

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

**RESTRICTED**

**MTN.GNG/NG5/W/161/Add.2  
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**Special Distribution**

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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**

**Addendum**

1. The present note, which has been prepared in response to the interest expressed by a number of participants in extending the scope of the clarification exercise undertaken by the secretariat, relates to aspects of the proposals of Japan, the Nordic countries, Korea, Switzerland and Austria dealing with Non-Trade Concerns.
2. The clarification undertaken by these countries was prepared with the assistance of a series of questions forwarded by the secretariat. The results of this exercise are set out herein.

JAPAN

NON-TRADE CONCERNS - GENERAL QUESTIONS

QUESTIONS

1. How are non-trade concerns being taken into account in your current agricultural policies? Is there any quantitative assessment or other concrete example of the effects of these policies that could be provided on the basis of current and/or past experience?

REPLIES

1. Non-trade concerns consist of such elements as food security, preservation of land and environment, overall employment and maintenance of local communities.
2. The non-trade concerns relate to the multifaceted functions of agriculture, and these functions can be realized only through sound development of agricultural sector.

On the other hand, agricultural products have the characteristics of being fluctuant in supply and demand conditions, due to their generally low price elasticity of demand and their susceptibility to climate and other natural conditions.

In light of such characteristics of agriculture, Japan takes various domestic policy measures: among others, to raise the productivity through the improvement of agricultural infrastructure, to stabilize the prices of agricultural products, and to control production.

3. With its extraordinarily low self-sufficiency rate of 49% on a calorie basis, Japan is highly concerned about food security. The government considers the stable supply of rice, which is regarded as a basic foodstuff, to be one of the most important agricultural policies, and has been carrying out policies aimed at improving the productivity. In addition, based upon the provisions of Food Control Law, the Government of Japan maintains control over the foodstuffs by adjusting their supply to demand and price, and by regulating the distribution process in order to secure the supply of food to the nation and to assure stable national economy.

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4. Other examples of the policies which incorporate elements of non-trade concerns include the following: projects to improve forest land which functions to preserve land and environment; projects to improve social infrastructure in farming villages, and projects to revitalize less favoured areas such as mountainous regions, the latter two projects being aimed at maintaining local communities.
5. There is no quantitative assessment of the effects of the afore-mentioned policies.
- 1(1) In order to have non-trade concerns reflected in "strengthened and more operationally effective GATT rules", we should consider such methods as clearly defining the scope of the non-trade concerns and imposing appropriate conditions and requirements for invoking measures based on the non-trade concerns.
- 1(2) More specifically, Japan has proposed that the following concept should be included in the GATT rules and disciplines: "Contracting parties may, notwithstanding the provision of GATT Article XI, take border adjustment measures necessary to maintain its required domestic production level in basic foodstuffs for food security considerations".
2. How do you see non-trade concerns relating to agriculture being reflected in strengthened and more operationally effective GATT rules? Would they give rise to a new permanent category of exception to those rules, or some type of transitional provision? How would eligibility for any such exception be determined?

In this connection, the Japanese proposal:

- (i) defines "basic foodstuffs" in clear and restrictive terms;
- (ii) imposes various requirements for the application of border adjustment measures to the "basic foodstuffs". Those requirements include planned production of the product and improvement of the productivity as well as restraint of the exportation;

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- (iii) provides for the scheme of supplying information relating to the border adjustment measures and discussion with other contracting parties; and
- (iv) makes clear the relationship between the application of the border adjustment measures and commitments made in the negotiations with contracting parties.
2. Non-trade concerns including food security are permanent policy requirements. Therefore, it is not appropriate to regard those requirements as being applied only during a limited transitional period. In this connection, the Mid-Term Agreement of April 1989 states "Participants recognize that factors other than trade policy are taken into account in the conduct of their agricultural policies. In the negotiations to achieve the long-term objective, account will be taken of proposals aimed at addressing participants' concerns such as food security."
- Japan considers that this part of the agreement justifies our view.
3. Japan has proposed that the application of the border adjustment measures, which are invoked in exceptional terms, should satisfy the following conditions:
- (1) The contracting party concerned must clearly indicate the required domestic production level of the foodstuffs to be maintained;
- (2) The supreme body of the state of the contracting party concerned expresses support for taking the measures;

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3. Why is it not deemed possible to meet non-trade concerns in ways which do not distort trade (e.g. via direct decoupled income support, social and regional policies not linked to agricultural production), while maintaining the possibility of having resort to the safeguard provisions of the GATT?

(3) As a government policy of the contracting party concerned, the following requirements will be explicitly imposed on its basic foodstuffs:

- (i) The appropriate implementation of the measures to enforce planned production and to improve productivity;
- (ii) excepting cases of bona fide aid, the basic foodstuffs shall not be exported for the purpose of disposing of the surplus production.

1. Actual production only can maintain the sound conditions for production such as production skills, labour force, cultivated land, water resources, and production facilities. Once the production capability starts to decline, its restoration and increase within a short period of time would be highly difficult. This is why constant production is indispensable in order to respond to the unexpected situation in food production.

Direct decoupled income support would raise a number of problems because it is by its nature delinked from agricultural production. With this method, actual production level would remain uncertain. Therefore, the method does not serve the very objective of food security which requires the maintenance of production capability. In addition, the compensatory nature of this support may give rise to ill-perception among farmers.

2. A border adjustment measure should be put in different perspective from a safeguard measure. The former is for the maintenance of the required domestic production level of basic foodstuffs, whereas the latter is an emergency action on imports of particular products.

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4. Further to the above two questions, is it suggested that, in effect, trade-distorting policy measures should be permitted on non-economic or non-trade grounds - i.e. ...at the importance of non-trade concerns overrides in certain cases the trade-liberalizing aims of the negotiation? If so, how does this square with the Punta del Este Declaration and the Mid-Term Review Agreement? Are policies relating to non-trade concerns considered to be outside the commitment to substantial progressive reductions in agricultural support and protection (MTN.TNC/11, p.9)?; if not, please elaborate on the treatment (reduction, disciplines) proposed for them.

