



Bringing Agriculture into the GATT:

***NEGOTIATING A FRAMEWORK
FOR ACTION***

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**BRINGING AGRICULTURE INTO THE
GATT**

***NEGOTIATING A
FRAMEWORK FOR
ACTION***

SUMMARY REPORT

Prepared by

**THE INTERNATIONAL AGRICULTURAL
TRADE RESEARCH CONSORTIUM**

The IATRC Task Force on “Negotiating a Framework for Action”

Maury Bredahl
University of Missouri
Columbia, MO, USA

Barbara Chatin
Economic Research Service, USDA
Washington, D.C., USA

Brian Johnston
Australian Bureau of Agricultural
and Resource Economics
Canberra, Australia

Tim Josling
Stanford University
Stanford, CA, USA

Rip Landes
Economic Research Service, USDA
Washington, D.C., USA

Suchada Langley
Economic Research Service, USDA
Washington, D.C., USA

Carl Mabbs-Zeno
Economic Research Service, USDA
Washington, D.C., USA

Stephen Magiera (Leader)
Economic Research Service, USDA
Washington, D.C., USA

Karl Mielke
University of Guelph
Guelph, Ontario, Canada

William Miner
Institute for Research and Public Policy
Ontario, Canada

Ed Rossmiller
Resources for the Future
Washington, D.C., USA

Fred Sanderson
Resources for the Future
Washington, D.C., USA

Nancy Schwartz
Economic Research Service, USDA
Washington, D.C., USA

Stefan Tangerman
University of Gottingen
Gottingen, West Germany

T.K. Warley
University of Guelph
Guelph, Ontario, Canada

Institutional affiliation is listed for informational purposes only. The opinions expressed in this report should not be attributed to any of the organizations listed.

Background Papers Prepared

Maury Bredahl and Kenneth Forsythe, “Harmonizing Phytosanitary and Sanitary Regulations Through GATT Negotiations”

Maury Bredahl, “Short-Term Measures in the GATT Negotiations”

Douglas Brooks, “Country Case Studies: Thailand”

Barbara Chatin and Suchada Langley, “Country Case Studies: The United States”

William Coyle, “Country Case Studies: Japan”

Gary Ender, "Country Case Studies: Pakistan"

George Gardner, "Country Case Studies: Egypt"

Brian Johnston, "Country Case Studies: Australia"

Tim Josling, "Modalities for Using Aggregate Measures"

Carl Mabbs-Zeno, "Accommodating the Interests of LDCs in the GATT"

Carl Mabbs-Zeno, "Country Case Studies: Nigeria"

Stephen Magiera, "The Aggregate Approach Made Operational"

Stephen Magiera and Nancy Schwartz, "Negotiating Trade Distorting Policies Under a Comprehensive Framework"

Karl Meilke and T.K. Warley, "Country Case Studies: Canada"

Myles Mielke, "Country Case Studies: Mexico"

William Miner, "The Rules of GATT and Agriculture"

Dave Peacock and John Link, "Country Case Studies: Brazil"

Ed Rossmiller, "Negotiating Proposals for the Uruguay Round"

Fred H. Sanderson, "Standstill and Rollback—A Package Approach"

Stefan Tangerman, "Country Case Studies: The European Community"

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Preface

The IATRC is a group of more than 80 economists interested in agricultural trade, drawn from the academic community, government, and private institutions in North America and seven other countries. Founded in 1980, the Consortium has the following objectives:

- (1) to facilitate and stimulate improvement in the quality and relevance of international agricultural trade research and policy analysis;
- (2) to facilitate collaborative research among its members;
- (3) to facilitate interaction among researchers and analysts in different countries, universities, and governments engaged in and/or interested in trade research; and
- (4) to improve the general understanding of international trade and trade policy issues among the public at large.

In order to further these objectives, the Consortium established three task force groups early in 1988 to examine the issues involved in dealing with agricultural trade problems through the current round of international negotiations under the General Agreement on Tariffs and Trade (GATT). Funding for the three groups was provided by the U.S. and Canadian governments. Summaries of the work and conclusions of the three task forces were presented at the Symposium in Annapolis, Maryland on August 19-20, 1988. The summaries are titled as follows:

- (1) Assessing the Benefits of Trade Liberalization
- (2) Designing Acceptable Agricultural Policies
- (3) Negotiating a Framework for Action.

The more detailed set of papers, upon which these summaries are based, will be published in book form during 1989.

For further copies of these reports or information on the IATRC and its activities, contact:

Professor David Blandford, Chairman
International Agricultural Trade Research Consortium
455 Warren Hall
Cornell University
Ithaca, NY 14853
United States of America
Telephone: 607-255-8187

NEGOTIATING A FRAMEWORK FOR ACTION

In September 1986, a new round of multilateral trade negotiations under the General Agreement on Tariffs and trade (GATT) was launched in Punta del Este, Uruguay. Agricultural trade is one of the major items on the agenda. As the Ministerial Declaration states, they are to "achieve greater liberalization in agriculture and bring all measures affecting import access and export competition under strengthened and operationally effective GATT rules and disciplines". This is to be achieved through among other things "the reduction of import barriers" and by "increasing discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade, including the phased reduction of their negative effects and dealing with their causes."

The Uruguay Round is very different from previous negotiating rounds. For the first time, the leaders of the major trading nations have recognized that **domestic policies** are the fundamental cause of agricultural trade problems. To solve these problems, the negotiations are to focus on a phased reduction of trade-distorting subsidies, improved market access, and the minimization of the adverse trade effects of sanitary and phytosanitary regulations. Countries have also called for a tightening of GATT rules and disciplines, along with the introduction of more workable dispute settlement procedures.

Since Punta del Este, agricultural trade has continued to be on the political agenda. The economic ministers of the OECD countries, in their May 1987 Communique, agreed on the objective "to allow market signals to influence, by way of a progressive and concerted reduction of agricultural support ... the orientation of agricultural production." The Communique recognizes the need to take into account social and other concerns when modifying policies. Because the reform of policies may take time, early action to reduce market imbalances is desirable. The Communique acknowledges the need for flexibility in how countries meet their commitments under GATT. It proposes that farm income support be provided directly, rather than through price guarantees or other mechanisms that increase production.

The heads of state endorsed the OECD Communique at the Venice Economic Summit in June 1987 and affirmed their commitment to work "in concert to achieve the necessary adjustments of agricultural policies, both at home and through comprehensive negotiations in the Uruguay Round of GATT negotiations." This decision was later reaffirmed at the Toronto Summit in June 1988, where the participants urged negotiators in Geneva to "develop a framework approach" including "short-term options in line with long-term goals" for the reduction of trade-distorting measures.

All these declarations fall short of specific commitments to change domestic policies. Indeed, domestic policy decisions since 1986 have further distorted international agricultural markets. For the most part, countries agree on the problem, but differ on its solution. Thus, there has been little progress in the GATT on developing a framework for negotiation for agriculture.

The Negotiating Environment: Proposals and Approaches

A number of proposals have been tabled by major GATT participants (see table on following page). Though not specific negotiating plans, these proposals provide some idea of the attitudes of countries and the extent to which they are prepared to subject their domestic policies to international scrutiny. The proposals contain common elements upon which to build an acceptable framework; they also contain contradictions which have prevented a consensus from emerging.

