestic subsidies relative to the levels that prevailed in the base period. The objective of the GATT negotiations is not to quantify the level of support for cross-country comparisons. The objective is to develop equivalent disciplines on policy instruments across countries so that each country undertakes commitments to reduce the means of support (as measured by specific policy mechanisms) by equal annual steps over the transition period.

Viewed from this perspective, we do not believe it is necessary for each country to employ exactly the same mechanism to achieve the reduction commitment. We believe that contracting parties should have some flexibility to choose the transition mechanism for a particular policy that is best suited to the way their policy operates. Nonetheless, each contracting party should identify the specific mechanism it wishes to use to bind commitments for each policy. This mechanism should not change unless agreed to by all contracting parties.

Some examples of potential transition mechanisms may be useful. Policies that provide direct income support such as deficiency payments or headage payments involve direct budgetary outlays.

INTERNAL SUPPORT
UNITED STATES
(cont'd)

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Contracting parties might use budget outlays as their transition mechanism. Alternatively, since deficiency payment schemes utilize target prices, that specific policy instrument could be used as the transition mechanism.

Administered price policies (often supported by border measures) may involve budget outlays, for example for domestic purchases, storage or export subsidies. In these cases, budget outlays do not represent the support provided to producers and should not be used as a transition mechanism. Commitments could be made in terms of the administered prices themselves (in local currencies). We are willing to examine other alternatives.

Transition mechanisms for marketing programmes (i.e. transportation) could be based on the financial cost of the subsidy. Alternatively, mechanisms could be developed for transportation subsidies and input or investment subsidies provided on a limited commodity basis by employing guidelines developed by the OECD for producer subsidy equivalents.

Commitments should be made by policy and by commodity where the programme involves commodity-specific instruments (such as specific target prices for each commodity). The only exception to this commodity-based approach might be the case of trade-distorting income stabilization programmes which act to stabilize producer incomes for several commodities. We are uncertain whether the design of such programmes would permit commodity-specific commitments. If commodity-specific commitments are not feasible, total budget outlays or specific policy instruments could be used as the transitional mechanism. However, countries employing such programmes would not be allowed to adapt the income weights to bias the scheme in favour of income from a particular commodity.

QUESTIONS

How does the United States propose to include sub-national (etc.) programmes in support commitments (NG5/W/118, page 9)?

Some contracting parties are also members of other organizations represented in the GATT, i.e. members of the European Community. In such cases the applicability of GATT commitments is straightforward. In other cases sub-national units are not members of the GATT, e.g. the fifty states in the United States. In these cases it will be incumbent on the national government to meet Uruguay Round commitments for policies operated by its sub-national units. Commitments on sub-national policies would be contained in country plans.

The commitments applying to sub-national policies would be the same, by category, as for national ones. That is, if they fall into the red category they should be phased out, if into the amber category disciplined, and if green permitted.

Concerning the definition of policies to be phased out, under "Rules and Disciplines" on page 9 of W/118, could the United States elaborate on the domestic and world price criteria intended to be used.

Under the United States "traffic light" system the amber category is basically programmes generally available to agriculture, e.g. farm credit, irrigation (etc.): if a farm programme fell just short of being classed as "green" (decoupled), then it appears the United States would allocate it to the "red" category rather than "amber". Is this not an anomaly, since one would normally expect a progression in policy treatment?

REPLIES

Commitments will be made on a policy-by-policy basis (see above). An AMS will not be necessary. Domestic and world price criteria are only relevant in the context of an AMS.

The general United States approach is a policy-specific one which aims to eliminate trade-distorting policies rather than distinguish among them on grounds of degree of trade distortion. Instead it seeks to encourage countries to move into "green" or "amber" policies. Concerning the particular case of stabilization programmes, it is clear that more work needs to be done on identifying the prohibited and permitted policies and the criteria involved. The "amber" category is, as we have said, largely a residual of the other two; but we still need specific policies to be identified for that category.

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AGGREGATE MEASURE OF SUPPORT (AMS)

COMMITMENTS AND IMPLEMENTATION

How will AMS commitments on the "amber" category be enforced (NG5/W/118, pages 8-11)? E.g., will individual country schedules be bound in GATT? Will participants have flexibility to choose among policies in this category within overall AMS limits? Could the United States please elaborate on the details of the AMS as it proposes to use it here (e.g. reference year, product of coverage, provision for inflation) and on its policy coverage and how it relates to the contents of the second policy category. Is the AMS in fact equivalent to a budgetary total of support to policies in this category?

The structure of an AMS mechanism and the nature of AMS commitments will depend on the policies contained in the "amber" category. We currently view this category as mainly containing sector-wide policies. Our concept of the structure and mechanics of an AMS are heavily dependent on this assumption.

The AMS is a sector-wide indicator of support provided by specific programmes (e.g. the AMS will, implicitly, cover all commodities contained in Annex 1 of our proposal). It will be necessary to develop a comprehensive catalogue of policies to be included in the AMS. For example, domestic farm credit subsidies could be defined as including interest rate concessions, interest rate buy-down programmes, loan or principal forgiveness, direct grants and/or loan guarantees. Many input and investment subsidies involve a direct government budget outlay and, in such cases, the budgetary cost is likely to represent the subsidy. In the farm context, for example, the subsidy from interest rate buy-downs, principal forgiveness, direct grants and write-offs on guaranteees could be measured by budgetary cost. However, budget costs may not be a good measure of subsidies from other programmes such as interest rate concessions. In these cases, it may be preferable to use methods like those developed by the OECD for the Producer Subsidy Equivalent, e.g. the difference between the market interest rate and the concessional interest rate times the value of loans.

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(cont'd)

QUESTIONS

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The base year for AMS commitments could be the same as that for import access. We suggested an average of 1986-1988 as the base for calculating over-quota tariff equivalents. Our general approach is that the AMS should be calculated in nominal terms unless there are extraordinarily high rates of inflation, i.e. above 20 per cent a year.

Countries will provide data for all applicable policies in accordance with a prescribed AMS methodology. The AMS will be bound and progressively reduced. During the reduction process, countries will have flexibility in choosing the policy mix to be used to achieve the AMS reductions over time. We believe that such flexibility is appropriate because no programme included in the AMS provides support to one particular commodity or group of commodities.

We recognize that there are difficulties in implementing "bound" commitments using an AMS. Hence, the data for each AMS component will also be included in individual country plans, e.g. the individual commitments to meet the AMS "targets" will also be "bound" on an annual basis.

In the United States comprehensive proposal, disciplines on the so-called "red" category would be implemented on a policy-by-policy basis. These policies and mechanisms to meet reduction commitments would be included in the individual country plans. The country plans would be the "bound" commitment. Countries would report policies in the so-called "green" category as part of their country plan, but no commitment to reduce support would be required. Therefore, the use of an AMS would not be necessary.

Does the AMS have any possible role with regard to policies in the "red" and "green" categories (NG5/W/118, pages 8-11)?

INTERNAL SUPPORT
UNITED STATES
(cont'd)

QUESTIONS

GENERAL REMARKS

Concerning the use of the AMS in disciplining support in the "amber" category the United States notes that the policies covered under the AMS should be identified, and the AMS should be bound. We could envisage flexibility with respect to the implementation of the cuts in the AMS; e.g. one sub-set of AMS policies could be reduced while another might possibly increase. But the total AMS should decline.

In the majority of cases the AMS would be calculated on a budgetary basis, because policies within this grouping appear to be predominantly budget-based. However, there are some policies, such as production credits, whereby a preferential interest rate might be given. This might not be a specific budgetary number.

GATT RULES AND DISCIPLINES

Could the United States please give more details of its views on new GATT rules to embody support commitments (NG5/W/118, page 9). How would these relate to existing GATT rules and disciplines (Article XVI, Subsidies Code).

The United States envisions modifying Article XVI and other relevant provisions of the GATT to embody the new rules on domestic subsidies. The new rules would include the three categories of internal support contained in the United States proposal and would specify the agreed upon rule for each category. Detailed criteria for each of the three categories would be spelled out in an interpretative note with legal status equal to the text of the GATT. Agreed reductions in policies would be contained in country plan schedules, similar in concept to those presently used for tariff reductions.

Supplementary questions

Can the United States please elaborate on possible relationships between new rules on domestic subsidies and the AMS disciplines envisaged on policies in the "amber" category?

Refer to above answer.

INTERNAL SUPPORT
UNITED STATES
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QUESTIONSSupplementary questions (cont'd)

The undertakings on phase-out and discipline of the appropriate policy categories would be spelt out in GATT rules, plus an interpretative note. Could the United States elaborate on that relationship - i.e. would the AMS commitments on the amber category be somehow reflected in a revised Article XVI?

We have not specifically addressed the question whether this might be in an interpretative note or in a revised Article XVI. We had envisaged a statement within Article XVI that would say certain policies, identified by name, would be phased out over some transitional period; certain policies would be disciplined; and certain policies would be permitted. It would indicate that a more definite listing of these policies was to be found in the interpretative note.

How the reductions are conducted might be analogous to the method used in tariff negotiations. The AMS commitment could be reflected in the individual country schedule with the bindings taking place on the individual policies within that schedule.

After a country plan is established, it will take on the same calibre of commitment as do tariff schedules. Therefore, a violation of that schedule would fall within the scope of dispute settlement procedures.

Yes.

Would the United States see any possible role for the AMS commitment in relation to "injury" in a new Article XVII?

Will the proposed modifications to Article XVI imply the termination of specificity for primary products in the view of the United States (i.e. no mention of primary products would be made in the new rules)?

Could the AMS commitment be modified according to Article XXVIII?

We have reached no conclusion on this yet.

REPLIESQUESTIONSREPLIES

INTERNAL SUPPORT
UNITED STATES
(cont'd)

QUESTIONS

SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES

Could the United States give more precise indications of the scope for developing-country measures aimed at rural and economic development to be exempt from prohibition? How is a "need for exceptional treatment" (NG5/W/118, page 16) to be demonstrated and evaluated?

REPLIES

Many of the programmes included in our permitted list of policies would facilitate the development of agricultural sectors. For example, disaster assistance, domestic food aid based on need, conservation programmes, market information, inspection and grading programmes, general service programmes such as extension services, research, education and pest and disease control programmes have been identified in the submission of the Cairns Group and Brazil and Colombia as programmes that benefit developing countries.

The new GATT rules and disciplines for agriculture should be applicable to all contracting parties. However, the United States recognizes that less developed countries may need special consideration in implementing the transition schedules for internal support and import access. Less developed countries should be allowed to maintain certain programmes that assist their long-term agricultural development. Investment subsidies identified in our so-called "amber" list of programmes are examples of such policies. Facilities for physical storage of agricultural commodities could also be included.

The degree to which any developing country departs from the general implementation schedule should be commensurate with that country's demonstrated need for exceptional treatment. Criteria should take into account: the level of economic development of the country; whether the country is a net exporter of agricultural products; and whether the country is an exporter of individual agricultural products.

INTERNAL SUPPORT
CAIRNS GROUP

QUESTIONSCOMMITMENTS AND POLICY COVERAGE

Does the flexibility of policy mix envisaged in paragraph 22 of NG5/W/128 apply only to the category of support covered in paragraph 21? If it is applied more widely, the scope for flexibility in practice would appear to be limited given the commitments set out in paragraphs 18-21.

REPLIES

No. The Cairns Group proposal recognizes the need for countries to have an appropriate degree of flexibility in choosing the policy mix they will use to achieve the reductions in trade-distorting support specified in paragraphs 19, 20 and 21 of NG5/W/128. Notwithstanding this acceptance of some flexibility, the Group has consistently put forward the view that commitments by countries to change trade-distorting policies must be the primary vehicle for reform.

The most trade-distorting policies are to be reduced substantially (NG5/W/128, paragraph 18); yet in paragraph 27 there is a class of measure which is to be prohibited. Are these the same, or substantially the same measures, and is the end-point of reduction therefore elimination? More generally, could the Cairns Group please elaborate, with examples, on the policy coverage of each of the support categories they propose.

The Cairns Group proposes that internal support measures should be categorized, using criteria to be agreed, into:
 (1) prohibited; (2) permitted but subject to discipline; and
 (3) permitted. The most trade-distorting policies as identified in our proposal (NG5/W/128, paragraph 18), i.e. market price support and direct payments that raise the effective price received by producers for their output, will need to be assigned either to category (1) or (2).

Those measures to be prohibited as part of the final outcome should be subject to reductions during the reform process leading to their elimination. Other measures that are trade-distorting should be reduced substantially during the reform process, and made subject to specified disciplines in the long-term framework.

Work will need to be carried out on defining those policies which, because of their negligible impact on output and trade, will fall into the permitted category. Care will need to be taken to ensure that these policies are not applied in such a manner, or expanded to an extent that they create new trade distortions. As pointed out in NG5/W/128 the permitted measures could include:

INTERNAL SUPPORT
CAIRNS GROUP
(cont'd)

QUESTIONS

REPLIES

- 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.

AGGREGATE MEASURE OF SUPPORT (AMS)
COMMITMENTS AND IMPLEMENTATION

Could the Cairns Group please be more specific about the policy and commodity coverage envisaged for the AMS (NGS/W/128, paragraphs 18-24)? Will this be based on the coverage of the OECD's PSE; if not, how will it differ? How will AMS commitments be enforced?

For monitoring purposes, the Cairns Group proposes a total value AMS on a product-by-product basis with a comprehensive policy coverage identical to that adopted by the OECD for the PSE. The AMS would include both trade-distorting policies that are subject to commitments to reduce support and those policies which are exempted from these commitments because they meet clearly-defined and multilaterally-agreed criteria. This comprehensive policy coverage would assist in monitoring reductions in support and expenditure on permitted policies.

In addition, the Cairns Group proposes annual target cuts to the following two sub-components of the AMS:

- the total value measure of the first two categories of the OECD's PSE, i.e. A. Market Price Support and B. Direct Payments; and

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(ccnt'd)

QUESTIONS

AGGREGATE MEASURE OF SUPPORT (AMS)

COMMITMENTS AND IMPLEMENTATION
(cont'd)

REPLIES

- net budgetary expenditure and revenue foregone on other forms of support in categories C to F of the OECD's PSE which have a distorting effect on trade (e.g. input subsidies).

