Agriculture Committee

Draft Report to the Council

1. At their last session the Contracting Parties directed the Agriculture Committee, whose terms of reference and composition are set out in COM.AG/2/Rev.1, to proceed with the task of formulating conclusions on possibilities for concrete action that might appropriately be taken to deal with the problems that arise in the field of agricultural products and that this task should be completed during 1970. The Contracting Parties also decided that such opportunities as might arise for the settlement of particular trade problems at any time should be pursued, especially with respect to products on which a substantial amount of preparatory work had already been done within GATT (L/3366, paragraph 4).

2. The Committee had decided to carry the work forward in four working groups dealing respectively with:
   - Group 1: Measures which affect exports,
   - Group 2: Measures which affect imports,
   - Group 3: Measures which affect production,
   - Group 4: Other relevant measures.

These groups each held one meeting in the first half of 1970; their reports on these meetings are annexed to this report.

3. The Committee itself has held three meetings since the last session of the Contracting Parties in July, November and December. Secretariat notes on the first two meetings have been circulated as COM.AG/22 and COM.AG/23.

4. The Committee has, during the course of the year, assembled a wide spectrum of suggestions or proposals as to how the principal problems might be dealt with. It is understood that the Committee's work has been essentially of an exploratory nature and that the definition of this range of possible solutions does not imply a commitment to conform to any of these solutions. The Committee notes that these suggested solutions enjoyed varied degrees of support from members and that they are not always compatible with one another. It also notes that, at the present stage, none commands support wide enough for any solution to be qualified as mutually acceptable.
5. The Committee has concluded, therefore, that this report should simply set out the suggested solutions that have been put forward, together with some of the main points made on them in the discussion, the suggestions made as to the best way of pursuing the work in the coming year in order to assist the Council in coming to a decision of this matter.

Suggested solutions - general

6. Various members explained their broad approach to the problems. A member said that his proposals, which were consistent and comprehensive, would need some specificity as to how they could be brought into application and what they would entail for individual contracting parties and individual commodities. His proposals on measures, affecting exports, imports and production are given under the respective headings of this report. He stated that in implementing his proposals, a start should be made with measures affecting exports and imports at the frontier; subsequently, other measures might be taken to mitigate any effects on domestic production. He suggested that the Committee examine these proposals and their implications as part of the future work programme to enhance their acceptability as elements in future negotiations.

7. Some members said that as all agricultural problems were interrelated, a general concept governed their agricultural policy, the measures of which formed a single whole. Any action on one measure had repercussions on all others. A delegation pointed out that their approach consisted in differentiating between solutions which called for changes in existing legislation or policies, and those which did not. For the first type of solutions, a common denominator and an appropriate method of negotiation must be sought. So far as those of the second type were concerned, solutions could be sought in the context of existing legislation or policies through the adjustment of management measures.

8. A member pointed out that his government was very conscious of the importance of the aims pursued by the Committee. It had already made decisions on the elimination of quantitative restrictions on certain agricultural products which his government would make the utmost efforts to liberalize within the next six months. As to the furtherance of liberalization measures, while a decision as to which
products would be liberalized had not yet been taken, his government had declared its intention to proceed vigorously and to the widest extent possible.

9. A question was raised regarding the changes proposed in the basis of agricultural support of a major importing country. The representative concerned, in reply, considered that this matter did not fall directly within the scope of the discussion, but explained that one aspect of it was his country's application for accession to a customs union, and that the effect of the proposal would be to align his country's policies more closely with those of the customs union. The other aspect was his government's concern at the high level of public expenditure in agriculture; price fluctuations in the domestic market, which was large and open, led to an open-ended commitment for public expenditure. He foresaw no major changes in import requirements or production levels and only a minimal impact on trade as a result of the proposals which in his view represented only a change in the method, but not in the level of support and which had been designed to cause the least disturbance to trade. Moreover, his delegation continued to maintain that the present situation in agriculture was not of the importers' making. Some delegations doubted that the proposals would have only a minimal effect on trade and expressed their concern at the proposed changes, particularly in the context of efforts to find mutually acceptable solutions to the problems of international trade in agricultural products. These delegations asked for an expression of view by the country concerned about his authorities' approach to this question. In reply the delegate pointed out that his country had fully co-operated with other members of the Committee in its work and repeated that the proposals had been framed to cause the least disturbance to trade.