Most of the proposals suggest a formula or **aggregate approach** to the reduction of protection, not unlike that used for industrial products in previous Rounds. But this approach would focus on the **overall** trade-distorting support provided by governments to their agricultural sectors. For the first time, the negotiations would encompass domestic policies as well as border measures. All the proposals suggest the binding of commitments in the GATT. Most suggest binding quotas, subsidies, and subsidized quantities. The Cairns Group proposal (Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand, Uruguay) goes the farthest by suggesting a long-term framework for agreement and the integration of agriculture into the existing consultation, surveillance, and dispute settlement provisions of the GATT. All proposals suggest strengthening and/or altering the rules and disciplines relating to subsidies and market access.

The United States has made a far-reaching proposal for the complete elimination of "all policies which distort [agricultural] trade" within a period of 10 years. No short-term measures are suggested. The European Community proposal, by contrast, emphasizes short-term measures, and is silent on both the extent of the reduction of support and its timetable. Since its original proposal, the Community has clarified its position on short-run actions by calling for a freeze on subsidies, but has declined to be drawn on a specific timetable or target for support reductions. The U.S. position is to require an agreement on the target for reduction as a prerequisite for short-term measures. At present, the negotiations are stalled on this issue.

The Cairns Group proposal concurs broadly with the U.S. objective of eliminating trade-distorting support, but argues for short-run actions to alleviate

Main Elements of Negotiating Proposals for the Uruguay Round

United States:

- Eliminate all trade-distorting subsidies over a ten-year period
- Remove all barriers to market access over a similar period
- Monitor progress in liberalization with an aggregate measure of support such as the PSE

European Community:

- Coordinate action to stabilize sugar, cereal, and dairy markets
- Cut significantly the levels of support over an agreed period and achieve better balance between commodities
- Use PSE-type measure for monitoring, but adjust for supply control and exchange rate variations
- Strengthen GATT rules to consolidate advances

Cairns Group:

- Freeze present subsidies and other distorting measures
- Reduce levels of support over a ten-year period by an agreed amount
- Introduce new strengthened rules for agricultural trade in the period after the phase-down of support
- Use PSE-type measure for monitoring progress

Canada:

- Elimination of all trade-distorting subsidies and barriers to market access over an agreed period
- Set interim target of, say, five years
- Use PSE-type measure with credit for supply control and omitting trade-neutral policies (Trade Distortion Equivalent)

Nordic Countries:

- Take immediate measures to prevent increases in excess supply
- Bind and reduce export subsidies
- Reduce barriers to market access
- No PSE-type measure as qualified in the Canadian proposal

Japan:

- Freeze present export subsidies
 - Phase out export subsidies over time
 - Reduce trade-distorting impacts of domestic subsidies
 - Negotiate improvements in market access
 - No PSE-type measure needed for negotiations
-

surpluses and amendments to GATT rules. Canada, which is a member of the Cairns Group, has tabled a similar proposal, which advocates a five-year target for major reductions in trade-distorting support. More recently, the Cairns Group has elaborated its suggestion for short-run action. Countries would agree to a "down payment" by introducing immediate policy reforms and indicate their "intent" by reducing support in each of the next two years by 10 percent, as measured by Producer Subsidy Equivalents (PSEs). The Cairns Group suggests that the timetable and extent of support cuts be agreed by the mid term review of the GATT negotiations in December 1988.

Exporting countries have been most concerned with deteriorating prices in international markets and have been more extreme in their proposed solutions. Importing countries, although recognizing the advantages of a better trading environment, would like to place the burden of adjustment on exporting countries (see box on following page). Proposals by the Nordic countries (Finland, Iceland, Norway, and Sweden) and Japan emphasize the reduction and elimination of export subsidies. The Nordic countries would negotiate reduced levels of import protection; Japan would negotiate improved rules for market access, if domestic stability and food security were taken into account.

The motivation for many of these proposals is the high cost of government support for agriculture. The U.S. proposal reflects its domestic political interest in reducing the federal deficit, as well as its faith in the efficiency of free markets. The European Community shares the U.S. interest in expenditure reductions and is therefore willing to participate in multilateral negotiations on policy reform. However, if budgetary costs are the only motivation, countries are likely to continue to disagree on the necessary extent of trade liberalization. There is also disagreement on the extent to which prices should influence production decisions. Countries which are accustomed to managing domestic markets tend to prefer negotiations on trade directly, rather than on the policy measures affecting trade. The European Community, for example, leans toward supply management and market sharing. Finally, there remains disagreement over the causes of agricultural trade problems. Japan, for example, feels that these are due to subsidization by exporters.

It is unclear how the negotiations will proceed. The mid term review, to be held in Montreal in December 1988, will assess progress and set the direction and agenda for the future. It will be an important landmark. Success in the Uruguay Round hinges on the political will to follow through on the Punta del Este Declaration and those of the subsequent OECD Ministerial and Economic Summits.

GATT AND THE DEVELOPING COUNTRIES

Since its beginning, the GATT has offered developing countries ample latitude to exclude themselves from most GATT requirements. By 1955 they were permitted to impose quantitative and other restrictions on imports to protect infant industries or to remedy balance of payments problems. These justifications have been interpreted so broadly that the GATT has almost no control over trade restrictions in developing countries. Since 1971, developed countries have been permitted to reduce barriers to developing country imports below the level applied to other developed countries. Each importer is allowed to set quotas and to select the countries eligible for this preferential treatment.

The GATT also allows less direct forms of separate treatment for developing countries. The exclusion of agriculture from most disciplines has especially affected developing countries because agriculture often constitutes their largest sector. In the Uruguay Round, the agricultural negotiations cover commodities whose exports are dominated by developed countries. These negotiations exclude tropical products whose exports come principally from developing countries. Tropical products are being dealt with separately. The multifiber agreement apparently leaves developing countries worse off than they would be if fibers were treated like other commodities in the GATT. Regardless of whether the separate treatment of developing countries has benefited them, one clear effect of limiting developing country responsibilities in the GATT has been to limit their influence in negotiations.

Some trade liberalization has recently been undertaken by developing countries under pressure from international lending institutions. The International Monetary Fund responded to the debt crisis of the early 1980's by refinancing the debt of developing countries conditional on structural adjustment. The World Bank and major bilateral lenders have shifted from project-based lending toward lending conditional on domestic policy liberalization. Although many organizations representing developing countries, such as the United Nations Conference on Trade and Development, continue to recommend an active role for government in both trade and domestic policy, some developing country institutions are accepting the logic of more market-oriented policies. For example, in July 1985 the Organization for African Unity acknowledged "the primacy accorded the state has hindered rather than furthered economic development."

Previous Approaches to Negotiations

Previous trade negotiations have employed one of three approaches, or some combination. The traditional method is the **request and offer** approach. Countries identify the changes they desire in the trade barriers of others and draw up a list of their own barriers on which they are prepared to negotiate. Dealing takes place bilaterally, but the outcome is “multilateralized” as a result of the GATT Most-Favored-Nation principle. Under this principle, concessions made by one country to another signatory are automatically extended to other signatories. This approach works best for negotiating reductions in easily identifiable trade barriers, such as quotas or tariffs. A second approach was introduced during the Kennedy Round of negotiations in the mid 1960s. This entails agreement on an **across-the-board cut** in tariffs. The depth of the cut is the focus of discussion, but exceptions can still be negotiated through the “request and offer” method. These two approaches have been very successful in reducing tariff rates, but have left non-tariff barriers relatively untouched. A third method of negotiation, the **rules and obligations** approach, was used extensively during the Tokyo Round during the 1970s to address non-tariff barriers. It consists of negotiating codes of behavior or conduct in order to strengthen GATT rules.