Those policies which are exempted from commitments to reduce support because of their negligible impact on output and trade, e.g. disaster payments, would not be included in these sub-components of the AMS, but would be monitored by the total value AMS and may need to be subject to disciplines.

The objective of the Cairns Group proposal is to provide for reform covering all agricultural products, not only those of interest to the major industrialized countries. We therefore propose that the various commitments set out in our proposal should be applied to all agricultural products. However, we recognize that for a variety of reasons there is a range of commodities for which it would be difficult to calculate an AMS, and propose that these products should be subject to equivalent commitments, including annual reductions in producer support prices and net budgetary expenditure and revenue foregone.

The Cairns Group supports the widest possible commodity coverage for the AMS. While it does not take a prescriptive view as to what this commodity coverage might be, the Group notes that it is generally recognized that it is possible to calculate an AMS for each of the major traded commodities, but that this could be very difficult for most other commodities, including fruits and vegetables and processed agricultural products. We would expect the AMS commodity coverage to at least include all commodities for which the OECD has been able to calculate PSEs.

INTERNAL SUPPORT
CAIRNS GROUP
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QUESTIONS

AGGREGATE MEASURE OF SUPPORT (AMS)

COMMITMENTS AND IMPLEMENTATION
(cont'd)

Could the Cairns Group please clarify, with examples, the relationship it envisages between reduction commitments on producer support prices and on the AMS (NG5/W/128, paragraph 19). Aside from these commitments, other target reductions in the support categories set out in paragraph 18 are apparently not excluded; what might these be?

The Cairns Group approach to the use of an AMS does not require special enforcement provisions. The Cairns Group proposes that specific policy commitments would be bound, including commitments to reductions in budgetary expenditures and revenue foregone.

The Cairns Group has consistently argued that commitments by countries to eliminate or substantially reduce trade-distorting policies must be the primary vehicle for reform. Commitments related to producer support prices form a fundamental element of this approach. In addition, the Group proposes that the AMS should be used to complement and assist the minimum policy-specific changes. As explained above, this would require the AMS having a comprehensive policy coverage to monitor reductions in support and expenditure on permitted policies and that there should be annual target cuts to sub-components of the AMS.

The annual target cuts to the sub-component of the AMS which measures the Market Price Support and Direct Payments categories, would include minimum cuts to producer support prices. This combination of target cuts to the total value measure of the sub-component and minimum producer support price reduction, would place an upper constraint on the quantity of the product receiving support. This would also allow countries some flexibility in choosing policy instruments to meet the target reductions.

Target annual reductions would also be implemented for other forms of support which have a distorting effect on trade, such as input subsidies, through commitments on total levels of net budgetary expenditure on them and government revenue foregone.

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QUESTIONSREPLIESAGGREGATE MEASURE OF SUPPORT (AMS)

COMMITMENTS AND IMPLEMENTATION
 (cont'd)

Target annual reductions in producer support prices and net budgetary expenditure would also be implemented to achieve reductions in trade-distorting support for commodities for which an AMS cannot be calculated.

The target reductions in the sub-components of the AMS, and to producer support prices and net budgetary expenditure, should bear a relationship to countries' initial levels of support, i.e. the higher the support, the larger the reduction.

GENERAL REMARKS ON THE AMS

As explained under "AMS - Commitments and Implementation", the Cairns Group believes that the AMS would assist in monitoring reductions in support and expenditure on permitted policies.

The Group proposes a broader form of AMS for use in monitoring than for commitments. The AMS used for monitoring would have a comprehensive policy coverage similar to the OECD's PSE. Concerning commitments, annual target cuts are proposed to two AMS sub-components: firstly, there would be a target commitment to reductions in a total value AMS whose policy coverage would be equivalent to that of support categories A and B in the OECD's PSE; this commitment would incorporate specific annual cuts in price support levels. In other words, the overall constraint would operate on the price x quantity relationship but with a specific commitment on support prices. Hence, there would be some flexibility for the full AMS target cut to be achieved through further price cuts or (e.g.) supply limitations. This is the flexibility in meeting overall targets referred to in paragraph 22 of NG5/W/128.

INTERNAL SUPPORT
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QUESTIONS

GENERAL REMARKS ON THE AMS
(cont'd)

REPLIES

The second AMS sub-component for commitments would cover net government expenditure, and government revenue foregone, on trade-distorting support falling within categories C-F of the OECD's PSE policy classification (paragraph 21 of NG5/W/128 refers).

The elements of the OECD PSE which would be excluded from commitments - i.e. the "green" category - are covered in paragraph 23 of NG5/W/128. However, these are to be subject also to monitoring through the comprehensive AMS (paragraph 26 of NG5/W/128) and, possibly, new disciplines to avoid the creation of new trade-distortions.

The Cairns Group also recognizes that for some commodities it is not possible to calculate an AMS or commit to AMS reductions. For these commodities, including processed products, commitments to annual reductions on both producer support prices and budgetary expenditure are proposed (c.f. paragraph 20 of NG5/W/128).

As the Group sees it at present, the commodity coverage of the AMS should be at least that of the OECD PSE.

The Cairns Group proposes that specific policy commitments would be bound, including commitments to reductions in net budgetary expenditure and government revenue foregone.

BINDING COMMITMENTS ON INTERNAL SUPPORT

If AMS sub-components are to be bound, what level of product specificity is envisaged for these bindings? Tariff-line level?

What the Group envisages is to bind specific policy commitments at the tariff-line level. However, it is not proposed to bind AMS targets as such. The GATT status of the AMS targets is a question to be resolved during the negotiations, but they could be analogous to targets set in industrial tariff negotiations.

INTERNAL SUPPORT
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QUESTIONS

AMS - MONITORING ROLE

Please elaborate on the possible use of the AMS in monitoring support reductions (NG5/W/128, paragraph 26).

REPLIES

As explained under "AMS - Commitments and Implementation", the Cairns Group believes that the AMS would assist in monitoring reductions in support and expenditure on permitted policies.

GATT RULES AND DISCIPLINES

How are commitments on support reduction to be bound in GATT? (c.f. NG5/W/128, paragraph 9) Would individual country implementation schedules be bound, for example? Is any difference from existing GATT dispute settlement procedures envisaged with respect to non-compliance with such bindings?

The Cairns Group believes that commitments relating to both the reform process and the final results of that process should take the form of product-specific bindings by all participants which could, for example, be included in countries' schedules of concessions. All commitments would be subject to the generally applicable provisions and mechanisms for consultation, surveillance and dispute settlement within the GATT system, as strengthened through negotiations in the Uruguay Round.

Paragraph 28 of NG5/W/128 sets out parameters for rules and disciplines applying to both the prohibited and permitted subject-to-discipline categories which seem superfluous in the case of prohibition. Are these intended as transitional rules in this case?

SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES

Please elaborate, with examples, on special and differential treatment for developing countries in terms of the AMS.

The Cairns Group recognizes the importance of government assistance measures, such as those listed in paragraph 39 of the Cairns Group proposal, to the agricultural and rural development objectives of developing countries. Therefore, the Group's proposal provides that government assistance measures which form

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QUESTIONS

SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES (cont'd)

REPLIES

an integral part of the development programmes of developing countries should not be included in commitments to target reductions to sub-components of the AMS or internal support reduction commitments by these countries for non-AMS commodities.

The Group also recognizes the need for developing countries to have necessary flexibilities to enable them to adjust towards more market-responsive agriculture consistent with their individual trade, financial and development needs. Therefore, the Group believes that for trade-distorting support measures, including those covered by the AMS, the depths of commitments to reduce support levels by developing countries will be lower than other countries.

INTERNAL SUPPORT
EEC

QUESTIONS

COMMITMENTS AND POLICY COVERAGE

GENERAL REMARKS

The Community recalls that the SMU covers all measures affecting levels of support whether such measures are applied internally or at the border. Those measures must, therefore, be considered together.

Please expand on:

- The relationship between the SMU reduction and the reduction in border protection. What is meant by a similar rate (NG5/W/145, III, 5)?
- "Equivalent commitments" on non-SMU products, and commitments on processed products (NG5/W/145, II, 2);

- "It reflects the basic principle of parallelism between the levels of external protection and overall support.

- (a) "Equivalent commitments" would be based as far as possible on the same type of calculations as SMU commitments as such. This means that for products for which support levels are determined by more than just a border protection, a possibility would be to establish the price gap between internal and external prices and to add direct payments of the type subject to SMU disciplines.
- (b) "Equivalent commitments" would be sufficient to reflect changes for the base products incorporated in the processed products in accordance with the rate of incorporation.

- For processed products it would be sufficient to reflect changes for the base products incorporated in the processed products in accordance with the rate of incorporation.
- (c) "Steady and balanced reduction" means that:
 - reductions should take place in a regular manner over the entire agreed period;
 - such reductions should go more or less in parallel for all sectors and all countries concerned so that possible distortions can be avoided as much as possible. This does not exclude, however, as the question suggests, support being reduced in one

INTERNAL SUPPORT
EEC
(cont'd)

QUESTIONS

REPLIES

sector more than in another as long as contracting parties have agreed on the reduction targets. In any case, the aim should be to have more balanced support and protection at the end of the exercise within and among sectors.

GENERAL REMARKS

Further to (a) above, it is necessary to underline that the two situations - the SMU reduction and the variations in border protection which the Community is prepared to accept on certain conditions - are different. They should be analysed separately. In the original proposal of the Community, which uses the SMU as a global concept, the reduction in border protection is not the subject of a separate commitment but comes about as an inevitable consequence of the reduction of the SMU - especially if this is on both unit and total SMU.

There is thus no specific engagement on border measures, even though the Community has stated its readiness to indicate each year, if necessary, what kind of changes in policy instruments, including border protection, we are ready to apply in order to reduce the SMU as agreed.

INTERNAL SUPPORT
EEC
 (cont'd)

<u>QUESTIONS</u>	<u>REPLIES</u>
How does EC plan to "identify national policy instruments" in relation to the SMU commitment (NG5/W/96, paragraph 2)? What status would this identification have?	For processed products, the methodology is simple; it would suffice to take a commitment that reduction in support and protection for the raw materials would be clearly reflected in the processed product.
Identification would take place annually and sufficiently in advance of definitive decisions being taken. It would serve as a basis for consultations upon request.	In addition to market price support and direct payments, input subsidies should be included as far as they are commodity specific or where a distribution according to main commodities is feasible. This also applies if support is granted at sub-national level.
As suggested in discussion of NG5/W/96 (see NG5/W/103), has the EC considered enlarging the policy coverage of SMU beyond the current two principal elements (market price support and direct payments). If so, what policy would be envisaged? What is the EC position concerning the treatment of sub-national, or in EC context national, support?	General services and "other" support would be subject to monitoring but would, for the time being, not fall under SMU commitments.
<u>Supplementary question</u>	The Community will need to study this issue further.
How are "equivalent commitments" on non-SMU products to be monitored?	
<u>AGGREGATE MEASURE OF SUPPORT (AMS)</u>	
<u>COMMITMENTS AND IMPLEMENTATION</u>	(a) Individual country schedules would be bound. The bindings would continue to apply after the fifth year if the review during the fourth year will not lead to further reductions.
How does the EEC envisage commitments to SMU reduction being bound in GATT (NG5/W/96, paragraph 2)? E.g., would individual country implementation schedules be bound, or only an overall target? Are bindings to be only for five	

<u>QUESTIONS</u>	<u>REPLIES</u>
<p><u>AGGREGATE MEASURE OF SUPPORT (AMS)</u></p> <p><u>COMMITMENTS AND IMPLEMENTATION</u></p> <p>(cont'd)</p> <p>Years? What procedures are foreseen in case of non-compliance with commitments? How will these relate to the GATT dispute settlement mechanism? Will compensation be possible? If so, how is this to be done?</p> <p>What is meant by "the commitments should be undertaken on a regular basis" (NG5/W/145, II, 3(b))? How is equivalence of commitment among product groups and across participants to be ensured?</p> <p>Please explain further the implementation of the SMU commitments (NG5/W/145, II, 3). In particular: (a) Would SMU reductions be made on a formula basis? If so, what formula is envisaged? (b) Would reductions made during the first five-year stage be bound as a point of departure for the next phase? (c) What mechanism for surveillance of commitments during the first five years is envisaged?</p>	<p>(b) As regards dispute settlement and compensation, the Community's position explained in document MTN.GNG/NG5/W/82 of 21 October 1988 (an approach for a concerted reduction of support in the long term) remains valid. This position is independent from the question of whether support reductions should be incorporated into the GATT as such or in a special code.</p> <p>"Commitments on a regular basis" means that the absolute amount of reduction of the SMU is in principle the same each year of the agreed period before being adjusted upwards or downwards in order to take trends in world markets into account.</p> <p>Equivalence of commitments is achieved by use of the SMU and by fixing in principle the same overall target reduction in percentage terms to 1986 support levels for all countries.</p> <p>(a) No formula basis is envisaged. An identical percentage rate will in absolute amounts reduce high support levels in any case more than low levels.</p> <p>(b) See reply (a) on page 24 above.</p> <p>(c) A committee would have to be established in any case in order to verify adherence to Uruguay Round commitments on agriculture. Surveillance would be exercised by this committee on the basis of annual notifications by the contracting parties concerned and counter-notification by other contracting parties.</p>

INTERNAL SUPPORT
EEC
 (cont'd)

QUESTIONSAGGREGATE MEASURE OF SUPPORT (AMS)

COMMITMENTS AND IMPLEMENTATION
 (cont'd)

The SMU is to be calculated on a unit and total basis (NG5/W/145, II, 3(b)); presumably all commitments are also binding on both (i.e. not as alternatives)?

Does the EC see any overlap in commitments on deficiency payments under the SMU and tariffication?