REPLIES

1. Agriculture plays not only economic but multifaceted and positive roles such as food security, preservation of land and environmental and maintenance of regional communities. Therefore, Japan considers it inappropriate to solely apply economic principles to agricultural policies and trade, without due regard to the above-mentioned non-trade concerns.
2. We consider that non-trade concerns should be discussed at length and in full at the agricultural negotiations of the Uruguay Round, in line with the Mid-Term Agreement of last April which states that "In the negotiations to achieve the long-term objective, account will be taken of proposals aimed at addressing participants' concerns such as food security".

Japan fully recognizes that the Punta del Este Declaration clearly states that the aim of the agricultural negotiation is to achieve greater liberalization of trade in agriculture through improving market access. At the same time, Japan would like to point out that the same Declaration also referred to the Recommendations adopted by the CONTRACTING PARTIES at the Fortieth Session, which states that full account should be taken of specific characteristics and problems in agriculture. Japan thus considers that consensus exists to discuss the way to take account of non-trade concerns in the agricultural negotiations.

In order for importing countries such as Japan with a low level of food self-sufficiency to achieve greater liberalization of trade in agriculture, "a safety valve" on basic foodstuffs would be needed as stipulated in our proposal.

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	<p>3. Necessary border adjustment measures for limited basic foodstuffs would be an indispensable element in order for importing countries like Japan to steadily implement the previous commitments on reduction of support and protection and, in the future, to smoothly agree on the measures to be implemented by participating countries.</p> <p>4. With regard to the basic foodstuffs for which border adjustment measures could be taken in order to maintain the required domestic production level, we have proposed the imposition of requirements including the appropriate implementation of planned production and improvement of productivity. These requirements would lead to the reduction of support and protection of basic foodstuffs, unless drastic change in economic situation takes place.</p>

JAPAN

NON-TRADE CONCERNS: SPECIFIC QUESTIONS

QUESTIONS

1. Re para. II.A.2 of NG5/W/131, what might be a "required domestic production level" for certain major commodities? (Please give examples.) For the purposes of GATT agreement, how is such a level to be determined, and by whom? Will it be adjustable? If so, what review process is envisaged?

REPLIES

1. The "required domestic production level" of basic foodstuffs is to be determined by the contracting party applying the border adjustment measures. In determining the level, the contracting party should take into account those factors such as the trend of domestic demand, domestic production schemes and the significance of the product in the country's agricultural production. The level so determined has to be notified to the CONTRACTING PARTIES.

2. At the request of a contracting party, the contracting party applying the necessary border adjustment measures to its basic foodstuffs must discuss the measures with the contracting party concerned. Our proposal on the basic foodstuffs does not include any other special review mechanism.

Following the discussion, the contracting parties may have recourse to the normal GATT consultation procedures on whether the "basic foodstuff" concerned is consistent with the definition as well as on whether the border adjustment measures are being applied in accordance with the stipulated conditions.

2. Would the allocation of specific foodstuffs to the "basic" category be a matter for multilateral agreement, or a unilateral decision? Would it be subject to review in GATT? What limits are envisaged on this category - i.e. how many basic foodstuffs per participant? Is trade, in effect, to concern mostly "non-basic" foodstuffs?

1. An agricultural product meeting the following two conditions is qualified as a basic foodstuff:

(a) the product is a major source of nutrition to the nationals of the contracting party concerned, and constitutes an important part of their daily calorie intake; and

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(b) necessary domestic measures are taken or are in place on the product in the contracting party to secure its stable and sufficient production in normal circumstances, and to promote its domestic production and supply on a priority basis in times of food shortage.

In light of the above conditions, we consider that the scope of the agricultural products which meet these conditions is limited.

The designation of a particular product as a basic foodstuff does not require agreements with other contracting parties.

The number of basic foodstuffs per country need not be single, although limited in number in any case.

2. At the request of a contracting party, the contracting party applying the necessary border adjustment measures to its basic foodstuffs must discuss with the contracting party concerned the measures as well as the question of whether or not the product concerned is qualified as a basic foodstuff. Our proposal concerning basic foodstuffs does not envisage any special review mechanism other than the said discussion.

The requesting contracting party, after the discussion, may have recourse to the normal GATT consultation procedures on whether or not the "basic foodstuff" concerned is consistent with the newly stipulated definition and on whether the border adjustment measures are being applied in accordance with the stipulated conditions.

3. The amount of trade of basic foodstuffs will be determined in light of both the domestic demand and the required domestic production level of the foodstuffs concerned.

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3. Given that consumer tastes and dietary patterns change over time, might not the effect of classifying certain products as basic, and permitting a higher level of support and protection for them, be to lock support and protection into a static pattern which would become progressively less, not more, market-oriented?

1. In the Japanese proposal, basic foodstuffs are defined as agricultural products which meet the following conditions:
  - (1) the product is a major source of nutrition to the nationals of the contracting party concerned, and constitutes an important part of their daily calorie intake;
  - (2) necessary domestic measures are taken or are in place on the product in the contracting party concerned to secure its stable and sufficient production in normal circumstances, and to promote domestic production and supply on a priority basis in times of food shortage.

That is to say, they are those products which are considered by the nationals of the contracting party to be food of utmost importance on a long-term basis. Therefore, generally speaking, we can hardly expect consumer tastes and dietary patterns for such basic foodstuffs to change drastically over time. Should such a change occur, however, those products would then no longer meet the conditions of basic foodstuffs.

2. Basic foodstuffs will be subject to disciplines requiring the implementation of planned production and the improvement of productivity. Therefore, unless economic environment changes dramatically, the level of support and protection for basic foodstuffs would decrease as a trend rather than being locked at a stationary level.
1. Basic foodstuffs, as defined in our proposal, are those characterized as of extraordinary importance in the national dietary life, blessed with the national consensus to maintain its required domestic production level, in other words, with the national consensus to bear the necessary cost for maintaining this production level.
  4. Might not higher levels of support and protection on basic products encourage consumers to shift to substitute products where such exist? If this is seen as a serious possibility, how would it be dealt with?