10. Several delegations stressed that, in searching for possible solutions, special attention should be given to measures of particular importance to developing countries. In the search for a basis for general negotiations on agriculture, priority attention could be given to problems of developing countries by identifying those sectors of special interest to these countries in which action could be taken by the CONTRACTING PARTIES in the immediate future.
Measures affecting exports

11. A member proposed that the Committee accept the elimination of all governmental aids to exports as an ultimate objective of concrete action. While this objective might not be attained immediately, procedures should be so devised as to give the greatest prospects of rapid advance in that direction. He proposed in this connexion that governments might agree to make Article XVI:4 applicable to all products, or, if governments could not eliminate export subsidies promptly but could accept their elimination as an objective, commitments be taken to their progressive reduction and elimination.

12. Some delegations said that export aids were only one element of agricultural policies and could not be dealt with in isolation. Some delegations considered that international action should first be directed at production policies with the aim of limiting production and avoiding surpluses in developed countries.

13. Some delegations considered that the elimination of governmental export aids was a long-term objective which was worth pursuing. This would however have to be done gradually and by appropriate means such as making Article XVI:4 applicable to all products (as suggested in paragraph 11 above), or pending such a decision, strengthening and giving greater precision to the existing Article XVI provisions on primary products, or, thirdly, by means of:

   (a) limits covering, for example, overall cost ceilings of export assistance, or cost ceilings for individual products or product groups;

   (b) a maximum cost per unit of subsidization for particular products;

   (c) the establishment of a fair relationship between the price of the primary product and the processed product; and

   (d) the establishment of minimum prices on international markets.

14. The member referred to in paragraph 11 proposed that possible commitments leading to progressive reduction and elimination of export aids should be examined, and might include the following:
(c) Establish each exporting country's total of subsidy payments on all products in a base year (say 1970) and provide that it shall be diminished by, say, 20 per cent per annum.

(b) Establish each exporting country's total subsidy payments for each product in a base year (say 1970) and provide that total subsidy payments for export of that product be diminished annually by, say, 20 per cent of the base year subsidy.

(c) For each country find the average unit subsidy per product in the base year (say 1970) and provide for the annual reduction of the unit subsidy by, say, 20 per cent of the base year level.

(d) Determine the 1970 average world market price for each product. In succeeding years the world market price would be estimated for 1971, 1972, etc. ("world market price" being defined in the same terms for 1970 and succeeding years). The 1970 subsidy ceiling per unit would then be defined for each country as the average domestic unit price less the 1970 average world market price. For 1971, the domestic price ceiling per unit for each country would be the 1971 estimated world market price (as estimated by a competent designated authority, say, FAO) plus, say, 80 per cent of that country's 1970 subsidy ceiling per unit. In 1972, the domestic price ceiling per unit would be the 1972 estimated world market price plus, say, 60 per cent of the country's 1970 subsidy ceiling, etc. In each year, beginning with 1971, no country's actual unit subsidy would be permitted to exceed the specified percentage of the 1970 unit subsidy ceiling.

15. Members expressed their appreciation for these suggestions. For reasons of time and because of their complex technical nature the Committee was not able to discuss them in detail.
16. Some delegations said that possible action in the field of export measures should take the form of a price discipline based on agreed minimum prices in international trade. Other delegations said that, for countries which practised certain systems of support (for example, two-price systems), export aids could only be limited in this way.

17. Some delegations, in supporting the objective of elimination of subsidies and its attainment in cumulative steps, pointed out that their agricultural exports, which were not subsidized, provided the means for industrial development. Other delegations stated that account must be taken of developing countries with a high dependence on agricultural exports, but where the stage of agricultural development was such as to make recourse to aids necessary if exports were to take place.

18. Some delegations suggested that priority consideration should be given to the elimination of export aids on products in which developing countries account for a significant share in world trade.

19. Some delegations expressed their readiness to consider solutions that did not involve a change in existing legislation or policies, including solutions based in particular on price discipline, on harmonization of export aid measures and on strengthened international co-operation. Some of these delegations felt that a more concrete formulation of these suggestions would make their consideration more easy.

20. Some delegations expressed support for extending the scope of paragraph 4 of Article XVI to all products. Some delegations also supported the strengthening and clarification of the existing provisions on primary products of that Article. Some representatives of developing countries expressed reservations on these suggestions, but welcomed the suggestion that any revision of Article XVI should have regard to Article XXVI, particularly paragraph 3 of that Article.

21. Several delegations stressed the importance of notification and consultation procedures as a first step towards the containment and subsequent reduction of export aids.