REPLIES

Alternatively, should support reductions be guided by a code, surveillance would be exercised by the code committee. (See also NG5/W/45 of 19.2.1988 on some technical aspects in relation to the use of PSE in the multilateral trade negotiations on agriculture.)

In principle, yes, but it could also be conceived as an alternative.

The SMU covers the effects of all measures, internal and on the border, on the level of support. Once deficiency payments are entirely converted into tariffs the granting of deficiency payments could not continue.

GENERAL REMARKS

Further to reply (a) on page 24 above, the Community notes that bindings could be different for each product or group of products. The "regular basis" on which commitments were to be undertaken means that in principle the reduction should be equally divided during the period in question. It should be calculated from 1986 and thus take into account credit for reforms made since then, as well as an adjustment mechanism (see below).

Concerning the question of commitments on deficiency payments, the EC believes that deficiency payments have three effects: internal support, border protection and, in effect, as an export subsidy. However, we look at them mainly as border measures, which was why they were dealt with in the second part of the EC proposal. There is no overlap between the different elements of the proposal.

INTERNAL SUPPORT
EEC
(cont'd)

QUESTIONS

AMS - PRODUCT COVERAGE

Please provide more detail concerning the commodities covered by the SMU (NG5/W/145, II, 2). Would any difficulties be seen in extending this, e.g. to cover the full range of products included in the OECD PSE calculations?

The Community accepts for SMU calculations the entire list of products for which PSE calculations for the Community are made. Should there be common agreement, the Community could also envisage an extension of this list of products.

Processed products incorporating basic SMU products would, in the usual methods such as transformation or incorporation coefficients, participate in the support reduction process.

Supplementary question

At what level of product differentiation does the EC intend the SMU commitments to apply? E.g. will (as in NG5/W/125) these just relate to broad sectorial groups, or is it possible to set SMU commitments down to a more precise product level, for instance tariff-line levels, or the products for which the EC fixes various prices each year? (i.e. not "milk" but "butter", "SMP", etc.)

This also is a point for negotiation, but the EC does not at present see a need for product coverage to be too specific. We should take products or groups of products which compete among themselves in order to leave the contracting parties a certain flexibility in their decisions about reduction of support. Over-specificity would also make monitoring more difficult.

AMS - METHODOLOGY

Please explain further the mechanism to be developed to relate the scale of SMU movement to the world market situation (NG5/W/145, II, 3(a)). How does this relate to the variable element in border protection? How are world market prices to be taken into account in a methodology which rests on a fixed external reference price? How are these world market prices to be selected?

While the basic amount of annual SMU reductions is predetermined (see preceding answers) deviations of world market prices during the recent period (6 to 12 months) from the situation reflected by the fixed external reference price would be reflected to an extent to be negotiated. Such adjustments of basic annual SMU reduction amounts should, however, not lead to a change in the downward trend of the support levels concerned. In other words, there may be a threshold of X per cent of the basic reduction

INTERNAL SUPPORT
EEC
(cont'd)

QUESTIONS

AMS - METHODOLOGY (cont'd)

Will the mechanism operate automatically, or is it intended to be a process of consultation among contracting parties to adjust commitments? How would such adjustments be related to GATT bindings on support reduction?

amount, up to which this basic amount may be increased or decreased in accordance with world market price trends observed during the recent period in question.

There is no link with the calculation of the corrective element, as SMU adjustments would be made only once a year on the basis of recent trends (6 to 12 months) while fixation of the corrective factor should happen at more frequent intervals on the basis of most recent trends.

The selection of world market prices for SMU adjustments would be the same as the one used for the calculation of the initial SMU amounts.

Once the rules for SMU adjustments are established, contracting parties would be bound by these rules. Notification and surveillance will ensure thereafter that commitments have been met.

GENERAL REMARKS

A simple - and purely hypothetical - example of the effect of the adjustment mechanism on the regular SMU reduction commitment might be the following:

Assume a percentage reduction commitment. (This is without prejudice to the method actually to be agreed, but it is the simplest method to monitor.) This might for argument's sake be 20 per cent over five years. Assume also that one country has already reduced its support by 5 per cent from 1986 to 1990. In this case, the annual reduction commitment would be 4 per cent annually over five years, (= 20 per cent) but taking into account the prior reduction of 5 per cent, it would come down to 3 per cent over five years (= 15 per cent).

INTERNAL SUPPORT

EEC
(cont'd)

QUESTIONS

REPLIES

GENERAL REMARKS
(cont'd)

It is still the fundamental belief of the Community that the objective is not a reduction in support and protection per se, but a reduction which will lead to a world market where supply and demand are in equilibrium. In a market which is responsive to supply and demand prices vary accordingly. Therefore, if support is reduced more than would be necessary to reach a certain equilibrium, a corresponding decline in production could lead to a rise in world market prices. On the other hand, an insufficient reduction in support might lead to a continuing surplus situation, with low world prices. The Community thinks that in the first case it is not necessary to go as far in reducing support as in the second. Once equilibrium is reached, while the commitment to reduce support should continue to apply it need not be pursued at the same rate. Thus it is in the interests of all contracting parties to have a supplementary mechanism in order to take this situation into consideration and allow the rate of support reduction to be either speeded up or slowed down.

This adjustment mechanism should be clearly agreed on from the outset, for application by all contracting parties without further consultation. The 2 EC is open to discuss the mechanism.

Supplementary questions

Does the EC's answer mean that the External Reference Price would, in effect, be subject to review every six to twelve months?

No.

Since the SMU is a measure of support to farmers, we considered it important to eliminate the influence of world market fluctuations. Hence the use of a fixed reference price, so that changes in the SMU will reflect only the reduction in support.

INTERNAL SUPPORT
EEC
(cont'd)

QUESTIONS

Supplementary questions
(cont'd)

However, the effort which is necessary to achieve this reduction must be greater as long as the world market equilibrium has not been reached, and can be less if the equilibrium is reached quickly. Therefore, and only to determine the rate at which the reduction should proceed, we have proposed this corrective mechanism. The reduction would proceed more or less rapidly according to the variation in world market price. This price would be monitored on an agreed basis and compared to the fixed external reference price which remains the reference point from the beginning of the reduction period.

It is important not to confuse this mechanism with that which might be agreed to modify the corrective element in border protection and which was quite independent. Even if the Community's December proposals concerning elements of tariffication were not accepted and it reverted to its original proposal, it would still be necessary to have a corrective mechanism for the SMU to reflect world market variation.

It could be agreed that the basic reduction commitment (5 per cent annually in the example above) might be modified in the light of the evolution of the world market, e.g. to 3 per cent or 7 per cent on a given year. But the basic downward trend must remain, with no possibility of increasing support, though the speed of reduction may be varied.

This is a question to be decided in the negotiation. However, in our thinking, if supply-demand equilibrium is reached with a reduction of less than 20 per cent, why should it be necessary to proceed to the full reduction?

Assuming, then, a 5 per cent reduction annually over four years, modified in a given year to 3 per cent in accordance with world prices, is the difference of 1 per cent made up in the following year in order to achieve a 20 per cent reduction at the end of the period?

INTERNAL SUPPORT
EEC
(cont'd)

QUESTIONS

Supplementary questions (cont'd)

Does the EC envisage the agreement of other contracting parties being necessary in order to modify the rate of reduction each year?

When concluding the periodic review of the reduction rate, would the EC take into account the existence of surpluses in the Community?

No, the rules should be decided clearly beforehand and then applied by all. It would not be desirable to have a negotiation every year.

This question does not apply only to the EC. World market prices reflect, more or less, (better, we hope, in the future) the internal supply/demand balance in the main producers and exporters. Thus it is sufficient to consider these prices. It would not seem necessary to take other elements into consideration, though this could change if a policy of harmonization of stocks was adopted.

As we have said, the rules should be decided beforehand, in order to avoid an annual negotiation. These should be clear as to the parameters involved and as simple as possible. A GATT body could be charged, for example, with the task of monitoring and verification.

How are the credits for support reductions since 1986 (NG5/W/145, II, 3(c)) to be made specific?

Contracting parties would reduce support in principle by the same percentage rate. This percentage rate would be applied to 1986 support levels. The resulting amount (in unit and total SMU terms) would be reduced by an amount reflecting support reduction measures implemented between 1986 and 1990. The remaining reduction amount would be divided into five equal amounts for annual reductions in the years 1991 to 1995.

(See also answer to third question on page 27 above.)

INTERNAL SUPPORT
EEC
 (cont'd)

QUESTIONS

SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES

Please expand on the role of special and differential treatment for developing countries in the SMU. The EC has said that developing-country support aimed at development (etc.) is not to be included (NG5/W/149, paragraph 23); how is this to be defined? The Community has also suggested that the SMU's possible application to some developing countries was not excluded (NG5/W/103, paragraph 6). What are the limits of this possible application?

REPLIES

Regarding the needs of developing countries, the Community has proposed in NG5/W/145 (IV.1 and 2) that flexibility should apply. Commitments by developing countries could, for example, be limited to certain products and certain support policies and if there should be reduction at all, such reduction could be less than in developed countries and in more advanced developing countries. Flexibility would vary according to the actual level of development and the development needs of the countries concerned.

INTERNAL SUPPORT
JAPAN

QUESTIONS

COMMITMENTS AND POLICY COVERAGE

Please elaborate, with examples, on the domestic support policies which are to be permitted, and those which are to be placed under new GATT disciplines and/or reduced using the AMS (NG5/W/131, B.4(2)-(4)). Please clarify the scope of and criteria for inclusion in each class of policy; are two, or three, policy categories envisaged?

REPLIES

1. Japan's basic position in the negotiations on the reduction of agricultural support and protection is to clearly identify those policies which are to be permitted (policies not subject to the negotiations on the reduction), and to place the rest of the policies under the new GATT discipline.

To place the rest of the policies under the new GATT discipline means to operate internal support policies (or border measures, or both) in such a manner as to reduce the AMS, which comprehensively covers domestic and border measures, to the level agreed upon in the negotiations.

Japan considers that the domestic support policy for agriculture in each contracting party should be implemented with a view to achieving sound development of its national agriculture under the respective economic and social conditions. Therefore, domestic support for agriculture should be clearly distinguished from export subsidies which are inherently trade-distorting in character.

2. Japan considers that the policies to be permitted are:

- (1) domestic support policies with no trade-distorting effects or those of which such effects are negligible, and
- (2) domestic support policies that play an essential role in meeting the diversified needs of agricultural policy, such as land preservation, environmental conservation, and sustenance of regional community.

INTERNAL SUPPORT
JAPAN
(cont'd)

QUESTIONS

COMMITMENTS AND POLICY COVERAGE (cont'd)

The above policies include, but are not limited to, those which aim at improving infrastructure for agricultural production, structural improvement of agriculture, promoting production control of the surplus agricultural products and expanding its consumption, stockpiling, promoting social welfare as one of the objectives, research and development, disaster relief, dissemination programme, and those related to preservation of land and environment.

REPLIES

3. In our view, the policies which should be placed under new GATT disciplines are those other than referred to in 2 above. Examples are price support and deficiency payment, but, at any rate, scope of such policies is to be negotiated.
4. In drawing up new GATT disciplines on domestic support, a new working party should be formed under the Negotiating Group on Agriculture, or the mandate of the existing AMS Technical Group should be expanded to cover the relevant issues, since a large number of technical elements are involved. The working party or the Technical Group should examine how and by what standard distinction should be made between those policies which are to be permitted and those policies which should be subject to certain disciplines. It should also examine how to implement the reduction of support and protection using AMS.

We consider that it is not necessary to bring those policy measures that are not covered by the AMS under any particular disciplines.

Supplementary questions

As it appears that no disciplines are envisaged for "permitted" policies, does Japan envisage any form of monitoring of these policies?

No.

INTERNAL SUPPORT
JAPAN
(cont'd)

<u>QUESTIONS</u>	<u>REPLIES</u>
<u>Supplementary questions</u> (cont'd)	
Are any specific disciplines envisaged on processed products?	At present, we do not envisage any disciplines on processed products <u>per se</u> . However under our basic product sector approach, processed products falling within a sector would be captured.
Does the discipline Japan proposes on internal support measures consist only of AMS commitments, or is some other form of commitment also envisaged on the measures to be disciplined?	We have only the AMS in mind as a method of discipline.
<u>AGGREGATE MEASURE OF SUPPORT</u>	
<u>COMMITMENTS AND IMPLEMENTATION</u>	
How would commitments on AMS (NGS/W/131, Annex 2, para. 1(2)) be made, implemented and enforced? Would, for example, AMS reductions be the subject of GATT bindings through country schedules? Would commitments be on a total or per unit AMS, or both? Is any possibility of compensation in case of non-compliance with commitments envisaged?	<ol style="list-style-type: none">1. With regard to the commitment on the AMS, it would be appropriate to adopt product-sector approach taking into account such characteristics as substitutability and reversibility between the products concerned. <p>However, it should be noted that there may be cases in which, for certain products, commitments on a product-by-product basis is more appropriate.</p> <p>The degree and pace of AMS reductions is a matter of negotiations in the future. However, in implementing commitments concerning the AMS, flexibility should be permitted, depending on the specific situations surrounding each product or product sector, rather than applying the across-the-board degree and pace of the AMS reductions.</p>

INTERNAL SUPPORT
JAPAN
 (cont'd)

QUESTIONS

AGGREGATE MEASURE OF SUPPORT
COMMITMENTS AND IMPLEMENTATION
 (cont'd)

REPLIES

2. Though there are still many points to be further examined on AMS from technical point of view, we consider that the AMS reductions agreed upon in the negotiations should be regarded as commitments under the GATT.

However, we consider that the new rules and disciplines should be developed, as has been suggested in the EC submission (MTN.GNG/NG5/W/82), regarding implementation of commitments under the GATT, and the question of compensation as well as dispute settlement procedures in the case of non-compliance with the commitments.

Contribution by the GATT secretariat on these issues is strongly expected.

3. Suggestions have been made as to how to incorporate the agreement on AMS reductions as the commitment under the GATT; to record in the schedule of concessions of each contracting party or to devise separate legal documents in the form of a decision of the CONTRACTING PARTIES.