It is difficult to liberalize agricultural trade by using these negotiating methods. Agricultural tariffs and quotas have already been liberalized by the request and offer technique, and by across-the-board tariff cuts. But tariffs, and even quotas, are not the major problem for agricultural commodities. These techniques do not touch the main instruments of agricultural protection, which are domestic policies and non-tariff measures. The closest the GATT has come to an across-the-board approach to agriculture was in the Kennedy Round, when the European Community proposed a freeze on the margin of support (*montant de soutien*) provided by agricultural price policies.

Countries have had trouble writing GATT rules that are sufficiently strict to constrain domestic policies. The rules were originally drafted to avoid conflicts with domestic policies. Where such conflicts have arisen, exceptions have been made and the rules have been ignored. The Section 22 waiver, obtained by the United States in 1955 to legitimize the use of import quotas for agricultural products, is an example of such an exception.

The Contracting Parties to the GATT have framed the current agricultural negotiations very broadly. They include all domestic policies that distort trade. They are not limited to the traditional targets of negotiation—tariffs and import quotas. The request and offer approach is less practical under these circumstances because of the enormous number of policy instruments used to protect agriculture. Furthermore, it may not be possible to negotiate agreements on new rules, unless allowance is made for a gradual and balanced elimination of the trade distortions

arising from the exceptions, omissions, and special treatment accorded agriculture under existing rules. As a result, a comprehensive negotiating framework is required. This framework should cover all agricultural policies which distort trade. It would use elements of previous negotiating approaches where necessary, as well as introduce new ones.

A Comprehensive Negotiating Framework

The agricultural framework must allow individual countries to negotiate changes in domestic policies which satisfy their own economic and social objectives, yet be consistent with the objectives of the Uruguay Round. Such a framework should be based on the following principles:

- The objectives of the negotiations are to freeze, gradually reduce, and finally eliminate the trade-distorting effects of agricultural policies.
- While countries remain free to choose their own agricultural policies, governments should reach an early agreement on those policies which have a minimal impact on trade, and are deemed acceptable.
- Reform of agricultural policies in developing countries should be included in the negotiations, but an agreement on agricultural policy reform needs to take into account their level of economic development.
- All policies that distort agricultural trade should be subject to clear, precise, and enforceable GATT rules and disciplines. These rules should be broadly consistent with those for other traded products.

A comprehensive negotiating framework which embraces these principles is outlined below. The framework consists of a set of parallel negotiating approaches and a timetable for the phased implementation of outcomes. The framework has three essential elements (see table on next page). First, it includes an across-the-board negotiating technique based on an **Aggregate Measure of Support (AMS)** and **Country Plans** for reducing trade-distorting assistance. Second, it allows for the negotiation and progressive implementation of more effective **GATT rules and disciplines**. Third, it allows for the adoption of **ad hoc agreements** which are commodity and/or policy specific. The three approaches would lead to actions and commitments to be undertaken in the short, medium, and long term.

The AMS Approach: This consists of a phased reduction in the level of trade-distorting government support over an agreed time period. Progress toward meeting an AMS target would be reviewed periodically. Countries would submit Country Plans indicating how they intend to achieve their AMS reductions. The Country Plans would be bound in GATT and would be subject to revision if targets were not met. Rules for implementation would be included in the overall agreement to reduce trade-distorting support.

A Comprehensive Framework for Negotiation and Implementation

Negotiating Approach/Actions

Targets	AMS	GATT Rules	Ad Hoc
Short-term (1988-1990)	<ul style="list-style-type: none"> • Commit to reduce AMS and to time-frame • Agree on policies to be included in AMS • Prepare country plans for medium term 	<ul style="list-style-type: none"> • Freeze trade-distorting sanitary and phyto-sanitary measures • Expedite settlement of disputes 	<ul style="list-style-type: none"> • Freeze indirect/direct export subsidies and trade effects of quantitative restrictions and supply controls • Develop procedures for orderly release of stocks • Early measures (equivalent to 10% of AMS)
Medium-term (1990-1995)	<ul style="list-style-type: none"> • Reduce AMS by 50 percent over five years • Modify domestic policies 	<ul style="list-style-type: none"> • Negotiate stronger GATT rules • Develop and implement interim surveillance and dispute settlement procedures • Develop and implement interim rules 	<ul style="list-style-type: none"> • Roll back subsidies and expand market access
Long-term (After 1995)	<ul style="list-style-type: none"> • Negotiate and implement additional reductions of AMS 	<ul style="list-style-type: none"> • Implement new permanent rules and disciplines • Integrate surveillance and dispute settlement with permanent GATT procedures • Harmonize sanitary and phytosanitary measures • Binding of all forms of protection and trade-distorting subsidies 	<ul style="list-style-type: none"> • Ensure full application of results from Uruguay Round to agriculture

GATT Rules Approach: The AMS approach would be complemented by applying GATT rules and disciplines progressively to agriculture. In the short term, renewed attention would be given to implementing existing rules and disciplines effectively. A freeze would be imposed on the use of sanitary and phytosanitary regulations as trade barriers. In the medium term, stronger rules would be negotiated. After a period of adjustment all remaining forms of protection and trade-distorting subsidies would be bound in GATT. In the long term, the removal of all exceptional treatment for agriculture would be negotiated. Effective permanent rules and dispute settlement procedures would be put in place. Sanitary and phytosanitary regulations affecting trade would also be harmonized.

Ad Hoc Measures: Because the AMS approach and the use of GATT rules do not cover all the issues, there is a need for flexibility on an ad hoc basis. Ad hoc measures would complement or replace aspects of the AMS and rules approaches where necessary. Short-term ad hoc measures could include enforcing existing standstill provisions, freezing the use of export subsidies, and procedures for the orderly release of stocks. Medium-term options could include providing minimum levels of market access, or commodity or policy agreements. These measures would be linked to simultaneous reductions in assistance or improvements in market access.

Policy Coverage

The proposals tabled in GATT suggest that policies having a low or insignificant trade-distorting effect should be excluded from the negotiations. All policies, however, are likely to have some effect on trade. Whether or not this trade "effect" is also a trade "distortion" depends on the perspective of each participant, and is therefore negotiable. In order to draw up a basic list of policies causing the most trade distortion, it is useful to distinguish between policies which have a direct short-run impact on farmer net returns and those which do not. The first category includes border measures, domestic price/income supports and most forms of input/marketing subsidies. These policies can cause significant trade distortions. They should therefore be included in the basic list of trade-distorting policies. Under the Comprehensive Framework, they would be "Policies Subject to Negotiation" (see table on next page) they would be included in the AMS, and they would be subject to AMS reductions. The only exceptions are sanitary and phytosanitary regulations for which an AMS is difficult to define and which would be handled under a rules "only" approach.