Measures affecting imports

22. The Committee discussed measures affecting imports which had been examined by Working Group 2 whose report is at Annex 2.
23. The Committee agreed to draw up a document containing factual information on tariffs, quantitative restrictions, variable levies and other special charges; this document will also contain information on health and sanitary regulations which have been notified and which came under Working Group 4. Further details are contained in paragraph 5 of COM.AG/W/62 and paragraph 8 of COM.AG/22.

24. Some delegations stressed the paramount importance for them of import measures and the harmful effects which they could have. They also stressed the fact that, in their view, variable levies were more restrictive than quantitative restrictions. In the view of other delegations quantitative restrictions were particularly dangerous because they could lead to a ban on all imports.

25. Some delegations said that the aim should be the removal of all quantitative restrictions, variable levies and related restrictive measures and reliance on fixed tariffs at non-prohibitive levels. Several other delegations expressed the view that while this proposal had the advantage of simplicity it might be extremely difficult to put into practice. The delegation with whom the proposal had originated explained, in reply to questions, that under the proposal countries which at present relied on variable levies would be able to replace these by fixed tariffs and that the level of the fixed tariffs in these and other countries would be agreed upon by negotiation. This delegation also said that it would only be able to consider removing the limited number of quantitative restrictions which it maintained if other delegations could consider the removal of their quantitative restrictions and variable levies.

26. This delegation said that possible techniques for the negotiated reduction of quotas and variable levies might include the establishment of average duty equivalents of quotas by ascertaining, for each commodity, the average unit differential between domestic price and landed cost (c.i.f. plus any fixed duties and/or charges) for 1970. Where this differential was greater than zero, the quota would be enlarged so as to reduce the differential by, say, 20 per cent for 1971, 40 per cent for 1972, etc. The ad valorem equivalents of variable levies would be established in the same manner and would be reduced for each commodity by, say, 20 per cent for 1971, 40 per cent for 1972, etc.

27. Some delegations said that they were not prepared to negotiate on, or pay for, the removal of illegal quantitative restrictions or the discriminatory element in otherwise legal restrictions, and that time-tables for their removal should be established. In reply to questions, these delegations said that by discriminatory
quantitative restrictions they meant those which did not conform to the provisions of Article XIII, unless they were permitted by Article XIV. They said that in the interim criteria should be adopted for the non-discriminatory administration of any remaining restrictions and suggested that quantitative restrictions for which slight justification existed should be eliminated, that quotas should be opened in cases where imports were at present prohibited and an annual increase in quotas provided in order to permit imports to share in the growth of the market.

28. Some delegations said that all contracting parties should make efforts to relax and eliminate quantitative restrictions, whether legal or illegal, and should submit a list of items which could be liberalized; efforts should be made to increase other remaining quotas and solutions to these remaining quantitative restrictions should be found through consultation in the GATT.

29. One delegation suggested that Article XI be broadened to legalize some of these restrictions while submitting them to additional discipline and periodic review in the GATT, with a view to moving towards a more rational trade in agricultural products. Several delegations said that they could not support this suggestion.

30. Some delegations suggested that the problems of agricultural trade should be identified and possible solutions should be sought to particular problems. A distinction should be drawn between the problems which might be resolved by an appropriate management of existing measures and the more far-reaching problems the solution of which required modifications of agricultural policies.

31. These delegations said that in the first area there would be room for a whole series of adjustments which could improve trade in agricultural products. In the case of quantitative restrictions, for instance, the methods of administering them might be made more flexible. In some cases where quotas were fixed on the basis of historical market shares which were no longer relevant provision should be made to permit new exporters to enter the market. In the case of levies, exporters might co-ordinate their exports by exercising in this manner an influence on world prices so that the amount of the levies imposed by the importing countries could be influenced.

32. These delegations said that solutions in the second area presupposed very comprehensive negotiations. Countries should be left free in principle to apply whatever instruments they deemed appropriate to their own policies. The negotiation would essentially bear on the final results which it is desired to obtain. The
undertakings would bear upon certain common data to be determined. One useful concept might be the self-sufficiency ratio. This does not exclude that more precise commitments concerning certain specific instruments might also be taken case by case. Replying to questions on the specific commitments that might be made, those delegations recalled that, at one stage of the Kennedy Round, the possibility had been considered of reducing the variable levy on a particular product by reducing the sluice-gate price.

33. Some delegations stressed the importance, in searching for possible solutions, of giving special attention to measures of particular importance to developing countries. In the search for a basis for general negotiations on agriculture, priority attention could be given to problems of developing countries by identifying those sectors of special interest to those countries in which action could be taken by the CONTRACTING PARTIES in the immediate future.