However, since the difference in legal effects between these two options is not clear, clarification by the GATT Secretariat on this point is hoped for.

4. The implementation of the AMS commitment could differ depending on the treatment of products: individual product approach; or product sector approach.

It might also differ depending on whether data on production level is taken on the annual basis or on the average over certain years.

INTERNAL SUPPORT
JAPAN
(cont'd)

QUESTIONS

AGGREGATE MEASURE OF SUPPORT

COMMITMENTS AND IMPLEMENTATION
(cont'd)

REPLIES

The differences are as below:

(1) Commitments on a product sector basis:

In this case, commitments are made on the basis of a product sector that consists of several different products. This raises the question as to whether it is meaningful to calculate a unit AMS for the sector as a whole. Therefore, regardless of the way the data on the production level is taken, we consider it appropriate to make commitments on the total AMS.

(2) Commitments on an individual product basis:

- Data based either on the annual production level or on the moving average for a certain period of time.

In this case, it is appropriate to make commitment on both the total AMS and the unit AMS.

- Data based on the fixed average production level of certain years.

In this case, it is sufficient to make commitments on the unit AMS only, because the production quantity is fixed during the period of implementing the AMS commitment.

(1) The period during which AMS reduction commitments will be implemented is subject to future negotiations.

(2) Periodical review would be necessary. Specific procedures for the review should be negotiated in the future.

For what period does Japan see AMS reduction commitments being made? What, if any, procedures for periodic review of the implementation of commitments and of elements of the AMS such as external reference price are envisaged?

INTERNAL SUPPORT
JAPAN
(cont'd)

QUESTIONS

REPLIES

AGGREGATE MEASURE OF SUPPORT

COMMITMENTS AND IMPLEMENTATION
(cont'd)

Please elaborate on how Japan sees the relationship between the negotiations on support and protection and that on GATT rules and disciplines (NG5/W/131, Annex 2, paragraph 5(4)). How might non-trade concerns be given consideration in AMS negotiations?

Concerning the basic foodstuffs mentioned in the Japanese proposal, it is, in our view, necessary to maintain required domestic production level.

Therefore, the basic foodstuffs, according to the treatment of non-trade concerns in newly established GATT rules and disciplines, should be treated differently from other agricultural products in the AMS calculation and in the implementation of the commitments on AMS reductions.

In addition, we have proposed in our submission to place the basic foodstuffs under certain disciplines in the area of both domestic production and exportation.

At any rate, we will further elaborate on our ideas on the specific treatment of non-trade concerns in the AMS scheme in the future discussions in the technical working group on the AMS.

AMS - PRODUCT COVERAGE

Could Japan please be more specific as to the product coverage of the AMS (NG5/W/131, Annex 2, para. 3)? Would all products for which the OECD has made PSE calculations be included?

With regard to the product coverage of the AMS, we are not in a situation at this moment to spell out the details.

INTERNAL SUPPORT
JAPAN
(cont'd)

QUESTIONS

REPLIES

Supplementary questions

In its answer on pages 35-37 (above), Japan has raised an important point concerning the product specificity of AMS commitments. Could they please elaborate on their views?

Japan feels that for AMS calculations the product sector approach should be taken, grouping together series of products with similarities. We feel that unless this approach can be acceptable we will not be able to think more realistically about which specific products can be put in one sector or another. That is why at this stage we find it difficult to pinpoint exactly which products would be in which sector or which products would have to be covered by the AMS. For example, meat can be considered as a sector, but other products such as sugar which do not belong to any sector may have to be dealt with individually.

Would the rice sector be included in the AMS calculation?

AMS - METHODOLOGY

Could Japan please indicate more precisely how it would propose to take account in the AMS of the proportion of imports to total consumption (NG5/W/131, Annex 2, para. 5(1))?

1. Considering that one of the major objectives of AMS reduction is to improve market access, a product with large import ratio is considered to have already achieved such objective to a considerable extent. It is, therefore, not reasonable to treat these products in the same way as those products with small import ratio.

2. Following methods are some examples for taking into account the proportion of imports to total consumption in the AMS calculation.

QUESTIONS

AMS - METHODOLOGY (cont'd)

- To exclude from the AMS reduction those products of which the import ratio exceeds a certain level (to be decided through negotiations).
- To modify rate of reduction of AMS for each year (Y) according to the level of import ratio of, for example, the previous year (X).

This could be expressed as follows:

$$\begin{aligned} Y &= C(1-X) \\ (1-X) &= \text{self-sufficiency ratio} \\ C &= \text{constant to be determined in negotiations and equal} \\ &\quad \text{to the AMS reduction rate in the year of full} \\ &\quad \text{self-sufficiency.} \end{aligned}$$

Japan states (NG5/W/131, Annex 2, paragraph 5(2)) that fixing the external reference price may be one of the effective methods to overcome the problem of exogenous variable such as fluctuations of exchange rates and world market prices. What are the other possible methods?

1. Japan considers that it is desirable to fix an external reference price expressed in the national currency in order to rectify influences of fluctuations in exchange rates and world market prices.
- No other specific methods are in our mind at the present time (the expression in the Japanese submissions is provided in order not to exclude other possible choices which can be presented by other participants).

2. However, there are still a number of issues left concerning the AMS calculations, such as the treatment of the internal price fluctuations caused by inflation. These issues are expected to be appropriately addressed by the GATT secretariat.

INTERNAL SUPPORT
JAPAN
(cont'd)

QUESTIONS

AMS - METHODOLOGY (cont'd)

In seeking to take account of fluctuations in domestic production (NG5/W/131, Annex 2, para. 5(2)), is Japan suggesting that the reference period for AMS reductions should be an average of several years?

REPLIES

1. In calculating the AMS, it is necessary to delink influences of fluctuating elements such as the amount of domestic production. Otherwise, policy measures, however appropriate they may be, could not be duly reflected in AMS values as they should be. Moreover, there is a possibility in which effects of the policy efforts could be adversely reflected in the AMS values.

2. Our idea on delinking influences of exogenous fluctuation factors such as climatic changes is that it is appropriate to use, as a domestic production data for the purpose of calculating each year's AMS, the average production level over a certain period of time instead of production level of each year. (We do not mean to evaluate the implementation of the AMS reduction commitments based on an average reduction of AMS values attained over a certain period.)

AMS - MONITORING ROLE

(a) Is a monitoring role envisaged for the AMS in addition to its use in commitments? Would there be a difference in country coverage between the two roles (cf. NG5/W/131, Annex 2, para. 4)?

INTERNAL SUPPORT
JAPAN
 (cont'd)

QUESTIONS

SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES

(b) Could Japan also please elaborate on means of ensuring special and differential treatment of developing countries (NG5/W/131, v) in the negotiation and implementation of AMS commitments?

REPLIES

In our view, the commitments on the reduction in support and protection using AMS should be applied equally to both developed and developing countries. In regard to special and differential treatment for developing countries, Japan considers it necessary to give a longer time-frame to developing countries than to developed countries in the process of achieving the long-term objectives. It is also necessary to allow for flexibility in fulfilling commitments to be made by developing countries in the reduction of support and protection. At any rate, it is to be noted that Japan is prepared to provide sufficient flexibility for special and differential treatment for developing countries.

In particular, it is necessary to allow flexibility for net food-importing developing countries in the reduction of support and protection in the AMS scheme, for example, by taking into account the necessity of development programmes for the countries concerned.

BORDER PROTECTION
UNITED STATES

QUESTIONS

METHODOLOGY OF TARIFFICATION

Please provide practical examples of tariffication (including implications in terms of policy changes) in the dairy, sugar and beef sectors.

At what stage could domestic prices be determined for semi-processed and processed products (e.g. cheeses)? Retail levels? On what basis can inter-country comparison be established?

If qualitative factors were used for adjusting available world prices to domestic prices, should these qualitative factors be uniform for all contracting parties?

How would tariffication capture those policies at the border which came into effect only in certain circumstances? (E.g. seasonal restrictions; United States meat law, etc.)

How would tariffication through the price gap method be effected in the case of monopoly practices which distort domestic prices?

The methodology proposed in NG5/W/97 (price-gap) results in the establishment of ad valorem tariff equivalents (TE). How would unit basis TE be determined instead? What would be the basis for preferring ad valorem to unit basis TE, or vice versa?

REPLIES

The United States intends to provide practical examples and address the methodological issues involved in tariffication as soon as possible, but that work had not yet been completed in this area. Calculations had been made for the United States, but it was felt that in order to get a clear and comprehensive picture of the meaning of tariffication the calculation of tariff equivalents (TE) for non-tariff measures in other countries would have to be made as well. (For policy changes, see below.)

Tariff equivalents: the formula given in NG5/W/97 would result in the establishment of ad valorem TE. That paper also states that a specific tariff could be used. The unit basis TE would be the domestic price minus world price (the price gap). The United States believes that the choice of which measure to use, ad valorem or unit TE, should be left to individual countries. Also the choice could change across commodities within a country.

BORDER PROTECTION
UNITED STATES
 (cont'd)

QUESTIONSMETHODOLOGY OF TARIFFIFICATION (cont'd)

NG5/W/118 calls for determining domestic and world prices on the basis of averages 1986-1988. Are these price averages (arithmetic) or averages of TE?

REPLIES

The basis for determining domestic and world prices should be averages of TE (1986-88). The rationale for using averages of TE rather than an arithmetic approach is based on the economic phenomenon that is being measured and standard statistical theory. It should be recognized that either system produces the same result if the TE is expressed on a unit basis. The results, however, will differ if the TE is expressed on an ad valorem basis. Hence, the United States position follows from an examination of the ad valorem TE.

The economic phenomenon the United States wants to measure is the average level of protection provided by non-tariff border measures over the 1986-1988 time period. On an annual basis, the measurement of the level of protection is based on a ratio, specifically the ratio of a price-gap over a world price. Furthermore, in a given year the world price appears in both the numerator and the denominator, e.g. the ratio is dependent (in a statistical sense) on the unique world price occurring during the particular year. It is the ratio which provides the basis for the ad valorem measure of protection - not the numerator alone nor the denominator alone.

If this economic phenomenon is translated into statistical terms, the issue becomes that of finding the mean of a ratio for a series of observations. Statistical theory tells us that the mean of a ratio is not equal to the ratio of means (e.g. the mean of the numerator over the mean of the denominator). Since it is the mean of the ratio we desire, the procedure must be to average the TE.

BORDER PROTECTION
UNITED STATES
(cont'd)

QUESTIONS

POLICY CHANGES RESULTING FROM TARIFFIFICATION

REPLIES

As a first step in the process of liberalizing import access, no new non-tariff measures would be permitted and existing non-tariff barriers would be replaced with a tariff-rate quota on 1 January 1991. Non-tariff import barriers include policies such as quotas, variable levies, import restrictions or prohibitions administered in conjunction with marketing boards or state-trading companies, voluntary restraint agreements, restrictive licensing practices and other import restrictions and prohibitions. The conversion of all non-tariff import barriers to tariff-rate quotas and the binding of existing tariffs begins the liberalization of import access barriers. During the liberalization process, all tariffs will be reduced to final bound rates and initial quotas will be expanded.

Complementary, but separate, commitments must be undertaken on internal support programmes, export subsidies and sanitary and phytosanitary measures. The United States proposal calls for reforms in all four areas, and these reforms must be viewed as integral parts of a comprehensive package and not as four separate proposals. This perspective applies both to the United States general approach to the negotiations as well as requests for practical examples of policy changes.

OPERATION OF TARIFF QUOTAS

NG5/W/118, page 5, specifies that liberalization would be achieved by (c) a progressive annual reduction of over-quota tariffs to final bound rates; and (b) expansion of initial quotas by agreed minimum amounts during the transition period. With respect to (a), would progressive annual reduction of over-quota tariffs be uniform among commodities? If not, how will the

Initial quotas: The initial quota would be set at the level of imports existing in 1990 or the 1986-1988 average level of imports, whichever was higher. While the United States recognizes that this "base period" differs from its suggested approach of using only the 1986-1988 period for other commitments, the United States feels strongly that current levels of imports should not be reduced as a result of the Uruguay Round negotiations.

QUESTIONS

OPERATION OF TARIFF QUOTAS (cont'd)

reduction be achieved? With respect to (b), would this also be uniform among commodities? Would it be on an MFN basis? In cases of prohibitive tariff levels and initial quotas, at what level would any minimum access commitment be ensured?

In cases where the level of imports as calculated above was less than 1 per cent of total domestic consumption, the initial import level would be set at 1 per cent of the level of 1990 domestic consumption.

Tariff rates within the initial quota: CONTRACTING PARTIES would agree to final bound tariff rates to apply at the end of the transition period. The initial within-quota tariff rates would be set at final bound rates. This procedure would permit an orderly transition process whereby the tariffs outside the quota were progressively reduced to meet the final bound tariff applying within the quota.

Role of waivers, protocol of accession, etc.: the United States firmly believes that the process of tariffication should only apply to commodities receiving non-tariff import protection during the 1986-1990 base period. This means that non-tariff import protection may not be extended via grandfather clauses, protocol of accession or waivers to additional commodities even if those commodities had received quantitative import protection in the past, e.g. the United States believes all waivers, grandfather clauses, protocols of accession, variable levies, etc. should be relinquished at the beginning of the transition period.

Country-specific quotas: Within a global import volume, many countries have specific allocations. These allocations would be preserved in the initial quota. Any expansion of the initial quota during the transition process would be made on a global (MFN) basis, e.g. the country-specific allocations would not expand. At the end of the transition process, any remaining quotas, including country-specific allocations, would be removed and replaced by bound tariffs.

REPLIES

REPLIES

BORDER PROTECTION
UNITED STATES
(cont'd)

QUESTIONS

OPERATION OF TARIFF QUOTAS (cont'd)

REPLIES

The transition process: During the transition period, the initial quota would be expanded on a global basis for all commodities. At the same time, over-quota tariffs for all commodities would be reduced in equal annual steps to the final bound rates agreed upon in the negotiations.