Included in the basic list are a few policies—decoupled payments and price/income stabilization programs—whose treatment would be conditional on GATT rules. The rules would identify conditions under which these policies cause minimal trade distortions. Policies which meet the conditions would be excluded

Policy Coverage under a Comprehensive Framework—An Illustrative List

Policies Subject to Negotiation (Basic List)	Monitored Policies (May be Subject to Negotiation)
<u>Comprehensive Approach</u>	
I. Border Measures and Market Price Supports Tariffs Variable levies Export subsidies Export credits/guarantees Marketing loans Tiered price systems State trading Import quotas Voluntary restraint agreements Other trade restrictions II. Direct Income Supports: Direct payments (tied to production) III. Input Subsidies: Fuel, fertilizer, seed, pesticide, irrigation, feed, concessionary interest rates IV. Market Subsidies: Transportation, marketing, storage and promotional programs	I. Government Services: Advisory/Extension Research Inspection services Infrastructural development II. Conservation/Environmental Programs III. Development Assistance/Food Aid IV. Disaster Relief/Crop Insurance V. LDC Countries/Policies Receiving Special/Differential Treatment
<u>Comprehensive Approach Conditional on Rules</u>	
I. Price/Income Stabilization Programs II. Decoupled Direct Payments Including PEG Payments	
<u>Rules Only Approach</u>	
I. Sanitary/Phytosanitary Regulations	

from the AMS. Policies which fail to meet the conditions would be included in the AMS and would be subject to AMS reductions. The rules may be interim or permanent in nature. For example, Producer Entitlement Guarantees (PEGs) might be allowed as a form of decoupled payment (see the IATRC report: "Designing Acceptable Agricultural Policies"). Permanent rules might define the type of decoupled payments allowable under GATT and the terms under which price/income stabilization programs can operate. The latter should operate as "safety nets", but provide no long-run support to farmers.

The second category of policies includes infrastructural development, research and extension, inspection services, and conservation programs. These normally involve objectives other than supporting farm incomes, for example, economic

development, environmental protection, foreign development assistance, and food safety. Farm income support arising from these programs does not normally depend on the current level of production or prices. These policies would not be included in the basic list for negotiation, but they could be handled on an ad hoc basis during negotiations over Country Plans. As in the case of conditional policies in the basic list, rules may be needed for the operation of these policies. For example, food aid would be allowed and thus excluded from the AMS, only if it is not tied to commercial sales.

Policies which are excluded from the AMS present potential loopholes which could be used by countries in providing trade-distorting support to their farm sectors. Thus, the AMS for such policies would be "monitored" during the course of the Uruguay Round. They could be added to the negotiating list of future rounds. Other policies, such as tax and exchange rate policies, could also be added to this list.

Special consideration for developing countries could be given in assigning policies to the "monitored" category. Where a government activity is shown to offset market failures in a particular developing country, it could be "monitored" rather than included in the AMS. By allowing latitude in the treatment of developing countries, the GATT would recognize their special needs without releasing them from the discipline of GATT rules.

Accounting for Trade Distortions

Except for Japan, countries have accepted the use of a quantitative measure of agricultural support such as the Producer Subsidy Equivalent (PSE). Canada, supported by the Nordics, suggests that the PSE should be modified to reflect the trade distortions resulting from agricultural support. The European Community and the Nordics suggest that adjustments need to be made for production controls and for world price and currency fluctuations.

The PSE is defined by OECD as the payment needed to compensate farmers for the loss of income resulting from the removal of a given policy measure. It captures the effects of policies through an index which roughly reflects their potential trade distortions. It does not indicate the actual level of distortion. This depends on country size, and producer and consumer response to price changes.

Despite its limitations, the PSE is a useful measure for the policies included under the basic trade-distorting list. The trade effects of these policies are for the most part correlated with the size of the PSE. Exceptions are: 1) policies that directly affect production but not consumption, 2) policies where producer support is limited by supply controls, and 3) decoupled direct payments and price/income stabilization programs. The last group was discussed earlier. These policies would be excluded from the PSE if they meet specific conditions. Otherwise, they would be included and treated just like any other form of price and income support.

Direct payments, which are tied to production, and input subsidies affect output directly but have no immediate impact on consumers. Policies that raise market prices, on the other hand, increase production and lower consumption. The latter are more trade distorting than direct payments or input subsidies. This gives rise to two problems. First, countries could cut their overall PSE but shift support to more trade-distorting policies. Since these policies all involve border measures, however, such an option would be precluded by a standstill agreement which freezes all forms of border support. Second, countries would not necessarily be required to cut their most trade-distorting policies when reducing their PSE. This could be handled by a rule which states that border measures must be reduced before other forms of support, or resolved in ad hoc negotiations of Country Plans.

Accounting for the trade distortions arising from programs involving production and/or input controls creates greater difficulties. These controls can limit the trade-distorting effect of producer support. If credits are given for supply controls, rules will be required to determine when such controls effectively reduce output. Furthermore, if credits are to be given for existing controls, countries are likely to argue that they should also be given for future supply limitations. In effect, countries would be allowed to cut their PSE either by lowering the support level per ton or by cutting back the tonnage receiving support.

The use of the **aggregate value** of support as the AMS deals with the problem of supply controls. This is calculated by multiplying the per-unit PSE by production. The measure automatically gives "credit" for controlling production. Countries using supply controls could use it as their AMS. Using the total value of support as the AMS, however, increases the options available to countries to reduce support, and may require additional rules on how this may be achieved. Such rules would ensure that a country's supply controls would have beneficial trade effects. For example, a country that chooses to reduce support by reducing production could also be required to reduce its exports and/or expand its imports. Or it could be required to implement a PEG system. A country that chooses to reduce support and relax production controls, on the other hand, might be required to maintain imports/exports at their current share of domestic production or perhaps increase/decrease the share of imports/exports relative to domestic production.

Short-Term Actions

The objectives of short-term actions (see table on next page) should be:

- to strengthen the standstill/freeze provisions of the Punta del Este declaration;
- to provide 'early relief' for international commodity markets;

Framework for Negotiating Standstill, Early Relief, and Short-run Actions

Negotiating Approach/Options		Ad Hoc	
Targets	AMS	Rules	
Freeze/Standstill	<ul style="list-style-type: none"> • None proposed 	<ul style="list-style-type: none"> • Freeze trade-distorting sanitary and phyto-sanitary measures • Expedite settlement of disputes 	<ul style="list-style-type: none"> • Freeze (i.e. cap) export and other agreed subsidies, or level of expenditures and supply controls • Freeze (i.e. cap) trade effects of supply control programs
Short-term (Market Actions)	<ul style="list-style-type: none"> • None proposed 	<ul style="list-style-type: none"> • None proposed 	<ul style="list-style-type: none"> • Agreed procedures for responsible and nondisruptive stock management and release
Commitments/ Good intentions Down Payment Credits	<ul style="list-style-type: none"> • Agreement on trade-distorting policies, or at a minimum on the framework for determination 	<ul style="list-style-type: none"> • None proposed 	<ul style="list-style-type: none"> • Agree to a package of reductions in trade-distorting policies at least equal to 10 percent of current AMS • Special/differential treatment for LDCs

- to obtain a firm commitment of the good intentions of participants through a “down payment” of immediate policy reforms.

Short-term has two meanings in this context: the negotiations are to take place early in the Round, and they will result in actions before completion of the Round. Negotiation on short-term actions should be conducted simultaneously with those on long-term reform. Moreover, short-term actions must be consistent with those over the medium term and with long-run reform of the GATT Articles.

Standstill, Early Relief and Commitment

The standstill provisions of the Punta del Este Declaration commit nations not to take any restrictive or distorting action that is inconsistent with GATT, nor any action that is consistent with GATT beyond that needed to “remedy specific situations.” Nations are also committed not to take any action that would improve their negotiating position. A number of countries have brought actions under the GATT alleging violations of the standstill agreement. This is evidence of the need for a more explicit agreement.