34. The Committee examined the particular problem of vegetable oils and oilseeds. The discussion which took place in Working Group 2 on this matter is summarized in paragraphs 20 to 26 of its report which is at Annex 2. Some delegations expressed the view that tropical oils and oilseeds should be given separate treatment and expressed the hope that the question of a standstill would be given favourable consideration. Some delegations said that particular attention should be given to differential tariff duties on these products and that differential tariff duties were also important in the case of other products of particular export interest to developing countries, the example of duties on products shipped in bulk and those on products in small packages being mentioned as an example.

**Measures affecting production**

35. Several delegations stressed the importance of measures relating to production. Some delegations considered that international action should first be directed at production policies with the aim of limiting production and avoiding surpluses in developed countries.

36. A delegation proposed that any farm income maintenance measures which governments consider necessary should be separated from production and price policies in order to ensure that such measures are production neutral. It suggested the following possible techniques:

(a) A possible technique for the negotiated encouragement of income support measures (such as farmers retirement pensions and long-term land retirement payments) that withhold resources from the production of particular commodities
might be: Estimate the value of the 1970 unit produced per man or hectare withdrawn from production. Multiply result by total number of units withdrawn, so as to get the estimated value of the total production reduction. If country is a net importer of the product, calculate duty that the producing country would have collected on a like value of imports. Convert to ad valorem duty equivalent, using actual total import values as the base. If the importing country binds itself not to increase acreage or farm labour force in producing a specified commodity from which resources have been taken, the country may claim negotiating credit as if the tariff had been bound at a reduced level.

(b) A technique for the negotiated elimination of income support measures (e.g. premia, or deficiency payments, per unit of output) which reward increased production of particular products might be: Estimate the 1970 volume of production attributable to the support measures (i.e. subtract from 1970 actual production the estimated production in the absence of the income support measure). Determine the domestic market price reduction which would have increased consumption by this amount, expressing this price reduction in percentage terms. If provision is made for a (possibly staged) abolition of the domestic producer income supports in question, negotiating credit can be claimed as if duties had been reduced by the ad valorem percentage calculated above.

37. Some delegations, while regarding these suggestions as interesting, expressed the view that while it might be possible to find negotiating techniques on frontier measures, it seemed difficult to find techniques appropriate to production measures. They felt, moreover, that the concept of production neutrality did not provide a useful starting basis for negotiations. Other delegations also pointed to the difficulty in assessing the production neutrality of various measures and considered that this problem would need to be studied.

38. Some delegations said that these suggestions raised the problems of equity. They considered that a country should not expect to be given negotiating credit for moving out of an area of production into which it had entered by artificial means. The parallel was drawn with unwarranted health and sanitary regulations for the abolition of which, in the view of some members, no payment should be expected either.
39. Some delegations stressed the need for an equitable sharing of responsibility for the level of supplies and their management. In the view of certain delegations, this responsibility rested essentially with exporters, particularly in view of the size of the surpluses. These delegations considered that without production controls by exporters, the main problems in agricultural trade would not be solved. However, other delegates pointed out that policies in importing countries had an important bearing on the ability of exporting countries effectively to take action relating to supply management. They said that a rational policy maintained by exporting countries might well become irrational through policy measures taken by importers.

40. Some delegations stressed that any solutions must take into account various factors such as differences in natural endowments or structural patterns, and a country's present economic and social situation. Solutions must, therefore, differ country by country and product by product.

41. Some delegations, while recognizing the need for a balance between supply and demand, said that particular account must be taken of the stage of agricultural development in developing countries, where encouragement for improvement and diversification of agricultural production was still needed — duly taking into account comparative advantage in soil, climate, etc. and projections of both local consumption and export potential — and for whom a limitation of production would have serious consequences. Some of these delegations considered that such a limitation should apply only to countries that exert pressure on international markets with surpluses produced by means of artificial incentives.

42. Several delegations expressed interest in the applicability in present circumstances of the margin of support approach, possibly supplemented by provisions on self-sufficiency ratios. Some delegations said that consideration should be given to levels (rather than margins) of support, together with the self-sufficiency ratio, as a tool towards concrete solutions. One delegation stated that the margin of support and the self-sufficiency ratio should not be considered as an obligation to be assumed by all countries without distinction.
Other relevant measures

43. The discussion on the work of Group 4 dealt principally with the health and sanitary regulations that had been notified. Several delegations pointed out that such regulations could be formulated or administered so as to have an unnecessarily restrictive effect on trade, especially when they went beyond the health or sanitary problem sought to be controlled or were applied in a discriminatory manner. Several delegations noted that their observations applied to other types of measures which Group 4 had examined such as marketing standards and not only to health and sanitary regulations.