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As long as the nationals accept higher domestic price of the basic foodstuffs compared to their world market price and find great utility in their stable supply, it is the obligation of the government of an importing country to maintain the required domestic production level of such basic foodstuffs, while endeavouring to lower production costs through improvement of productivity.

2. In general, it is not likely that the demand for such basic foodstuffs would easily shift to substitute products. However, should such shift take place, the product should be regarded as no longer fulfilling the conditions of the basic foodstuffs.

5. Re NG5/W/131, page 4, (iii); is the minimum level of domestic production to be decided solely by the country concerned, or agreed multilaterally? How is improving productivity in basic foodstuffs a "discipline" in any GATT sense?

1. It is the required level of domestic production, not the minimum level, that should be maintained for basic foodstuffs.  
As to the determination of the required domestic production level of basic foodstuffs, refer to the answer to Specific Question 1.

2. With regard to the improvement of productivity of basic foodstuffs, policies such as reducing labour input, increasing yield and improving efficiency of capital could be effective.

Appropriate implementation of these policies would lead to the downturn of support and protection of agriculture, unless economic situations change drastically in the future. Since such reduction of support and protection is one of the long-term objectives of the Uruguay Round, improvement of productivity is in line with what the on-going Round is directed to.

JAPAN

NON-TRADE CONCERNs: SPECIFIC QUESTIONS

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6. What, if any, GATT disciplines are envisaged on "basic" foodstuffs? Will support and protection applied to them be subject to strengthened and more operationally effective GATT rules? Will it be subject to progressive and substantial reduction?

REPLIES

1. Japan has proposed that certain disciplines should be applied to basic foodstuffs. These disciplines include implementing planned production of the foodstuffs, improving its productivity and prohibiting exportation for the purpose of disposing of the surplus production. These disciplines would contribute to reducing the difference between the domestic market price and the world market price of the basic foodstuffs and to lessening apprehending effects on agricultural trade.

Therefore, as a result of pursuing the above-mentioned disciplines, the levels of support and protection with regard to the basic foodstuffs are expected to trend downward, as long as future economic situations do not dramatically change.

2. The reduction of domestic support for the basic foodstuffs of which the required domestic production level is sought should be considered in a different manner from that of other agricultural items. The way to use AMS for reducing support for the basic foodstuffs is subject to further consideration.

NORDICS

NON-TRADE CONCERNs: GENERAL QUESTIONS

QUESTIONS

1. How are non-trade concerns being taken into account in your current agricultural policies? Is there any quantitative assessment or other concrete example of the effects of these policies that could be provided on the basis of current and/or past experience?

REPLIES

Although the relative emphasis and the means of achievement have changed over time, one of the main objectives of our agricultural policies has been the safeguarding of food security by means of adequate domestic production and stockpiling. Agricultural support mechanisms have also been important elements in our Government's efforts to promote economic activities in remote or otherwise disadvantaged regions which, for various reasons, need to be kept inhabited. Agricultural policies have also been instrumental in bringing about a certain equality among rurally and otherwise employed people in income policy terms. Agriculture is recognized both as a burden and an instrument of conservation from the viewpoint of environment. Active steps are being taken to reorient the policies so as to enhance the latter aspect and to diminish the former one. A relatively new concern, animal protection, has also emerged recently. Factors and concerns such as these are of relevance for the conduct of agricultural policies, while the relative importance of some of them may have shifted and is likely to shift over the years and from country to country.

The effects of present agricultural policies, which have relied first and foremost on price support, have been debated in all Nordic countries. We are all actively exploring new ways and means to accomplish the objectives of our agricultural policies, including those arising from non-trade concerns, at a lower cost to the economy as a whole.

2. How do you see non-trade concerns relating to agriculture being reflected in strengthened and more operationally effective GATT rules? Would they give rise to a new permanent category of exception to those rules, or some type of transitional provision? How would eligibility for any such exception be determined?

We do not see the non-trade concerns giving rise to a permanent category of exception of a general nature on the level of GATT rules, nor do we see them as something that would be taken into account only in a transitional manner. In our thinking, the non-trade concerns should be taken into account, basically, in two ways: firstly, by reaching a common agreement that certain support measures, designed to meet these concerns and not having

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significant effects from the viewpoint of international trade, would be left outside the future GATT commitments and disciplines or would be subject to milder forms of such disciplines (transparency, notification, consultation, etc.), it being understood that this would not lead to excessive substitution of existing support and to an increase in overall support, and secondly, by agreeing, in the context of the Uruguay Round, that the generally applicable rates of reduction of support and protection in accordance with the agreed objectives take account of these concerns and that the implementation of such commitments will be phased over a sufficiently long transitional period.

- In fact, we believe that these concerns can, to a certain extent be taken care of in ways which do not distort trade (e.g. decoupled support). But it is also our assessment that such instruments alone cannot solve the problem. As the agreed goal of these negotiations is not the elimination of, e.g. market price support and border protection, it is in our view legitimate to claim that also these instruments can be used in the future to meet non-trade concerns. The levels and forms as well as the pace of reduction of such support and protection remain matters for negotiations within the objectives agreed. We can see a rôle for safeguard provisions both in the reform process and thereafter. In fact, we believe that the reform process could be facilitated by appropriate safeguard mechanisms or control stations that ensure that the adaptation does not endanger essential policy goals.
3. Why is it not deemed possible to meet non-trade concerns in ways which do not distort trade (e.g. via direct decoupled income support, social and regional policies not linked to agricultural production), while maintaining the possibility of having resort to the safeguard provisions of the GATT?