Early relief proposals reflect the concern of nations with the deteriorating trade environment and the large expenditures on agriculture. Proposals call for actions to bring supply in line with effective demand. The urgency for early relief has been reduced by the strengthening of dairy product, oilseed, and cereal prices in 1988. This illustrates that the GATT is not an appropriate forum for deciding measures of such short-term nature, except as part of a program for long-term reform. Therefore, negotiations on short-term actions should be preceded by a strengthening of the standstill provisions that served as a basis for initiating the Round.

Proposals call for a firm commitment to good intentions through immediate policy reforms. These would be taken in addition to any unilateral reforms implemented prior to the start of the negotiations. Credit for unilateral reform would be deferred to the negotiations on medium-term plans of action.

Issues and Options

The United States has not proposed strengthening the standstill provisions or providing early relief for depressed conditions in international commodity markets. An agreement early in the Round to eliminate subsidies in ten years is viewed by the United States to be evidence of good intentions and to provide the necessary down payment. The European Community proposes immediate actions to stabilize international commodity markets, but like the United States does not call for a strengthening of the standstill agreement. It does not call for a down payment but believes significant credit should be given for its unilateral policy reforms.

A freeze or standstill could be accomplished by binding the AMS, as suggested in the Nordic Proposal. However, the difficulties in defining and

implementing an AMS suggest that an ad hoc approach should be used to define explicitly the freeze and standstill. The Nordic and Cairns Group proposals provide several options that could be pursued in ad hoc negotiations. Participants could agree to freeze trade-distorting subsidies, the level of government expenditures, import barriers, and the trade effects of supply control programs. These agreements should be made within the context of transition rules for implementing Country Plans and agreements on long-run reductions in trade-distorting policies.

The freeze and standstill agreement should be followed by ad hoc negotiations to address major concerns over imbalances in international commodity markets. These negotiations could seek to implement some of the provisions of the Cairns Group and the E.C. proposals. Agreements for the responsible and non-disruptive disposal of stocks and disciplines in international marketing could be reached within the context of the transition rules to guide the implementation of the Country Plans. A commitment of good intentions should be obtained through an agreement to a substantial medium-term reduction in the AMS in each country over a specific time period, and also a down payment of policy reforms. The latter would be achieved through an immediate 10 percent reduction in each nation's AMS. As mentioned earlier, the issue of credits would be deferred to negotiations on medium-term reform. Special consideration should be given to requests from developing countries that choose to participate by submitting a package of reductions.

Medium-Term Actions

Short-term actions emphasize the relief of immediate pressures on international markets and the demonstration of an "earnest of intent" for more permanent action. The long-term goal should be a more liberal trading system for agricultural products, coupled with better-targeted and less trade-disruptive domestic policies. Medium-term actions address the question of "how to get there from here". This is the main topic of the proposals before the GATT. With the exception of the Nordic and Japanese proposals, which down play the notion of domestic policy change, there is general agreement that a monitored, progressive reduction in the level of trade-distorting policies is necessary. It is both likely and desirable that this will be accompanied by a set of rules aimed specifically at a transition to a better trading system. There will be other negotiating issues that do not fall into either the category of "rules" or "measured reduction." These ad hoc actions can complement the other approaches, and will have to take more of the burden if the discussions falter. These three elements (see table on page 6) of the medium-term plan of action are described on the following page.

Framework for Negotiating Medium-Term Actions

Negotiating Approach/Options

Targets	AMS	Rules	Ad Hoc
Phase Out Trade-Distorting Subsidies	<ul style="list-style-type: none"> • 50 percent reduction in AMS over five years (including downpayment) 	<ul style="list-style-type: none"> • Strengthen Article XVI on subsidies 	<ul style="list-style-type: none"> • Rollback present subsidy levels (fallback)
Improve Market Access	<ul style="list-style-type: none"> • 50 percent reduction in AMS over five years (including downpayment) 	<ul style="list-style-type: none"> • Removal of waivers, grandfather clauses, and protocols of accession • Progressively apply Article XI to variable levies, state trading, etc. • Strengthen dispute settlement mechanisms 	<ul style="list-style-type: none"> • Guarantee market access at historical levels; expand quotas (fallback)
Modify Domestic Policies	<ul style="list-style-type: none"> • Implement country plans • Omit "decoupled" policies from AMS • Omit "pegged" policies from AMS • Credit for changes in domestic policies 	<ul style="list-style-type: none"> • Mechanism for policy surveillance and monitoring of country plans 	<ul style="list-style-type: none"> • Negotiate temporary credit for supply control in country plans • Determine LDC policies/countries receiving special/differential treatment

A Target for Support Reduction

A phased reduction in support, or the "AMS" approach, would bring new possibilities and challenges to the negotiating system. An aggregate approach offers a way around many of the problems that have hindered agricultural trade talks in the past. It provides a visible target which can be agreed in advance of detailed commodity/policy discussions. It expands the coverage of the negotiations to all domestic policies that distort trade without mandating specific policy changes, but provides a framework for the progressive improvement of domestic policies. The policy coverage of the AMS encourages the switching of policy instruments to trade-neutral forms.

How the AMS is to be used in the negotiations depends on the willingness of governments to enter into commitments which limit domestic policies. Uncertainty as to whether the aggregate measure approach can really change what governments do domestically has led some to argue that the AMS should be limited to a monitoring role. However, a major advantage of the aggregate approach is that it provides an overall target for reducing trade-distorting support. How the target is expressed is itself a significant part of the negotiating process. Expressing commitments in terms of such a target would still leave room for subsequent discussions of individual policies.

Negotiations to implement the AMS approach would include two elements. First, countries would agree to set a ceiling on their AMS and then to reduce this by a given amount. The reduction in support would be 50 percent over a period of five years and would apply across-the-board to all commodities. It would be achieved in equal annual increments of 10 percent. The per-unit PSE would be used as the AMS unless supply control credits are given, in which case an aggregate value PSE would be used as the AMS. The ceiling would be relatively easy to implement since most trade-distorting support would already be frozen under the standstill agreement.

Second, countries would submit plans for changes in domestic and trade policies to reduce their AMS. These Country Plans would be evaluated against the agreed reduction in the AMS. They would also be bound in GATT in the important sense that deviations which hurt trading partners would trigger compensation. The exact mechanism used to reduce support would be up to the country concerned, subject to agreed implementation rules; thus domestic political processes would be constrained but not overridden.

Implementation rules would guide the AMS approach. The rules would cover such issues as policy and commodity coverage, the use of the aggregate measure, the base period, and the depth and pace of reductions. The rules would establish when certain policies have minimal effects on trade and can thus be excluded from the AMS. They could also ensure that the methods used by countries to reduce agricultural support have beneficial trade effects. Some of

these issues have already been discussed in the context of "Policy Coverage" and "Accounting for Trade Distortions" under the Comprehensive Framework. Other issues which arise under the AMS approach are highlighted by country case studies (see Box on next page).