44. It was generally agreed that it was necessary to avoid duplicating the work of other international bodies. A number of delegations mentioned work currently being done, or that might better be accomplished, by other international bodies. The Committee was informed generally as to the work of the FAO/WHO Codex Alimentarius Commission. Reference was also made, inter alia, to the International Standards Organisation, the OECD, the International Office of Epizootics and the International Plant Protection Convention of 1951. Several delegations noted that the Committee did not have the special competence required for dealing with some of the more technical aspects of health and sanitary regulations. Several delegations said, however, that the trade effects of these regulations were certainly within the competence of the Committee and that there would be no duplication if it concentrated on this particular aspect.

45. Several delegations proposed that the GATT draw up guidelines for the formulation and administration of health and sanitary regulations so as to reduce or eliminate altogether any harmful trade effects. Particular reference was made to Article XX of the General Agreement, which they found vague. In this connexion one delegation suggested that the Committee might call on the assistance of expert rapporteurs to be sent by contracting parties, and on the advice of international bodies with special technical competence. In its view the Committee could perform a hortatory function in drawing up a statement that would call upon contracting parties to work towards implementing standards that would, as nearly as possible, be parallel with those envisaged by the Codex Alimentarius. Pointing out that at
best Article XX sub-paragraph (b) was not complete enough and had to be read in the context of the General Agreement, some delegations questioned whether the principle of most-favoured-nation treatment was relevant since there were cases when only a single or very few exporting countries might harbour a particular disease or pest. There was general agreement, however, that non-discriminatory application would imply that imported goods should receive the same treatment as goods produced domestically.

46. Many delegations were of the opinion that individual contracting parties should engage in bilateral consultations whenever they felt that certain health and sanitary regulations had unjustifiably adverse effects on their trade. If such consultations failed it would then be up to the affected contracting parties to proceed within the framework of the General Agreement. It was pointed out that consultations on trade effects could be held under Article XXII, and that these might be based on expert advice from specially competent bodies, although some delegations expressed some doubt as to the feasibility of such a procedure. Another delegation expressed the view that any course of action taken by the Committee should not interfere with bilateral efforts to handle particular health and sanitary problems.

47. One delegation was of the opinion that it would be desirable to evolve a procedure by which a third party could arbitrate questions concerning the harmful trade effects of such regulations, but another delegation urged caution in this respect, since different contracting parties could adopt different regulations because of truly different conditions.

48. Other delegations stated that in the last analysis the government of each contracting party was responsible for the health of its citizens and that it would have to be the final arbitrator in all such cases since health and sanitary regulations were not negotiable in the ordinary GATT sense. One delegation considered that the secretariat might advise the contracting parties as to information on health and sanitary standards which it might receive from other international bodies. Another delegation questioned whether this would be necessary and suggested that governments themselves would be kept informed by the same organizations directly. One delegation suggested that the secretariat inform these organizations
of the interest which GATT was taking in the trade aspects of such regulations, and that perhaps this might be done informally by a letter from the Director-General.

49. In the view of one delegation the foregoing discussion was a recognition by the Committee that harmfully formulated or administered health and sanitary regulations must be eliminated.

50. One delegation drew attention to the fact that a certain country was about to introduce import restrictions, using as a justification Article XX, sub-paragraph (g) relating to the conservation of exhaustible natural resources. It appeared to this delegation that the action would not be entirely consistent with the provisions of that sub-paragraph which provided that such import measures must be made effective in conjunction with restrictions on domestic production or consumption.

Suggestions as to future work

51. Some delegations made suggestions to be taken into consideration by the Council when deciding the best way of pursuing the work in the coming year. Two main types of suggestion were made.

52. The first was that delegations should be invited to put forward further suggestions as to ways in which the principal problems facing trade in agricultural products might be dealt with, to make more specific the suggestions that had been made where this had not already been done, and to carry out an analysis of the suggestions.

53. Some delegations underlined the urgency of getting on with the job of establishing a basis for future negotiations and said that the uncertainties of the present situation should not prevent this. They suggested that the Committee should concentrate on those suggested solutions which showed the best chance of acceptance, then on their application to particular commodities and finally on what additional elements might have to be brought into a negotiated package to make it acceptable for the principal participants.

54. The second suggestion was that in the coming year the Committee might explore opportunities for the settlement of particular shorter-term trade problems.