NORDICS

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QUESTIONS

REPLIES

4. Further to the above two questions, is it suggested that, in effect, trade-distorting policy measures should be permitted on non-economic or non-trade grounds - i.e. that the importance of non-trade concerns overrides in certain cases the trade-liberalizing aims of the negotiation? If so, how does this square with the Punta del Este Declaration and the Mid-Term Review Agreement? Are policies relating to non-trade concerns considered to be outside the commitment to substantial progressive reductions in agricultural support and protection (MTN.TNC/11, p.9)?; if not, please elaborate on the treatment (reduction, disciplines) proposed for them.
- The suggested contradiction would appear if the agreed negotiating objectives would have included the notion of elimination of all trade-distorting support or that of full liberalization. As this has not been the case, we see no contradiction in drawing attention to non-trade concerns as a set of relevant considerations for the negotiations, not overriding anything that has been agreed in Punta del Este or at the Mid-Term Review. See also our answers to questions 2 and 3.

NORDICS

NON-TRADE CONCERNs : SPECIFIC QUESTIONS

QUESTIONS

1. What possible incentives are envisaged to move towards decoupled support?

The main means of encouraging countries to move towards decoupled support is to leave such support outside GATT commitments concerning the substantive progressive reduction of agricultural support or to subject such support only to milder forms of GATT disciplines (transparency, notification, consultation, etc.)

2. In NG5/W/143 the Nordic countries indicate their readiness "to participate in negotiations that will settle the extent to which quantitative restrictions in certain well-defined, exceptional cases will be allowed in the future . . .". Is there any relation between the claimed need to maintain at the border measures other than tariffs and the Nordics' approach to non-trade concerns?

The Nordic countries intend to define a more precise position vis-à-vis the concept of tariffication once they have seen the more specific illustrations, foreshadowed by the United States and the EC, of the techniques and modalities involved. At that stage they will also be in a better position to elaborate on their views about the extent to which the future GATT rules should allow the application of quantitative import restrictions in certain well-defined, exceptional cases. The Nordic countries have stated in their submission W/143 that the general principle that border protection should be arranged through other means than quantitative restrictions should be reaffirmed and accepted by all as one of the long-term goals of the reform. The recognition of this aim calls for a serious consideration of alternative measures gradually increasing market orientation. They have also considered that in this gradual process towards reinstrumentation of border protection variable levies, under strengthened discipline involving reduced isolation of domestic prices from world market price trends, should also remain an alternative or concurrent option under the GATT. They have also noted that it may be that "variable levies subject to strengthened discipline" and "tarification accompanied with appropriate stabilizers and safeguards" are concepts which can, ultimately, be reconciled. The effect of a given border measure is more important than its specific administrative mode. When judging the need for such an effect, the Nordic countries will bear in mind, inter alia, the non-trade concerns which their future agricultural policies will seek to meet.

NORDICS

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3. If the answer to the question above is affirmative, how is any minimum access commitment to be ensured where measures other than tariffs are maintained?	Supposing that quantitative restrictions will be allowed in certain well-defined, exceptional cases, it is also the Nordic view that they should be complemented with commitments on minimum access reflecting also the objective of greater liberalization. Measures having the same effect as prohibitive quantitative restrictions should be similarly regarded. The Nordic countries are prepared to participate in negotiations that will clearly define the modalities under which such a minimum access would be accorded. One proposal dealing with such modalities is contained in the relevant parts (paragraphs III (b)-(d)) of the Canadian proposal (W/159). The Nordic countries stand ready to explore that proposal, as well as any other proposals aiming at settling the issue of minimum access, on the basis of the agreed objectives of these negotiations including that of greater liberalization.

KOREA

NON-TRADE CONCERNS: GENERAL QUESTIONS

QUESTIONS

1. How are non-trade concerns being taken into account in your current agricultural policies? Is there any quantitative assessment or other concrete example of the effects of these policies that could be provided on the basis of current and/or past experience?

REPLIES

1. Korea, as a net food-importing country with a fragile agricultural structure, has taken various forms of support and protection policies including border measures to achieve non-trade concerns related to agriculture such as food security, regional development, maintenance of employment and environmental needs.
2. Korea, however, has tried to confine these policies within the narrow limits only to those which are needed to achieve the non-trade objectives, *inter alia*, to maintain a certain level of self-sufficiency of basic foodstuffs, while it has continuously taken steps to open its agricultural market in accordance with the import liberalization schedules since the early 1980s.
3. Concerning the effects of these policies, it is quite difficult to assess them quantitatively, however, there are several research results performed by domestic experts showing that Korea could not maintain even the current weak foundation of agricultural production without these support and protection measures, including border measures, because of its vulnerable agricultural structure.
  1. As Korea has proposed in its previous submission (MTN.GNG/NG5/W/130, paragraph 5), "the strengthened GATT rules and disciplines must be established to allow quantitative restrictions and internal support measures required for non-trade concerns, including food security".
    2. This could be through introducing new provisions, or revising the current relevant provisions of the GATT rules and disciplines.
  2. How do you see non-trade concerns relating to agriculture being reflected in strengthened and more operationally effective GATT rules? Would they give rise to a new permanent category of exception to those rules, or some type of transitional provision? How would eligibility for any such exception be determined?

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3. As for the revision of the current relevant articles, first of all, Article XI:2 could be revised in the direction of permitting quantitative restrictions in order to take into account non-trade concerns of agriculture, especially in food-importing countries. Article XI:2(a) could also be amended to permit food-exporting countries to restrict food exports when their minimum agriculture is threatened as well as to prohibit the food-importing countries from exporting their excess production beyond their minimum agriculture.
  4. In addition, such provisions as Articles XVI, XVII, XIX and XX could also be carefully examined with a view to reflect non-trade concerns of agriculture more effectively in GATT rules.
  5. Considering that the maintenance of an agricultural production basis basically requires long-term and continuous support, it would be more appropriate to reflect non-trade concerns of agriculture in GATT Articles as a permanent category of exception to those rules. Such exception would be eligible for a country which could not achieve its minimum level of self-sufficiency. With regard to this question, reference may be made to the answer on Specific Question 1 to Korea.
1. Since the agricultural situation of food-importing countries is, in many cases, difficult due to their inherent structural weakness, it would be impossible to maintain the agricultural production basis even at the minimum level without a certain level of border and internal protection.
  2. While non-trade-distorting measures such as direct decoupled income support, social and regional policies not linked to agricultural production would be useful for ensuring farmers'.
  3. Why is it not deemed possible to meet non-trade concerns in ways which do not distort trade (e.g. via direct decoupled income support, social and regional policies not linked to agricultural production), while maintaining the possibility of having resort to the safeguard provisions of the GATT?