The implementation phase for reductions in agricultural support would involve an interim review and a final review. In each, a country will have met its GATT commitments if it has both implemented its Country Plan and has not allowed its AMS to rise. No changes in Country Plans would be required until these reviews. Thus domestic support prices in many countries would be insulated from fluctuations in world prices and exchange rates. At the interim review, the AMS for each country would be recalculated using the most recent data on exchange rates, world prices and production. Where the calculated AMS has not reached the agreed target, a country would be required to adjust its Country Plan in order to meet its target by the end of period. This would require greater reductions in support prices and other instruments than were proposed in the original Country Plan. When the calculated AMS has overshot the target, the Country Plan could also be adjusted accordingly. This could occur if world market prices rise as the result of the world-wide reduction in agricultural support. In this instance, less of a cut in support prices and other instruments would be required. The final review would be conducted on the same basis as the interim review. The AMS for each country would be recalculated and Country Plans would be adjusted accordingly. Meanwhile, new negotiations would begin with a view to completing the process of bringing agricultural trade into full conformity with GATT obligations.

Interim GATT Rules

Over the medium-term plan of action the role of interim rules would be twofold. They would underpin the changes in policy that would accompany the reduction in support, and they would lead to the establishment of permanent rules for the conduct of agricultural trade. Interim rules would be based on existing GATT Articles and in many cases represent the strengthening of codes and procedures already in operation.

It is assumed that the negotiators will agree from the outset that all national measures that distort trade should be placed on the table. There should also be agreement that all measures that adversely affect trade should be subject to precise and enforceable GATT rules and disciplines. In the adjustment period, the rules are likely to be transitional, although it is possible that some permanent rules could be agreed from the outset. These interim rules would complement and reinforce the process of a progressive reduction in aggregate support. If the process of reduction is not sustained, the stronger rules would be preserved to discipline agricultural trade.

REDUCING THE LEVEL OF TRADE-DISTORTING SUPPORT

What are the options available to countries for achieving a 50 percent reduction in support? Our focus is on reducing the trade-distorting element of PSEs for grains, dairy, sugar and livestock products. The following issues are important:

- (1) Price and income policies provide most of the support in most countries. Input subsidies are less important.
- (2) In some cases, PSEs could be reduced by lowering domestic administered prices with no change in border measures; and consequently, with no change in trade.
- (3) Most developing countries have negative PSEs for some crops and policies, and many have negative aggregate PSEs. Distorted exchange rates, state trading and export taxes are major causes of negative PSEs. If the negative components are retained in the AMS, developing countries could maintain or increase the support provided by some policies by using negative offsets from others. Requiring reductions in negative PSE components implies elimination of consumer subsidies and export taxes. These taxes are a major source of revenue in some developing countries.
- (4) Significant support comes from programs administered by regional authorities in Canada, Australia, and many developing countries. Federal authorities may find it difficult to modify these programs.
- (5) The size of required reductions is sensitive to the base year chosen and the type of PSE measure (per unit versus total transfers).
- (6) The farm sector is often a dominant source of employment and income than in developing countries. It may be necessary to provide offsets, such as improved access to markets for nonfarm and tropical products, for these countries.

Some country implications are:

Japan. About 60 percent of support to agriculture goes to rice producers. A 50 percent cut in support would require fundamental changes in rice policy.

Australia. The aggregate PSE is low (12 percent) but uneven across commodities. High tariffs on manufacturing inputs act as a tax on agricultural producers and are not captured in PSEs.

European Community. Most support comes from price and income support policies. Using a constant base for world prices in the calculation, PSEs have declined significantly in recent years. The Community could argue for a sizable credit in any agreement to reduce the overall level of support. The size of the credit would depend on the base year chosen, the specification of the PSE (per unit vs. total transfers), and the support-cutting formula used.

United States. Could reduce its aggregate PSE for grains by half without changing the Export Enhancement program. Deficiency payments must be reduced significantly to lower the grains' PSE, implying lower target prices. The interaction of other program instruments on the size of deficiency payments suggests that a "target" level of price reduction may be difficult to identify. Acreage reduction provisions may prove as important as target prices since these less stringent acreage reductions generally lead to higher program participation and higher deficiency payments. Lower dairy and sugar PSEs will require reduced domestic price support and relaxed border measures.

Canada. The PSE may overstate the trade-distorting effect of the dairy program, Western Grain Stabilization scheme and deficiency payment programs for grains and oilseeds. Options that potentially yield lower dairy PSEs but do not provide increased market access include lower direct payments, lower fluid milk premium and/or expand production quota while keeping border measures in place. Removing the Crow rate transportation subsidy would not result in a 50 percent reduction in PSEs for grains and oilseeds.

Developing countries. Thailand (rice) and Nigeria have shifted from negative to zero or positive PSEs in recent years, and other developing country PSEs were volatile, illustrating the importance of the base period choice. Thailand and Pakistan normally tax exports and, by adjusting the tax on some or all crops, could offset support through infrastructure, input and credit subsidies. In Brazil, the negative effects of producer taxes and overvalued exchange rates are more than offset by large credit subsidies for many products. Egypt provides large consumer subsidies through border and price policies that also tax producers. In Mexico, reduction in producer price and input subsidies would likely lead to government budget savings, but would also lead to higher input costs and shift the burden of support from taxpayers to consumers.

A preparatory document by the GATT Committee on Trade in Agriculture contains many suggestions that may be useful in developing interim rules. The prohibition on the use of quantitative restrictions (QRs) could be revised gradually to include all QRs that currently escape its disciplines such as waivers, grandfather clauses, protocols of accession and residual QRs. In addition, border restriction such as variable levies, minimum import price regimes, and voluntary restraint agreements could be brought under the disciplines of Article XI.

Where quantitative restrictions remain, there should not only be a minimum level of guaranteed access, linked to effective production controls, but this should be accompanied by commitments to narrow the gap progressively between domestic and world prices. Article XVI should be revised with a view towards gradually phasing down and eventually eliminating direct export subsidies or other subsidies with similar effects. The requirements with respect to transparency of state trading operations should also be strengthened. The interim rules would be designed to guide the process of adjustment in a progressive and orderly manner. They should be written in clear, precise, and enforceable language.

The monitoring and dispute settlement procedures should be strengthened to ensure the implementation of revised rules governing trade in agricultural products. Supplementary procedures may be required for dealing with the AMS approach. This approach puts a burden on the negotiating process, in that new ways will have to be explored for expressing commitments, defining obligations, and resolving disputes. It will be necessary to develop unique, effective arrangements for the surveillance of the implementation of undertakings which involve a schedule of specific policy changes. It is likely that commitments relating to internal policies will differ from traditional GATT undertakings in terms of their form, precision, and contractual nature. Governments will wish to retain flexibility to adjust domestic programs in response to changes in market conditions, exchange rates, and other unexpected developments.

The institutions of GATT should also be strengthened to oversee the process of progressive reduction in aggregate support and the effective application and enforcement of rules and dispute settlement procedures. A strengthening of the Secretariat would be required to deal with these expanded commitments. Consideration should be given to the establishment of a senior policy group in GATT to carry out surveillance, and possibly to negotiate adjustments in commitments and settle disputes. The GATT should be given more authority to review national policies affecting agricultural trade. This may be the most appropriate way to oversee the progressive reduction of import barriers and trade-distorting subsidies. Such a policy group might be empowered to settle disputes but, if not, the Contracting Parties would have access to the regular procedures of GATT.

Ad Hoc Measures

Not all medium-term measures will fall conveniently under the headings of interim rule reinforcement or measured support reduction. There are two reasons why other, ad hoc, elements might be necessary. First, the reduction in protection envisaged under the AMS approach may not address specific trade concerns of particular countries. Whereas a 100% reduction in trade-distorting support would meet all such concerns, a 50% reduction would probably not. Although the implementation rules should be able to handle any problems, countries may wish to have a list of ad hoc requests to put on the negotiating table over and above (or as a specific part of) the overall support reduction.