The United States believes that the most transparent way to achieve the final bound rates would be either to adopt a formula approach that would apply across all commodities or to set a maximum tariff level for all commodities or to use a combination of these two approaches.

Tariff reduction schedule for all tariffs: The United States believes that all tariffs should be reduced in equal annual steps to final bound tariff rates. This means that existing tariffs and tariffs resulting from conversion of non-tariff barriers to tariffs would be reduced in a similar manner. The United States proposal for accelerated treatment of products of interest to developing countries would be an exception to this general approach.

The United States recognizes that other contracting parties have called for a harmonized approach to tariff reduction, e.g. reducing higher tariffs at a faster rate than lower tariffs. The United States is sympathetic to the rationale for an harmonized approach. The United States is willing to discuss this issue during the course of the negotiations.

SNAPBACK

Can the initial TE be subject to snapback? Would it be subject to Article XXVIII? Would snapbacks during the transitional period entitle a contracting party to compensation?

The initial TE would not be subject to a snapback. Given the relatively low world prices and high administered prices prevailing during the 1986-1988 base period, the United States believes that the calculated TE will more than cover the "true" tariff equivalent in 1991.

QUESTIONS

SNAPBACK (cont'd)

Please explain the rationale of the safeguard mechanism (NG5/W/118, page 5). Why are two trigger levels proposed? Are these intended to differentiate among commodities? It is suggested that a different safeguard mechanism could be needed for perishable commodities. Could you elaborate on what this might be?

REPLIES

The snapback provision would only apply during the transition period and would be applied on an MFN basis. The snapback would not be subject to Article XVIII procedures nor would its implementation entitle a contracting party to compensation. The United States believes that a notification procedure could be developed to provide information on the level of imports subject to tariff quotas. This would help alert all contracting parties to the factual situation and the possibility that the snapback level for a particular product was being approached.

The snapback provision would operate as a temporary device during the transition period to help provide an orderly adjustment to a more liberalized trading regime. The snapback provision would normally apply only to products currently protected by non-tariff import barriers. Two trigger levels are proposed because we believe that countries which have relatively low imports due to trade barriers should be willing to accept more rapid growth in import volumes.

An example may help to illustrate this perspective. Suppose in year 1 Country A imported 100 units which represented 5 per cent of total consumption (2,000 units). In the same year, Country B imported 100 units which represented 1 per cent of total consumption (10,000 units). Under the United States proposal, if imports reached 120 units in Country A or 160 units in Country B during year 2, both countries could initiate the snapback provision. Assuming domestic consumption grows at 1 per cent a year in both countries, imports would represent 5.9 per cent of domestic consumption in Country A ($120/2,020 \times 100$) and 1.6 per cent in Country B ($160/10,100 \times 100$). Import volume would have grown by 20 per cent in Country A and 60 per cent in Country B.

BORDER PROTECTION
UNITED STATES
(cont'd)

QUESTIONS

REPLIES

SNAPBACK (cont'd)

Perishable commodities may need a more elaborate or slightly different safeguard mechanism. Import data are generally reported only a few weeks after imports actually occur. Due to the often short, seasonal nature of many perishable commodities, large surges in imports could occur before normal data sources could be used to initiate the tariff snapback. The United States believes a procedure needs to be developed to allow the tariff snapback to be applied to perishable products on a timely basis. The United States is continuing to explore methods to address this timing issue.

RELATIONSHIP WITH SAFEGUARD AND GENERAL EXCEPTION PROVISIONS

In NG5/W/118, page 5, it is stated that at the end of the ten-year transition period bound tariffs would be the only form of import protection. How would the relevant provisions of Articles XIX and XX operate then?

EXPORT PROHIBITIONS AND RESTRICTIONS

In NG5/W/61 and W/118 it is proposed to remove the possibility of allowing export prohibitions and restrictions from Article XI:2(a). How would this be made consistent with the relevant provisions of Article XX?

The United States agricultural negotiating proposal is designed to integrate agriculture fully into the GATT. Articles XIX and XX permit contracting parties to undertake certain actions, subject to specific procedures and obligations. Under the United States agricultural proposal, provisions of Articles XIX and XX (as revised during the Uruguay Round negotiations) would be available for agricultural products just as they are currently available for industrial products.

The United States considers it more appropriate to place these issues under export competition and not under border measures. With reference to new disciplines on these measures, the United States proposes removing from GATT Article XI:2(a) permission for contracting parties to restrict or prohibit exports of agricultural food products (i.e. "foodstuffs") to relieve short supply. The United States sees no conflict between its proposal

BORDER PROTECTION
UNITED STATES
(cont'd)

QUESTIONS

EXPORT PROHIBITIONS AND RESTRICTIONS (cont'd)
With regard to export taxes, duties, changes, etc., NG5/W/118 proposes (page 7) the progressive reduction and elimination of any differential between those on inputs and those on secondary products; is the timing of this reduction to be the same as for, e.g., tariffs? Are these taxes, duties, etc, actionable policies?

REPLIES

for Article XI:2(a) and the application of relevant provisions of Article XX, as revised in the Uruguay Round negotiations. For example, contracting parties could still apply Article XX(j) but would need to adhere to the principle that all parties are entitled to an equitable share of international supply of such products and that such measures be discontinued as soon as conditions giving rise to them have ceased to exist.

The United States considers differential export taxes to be an element affecting export competition not import access (i.e. border measures). Hence, the United States proposes that these export tax differentials be phased out under the same schedule as that used for export subsidies. After the transition period, differential export taxes on agricultural products would be prohibited under GATT and, hence, any use of these taxes would be grounds for initiating normal GATT procedures that apply to all prohibited policies.

BORDER PROTECTION
CAIRNS GROUP

QUESTIONS

SCOPE OF TARIFFICATION

In NG5/W/128, page 4, the Cairns Group states that it favours the conversion to tariffs of "other border measures, including variable import levies, minimum import prices and measures of similar effect". What is the scope of "other border measures" and "measures of similar effect"? Does this refer to all measures falling within the purview of Article XI?

REPLIES

Cairns Group members, except for Canada and pending confirmation from Thailand, consider that, yes, the Cairns Group proposal involves the tariffication of all non-tariff measures which fall within the purview of Article XI.^{1/} Furthermore, in respect of Article XI measures, the Cairns Group considers it would be appropriate for those countries concerned with the effects of export prohibitions and restrictions to come forward with proposals on possible changes to Article XI:2(a). The Group has not proposed any changes to Article XI:2(b).

In line with the Cairns Group aim of achieving reform of trade in all agricultural products, tariffication would apply to all agricultural products subject to non-tariff measures at the tariff-line level. For example, the variable levies operating for most commodities in the EC market would be tariffified as would quotas in operation for dairy and sugar products in the United States. Japanese restrictions on rice imports would also have to be tariffied.

The Cairns Group also seeks the elimination of all provisions for exceptional treatment whether maintained under waivers, protocols of accession, or other derogations or exceptions, and tariffication of non-tariff measures including variable import levies and minimum import prices to tariffs.

^{1/} In this connection Canada has submitted an elaboration of its views with respect to Article XI:2(c) to the Negotiating Group (NG5/W/159).

QUESTIONS

SCOPE OF TARIFFICATION (cont'd)

At the end of the transition period, could any instrument of protection other than tariffs be maintained at the border?

METHODOLOGY OF TARIFFICATION

What is the methodology proposed for tariffication, especially the setting of initial tariff equivalents in the various cases above? Would it apply to all agricultural products subject to non-tariff measures at the tariff line level? Please provide concrete example in replying.

REPLIES

No. See above. In the case of developing countries, see paragraph 40 of NG5/W/128.

The Cairns Group stands ready to consider various alternatives for the actual calculation of replacement tariffs. The United States proposal for using the gap between world and domestic prices for each commodity is one that warrants serious examination. Consideration needs to be given to setting agreed ceilings on tariff levels to offset the effects of relatively high price gaps. The precise methodology for tariffication needs to be addressed further in the negotiating process possibly on a case-by-case basis.

REDUCTIONS OF TARIFF EQUIVALENTS

In paragraph 13(a) of NG5/W/128 it is envisaged that the formula reductions in TEs could be supplemented by request and offer procedures. Please elaborate. Are these procedures to be used in 1990 or during the transition period?

The emphasis of the negotiations should be on applying harmonizing formula(e) which will result in low, bound ad valorem tariffs for agricultural products across the board. The main function of tariff equivalents is to provide a starting point for achieving this aim. Given that initial tariff equivalents may be very high, there may be a need for a formula or formulae, to be negotiated, which would lead to substantial reductions in protection levels. Participants would then be free to engage in request/offer negotiations to achieve even greater tariff quota access and/or cuts in border protection to mutual advantage. The Cairns Group envisages these negotiations taking place before the end of 1990.

QUESTIONS

OPERATION OF TARIFF QUOTAS

Concerning paragraph 13 of NG5/W/128, please elaborate on the relationship between reduction of initial tariff equivalents and the creation/progressive expansion of tariff quotas. What would trigger the necessity of creating global tariff quotas? Would their expansion take place at the same rate as the reduction of initial TEs, or in a relation to that rate? Please provide specific examples.

REPLIES

One of the important features of the Cairns Group proposal on market access is its flexibility. The Cairns Group favours the immediate implementation of a programme of tariffication and reduction of these tariffs. However, the Group recognizes that this would not be sufficient to secure effective market access in many cases. Tariff quotas can provide an important complementary transition mechanism, for example to provide greater certainty of access and access growth, particularly where tariffed rates are high, and to provide minimum access levels where prohibitions or minimal access presently applies. In such situations the Cairns Group would envisage the creation, and/or progressive expansion, of tariff quotas on a global basis. The initial quotas, upon which progressive market liberalization would be based, would need to guarantee access opportunities at least at current levels on terms no less favourable. In those countries where country-specific access is involved the tariff quota mechanism would allow this to be maintained in the meantime. It could be phased out when the expansion of MFN access makes the country-specific quotas redundant.

As a general rule, imports within the quota would be subject to the final negotiated rate or existing rates if these are lower. Imports in excess of the initial quota levels would, at the beginning of the process, be subject to the replacement tariff rate. For out-of-quota imports, the progressive expansion of quotas, combined with the concurrent reduction in above-quota tariff levels, will allow the removal of the quotas and the implementation of the final bound tariff rate at the end of the reform process.

QUESTIONS

OPERATION OF TARIFF QUOTAS (cont'd)

How would the observance of any minimum access commitment be ensured?

MINIMUM ACCESS COMMITMENTS

What is intended to be the "specified level of domestic production or consumption" referred to in paragraph 14 of NG5/W/128?

REPLIES

The Cairns Group considers that any nexus between the rates of reduction of replacement tariffs and expansion of quotas is a matter for negotiation. The important consideration is to reach a tariff-only system of border protection offering scope for further reductions in tariffs to low bound levels.

As stated in paragraph 45 of NG5/W/128, all commitments made by individual countries at all stages and under all elements of the reform programme would be binding and subject to multilateral surveillance and other procedures necessary to ensure compliance.

The Cairns Group has not attempted to specify a target level of domestic consumption or production, regarding this essentially as a matter for negotiation. One possibility is that the level be expressed in terms of a percentage of consumption or production on a product-by-product basis.

SAFEGUARDS

In Section X of NG5/W/128, the Group recognizes the importance of adequate safeguards during the transitional period. How would they operate? How would such safeguards relate to Article XIX? Do you envisage any provision for safeguards after the reform process?

The Cairns Group sees the question of safeguards as a matter for further consideration and negotiation. In general terms, the Group stands ready to explore the concept of a special safeguard mechanism, including a "trigger" mechanism (e.g. reversion to previous tariff levels if there is a surge in imports to a certain percentage above the previous year's imports). Such a special safeguard mechanism would have no relationship to Article XIX.

BORDER PROTECTION
CAIRNS GROUP
(cont'd)

<u>QUESTIONS</u>	<u>REPLIES</u>
<u>SAFEGUARDS</u> (cont'd)	The Cairns Group notes that existing GATT safeguards mechanisms, including balance of payments and safeguard provisions, apply to the agricultural sector. Negotiations are being undertaken in another group aimed at improved general safeguard provisions and the Cairns Group envisages that these provisions will apply to agriculture.
<u>EXPORT RESTRICTIONS AND PROHIBITIONS</u>	Please elaborate further on the possibilities for new disciplines on export restrictions in terms of Articles XI:2(a) and XX.
<u>PROVISIONS FOR EXCEPTIONAL TREATMENT</u>	Concerning strengthened GATT rules and disciplines (NG5/W/128, paragraph 16(b)), how and when does the Cairns Group envisage the elimination of provision for exceptional treatment taking place?

The Cairns Group considers that it would be appropriate for those countries concerned with the effect of export prohibition and restriction to come forward with proposals on possible changes to Articles XI:2(a) and XX. The Cairns Group would be prepared to consider such proposals in the framework of a trade-liberalizing comprehensive agreement on agriculture.

Elimination of provisions for exceptional treatment will be fully effected at the end of the transition period consistent with final rules and disciplines and schedules of reform.

QUESTIONS

GENERAL

The EC considers that it is not necessary to make specific commitments on border protection as commitments undertaken on the basis of unit and total SMUs would have, as a necessary consequence, effects on the level of border protection. However, under certain conditions, the EC is prepared to make specific commitments on elements of tariffication. These conditions are:

(i) the issue of rebalancing must be solved in the context of tariffication; (ii) deficiency payments should be converted into tariffs; and (iii) the tariffs should consist of a fixed component completed by a corrective factor.

REBALANCING

In paragraph 4 of Section III of NG5/W/145, the EC refers to the impact on trade of deficiency payments as a frontier measure. Can the EC elaborate on the nature of this impact and on whether it considers that an evaluation of this impact and its treatment as a tariff can constitute a way to adapt support and protection?