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- income, relying solely on these measures could not guarantee maintaining their agricultural production basis, and consequently could not ensure non-trade concerns of agriculture like food security.
3. Moreover, as the safeguard provisions of GATT are temporary in nature, they are not appropriate measures for maintaining the agricultural production basis, which requires long-term and continuous support.
4. Further to the above two questions, is it suggested that, in effect, trade-distorting policy measures should be permitted on non-economic or non-trade grounds - i.e. that the importance of non-trade concerns overrides in certain cases the trade-liberalizing aims of the negotiation? If so, how does this square with the Punta del Este Declaration and the Mid-Term Review Agreement? Are policies relating to non-trade concerns considered to be outside the commitment to substantial progressive reductions in agricultural support and protection (MTN.TNC/11, p.9)?; if not, please elaborate on the treatment (reduction, disciplines) proposed for them.
1. We suggest that trade-distorting policy measures should be permitted on the condition that they fall within the scope of the minimum agriculture needed to secure non-trade concerns related to the agriculture of a country concerned.
2. However, it should be recognized that attainment of greater liberalization, not the fullest liberalization of agricultural trade, was adopted as the principal long-term objective of agricultural trade negotiations in the Punta del Este Declaration and accordingly that the substantial progressive reduction, not elimination, of support and protection, was also adopted as the long-term goals in the Mid-Term Review Agreement.
- The reason for this is primarily based on non-trade concerns of agriculture. In this context, we believe that the measures necessary for maintaining minimum agriculture are in line with the Punta del Este Declaration or the Mid-Term Review Agreement.
3. Therefore, policies related to maintaining minimum agriculture should be considered to be outside the commitment to substantial progressive reductions in agricultural support and protection. However, the policies taken beyond the scope of minimum agriculture should be subject to substantial progressive reductions through AMS.

KOREA

NON-TRADE CONCERNs: SPECIFIC QUESTIONS

QUESTIONS

REPLIES

1. How, and by whom, would minimum self-sufficiency rates be determined? Please provide examples of possible minimum rates for several major products. Would these be subject to review and, if yes, by whom?

1. Minimum self-sufficiency rates of a country concerned should be determined by fully considering the non-trade concerns of agriculture such as food security, regional development, maintenance of employment and environmental needs.
  2. It seems to be difficult, in terms of technical aspects, to formulate a single objective method to determine minimum self-sufficiency rates, taking into consideration all the non-trade concerns simultaneously, but calories, acreage, and the ratio of imports to total consumption could be used as an important index in determining the minimum rates.
  3. Since the relative importance of those non-trade concerns varies from country to country, determining the level of minimum self-sufficiency considered essential for non-trade concerns is a basic right of each country. However, once the level of minimum self-sufficiency is determined, it should be notified to the CONTRACTING PARTIES and may be reviewed and consulted regularly or at the request of a contracting party or parties.
1. In light of the importance of the non-trade concerns, each country should be accorded reasonable flexibility in determining their own border and internal measures through which non-trade concerns are reflected.
- In addition, although the products related to non-trade concerns are selected principally from the basic foodstuffs of a country, the exact product coverage should be determined after fully considering the traditional diet, cropping system, employment needs and other related factors of that country.
2. In terms of NG5/W/130, II, 6, please elaborate as far as possible on the specific policy measures and products through which non-trade concerns will be reflected. What commitments to reduce support and protection would apply to such policies and products? Which subsidies would be subject to GATT discipline?



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2. However, the policies followed beyond the scope of minimum agriculture should be in line with the commitment to substantial progressive reduction in support and protection.

Furthermore, export subsidies to dispose of the excess production beyond the minimum agriculture should be prohibited.

SWITZERLAND

NON-TRADE CONCERNs: GENERAL QUESTIONS

QUESTIONS

1.1 How are non-trade concerns being taken into account in your current agricultural policies?

The Swiss agricultural policy is mainly motivated and justified by its non-trade concerns. The so-called multifunctionality of the agricultural sector (external effects, market failure) is the reason why market rules and free trade do not and cannot apply fully.

The so-called "parity revenue principle" assures the Swiss farmers prices which cover the production costs for defined efficient farms in the central plain area, thereby maintaining an agricultural production necessary to reach the non-trade objectives of our agricultural policy, which are food security, environmental protection and decentralized settlement.

Three kinds of measures exist in this respect:

- (1) income policy through remunerative agricultural prices;
- (2) income support through direct payments to compensate the farmers suffering from natural or structural disadvantages;
- (3) measures aimed at improving the production conditions.

1.2 Is there any quantitative assessment or other concrete example of the effects of these policies that could be provided on the basis of current and/or past experience?

This policy has enabled us to achieve the non-trade objectives as follows:

- food security: the objectives set up in the "National Food Plan" have been met. The Swiss agricultural production accounts for almost two-thirds of the domestic consumption;

SWITZERLAND

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- preservation of the environment: this objective, which might not have received sufficient consideration in the past, is now becoming increasingly important. Switzerland is considering new measures in this field. In animal husbandry, in the field of the quality of water resources and for ecologically sustainable production techniques Switzerland has already taken steps. Generally the agricultural production is increasingly taking into account environment-related aspects which lead to higher production costs. Compensatory measures tied to these production costs do not provide incentives for additional production;

- the settlement of the national territory: Switzerland's agricultural policy has succeeded in keeping intact the rural space especially in the mountainous areas. This decentralized structure of the population as well as the economy is important and necessary to a country like Switzerland whose political system puts a high value on federalism.

The Swiss proposal (MTN.GNG/NG5/W/114) is a rule-based proposal. Non-trade concerns are taken into account both in the elaboration of the rules governing agricultural trade as well as in the definition of concrete commitments concerning the progressive reduction of agricultural support and protection:

2.1 How do you see non-trade concerns relating to agriculture being reflected in strengthened and more operationally effective GATT rules?