A second reason has to do with the treatment of supply control under an AMS approach. Removing supply controls should be a long-range goal for policy reform. Quantitative restrictions are a symptom of unbalanced markets and create their own distortions in production. However, the relaxation of a production quota, even if accompanied by a fall in support prices, could still contract imports or increase exports. Exporting countries hoping for trade benefits from the negotiations might feel that such apparent reductions in aggregate support were less than desirable. Again, the implementation rules may be able to handle this problem. If not, ad hoc procedures could be used to ensure that AMS reductions meet broad objectives in terms of reducing trade distortions.

A further rationale can be advanced for supplementing the AMS approach with ad hoc actions. The AMS approach, even if backed up by rule changes, depends on high-level political commitment and sustained domestic support. By contrast, the more traditional request and offer approach requires no specific statement of outcome and often takes place away from the domestic spotlight. If the initial commitment to wide-ranging support reduction were to waver, it would be useful to have commodity-specific and policy-specific proposals to fall back on, rather than risk the total collapse of the agricultural part of the Uruguay Round. Ad hoc negotiations, within the framework of other medium-term actions, could have a positive role to play.

The "Country Plans" may be a useful vehicle for incorporating ad hoc concerns in a way that supplements the AMS approach. Each Country Plan could give an opportunity for other trading partners to request that particular trade problems be addressed. The Country Plans could be a vehicle for making explicit the relationship between the relaxation of supply controls and improved market access. "Credit" for actions which have a particularly beneficial impact on trade might be subsumed more easily under a Country Plan than built explicitly into an aggregate measure. Bindings of subsidy levels and plans for a rollback, together with explicit guarantees of market access, could also be incorporated into the Plans. Finally, the Country Plan could lead to greater transparency in identifying trade issues even if the AMS reduction should fail for some reason. The set of plans could then form the basis for another type of negotiation.

Long-Term Actions

The objectives of the Uruguay Round negotiations on agriculture for the long term (see table on next page) are to:

- complete the process of reductions in barriers to trade and the removal of trade-distorting subsidies;
- encourage adjustment in domestic farm programs to remove or limit their adverse effects on trade;
- implement and maintain an open trading system for agriculture, based on a permanent framework of clear and enforceable GATT rules and disciplines.

These objectives should be achieved by extending the process of reductions in the AMS in each country, and by securing this progress through changes in national farm and trade policies. It would be supplemented by the implementation of a permanent framework of international rules and disciplines. This process should be supported by procedures for policy review, surveillance, and the settlement of disputes. There is also scope to facilitate and reinforce agricultural trade liberalization through ad hoc actions to achieve better coordination of the economic policies which affect agricultural production and trade.

The Importance of Contractual Rules

The process of bringing agriculture into the GATT will rely increasingly on the negotiation of clear and enforceable rules and disciplines. This must be achieved through amending or rewriting GATT Articles, codes, interpretive notes, and negotiating supplementary provisions. The weakness in current rules stems primarily from the unwillingness of governments to accept disciplines on their domestic farm programs. The world agricultural trade crisis has weakened the credibility and authority of GATT. It is crucial that rules and disciplines be strengthened if confidence in the international trading system is to be restored. Consequently, the objectives of rules in both the medium and the longer term are to remove progressively the exceptional treatment accorded agriculture, and to negotiate a permanent framework for the conduct of trade in all goods, including agriculture.

Although the Uruguay Round proposals generally support stronger GATT rules, governments may be unwilling to agree that these should apply fully to agriculture following the completion of the medium-term actions. Although it is possible that some permanent rules, such as a prohibition on direct export subsidies, could be agreed and implemented at the beginning of the transition period, a general prohibition on the use of the quantitative restrictions or domestic subsidies which affect trade may not be fully attainable in the medium term. Thus, interim rules should be designed to bring trade progressively under GATT and should continue to operate over the longer term if necessary.

Framework for Negotiating Long-Term Actions

Negotiating Approach/Options	
Targets	Rules
AMS	Ad Hoc
<p>Complete Process of Reductions</p> <ul style="list-style-type: none"> • Negotiate/implement additional reductions • Establish arrangements for developing country participation 	<ul style="list-style-type: none"> • Complete phase-in of interim rules • Bind all forms of trade protection and distorting subsidies
<p>Reinstrumentation of Policies to Achieve Trade Neutrality</p> <ul style="list-style-type: none"> • Contains reinstrumentation of domestic policies • Develop procedures for consultation and review 	<ul style="list-style-type: none"> • Convert remaining trade-distorting policies to tariff equivalent • Establish strict conditions for any exceptions
<p>Maintain Open Trading System</p> <ul style="list-style-type: none"> • Continue monitoring and notification of national policies • Ongoing process of policy review and settling differences 	<ul style="list-style-type: none"> • Remove all exceptions for agriculture under GATT rules • Implement permanent framework of rules and penalties • Integrate interim surveillance and dispute settlement procedures with general GATT procedures • Agreements on sanitary/photosanitary measures
	<ul style="list-style-type: none"> • Develop work program for subsequent Round
	<ul style="list-style-type: none"> • Encourage general economic policy coordination
	<ul style="list-style-type: none"> • Review multilateral mechanisms to improve stability in the new trading environment • Ensure full application of general results of Uruguay Round to agriculture

It is also important to develop rules in clear and unambiguous terms to reduce the scope for policy differences and to enable the dispute settlement process to function effectively. In this respect, it is likely that governments will insist on greater flexibility in writing rules and conditions relating to domestic policies. Traditionally, governments have been reluctant to accept disciplines on their internal agricultural policies. Despite their declared willingness in the Punta del Este Declaration to negotiate on the trade effects of current policies, and to deal with their causes, it remains to be seen whether firm commitments in the form of contractual rules and disciplines will be agreed. This underscores the importance of negotiating strong and enforceable rules and disciplines which deal with the trade-distorting effects of policies, and of implementing a permanent framework of rules in parallel with the AMS approach.

Completing the Program of Reductions

Government commitments to reduce trade barriers and trade-distorting subsidies should be continued throughout the 1990s and possibly beyond. There should be an agreement to review the program of adjustments at regular intervals. Governments should negotiate additional reductions to levels comparable to those for other traded goods. To the extent that developing countries have not participated in the AMS program of reductions, arrangements will be required to cover their policies and interests.

Although the objective of the negotiations may be the removal of all policy instruments with significant adverse effects on agricultural trade, it is difficult to determine in advance how far the process will go. It may be altered or fail to be completed. In any case, there should be agreement to bind all forms of trade protection and trade-distorting instruments against any adjustments that may harm the interests of other Contracting Parties. This would provide strong security for the reductions negotiated in each Round and should prevent the erosion of the progress achieved through the AMS approach.

The results of the Uruguay Round would be greatly enhanced if governments would agree to translate into tariff-equivalent forms and bind in all trade-distorting support that remains after the first phase of adjustment. This would provide a firm basis for subsequent negotiations on reductions in barriers and improvements in the rules and operations of GATT.

Trade-Neutral Policies

Governments must reach agreement on which policies seriously distort agricultural trade and begin to alter or remove these policies. The process of re-instrumentation will take place gradually. It is unlikely that countries will adopt a common approach due to differences in existing policies, in country conditions, and in policy preferences. The process of negotiating new commitments and

tabling Country Plans with agreed implementation rules could continue into the long term. Governments may then agree to a code with respect to development and operation of national policies to ensure their trade-neutrality and to provide mechanisms for on-going policy notification, monitoring and consultations.