Deficiency payments allow production to take place despite low internal market prices. To the extent of domestic production, imports are unlikely to happen. This means that a country with a self-sufficiency rate higher than 100 per cent is unlikely to import. In such a situation, a deficiency payment is equivalent to an import prohibition. In cases where self-sufficiency rates are below 100 per cent, deficiency payments act like import quotas. With respect to products subject to deficiency payments, the treatment of these deficiency payments as a tariff can constitute a way to adapt support and protection.

In these cases, the tariff rates would have to be set at a level which would provide the same level of support as the deficiency payment. These rates would subsequently be subject to progressive reductions.

In NG5/W/145, III, 5, the EC proposes that deficiency payments should also be converted into tariffs on the basis of the methodology proposed. What would be the tariff equivalent of a deficiency payment? (Please provide specific examples of the conversion.)

The EC considers that the Uruguay Round is a unique opportunity for many contracting parties to achieve, through negotiation, an adaptation of support and protection in certain specific products in order to better balance agricultural markets and to avoid the inevitable distortions which would otherwise be maintained and fostered. Which products would require such adaptation is a matter for each contracting party to decide.

REPLIES

BORDER PROTECTION
EUROPEAN COMMUNITY
(cont'd)

QUESTIONS

SCOPE OF TARIFFICATION

In NG5/W/145 (III, 5) the EC stated that it is prepared to consider elements of tariffication in the rules of external protection. The EC considers that the elements of tariffication it proposes would apply to products for which the SMU is calculated, plus their derivatives and substitutes. Please indicate what these derivatives and substitutes are; would the proposed approach apply at tariff-line level? Would the EC see any difficulty on extending the SMU coverage to all products for which PSEs have been calculated by the OECD?

For products already subject to tariffs only, what kind of commitments does the EC propose to assume? (E.g. bindings, tariff reductions?)

REPLIES

Regarding the product coverage of tariffication, the EC can accept to subject to tariffication the entire list of products for which PSE calculations for the Community have been made. Should there be common agreement, the EC could also envisage an extension of this list of products. In addition, the EC considers that tariffication should also apply to "derivatives" of basic products subject to tariffication, i.e. to basic products in processed form, both first and second stage (such as oilseed cake and meal, starches, cereal and sugar derivatives incorporated in biscuits, chocolates, soups, various types of cheese, etc.) and to their "substitutes" (such as non-grain feed ingredients in the context of cereals tariffication). Moreover, all products not included in the PSE list but subject to deficiency payments should also be tariffed. The proposed approach would be applied at tariff-line level.

For products already subject to tariffs only, the EC proposes to follow the request/offer procedure.

METHODOLOGY OF TARIFFICATION

Regarding the fixed component of border protection (NG5/W/145, III, 5), does this component correspond to the difference between the Community threshold price and a fixed external reference price, or to the difference between the Community intervention price and a fixed external reference price?

Would the fixed component of border protection be subject to GATT bindings?

QUESTIONS

METHODOLOGY OF TARIFFIFICATION (cont'd)

In NG5/W/145 (III, 5) it is stated that the fixed component expressed as an absolute value would be reduced at a similar rate to the SMU. What does "similar" mean in this context? Is it the same percentage reduction, or a function, or some other formula or relation?

Would the above reduction be negotiable in line with the SMU, and what disciplines are foreseen on the reduction commitments?

If a fixed external reference price is to be used, how would this be calculated and what would be its relationship to the fixed external reference price used in the SMU? What, if any, procedure is envisaged for reviewing the fixed external price during the reform period?

The fixed component will be subject to reduction over the proposed five-year reference period. This reduction should be related to and would depend on reduction of internal support. The EC was ready to express this relationship as a formula. The rate of reduction is negotiable, and should be the same for all contracting parties in a comparable situation.

Disciplines regarding agreed reductions of the fixed component would be the same as those applying to agreed tariff reductions.

The external reference price which would be initially used for establishing the fixed component should remain unchanged for the initial five-year period. During the review procedure, to take place during the fourth year, a different fixed external reference price could be envisaged for a following period, should further support reduction be agreed. This external reference price could, but not necessarily, be the same as the one used for calculating SMUs.

The EC proposes (NG5/W/145, III, 5) to complete the fixed component of border protection by a corrective factor in order to take into account exchange rate variations and world market fluctuations which go beyond certain limits to be agreed. What proportion of the difference between the external reference price and the world market price would be compensated for by the corrective factor? Likewise, would it compensate for the full extent of exchange rate variations?

REPLIES

BORDER PROTECTION
EUROPEAN COMMUNITY
(cont'd)

QUESTIONS

METHODOLOGY OF TARIFFIFICATION (cont'd)

Would these limits be the same for all commodities?

What action would be envisaged when the world market price moves above the external reference price?

How should the world market price be determined? Would this differ from the lowest c.i.f. prices currently used in calculating the variable levy?

Please provide specific examples of the calculation and functioning of the fixed component and the corrective factor.

Where the corrective factor is applied, how would observance of any minimum access commitments be ensured?

REPLIES

These limits may vary by commodity, in particular, if they were to be expressed as a fixed amount. Independently from the way in which these limits would be determined, the corrective factor would vary according to the commodity concerned.

The fixed component would be reduced by the corrective factor. In the attached graph, the effects of the corrective factor would differ in the event of downward or upward movements in world prices. The rationale behind these different effects is that it would send appropriate signals to domestic prices.

A representative c.i.f. offer price has to be used. Details will still have to be worked out.

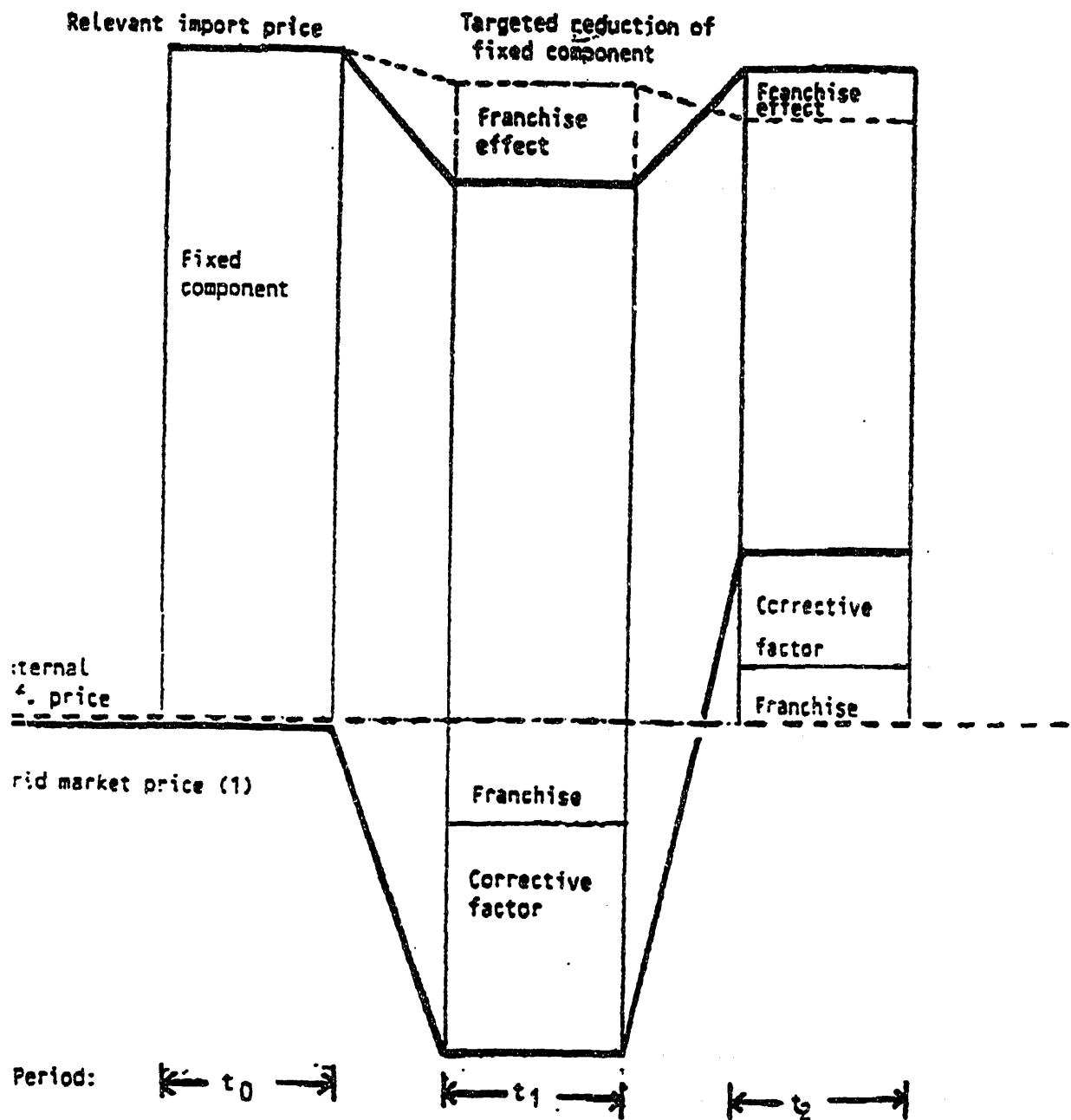
The EC regarded the question of providing specific actual examples of the calculation and functioning of the fixed component and the corrective factor as a matter requiring further consideration and which would also require similar efforts on the part of the original proponents of the tariffification concept (see attached graph).

The EC does not consider that its proposal on elements of tariffification required commitments in terms of minimum levels of access. These commitments should be considered only in the context of Article XI with regard to quantitative restrictions and similar measures which did not include other mechanisms such as customs duties and the fixed component.

<u>QUESTIONS</u>	<u>REPLIES</u>
<u>IMPORT QUOTAS AND OTHER RESTRICTIONS</u> In NG5/W/145, III, 6, the EC proposes that in certain exceptional cases quantitative restrictions may be retained. What are these exceptional circumstances? How would observance of any minimum access commitment be ensured in such cases? Could the EEC please outline the key principles to be embodied in a retained Article XI.	The EC reiterated the view expressed on this matter in NG5/W/106. In particular, the EC stressed that import quotas should not be a permanent feature of agricultural policies in accordance with the letter and the spirit of the existing Article XI. The rules, however, should be clear and applicable under similar circumstances to all contracting parties. In these cases, the EC considered that observance of minimum access commitments should be covered by import quotas or tariff quotas depending on the situation.
<u>EXPORT RESTRICTIONS AND PROHIBITIONS</u> What treatment is envisaged for non-tariff measures (e.g. minimum import prices) applying to products other than those covered by the SMU, and hence other than those covered by the proposal on elements of tariffication?	For the treatment envisaged, see NG5/W/106. Regarding minimum import prices, see specifically paragraph II.C.(c)3.

The EC has not yet taken a position on this question.
What commitments and disciplines does the EC envisage in the field of export restrictions and prohibitions?

EC PROPOSAL FOR A BORDER PROTECTION MECHANISM



$$\text{Relevant import price}_t = (\text{fixed component}_t + \text{corrective factor}_t) + \text{world market price}_t$$

(1) For illustration, it is assumed that exchange rates remain unchanged.

BORDER PROTECTION

JAPAN

QUESTIONS

SCOPE OF TARIFFICATION

With respect to products other than basic foodstuffs, does Japan see any possible role for tariffication? If so, would the products involved be the same as those covered by the AMS?

REPLIES

Japan considers that world market prices of agricultural products tended to fluctuate considerably in response to supply/demand conditions. Therefore, tariffication of agricultural products would pose a problem insofar as it would allow world market prices to be directly reflected in domestic market prices thereby causing great difficulties to domestic farmers. Moreover, tariffication contains many technical issues which would require further examination, particularly with respect to ways in which effects of exchange rate fluctuations on world market prices, fluctuations in world market prices, and differences in product quality should be dealt with.

Japan recognizes that tariffication would be one of the subjects to be studied as a long-term policy device. However, in the light of the above-mentioned problems, Japan considered that it was difficult to tariffify basic foodstuffs as well as those products to which Article XI was being applied.

Japan is not in a position to make clear its view on the applicability of tariffication to other agricultural products.

PRODUCTS SUBJECT TO TARIFF ONLY

What commitments would Japan propose on products currently subject to tariffs only?

Japan considers that the commitments on products already subject to tariffs only were subject to future negotiations.

BORDER PROTECTION
JAPAN
(cont'd)

QUESTIONS

COMMITMENTS ON BASIC FOODSTUFFS

In NG5/W/131, II A 2(2), Japan states that the "application of the border adjustment measures on the basic foodstuffs shall not affect the commitments under the GATT made on the basis of the negotiations with other contracting parties concerning the same basic foodstuffs". What commitments on basic foodstuffs made under GATT, including those recorded in the Schedules of Concessions of the contracting party concerned based on a past agreement and/or on future negotiations would not be altered, even when applying border adjustment any elements of tariffication?

REPLIES

The reference in Japan's proposal that the "application of the border adjustment measures on the basic foodstuffs shall not affect the commitments under the GATT made on the basis of the negotiations with other contracting parties concerning the same basic foodstuffs" (NG5/W/131 - II A 2(2) refers) meant that the commitments on basic foodstuffs made under GATT, including those recorded in the Schedules of Concessions of the contracting party concerned based on a past agreement and/or on future negotiations would not be altered, even when applying border adjustment measures necessary to maintain required domestic production levels for the same basic foodstuffs.

Such commitments should be seen differently from tariffication in nature. And Japan has no intention of subjecting the basic foodstuffs to tariffication.

QUESTIONS

POLICY COVERAGE

The definition of an export subsidy for the purposes of Article XVI:3 covers any form of subsidy granted directly or indirectly "which operates to increase the export of any primary product from its territory". This definition of an export subsidy is in some respects more extensive than that embodied in Article XVI:4 and in the related provisions of the Subsidies Code. Can the United States provide a listing of the subsidy practices which it considers would need to be included in the policy coverage of its proposed prohibition and which are not at present covered by the illustrative list annexed to the Subsidies Code?

Does the United States consider that deficiency payments paid in respect of products that are subsequently exported should be treated as prohibited export subsidies? If so, are there special conditions that might qualify the categorization of such subsidies as prohibited subsidies? If not, is the United States able to provide a justification or explanation of its position?