- rules: the Swiss proposal includes the recognition of the right of each country to maintain a specific level of agricultural production considered necessary to attain the non-trade objectives of its agricultural policy. This right, coupled with the obligation to limit agricultural production and to maintain a given level of access to the internal market, would allow countries (i) to maintain - under certain conditions to be negotiated - quantitative restrictions as well as (ii) to

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provide for specifically enumerated subsidies (permitted subsidies). The specific modifications to Article XI as well as Article XVI have been spelled out in the Swiss proposal (MTN.GNG/NG5/W/114):

- commitments to reduce agricultural protection and support: Switzerland recognizes the commitment of all contracting parties to substantially and progressively reduce the trade-distorting effects of agricultural support and protection. In the Swiss opinion this commitment has, however, to be weighted by (i) the existing access to the national markets and (ii) the need to maintain a certain degree of support and protection (to be defined) to allow a specified level of agricultural production. How this can be done has been explained in the Swiss submission concerning the definition of an aggregate measure of support and on the issue of tariffication (MTN.GNG/NG5/W/160).

2.2 Would they give rise to a new permanent category of exception to those rules, or some type of transitional provision?

Switzerland does not view non-trade concerns as an exception: they have to be an integral part of the operational rules of agricultural trade. To us one of the major reasons for the unsatisfactory state of world trade is that the present rules of GATT do not sufficiently take into account the non-trade objectives of agricultural policies. Recognizing the right of each country to maintain a given level of agricultural production to achieve the non-trade objectives of its agricultural policy, would allow countries to apply multilaterally agreed rules and disciplines and thereby assuring the implementation of more market-oriented agricultural policies. Ignoring this basic reality will lead to a continued violation and/or circumvention of GATT rules and disciplines and thus perpetuate the imbalances in the international markets.

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2.3 How would eligibility for any such exception be determined?

There is no eligibility criterion for exceptions in the Swiss proposal. The Swiss submission proposes one system of rules which attempts to take into account national realities and the sovereign right of each country to determine the objectives of its national policies. All countries will submit their agricultural sector to more discipline. The commitment to limit the national production to a level of production judged necessary for the achievement of national non-trade objectives is a stringent and monitorable commitment. This possibility will be open to all countries, just as now all countries are eligible to invoke Article XI. The value of such a commitment is underlined by the fact that only a few countries will be able and willing to submit their agriculture to such a stringent commitment.

3. Why is it not deemed possible to meet non-trade concerns in ways which do not distort trade (e.g. via direct decoupled income support, social and regional policies not linked to agricultural production), while maintaining the possibility of having resort to the safeguard provisions of the GATT?

Non-trade-distorting measures will have to play a much bigger role in agricultural policies. One of the disciplines which Switzerland proposes is that countries bear themselves the major part of the costs of their agricultural policies. However, maintaining a minimum level of agriculture necessary to attain non-trade objectives through decoupled income support alone is politically not feasible and economically not justifiable:

- the only totally decoupled payments are social security payments. Maintaining an agriculture on the basis of social security payments is politically not feasible. It is morally wrong to pay able-bodied people to do nothing. Non-trade concerns have to be implemented in an economic way, i.e. on the basis of a least-cost alternative. They require farmers that work as entrepreneurs and not as bureaucrats who receive a salary. Direct payments have to be related to a service rendered to the collectivity which justifies such payments. The public service task of agriculture includes some agricultural

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production and payments for such services will have to be related, at least partly, to that production. While it is necessary to put emphasis and to encourage the production modes which best fulfil the non-trade objectives (environmental production methods, targeting of regions which require the support to maintain rural activities, etc.) a reasonable remuneration of the product itself is and will remain essential to maintain a healthy agricultural sector. Any other policy would lead to an atrophy of the agricultural sector. Decoupled payments may lead to a completely decoupled agriculture, immune to any pressure towards structural adjustment. This cannot be the intent of GATT rules;

- economically it seems that the total decoupling of the agricultural sector would be irrational: (i) decoupled payments sufficient to maintain the people on the farm would not lead to a substantive decrease in production. What is the benefit of transforming an active sector into a fonctionariate, if this measure has no major effect on production nor improves the access to national markets? Assuring trading partners of a continued access to domestic markets and defining multilaterally the conditions of this access seems to us a more promising and GATT-like approach to the problem than to prescribe to national governments how to go about in their search to achieve non-trade objectives.

Safeguards will have to be an important element of any agreement on agricultural commitments. Indeed, as these negotiations will lead to greater liberalization - and as the effects of the measures to be taken to bring about this liberalization are not always predictable - it is essential that appropriate safeguards for unforeseen events be available. Non-trade concerns, however, cannot be covered by such safeguards: (i) they are

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predictable and (ii) they are not temporary. Switzerland considers that non-trade objectives in agricultural policies are there to stay. As a matter of fact, their political and economic importance is increasing with time and with the new emphasis given to the quality of life. It is thus not appropriate to address such permanent concerns by the means of what amounts to temporary escape clauses.

4.1 Further to the above two questions, is it suggested that, in effect, trade-distorting policy measures should be permitted on non-economic or non-trade grounds - i.e. that the importance of non-trade concerns overrides in certain cases the trade-liberalizing aims of the negotiation?

National food security, the preservation of the environment and the decentralized settlement of the national territory, are national objectives, which are, in the case of Switzerland, embodied in the Constitution. Trade is a very powerful and indispensable means for achieving national objectives in an economically efficient way. The question thus is not trade versus non-trade concerns. The problem we have to address in this agricultural negotiation is how we can attain the non-trade concerns of agricultural policies in a least trade-distorting way and to define rules and disciplines which avoid that non-trade concerns are abused for purely protectionist purposes.