Although interim rules are designed to bring agriculture fully under GATT, the medium-term process is likely to stop short of free trade. For example, the policies now covered by waivers, grandfather clauses and protocols of accession to the GATT are likely to require an extended period of transition even if governments agree to accept that there will be full disciplines for them eventually. Policies now operating outside GATT rules, such as variable levies, voluntary restraint agreements and aspects of state trading operations, should also be brought under the rules. This will involve changes in many basic policy instruments. An agreement to convert all remaining trade barriers to their tariff-equivalents and to prohibit all direct and indirect subsidies would represent a major advance in the process of trade liberalization for agriculture.

Maintaining an Open Trading System

The AMS approach envisages the negotiation of a schedule of specific changes in domestic and trade policies, regular review procedures, and a means to negotiate adjustments in commitments. It will be necessary to develop unique, effective arrangements for the submission of Country Plans, surveillance of undertakings, notification of policy changes and the settling of disputes. Some of these arrangements may be temporary and designed to operate in the medium term, pending the adoption of permanent rules and procedures for agriculture. Others will be developed for specific application to domestic agricultural policies and may be continued within the GATT framework. For example, empirical measurements which monitor overall policy developments would be useful, whether or not AMS reductions are continued in the longer term. If a senior policy group is established to oversee the AMS approach, the group should be maintained in order to provide on-going review and assistance in settling disputes. These arrangements should be integrated into the overall framework in order to give the GATT a wider role in policy coordination.

The key to the long-term success of the comprehensive approach lies in the establishment of a permanent framework of rules and disciplines which apply fully to agriculture. While governments may be able to remove the trade-distorting effects of current policies through a process of progressive adjustments supported by interim arrangements, long-term success requires an agreed framework of clear and enforceable rules to prevent the re-emergence of trade-distorting policies. Governments must be dissuaded from exporting their agricultural adjustment problems to their trading partners by an effective multilateral system of rules and penalties.

The permanent framework of GATT rules should remove all exceptions for agriculture that arise from waivers, grandfather clauses and protocols of accession and should capture all policies currently outside GATT disciplines. The prohibition in Article XI on the use of quantitative restrictions should explicitly include all QRs and similar border restrictions such as variable levies, minimum import price regimes and voluntary restraint agreements. Some may be converted to tariff equivalent forms and bound. If any remain, strict conditions for their continuance should be negotiated, including bound minimum access commitments, phaseout periods and procedures for regular review.

Similarly, rules relating to subsidies should be revised to apply fully to agricultural products. There should be a prohibition of agricultural export subsidies and other subsidies with equivalent effects. The disciplines of Articles XI and XVI should either be extended to cover state trading operations, or Article XVII should be altered to ensure that state trading enterprises are subject to the disciplines relating to import restrictions and export subsidies. The requirements for transparency of state trading operations need to be strengthened. Finally, agreements on harmonizing standards and sanitary and phytosanitary measures should be fully implemented.

The enforcement of specific commitments under the strengthened rules, whether of an interim or permanent nature, should be achieved through the regular provisions of Articles XXII and XXIII covering consultation, nullification, or impairment. However, stronger surveillance and dispute settlement procedures will be necessary. The dispute settlement process must function effectively if the system is to survive. The rules and disciplines must be made effective and operational, and the dispute settlement procedures must operate in a manner that is expeditious, transparent and fair. Finally, there will be agreements reached in other negotiating groups in the Uruguay Round which are important to agriculture. Steps should be taken to ensure the full application of the general results of the Round to agriculture.

Following a period of adjustment in national policies and the implementation of stronger and more effective rules, it may be useful to review the various multilateral mechanisms that could be used to improve stability in international markets. In the past, international commodity agreements and GATT commodity codes have not been effective, largely because they could not deal adequately with the underlying causes of trade problems. In the new trading environment, there may be workable mechanisms that could reduce market fluctuations caused by unexpected natural developments, unusual price fluctuations, exchange rate misalignments and other general economic factors. Open trading arrangements should contribute to international price and exchange rate stability but many countries, particularly in the developing world, will seek additional arrangements to buffer their internal markets against extreme price fluctuations.

Conclusions

- The Uruguay Round for agriculture is different from previous negotiating rounds. For the first time, governments have acknowledged that domestic policies are the fundamental cause of agricultural trade problems.
- The negotiations are currently stalled because of differences in the degree to which countries are willing to reform their agricultural policies, differing opinions on which countries are responsible for agricultural trade problems, and philosophical differences on the degree to which market forces should operate.
- A comprehensive negotiating framework based on the following principles is required:
 1. The objectives of the negotiations are to freeze, gradually reduce, and finally eliminate the trade-distorting effects of agricultural policies.
 2. While countries should remain free to choose their own agricultural policies, governments should reach an early agreement on those policies which have a minimal impact on trade, and are deemed acceptable.
 3. Reform of agricultural policies in developing countries should be included in the negotiations, but an agreement on agricultural policy reform needs to take into account their level of economic development.
 4. All policies that distort agricultural trade should be subject to clear, precise and enforceable GATT rules and disciplines. These rules should be broadly consistent with those for other traded products.
- The Comprehensive Framework proposed in this report consists of three parallel approaches:
 1. Use of an across-the-board negotiating technique and Country Plans which identify the mechanisms by which countries will reduce trade-distorting assistance to agriculture.
 2. The progressive implementation of GATT rules and disciplines.
 3. The adoption of ad hoc commodity and/or policy specific agreements where necessary.
- The basic list of policies "Subject to Negotiation" consists of border measures, price/income supports, and input subsidies. Decoupled income payments and price/income stabilization programs can be excluded from negotiation if they meet conditions agreed to by the Contracting Parties. Other policies would be monitored and could be subject to ad hoc negotiation.

- Negotiations under the Comprehensive Framework should lead to actions and commitments to be undertaken in the short, medium and long term.
- Short-term objectives are to relieve the pressure of surpluses on international markets and to move the negotiations forward through a demonstration of “good intent”. Short-term actions are to:
 1. Freeze indirect and direct export subsidies, the trade effects of supply control programs, and quantitative restrictions.
 2. Responsibly manage and release stocks.
 3. Agree to a major reduction in trade-distorting levels of support over the medium term.
 4. Negotiate a package of immediate reductions in the trade-distorting level of support, equivalent to at least 10 percent.
- The medium-term objective is to achieve a significant reduction in the trade-distorting effects of government policies. Medium-term actions are to:
 1. Reduce the trade-distorting level of support in all countries by fifty percent over a five year period.
 2. Progressively bring agriculture under GATT rules and disciplines.
- The long-term objective is to bring agriculture fully within an improved and properly functioning trading system. Long-term actions are to:
 1. Complete the process of reducing the barriers to trade and the removal of trade-distorting subsidies.
 2. Encourage the adjustment of domestic farm programs to remove or limit their adverse effects on trade.
 3. Implement and maintain an open trading system for agriculture based on a permanent framework of clear and enforceable GATT rules and disciplines.
- The mid-term review in Montreal will be a critical point for the Uruguay Round. Success of the Round hinges on the political resolve to follow through on the Punta del Este Declaration. An agreement to adopt a Comprehensive Framework, such as the above, would be a major step forward along the path towards an improved trading system for agriculture.