Can the United States further clarify its position regarding its proposals as they relate to deficiency payments on products subsequently exported in the light of the fact that under existing Article XVI:3 disciplines such payments are treated as export subsidies?

REPLIES

The United States proposal assumes that the Illustrative List annexed to the Subsidies Code is the basis of the prohibition on export subsidies. We recognize that the Subsidies Negotiating Group may make amendments to the Illustrative List. If this occurs, we would want to see these changes apply to agricultural export subsidies as well. Our objective is to have common rules on export subsidies for agricultural and industrial products.

The United States considers deficiency payments to be internal support because such payments are not conditioned on export of the product. However, we have proposed that deficiency payments be treated as prohibited subsidies (along with other income support payments that are keyed to production, price or cost of production) whether they are paid on products subsequently exported or on products sold domestically.

Deficiency payments and marketing loans are money in the pockets of producers and as such they have exactly the same effect and relevance as market price support programmes. Deficiency payments should thus be treated as internal support.

EXPORT COMPETITION
UNITED STATES
(cont'd)

QUESTIONS

POLICY COVERAGE (cont'd)

What would be the status of producer-financed export subsidies such as those provided for in Note 2 to Article XVI:3 (see also paragraph 12 of the 1960 Panel Report which reviewed Article XVI: BISD 9S/188).

Producer-financed export subsidies would not be permitted if they were listed in the Illustrative List of Export Subsidies, as revised in the Uruguay Round negotiations. Producer-financed export subsidies can be highly trade-distorting under conditions of high import protection and mandatory producer participation. Furthermore, if producer levies are enforced or collected by the government, they amount to yet another government export subsidy.

Under our proposal, the ability of producers to finance export subsidies would be diminished as import barriers are reduced and domestic price premiums narrow. Therefore, we do not see producer-financed export subsidies as a viable economic option after the transition period.

If, however, the proposed degree of access liberalization is not achieved, the question of the status of producer-financed export subsidies would need to be reviewed.

MODALITIES FOR PHASE-OUT

In NG5/W/118 the United States refers to two options for phasing out export subsidies over a five-year period. Why is five years proposed for the elimination of export subsidies whereas ten years is proposed for other adjustments? Can specific illustrations be provided as to how these arrangements would operate, including the specific nature of the GATT commitments that would be envisaged and the sanctions that would be applicable in the event that these commitments were not respected?

REPLIES

Export subsidies are the most trade-distorting of all subsidy practices. Therefore, a shorter time-frame is proposed for their phase-out. Agreed annual reductions would be contained in the country plan of each contracting party similar to the schedules of tariff concessions which all GATT members are familiar with. In the event of a commitment being violated, withdrawal of concessions or countermeasures would be permitted under procedures to be developed in the course of the negotiations.

EXPORT COMPETITION
UNITED STATES
(cont'd)

QUESTIONS

MODALITIES FOR PHASE-OUT (cont'd)

In view of the fact that deficiency payments on products exported could be regarded as only marginally less distortive than direct export subsidies, can the United States provide further clarification as to why should there be a longer adjustment or phase-out period in one case but not the other?

In the case of a phase-out based on government expenditures and revenue losses would subsidizing exporting countries be entitled to switch available funds from one product sector to another or would the phase-out commitments be commodity specific?

In either case (phase-out based on expenditures or on quantities of subsidized exports) what base period would be proposed and would this be negotiable?

REPLIES

The effect of deficiency payments on products exported is not comparable. Faster elimination of export subsidies is justified because they are more distortive. It is not necessary for a country to export its products with the benefit of such subsidies in order to support domestic producers.

This issue is negotiable.

We suggest using a 1986-1988 base period in our disciplines on import access. The same base period could be used for export subsidies.

EXCEPTIONS

How would the United States define "bona fide food aid"? In particular, what current United States food aid and concessional sales programmes would be considered as qualifying as bona fide food aid?

The development of GATT rules and disciplines to permit the continuation of "bona fide" food aid is an issue that needs to be examined by food aid donors and recipients. We are working to refine our perspective on this issue and would welcome discussion and contributions by all contracting parties.

EXPORT COMPETITION
UNITED STATES
 (cont'd)

QUESTIONSEXPORT CREDITS

What specific disciplines on export credits are envisaged?

The United States proposes that disciplines on export credits for agriculture be subject to the same disciplines as those imposed on non-agricultural products by the Subsidies Code (Illustrative List of Prohibited Export Subsidies), as revised in the Uruguay Round negotiations. The current Illustrative List permits export credit guarantees as long as the programme operates to cover its long-term operating costs and losses. In addition, it states that governments may not grant export credits at rates below their current market rates.

The United States proposal in the Subsidies Negotiating Group would require that the duration of guarantees conform to commercial practice. The United States proposal also would require that credits be at terms and conditions otherwise available to the borrower (not government borrowing rates).

SPECIAL AND DIFFERENTIAL TREATMENT

Is the United States able to clarify in the context of export subsidies the reference at page 15 of NG5/W/118 that: "The degree to which any developing country departs from the implementation schedules outlined in other parts of this paper should be commensurate with that country's demonstrated need for exceptional treatment"?

Our proposal limits the potential need for exceptional treatment to arrangements for internal support and import access. All countries would undertake the same commitments to phase out export subsidies. This means that all developing countries would use the same mechanisms and transition schedule that applied to developed countries.

REPLIES

QUESTIONS

POLICY COVERAGE

In terms of paragraph 31 of NG5/W/128 it is stated that the subsidy practices involved in a prohibition of new and the phase-out of existing export subsidies would need to be clearly identified and defined. Can the Group provide a definition of the policy coverage of such a prohibition?

In particular would such a definition cover subsidies which operate to "increase" exports (Article XVI:3) including such measures as deficiency payments, as well as so-called "price dumping" export subsidies (Article XVI:4)?

How would the export pricing operations of state-trading bodies or marketing boards fit into the framework of the proposed prohibition?

REPLIES

A fundamental position of the Cairns Group is that agriculture should be fully incorporated into the GATT. The Group has not developed its own illustrative list of prohibited export subsidies and considers that such a list should emerge from the negotiations. The Group believes the Illustrative List of export subsidies annexed to the Subsidies Code provides a useful reference point for negotiations on policy coverage in this area.

On the issue of Article XVI:3 subsidies and the broader question of a definition of the policy coverage of prohibited subsidies, the Cairns Group proposal has important flexibility built into it. The Cairns Group includes a prohibited category of subsidies within its proposals for reform of domestic support. Measures, such as deficiency payments, which operate to "increase" exports would be captured in the negotiations under the Cairns Group proposals on domestic support.

Providing the export-pricing operations of state-trading bodies or marketing boards conform to the provisions of Article XVII the Cairns Group does not consider such operations would be subject to prohibition.

The Cairns Group envisages that the phase-out and prohibition on export subsidies should apply to producer-financed export subsidies where such subsidies are funded in part by governments or are dependent in some other way on governments for their funding.

With regard to the policy coverage of an export subsidies prohibition, is the Group able to clarify its approach with respect to producer financed export subsidy arrangements having regard to the exception currently embodied in Note 2 to Article XVI:3 and the 1960 Panel Report on Article XVI (BISD 95/188, paragraph 12)?

EXPORT COMPETITION
CAIRNS GROUP
(cont'd)

QUESTIONS

MODALITIES PROPOSED FOR PHASE-OUT
(Sub-paragraphs (a) and (b) of paragraph 31 of
NG5/W/128)

How would the reference period for "maximum levels" of export subsidies (per unit and total outlay) be determined and would this reference be the same for all products or product sectors?

What would be the relationship between "maximum levels" on a per unit and total outlay basis?

How would the reference period establishing the "maximum levels" of export subsidies is a matter on which the Cairns Group is willing to negotiate.

The relationship to apply between the "maximum levels" on per unit and total outlay basis is one where the product of the maximum per unit subsidy (P^*) and the quantity of the product subsidized (Q) must equal the maximum total subsidy outlay permitted (V^*).

$$\text{i.e. } P^* \times Q = V^*$$

where P^* and V^* are maximum levels.

Would a subsidizing country have to choose one or other of these alternatives or could it switch from one to the other according to market conditions in the transition period and fluctuations in levels of domestic production?

Presumably under the per unit approach if there is a significant increase in production/ export availabilities in any given transition year the exporting country concerned could subsidize all of its exports at the applicable per unit rate independently of the total outlays involved?

It is intended that commitments be made on both per unit (P^*) and total outlay bases (V^*). Subsidizing countries would not have the alternative of choosing to establish either P^* or V^* only.

While the total elimination of export subsidies is the goal of the Cairns Group, there is a need to constrain the potential for major trade distortion from export subsidies during the phase-out period. This can only be achieved by commitments which will discipline both per tonne export subsidy levels and the quantity of product subsidized. Under the Cairns Group approach it would not be possible for exporting countries to increase the quantity of product on which export subsidies are paid (Q) unless the level of the export subsidy was reduced below the per unit maximum such that the total outlay commitment was not exceeded.

REPLIES

EXPORT COMPETITION
CAIRNS GROUP
(cont'd)

QUESTIONS

REPLIES

MODALITIES PROPOSED FOR PHASE-OUT

(Sub-paragraphs (a) and (b) of paragraph 31 of
NG5/W/128) (cont'd)

During the transition period, would the proceeds of co-responsibility levies be treated as a credit in relation to the proposed undertakings on maximum export subsidy levels on a per unit or total outlay basis?

Would the per unit maximum level once calculated be applicable to subsidized exports regardless of their destination, thus minimizing the scope for targeting individual markets?

Yes.

This is an issue which has not yet been addressed.

What disciplines would be applicable to the export subsidies that would continue to be used during the phase-out period? For example, would Article XVI:3 apply to a situation where export subsidies were used in year 2 of the transition period to hijack a market?

It is envisaged that the proposed prohibition would also involve revision of the provisions of Article XVI:3. During the transition period, there would still need to be disciplines covering the use of export subsidies but these would not be limited only to the effect-oriented disciplines of Article XVI:3, as there would also be commitments on annually reduced levels of export subsidies expressed in both per unit and total expenditure terms.

What sort of "formulae" are envisaged for progressively phasing out maximum export subsidy levels?

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The Cairns Group is seeking a harmonizing formula reduction of 10 percentage points or more a year in both the maximum levels so that export subsidies would be eliminated over a period of ten years or less.

What if any bearing would the impact of exchange rate fluctuations have under the arrangements proposed?

The Cairns Group would envisage commitments being made in terms of the exporting country's currency, with a deflator used in the cases of countries with relatively high rates of inflation. Exchange rate fluctuations would be exogenous to the formula reductions agreed.

EXPORT COMPETITION
CAIRNS GROUP
(cont'd)

QUESTIONS

MODALITIES PROPOSED FOR PHASE-OUT
(Sub-paragraphs (a) and (b) of paragraph 31 of
NG5/W/128) (cont'd)

How would the progressive and presumably linear or quasi linear phase-out of export subsidies be integrated with the concurrent process in exporting countries of adapting domestic policy instruments and moving to tariff protection? In the view of the Group would there be a risk that the reform process as it relates to domestic support arrangements and border protection could be inhibited by the impact (through an export subsidies phase-out) of exogenous factors associated with unpredictable developments in world markets?

What role if any does the Group see for transitional arrangements aimed at stabilizing world markets during the phase-out period?

EXCEPTIONS

Can the Group clarify the arrangements proposed in paragraph 32 of NG5/W/128 concerning food aid?

REPLIES

The essence of the Cairns Group's comprehensive proposal is to indicate how the key individual elements of reform (viz. market access, domestic support and export competition) fit into an integrated package to achieve a fairer and more market-oriented agricultural trading system. It is recognized that, in order to negotiate an outcome acceptable to all participants, all elements of agricultural support and protection will need to be addressed satisfactorily in the final package. Moreover the Cairns Group believes that a comprehensive, balanced approach to reform, involving complementary commitments on market access, domestic support and export competition will mitigate the adjustment impacts on both individual countries and world markets.

The Cairns Group does not see a need for transitional arrangements aimed at stabilizing world markets in the phase-out period. The gradualism envisaged in the Group's reform package will ameliorate the adjustment difficulties.

The Cairns Group believes that compliance with current FAO/CSD procedures has at times been far from satisfactory. In order to help guard against abuse of food aid arrangements, the Cairns Group believes that there should be a rule requiring that all food aid be provided on a grant basis. Participants also should, to the maximum extent possible, channel food aid through international organizations, bearing in mind legitimate donor priorities, as a further precaution against circumvention of reform commitments. Governments must however comply strictly with international understandings in regard to bilateral food aid shipments.

EXPORT COMPETITION
CAIRNS GROUP
(cont'd)

QUESTIONS

EXPORT CREDITS

Does the approach outlined in paragraphs 32 and 33 of NG5/W/128 imply that there would basically be two categories of transaction on world markets, namely, food aid in respect of which the grant element would be 100 per cent on the one hand and sales on fully commercial terms on the other? How would export credits fit into this or a similar scheme and what specific disciplines are envisaged in the area of export credits?

REPLIES

The Cairns Group believes that reform of the agricultural trading system must involve the progressive movement to a situation in which all trade in agricultural products, except that provided as legitimate food aid, and including credit sales, is carried out on fully commercial terms. This would imply the phase-out of current government-subsidized export credits.

EXPORT COMPETITION
THE EUROPEAN COMMUNITY

The replies to the following questions are to be read in the light of the following general remarks by the Community:

- it should be recalled that for the Community, export refunds are an integral part of its double-pricing system. Furthermore, it is the Community's position that the effects of direct export compensation applied within the proposed framework of improved rules and disciplines are not different from those of indirect export support such as deficiency payments.
- the Community's proposals on export compensation in NG5/W/106 and NG5/W/145 are complementary and not alternative ones.