Non-trade concerns are fully compatible with the Punta del Este Declaration and the Mid-Term Review Agreement:

1. Both those documents mention the need to take into account non-trade concerns: one indirectly by referring to the conclusions of the works of the Working Party established by the Ministerial Declaration of 1982, the other directly.
  2. Non-trade concerns are not an exception that allows a country to do whatever it wants. Non-trade concerns can be achieved by more or by less trade-distorting policies. No doubt, they are also sometimes abusively invoked to justify measures which are not justifiable. Certainly all countries can

4.2 If so, how does this square with the Punta del Este Declaration and the Mid-Term Review Agreement? Are policies relating to non-trade concerns considered to be outside the commitment to substantial progressive reductions in agricultural support and protection (MTN.TNC/11, p.9)?; if not, please elaborate on the treatment (reduction, disciplines) proposed for them.

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	<p>reduce the trade-distorting support and protection of their agriculture. Switzerland believes that much can be done to make its agriculture more responsive to market forces without jeopardizing its non-trade objectives. To be able to implement such policies, we need however a solid basis of multilaterally agreed rules which assure the long-term survival of our agriculture. This is why Switzerland puts such emphasis on the rules approach and on the concept of the right to a minimum of agriculture.</p>

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1. Please elaborate on how "equivalence of effects" among countries would be ensured, given the possibility of different commitments for those countries practising "commercial" and "non-commercial" agriculture (NG5/W/114, paras. 3-6)?

The search for a unique and quantitative measure of equivalence of effects or disciplines is, in our opinion, a futile search for the impossible. GATT negotiations have taken place since 1947 without any quantitative measure of equivalence. Concessions have been and continue to be exchanged on the basis of qualitative assessments of the concessions made compared to the concessions received. Equivalence of disciplines does not mean the same disciplines. The same treatment of different situations is neither a just nor an equivalent approach. This requires to address the issue of equivalence. The fact that each country has the choice to adopt the minimum access discipline, if it so desires, will assure that this discipline is equivalent to the other disciplines. A bias in the disciplines would result in the adoption by all countries of the lesser discipline. We are convinced that only a few countries are willing to accept the stringent market access commitment, thereby providing the proof of the equivalence of the commitment. The discussion about different global measures is so difficult, because nobody really knows what it means in terms of disciplines and access. These problems would be avoided by adopting the Swiss proposal which has two major advantages:

(i) it defines the value of the concession in terms of market possibilities and (ii) it is easily monitorable, as import statistics are readily available all over the world.

- 2.1 Why is minimum market access to be defined in terms of domestic consumption, instead of domestic production as in the present Article XI:2?

Switzerland has proposed to define the minimum market access commitment in terms of the value of internal consumption rather than in non-economic, physical terms for purely economic reasons: what matters economically is the value of imports and the relation of that value to the value of the internal consumption. This allows to take into account changes of consumption patterns and changes in the relative value of products over time. It also allows to adjust internal

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production in favour of those products, where the loss of economic efficiency is the lowest. Taking into account quantities only, we believe, leads to an uneconomic and arbitrary basis for a national policy. Non-trade concerns also have to take into account economic criteria. The only difference between non-trade concerns and trade concerns lies in the type of economic analysis of efficiency: trade concerns are analysed on the basis of cost-benefit analysis. Non-trade concerns, the benefits of which cannot be expressed in monetary terms, have to be evaluated on the basis of a least-cost alternative analysis.

2.2 How would the level of access which enables the maintenance of non-commercial agriculture be worked out? Could this vary over time? Is any growth in market access foreseen, other than in response to consumption trends?

The level of access compatible with the maintenance of a minimum of agriculture deemed necessary for the achievement of the non-trade objectives (we presume that to be the meaning of the secretariat's question) is indeed difficult to determine objectively. The level cannot be defined universally and in an abstract way: it depends on the country's physical endowments, its political system, its state of development, the importance of its non-trade objectives. It is a value that has to be negotiated. Some principles can be worked out. Certainly, most countries can achieve the non-trade objectives of their agricultural policies without self-sufficiency. Developing countries, which have difficulties to finance food imports, may be an exception to that rule. As an example, food security requires to maintain a production capacity that can easily be mobilized in case of need. This requires sufficient land, technical know-how, machinery and labour which can be mobilized on short notice to nourish the population in a situation of crisis. It also requires the maintenance of a basic processing and storage capacity.

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3. Will the level of support and protection for non-commercial or "minimum" agriculture be subject to a bound upper limit? Will it be subject to progressive reduction?

A country which takes a commitment in terms of market access, should not have to take additional commitments in terms of border measures and internal support, since its market access commitment can only be fulfilled through the implementation of greater disciplines both in internal support and in border measures. Effective market access commitments thus imply both a reduction in internal trade-distorting support as well as a reduction in border protection. Switzerland therefore views additional commitments in those two domains as redundant. Nevertheless, it has not ruled out, in a spirit of compromise, new disciplines and reductions in support and protection (see MTN.GNG/NG5/W/160).

Unless the minimum access to the market is higher than the present access - which is not the position of Switzerland - the present level of support and protection cannot be increased. Also unnecessary, a binding of an upper limit of support and protection could be negotiated.

- 4.1 Is the maintenance of a minimum level of agricultural production necessarily inconsistent with the reduction of support?

A minimum level of agricultural production is not necessarily inconsistent with a reduction of trade-distorting support and protection. This is the reason why Switzerland did not refuse the Mid-Term Review Decision to reduce trade-distorting support and protection. The concept of a minimum level of agricultural production is however inconsistent with a total elimination of agricultural support and protection for the reasons given above.

- 4.2 Is the maintenance of a minimum level of agricultural production necessarily inconsistent with the protection, or even with tariffication?

The transformation of quantitative restrictions into a monetary protection is per se not inconsistent with the maintenance of a minimum agricultural production, provided, that (i) the concept does not imply a successive reduction of the protection without any lower limit and (ii) that short-term exchange and market fluctuations are compensated by a corrective factor.

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Tariffication, as normally understood in tariff negotiations, does not fulfil these two essential conditions. We therefore consider tariffication, in stricto sensu, as incompatible with the long-term maintenance of a minimum agricultural production deemed essential to achieve the non-trade objectives of national agricultural policies. We, however, are willing to transform some of our quantitative restrictions into a monetary protection as explained in our submission (MTN.GNG/NG5/W/160).

