

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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AGRICULTURAL SAFEGUARD RULES

I. Introduction

1. The negotiation on agriculture has come to a stage where it is generally recognized that during the transitional or reform period, commitments to liberalize trade in the agricultural sector would centre around the following elements:

- The implementation of a substantial and progressive reduction of internal support to agriculture.
- The substantial and progressive reduction of all tariffs.
- The conversion of non-tariff measures into tariffs and the subsequent reduction of the agreed tariff equivalents at substantial and progressive rates.
- The substantial and progressive reduction of export subsidies and strict disciplines for other measures that are related to export competition.

During the negotiation process, these elements will undoubtedly form a basis for the drafting of the strengthened GATT rules and disciplines that reflect contracting parties' rights and obligations in agriculture beyond the reform period.

2. It is also useful to note that the General Agreement as it presently stands contains various exceptions that are specifically designed for agricultural products. Besides, other trade distorted measures that fall outside the scope of the General Agreement have also been widely used as some contracting parties feel that those measures are easier to implement than the ones provided for in the General Agreement. Because the objective of the negotiations is to achieve liberalization in agriculture in the long run, exceptions and derogations must be removed or modified to serve such a purpose. After the transitional period, rules and disciplines governing agricultural trade would be different from the present régime. Policy options that used to be available to governments in terms of exceptions under the GATT would no longer be feasible.

3. Moreover, the importance of the agricultural sector to the economies of the majority of contracting parties is clear. Agricultural programmes have always been given high priority in the national policy objectives of most nations. The situations and issues related to this sector are mostly politically sensitive, especially when 60 to 80 per cent of a country's population is involved in agriculture. While liberalization in agriculture is definitely supported as a common objective of the world's community, individual governments must be assured of the necessary flexibility in coping with unexpected situations and special circumstances, particularly in the case where its agricultural sector is efficient and competitive. Confidence in the multilateral system by those efficient agricultural producers will be reduced if their governments could not handle the problem created by uncontrollable factors.

4. The main objective of this communication is to propose elements that could be translated into safeguard rules for agriculture within the context of strengthened GATT rules and disciplines for agricultural trade. As it is implied in the above paragraphs, this proposal has as its main assumption a successful outcome of the Uruguay Round negotiations resulting in the long-term liberalization of agricultural trade. Our argument is that, given the uncertainties inherent in agriculture and the importance nations attach to the sector, it is indispensable for the Negotiating Group to assure governments of the availability of certain measures that can effectively cope with the problems associated with unexpected situations and special circumstances which could develop under the liberalized trade environments.

5. It must be emphasized, however, that the special production characteristics inherent in agriculture do not warrant implementation of continuous subsidization and market access restrictions. The importance of the agricultural sector to many economies does not justify frequent invocation of safeguard measures. The issue of safeguards is a complex one because while there is a genuine and political need for safeguard measures under certain situations and circumstances, these same measures could be used in such a way that they become trade restrictions.

II. Scenarios

6. This section illustrates our concerns and elaborates certain elements which would make safeguard provisions more effective in the handling of certain situations and circumstances.

7. Safeguard provisions are parts of the rules which aim at making available to governments protective measures that can be used immediately to protect domestic farmers from being injured and to prevent such injury in the case where the threat is imminent. The problem which has haunted us throughout the history of the GATT is how to effectively protect those who are adversely affected by the development of unforeseen incidents and by the result of the obligations incurred by a contracting party under the General Agreement. The problem is especially acute in cases involving agricultural products.

8. Two scenarios will illustrate our concerns on the issue of safeguards.

The first scenario, agricultural products as inputs of an agro-industry: As a result of some unforeseen developments and as a result of the execution of commitments by the government to reduce border protection, imports of a processed agro-industrial product could unexpectedly increase by a substantial quantity. In many cases, agro-industrial producers can shift the negative effects of that rise in imports to the farmers or growers of the agricultural product which is used as input, by reducing the purchasing prices of that input. Farmers/growers are left with the situation of market price reduction.

9. If this scenario took place under the present GATT rules, the Government would immediately raise tariff rates or impose some non-tariff measures and implement subsidization programmes to increase the price level of the agricultural products. But under the strengthened rules and disciplines, the only option that remains open to the Government after the reform process would be the invocation of safeguard measures on the processed agro-industrial product. But the question is whether the Government can prove that imports of the processed product have caused injury to the domestic agro-industry. In this case, there would be no evidence of injury on the part of the agro-industry because the injury would have been shifted to the farmers/growers of the input. No safeguard measures could be justified.

10. The second scenario, agricultural products as consumption goods: We could have a situation where an agricultural product is consumed without any significant processing changes. Although increase in imports of such a commodity could trigger safeguard measures and farmers would be directly protected, one can argue that the variables which determine injury in the case of manufactured products may not be applicable in the case of agricultural products. Conditions and requirements for injury investigation may make it difficult for the Government to invoke safeguard measures even in the genuine cases.

11. For illustrative purposes, we could portray a situation where a country efficiently produces this particular agricultural product at the level of output that is just enough to satisfy its annual local demand. After a long and peaceful period, the Government of that country suddenly finds itself trapped in a difficult situation as imports of such products start to increase. Farm prices eventually drop and farmers at the outskirts of the country are the first to feel the adverse effect. Middlemen simply refuse to go to purchase the product from farmers in that remote region.

12. As imports climb at a faster rate, the domestic market is rapidly taken by increased imports. The market share of local output drops steadily from 100 per cent to 90 per cent and to 80 per cent at the end of a certain period. The problem is how and when the Government could determine serious injury, if the term means a significant overall deterioration in the position of a domestic industry. At the time when

10 per cent of local output is replaced by imports, for example, hundreds of small farm households may have already suffered. Overall deterioration of the position may not be established at this point because farms that are located near the central markets might still manage to sell the product at reasonable prices.

13. Farmers whose agricultural lands are located in remote areas would suffer most because transportation costs may discourage them from sending the products to the central markets. Without any means of support, the Government could face a political problem. In the case of manufactured products, the worst situation for the entrepreneurs is to file for bankruptcy. Then, a small number of personnel and labourers would quickly find other jobs. But this could not be the case in the agricultural sector where the expertise of farmers tends to be product specific.

III. Elements to be considered

14. In principle, the issue of safeguards must be addressed with a view to protecting those who are actually injured, especially farmers. Flexibility on the grounds of the application and operationally effective injury test procedures for the case involving agricultural products could make safeguard rules useful in the context of strengthened GATT rules and disciplines. To prevent a move towards disguised trade protection and harassment, however, disciplines on the application of measures should be tightened.

15. To accomplish this aim, the following elements, inter alia, should be considered:

- The period during which safeguard measures can be implemented must be limited to a maximum of x months. Beyond the agreed period, some forms of sanction or compensation would be applied.
- Flexibility on the grounds of application covers situations where imports increase in relative terms.
- In cases involving agricultural products as inputs for an agro-industry, the reduction of farm gate prices of the product while output is constant in relative terms, should constitute grounds for the invocation of safeguard provisions for the processed products.
- Reduction in farm gate prices of an agricultural product should be sufficient in proving injury to farmers in the case where there is no structural surplus and the revenue from the sale of the product is the main source of income of the average farm household affected by increased imports.