<u>QUESTIONS</u>	<u>REPLIES</u>
<p><u>LIMITATION OF THE AMOUNT OF AN EXPORT SUBSIDY</u></p> <p>In paragraph 5 of Section III of NG5/W/145 it is stated that "the same arrangements would apply to exports, the amount granted to exports could not exceed that levied on imports". Can the Community provide specific examples for a number of products of how export restitutions would be derived or calculated on the basis of the method proposed for determining border protection? In particular, can examples be provided of the maximum export restitutions that would be applicable where the world market price is:</p> <p>(i) below the SMU external reference price;</p> <p>(ii) above that price but below the price prevailing in the domestic market of the exporting country; and (iii) above the price prevailing the domestic market of the exporting country?</p>	<p>Export compensation would not exceed the difference between internal price and external price. Should this difference still be higher than the actual import charge (fixed component corrected by corrective factor) for the same product, the export compensation would be limited to an amount equal to the import charge.</p>

EXPORT COMPETITION
THE EUROPEAN COMMUNITY
(cont'd)

QUESTIONS

LIMITATION OF THE AMOUNT OF AN EXPORT SUBSIDY
(cont'd)

What rôle would the variable component of border protection play in determining the level of export restitutions? Could the variable component be used to extend the scope for export subsidization only after the conditions relating to imports had been met or could the variable component be invoked independently in respect of exports?

Is it envisaged that the limitation that the amount/level of an export subsidy may not exceed that levied on imports, should apply to all contracting parties?

REPLIES

The only rôle which the corrective factor has is to correct the fixed component. Thereby, it contributes to the level of the import charge which may be higher or lower than the amount of the fixed component. The corrective factor has no independent function in relation to the calculation of export compensation. See also reply to question above.

Yes.

RELATION WITH EXISTING FRAMEWORK OF DISCIPLINES
ON EXPORT SUBSIDIES

Does the method proposed by the Community for fixing the amount of export restitutions impose any limitation or discipline on the scope for undercutting prevailing world market prices or prices in particular markets? If so, can the Community illustrate this by using the price and other data employed in the examples requested in paragraph 1 above? If not, is the Community able to describe what disciplines are envisaged to prevent or limit price undercutting in individual export markets?

EXPORT COMPETITION
THE EUROPEAN COMMUNITY
(cont'd)

QUESTIONS

RELATION WITH EXISTING FRAMEWORK OF DISCIPLINES
ON EXPORT SUBSIDIES (cont'd)

The fact that the level of export subsidies would be limited, as proposed by the Community in paragraph 2 of Section D of NG5/W/106, to the difference between the world market price and the exporting country's domestic price, could imply that export subsidies on this basis might exceed the amount levied on imports (NG5/W/145, Section III, paragraph 5 refers). How are these proposals related to one another?

If the proposed import charge is designed to maintain a margin between the internal market price and the import entry price, would this not suggest that export subsidization could exceed the difference between the internal market price and the world market price? If this is the case which of the two disciplines is to prevail or take precedence?

No. Both limits apply cumulatively.

The assumption underlying this question is no more than an assumption and is one not proven to be correct. How the fixed component should be determined is a matter for negotiations and so far nothing has been said concerning this matter. Depending on the assumptions taken into consideration, the reductions in the fixed and corrective elements of the system proposed by the Community can have the effect, at least temporarily, of bringing down the fixed element to a level which is below the difference between the internal market price and the external market price. This was clear in the case of a falling world market price because of the franchise element. In that case the export compensation would be limited to the amount of the import charge. The important thing will be to discuss rules. Once other participants have accepted the principle of export refunds, criteria will have to be negotiated to provide the necessary assurances that export refunds do not over-compensate the gap which is necessary to bring prices in the exporting country to the world market level.

REPLIES

EXPORT COMPETITION
THE EUROPEAN COMMUNITY
(cont'd)

QUESTIONS

RELATION WITH EXISTING FRAMEWORK OF DISCIPLINES
ON EXPORT SUBSIDIES (cont'd)

Does the Community proposal mean that there would no longer be any differentiation of export subsidies with respect to country destinations?

The Community has indicated that it is prepared to negotiate the amount of the fixed component of the import charge and that the amount of the import charge would constitute a limit on export subsidization. On what basis is the corresponding reduction in the amount of the export subsidy to be implemented? In particular, would the Community envisage undertaking a commitment on the per unit export subsidy or at the budgetary level?

A maximum amount or ceiling would be fixed on the basis of the import charge but it is not proposed that the amount would be the same for all export destinations. Beyond this maximum amount the disciplines would depend on the improvements to be negotiated within the existing rules.

(i) The calculation of the amount of the export subsidy, like the import charge, can only be made on a per unit basis. Reductions in the SMU and then in the fixed and corrective elements of import protection will reduce the price support to producers and, therefore, automatically lower the amount of money needed to bring down internal prices to world market levels;

(ii) No commitment is necessary at the budgetary level on how much is spent on export subsidies because the combined effect of the process (reduced support leading to reduced production; greater sensitivity to market signals; encouragement of farmers to produce commodities for which there is more demand; higher and more stable world market prices) will of itself result in countries having to spend less on exports.

As with all GATT disciplines, CONTRACTING PARTIES are expected to respect them permanently and not only when a Panel has found against them. Should a contracting party exceptionally exceed the reference level of exports, the burden of proof would be on this party to show that the share which it has acquired is not more than its equitable share.

If "equitable share" as proposed in Section D of NG5/W/106 is to operate as an effective preventive discipline would there be an obligation on the exporting country whose equitable share, as defined, has been exceeded to take prompt corrective action to reduce quantities exported, or would the exporting country concerned not be required to take action unless a finding adverse to it is made under dispute settlement proceedings?

EXPORT COMPETITION
THE EUROPEAN COMMUNITY
(cont'd)

<u>QUESTIONS</u>	<u>REPLIES</u>
<p><u>RELATION WITH EXISTING FRAMEWORK OF DISCIPLINES</u> <u>ON EXPORT SUBSIDIES</u> (cont'd)</p>	<p>In a situation where exports are expected to exceed the reference level would there be an obligation to notify a surveillance body at an early stage concerning the overrun and the corrective measures proposed?</p> <p>As in other areas of the GATT where compliance with obligations is at issue, recourse to dispute settlement procedures would be available.</p>
<p><u>PROCESSED AGRICULTURAL PRODUCTS</u></p>	<p>Can the Community provide greater detail concerning its proposal with respect to commodities incorporated in processed agricultural products? In particular, what price differential would be regarded as minimal?</p> <p>Export refunds for basic agricultural products incorporated in processed products would, as in the past, be derived (by transformation coefficients, for example) from the export refunds fixed for the basic agricultural product or products concerned. In this way, it is assured that limitations on the amount of the export refunds (not more than the difference between internal and external price and in any case not more than the import charge) are also reflected in the derived export refund for the agricultural part of the processed product.</p> <p>The question, what price differential would be regarded as minimal, the Community will address later in the negotiations.</p> <p>In effect the limitation of refunds to compensate the difference between the internal and external prices of the incorporated agricultural commodity is already applied by the Community. What is proposed is that this principle should be included in the reinforced rules and disciplines.</p> <p>How would these proposals affect export subsidies on derived products?</p>

EXPORT COMPETITION
THE EUROPEAN COMMUNITY
(cont'd)

QUESTIONS

EXPORT CREDITS

What specific disciplines are proposed in respect of export credits?

See Section II.D.3 of NG5/W/106 which proposes extension of the present OECD "consensus" on export credits to agricultural products. As proposed by the Community this would provide that, without prejudice to the special arrangements for certain products that have been agreed in the Berne Union:

- (a) the repayment term for exports of agricultural products shall not exceed 180 days. The repayment term may in exceptional circumstances reach an upper limit of two years, subject to prior notification and an appropriate cash payment;
- (b) participants shall not provide official support for the interest rate;
- (c) participants shall not provide tied aid credits for agricultural products unless in accordance with the DAC guidelines;
- (d) participants undertake not to derogate from the credit terms and conditions set out in these guidelines.

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In this context, the Community's proposal on concessional sales and donations to developing countries (part IV of NG5/W/145) should also be noted.

SPECIAL AND DIFFERENTIAL TREATMENT

Is the Community able to expand on the statement in paragraph 1 of Section IV of NG5/W/145 that "developing countries with a significant export interest or relatively advanced economies have a

The statement referred to in the question reflects the Community's overall approach that each contracting party should participate in commitments in accordance with its possibilities and its stage of development.

EXPORT COMPETITION
THE EUROPEAN COMMUNITY
(cont'd)

QUESTIONS

SPECIAL AND DIFFERENTIAL TREATMENT (cont'd)

genuine interest in participating in such commitments ...". In particular, what precise commitments would exporting developing countries be expected to undertake with respect to export subsidies other than the proposed rule that the level of such subsidies should not exceed the difference between the world market price and the domestic price? Furthermore, would the "equitable share" concept as proposed in NG5/W/106 be applicable to exporting developing countries?

REPLIES

Only if all parties contribute to the outcome of the negotiations can the Uruguay Round become a success.

The Community's statement aimed at all aspects of support and protection and not just export competition. It is however a fact that developing countries who are exporters have a particular interest in reduced support and protection in other countries and shall therefore, within the limits of their possibilities, also take commitments become part of a code rather than the GATT as such, only those who make some sort of contribution will benefit from the rights which the code provides.

IMPROVED FRAMEWORK FOR DISCIPLINES ON
AGRICULTURAL EXPORT SUBSIDIES

With regard to paragraph 1 of Section D of NG5/W/106, is it to be implied that while "Improving the existing rules would appear to be the more appropriate of the two options considered earlier" the option of prohibiting export subsidies, with certain exceptions, is nonetheless also appropriate and is one that the Community would be prepared to consider further and negotiate on?

Can the Community clarify its reply to the preceding question in the light of the 1984 Recommendations which as accepted by the CONTRACTING PARTIES envisaged equivalent disciplines on all subsidies affecting exports in the framework of a prohibition with exceptions?

The Community can not see why export subsidies should be prohibited, even with exceptions, when other ways to achieve exactly the same result, through marketing boards and deficiency payments on products subsequently exported, were not also prohibited. The reality was that countries with exportable surpluses and producer prices at levels above the world market

EXPORT COMPETITION
THE EUROPEAN COMMUNITY
(cont'd)

QUESTIONS

IMPROVED FRAMEWORK FOR DISCIPLINES ON
AGRICULTURAL EXPORT SUBSIDIES (cont'd)

price are able by one means or another to bring their prices down to world market levels. It would be preferable to recognize and tackle this situation through improvements in the existing rules applicable to all export subsidies, direct and indirect, as proposed by the Community rather than by prohibiting export subsidies with exceptions that in fact would inevitably become the new rules. Only thus would all exporting countries and the different systems they apply be subject to equivalent constraints.

INTERNATIONAL STOCKING ARRANGEMENTS

In paragraph 3 of Section I of NG5/W/145 reference is made to "international arrangements having equivalent impact on world markets, notably on the management of world stocks". Are such arrangements relevant to the negotiation of strengthened GATT disciplines in the area of export competition? If so, can the Community describe the nature of such arrangements and how they might operate, including their product coverage and the extent to which specific disciplines might be envisaged or imposed on export prices?

International co-operation with regard to stock creation and disposal would give world market prices more steadiness. Adjustments resulting from the outcome of the Uruguay Round could, therefore, be implemented in a more favourable economic environment and continuous full application of rules and disciplines would be made easier. International co-operation on stocks, therefore, tends to improve the functioning of GATT in the area of agriculture. Such co-operation would be of an informal nature and may take place in existing bodies such as those established under the international agreements on wheat and sugar and under the GATT arrangements on bovine meat and dairy products.

Such co-operation could build, among others, on the GATT resolutions of 4 March 1955 regarding disposal of agricultural surpluses and liquidation of strategic stocks.

However, it is to be noted that the proposed international stocking arrangements are not as such related to the proposed disciplines on export subsidization. Rather they are viewed as a way of ensuring a more stable world market, to alleviate the effects of sudden changes in production due to climatic conditions, and to ensure that stabilization of prices could facilitate reductions in support.

EXPORT COMPETITION

JAPAN

The following questions relate to paragraph 3 of Section B of NG5/W/131 where it is stated that: "In establishing a fair and market-oriented agriculture system which is the object of the current round of negotiations, it is necessary first of all to rectify the subsidized export competition which constitutes the major source of distortion of international trade in agriculture. Accordingly, such export subsidies should be progressively reduced, and eventually eliminated".

QUESTIONS

POLICY COVERAGE

How would "export subsidies" be defined?

In view of the special characteristics of agriculture, Japan views this matter as follows:

(i) Japan is of the view that any form of subsidy, granted either directly or indirectly, on the export of any agricultural product which results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market of the exporting country should be regarded as an export subsidy;

(ii) Of domestic support policies, there could be deficiency payments on the exported products, whose actual effects on trade are equivalent to export subsidies;

(iii) However, Japan considers that it is appropriate to exempt, from the discipline for export subsidies, measures clearly agreed as exceptions in the future negotiations such as bona fide aids.

MODALITIES PROPOSED FOR REDUCTION/ELIMINATION

What method is proposed for progressively reducing export subsidies?

Japan's view on specific methods to progressively reduce export subsidies has yet to be elaborated. This is subject to the future negotiations.

REPLIES

EXPORT COMPETITION

JAPAN
(cont'd)

QUESTIONS

MODALITIES PROPOSED FOR REDUCTION/ELIMINATION
(cont'd)

Nevertheless, it may, for example, be appropriate to first freeze the current levels of subsidies both on a per unit and on a total basis and progressively phase them out within an agreed period.

At any rate, we would like to emphasize that, if we were to improve market access through some agreed means as a result of the current negotiations, at the same time, it is also absolutely necessary to rectify the market disturbances caused by subsidized exports in the negotiations.

Is a specific time-frame envisaged for the eventual elimination of export subsidies?

What transitional or other exceptions, if any, are envisaged?

REPLIES

Japan's views on this point are yet to be determined. They are subject to future negotiations.

Japan's views on this point are yet to be determined. They are subject to future negotiations.