5.1 If minimum support (NG5/W/160, page 3) is "non-negotiable", how is it to be defined? Will each participant be free to fix his own level?

5.2 How does this square with the general commitment to reduce protection and support?

5.3 Likewise, the words "non-negotiable" are used again on page 4 in the context of border levies - is it the level of the levies that is non-negotiable here, or the minimum level of agricultural production?

The level of the minimum support required to maintain a minimum of agricultural production is negotiable. What is non-negotiable is the right to a minimum level of support deemed necessary to maintain a minimum of agriculture.

See response to question 4 of "General Questions".

Both the level of support and protection as well as the minimum access level are negotiable (they are interdependent and have to be fixed concomitantly). What is non-negotiable is the right to maintain a minimum of support and protection to maintain a multilaterally agreed level of minimum access. The access to the market is the determinant variable. If the market access commitment is not achieved with the given level of support and protection the country will be required to reduce its agricultural support and protection below the level fixed in the negotiations. If the market access goal has been surpassed, the country will be allowed to increase its protection or otherwise take corrective measures (to be defined in a specific safeguard provision).

The new disciplines would define which measures can be used to achieve the agreed goals in the least trade-distorting way possible.

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There is growing acknowledgement that agriculture in addition to its original function to provide for food security has to fulfil other tasks. These tasks include, e.g. common objectives of policy for the society such as preservation and cultivation of landscape, maintenance of infrastructure in rural areas and overcoming of environment problems. Particularly in countries with great differences of natural production conditions measures are necessary to compensate income differences resulting thereof and to maintain the desired density of settlement. In order to secure the income of family farms and the implementation of the aforementioned objectives it will be necessary to maintain the double-price system. The conclusions resulting thereof for Austria have to be taken into account in the three key areas of the negotiations on agriculture, namely market access, internal support measures and export competition.

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1. How are non-trade concerns being taken into account in your current agricultural policies? Is there any quantitative assessment or other concrete example of the effects of these policies that could be provided on the basis of current and/or past experience?

In document MTN.GNG/NG5/W/144, Austria mentioned some examples of non-trade related measures which serve to pursue the objectives of the Austrian agricultural policy. A quantitative assessment of these non-trade-related measures is not possible. The effects, however, can be proved by the success of certain measures. The decoupled transfer payments have considerably improved the income of mountain farmers, and the rural areas, even in distant regions, show a balanced settlement density and an efficient cultivation of landscape. It is essential that these payments are decoupled of production and do not create trade-distorting effects.

Non-trade-related measures are applied in Austria's agricultural policy. Some examples:

- Direct payments to mountain farmers. This programme exists since the seventies. Its aim is to compensate partially not obtainable income in order to maintain a certain settlement density. These payments contribute furthermore to cultivation of landscape. They are made by the federal government and the governments of the provinces in a complementary manner.

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- Regional programmes are applied in order to establish infrastructure for the whole population. They include, inter alia, the construction of roads for the transport of goods, telecommunication equipments and the enlargement of the tourism structure on farms.
- Environment protection programmes concern the entire society. They include, inter alia, set-aside programmes for agricultural areas, a more extensive use of land in order to achieve more ecological forms of cultivation of soil taking into account also the problems of ground water.
2. How do you see non-trade concerns relating to agriculture being reflected in strengthened and more operationally effective GATT rules? Would they give rise to a new permanent category of exception to those rules, or some type of transitional provision? How would eligibility for any such exception be determined?
3. Why is it not deemed possible to meet non-trade concerns in ways which do not distort trade (e.g. via direct decoupled income support, social and regional policies not linked to agricultural production), while maintaining the possibility of having resort to the safeguard provisions of the GATT?
- The trade-related measure should be defined along the proposals by the United States, EC and Austria and subject to clear GATT rules. Non-trade-related measures should permanently remain under the competence of domestic agrarian policy.
- The non-trade-related domestic measures mentioned by Austria do not create trade distortions. The request to keep the non-trade concerns outside the reform process is not in contradiction to the possibility to invoke the safeguard clause of GATT, since safeguards serve to avoid negative effects of imports. The use of safeguards, however, does not seem to be appropriate for the implementation of non-trade concerns.

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4. Further to the above two questions, is it suggested that, in effect, trade-distorting policy measures should be permitted on non-economic or non-trade grounds - i.e. that the importance of non-trade concerns overrides in certain cases the trade-liberalizing aims of the negotiation? If so, how does this square with the Punta del Este Declaration and the Mid-Term Review Agreement? Are policies relating to non-trade concerns considered to be outside the commitment to substantial progressive reductions in agricultural support and protection (MTN.TNC/11, p.9)?; if not, please elaborate on the treatment (reduction, disciplines) proposed for them.	Austria considers measures for the implementation of non-trade concerns as integrant element of its agricultural policy to be domestically pursued. These measures are not in contradiction to the declarations of Punta del Este and the Mid-Term Review of April 1990, since the non-trade concerns are outside of the envisaged reform process.

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1. If certain support measures can be identified clearly enough as "social", "infrastructural", (etc.) to exempt them from GATT commitments as proposed on page 6 of NG5/W/144, why cannot they be clearly separated from agricultural production?

The examples of non-trade-related measures mentioned by Austria in document MTN.GNG/NG5/W/144 are internal support measures which do not influence the production decisions to be taken by farmers.

2. Why is the list of support measures responding to non-trade concerns on page 9 to remain outside new and strengthened GATT rules and disciplines? This appears to be a rather sweeping exception. Is all possibility of recourse to GATT concerning the effects of such measures to be excluded?

Non-trade-related measures are used in order to pursue objectives which are going beyond the production of agricultural goods. It is characteristic for them that they do not create trade-distorting effects. They should therefore remain outside of strengthened GATT rules and disciplines and not be subject to the obligation to a substantive and progressive reduction of agricultural support and protection.