Any viable approach to the solution of the principal problems of agricultural trade must be based on the application of the principle of comparative advantage. Commodities would be produced where they can be produced most efficiently. Trade would develop and flourish and, at the same time, trade flows motivated by temporary political advantage would disappear and international relations would be freed from any of the tensions and uncertainties that arise from trade distortions.

This means fundamental reform in present policies and practices affecting agricultural trade is required. It should be the aim of negotiations in GATT to further this reform.

Of course, Contracting Parties could not and should not ignore the social and political needs of every nation to assure an adequate income to farmers.

A further aspect which must not be overlooked in negotiations is the urgent need for liberalization which will prove of special benefit to the developing countries. General trade negotiation in 1973 must consider the special problems arising in the trade of countries comprising the bulk of the world's population.

Governments have been trying to meet these problems by systems of agricultural support that distort production, consumption and trade. Basic reform is required in agricultural support systems. Domestic support policies should move away from price support to income maintenance payments. These payments should have a minimal impact on trade. They should insure that the national costs of farm support will not be shifted to the outside world, but rather, will be borne directly by the societies which deem them necessary. Properly designed systems of income support should make it possible both for farmers to have adequate incomes and for the principle of comparative advantage to operate more effectively than it now does in serving the international economy.
To insure that reform in agricultural support systems is reflected in international trade in agricultural products, the following reforms should be given serious attention, we believe, at the 1973 negotiations.

(a) Methods of protection at the frontier should be modified to permit trade to flow only over fixed tariff barriers or no barriers at all.

(b) Export subsidy programmes which artificially create trade flows at the expense of both domestic economies and more efficient foreign suppliers should be ended.

(c) Preferential arrangements which distort trade flows should be ended.

(d) Those elements of domestic production policies which have trade distorting effects should be eliminated.

Combination of Techniques for Negotiating on Agriculture

1. The major trading countries could bind in the GATT import duties for all agricultural products, including those of special interest to the developing countries. It would be understood at the outset of any negotiation that every product is bound at its nominal level of protection, whether the protection be afforded by duty, quota, variable levy, State trading or other devices. A GATT decision would be taken to this effect prior to negotiation.

2. The import duties bound could be expressed as fixed duties - either specific or ad valorem. This would mean converting a number of systems (e.g., variable levies, minimum import prices schemes, quotas, State trading) to fixed duty systems - at least for the purpose of calculating the duty bindings. Each country could make an initial judgment of the equivalent fixed duties and this judgment could be examined by the GATT. This would establish a base level of protection for variable levy items and quota items. In principle, the variable levies or quotas could be converted to fixed duties; exceptions to the principle might be negotiated.

3. Set a target for maximum levels of protection, for example, 20 per cent ad valorem, to be reached in ten years. This target could vary by commodity or sector. It might be zero or a harmonized level. This could also be a matter for negotiation and vary from product to product. It could include items of special interest to the developing countries.
4. The bound duties could then be scheduled for reduction to the specified levels over a period of, say, ten years.

5. A schedule could be set for the elimination of export subsidy payments to commercial markets over the same ten-year period that import duties and support levels are being reduced. As with import protection, a base level of subsidy could be calculated and yearly reductions could be calculated from that. Production which could not move under the subsidy would be stocked or disposed of in food aid uses under concessional terms. In the interim, and in the case of non-participants, importing countries could, when asked by a non-subsidizing supplier, be required to apply countervailing duties. The question of whether a subsidy existed and at what level could be put to arbitration. Countervailing duties would be applied on commodities from all countries subsidizing. A GATT decision to this effect would be taken at the beginning of the negotiations.

6. Agree on the principle that additional payments for farm income maintenance will be of a type which will influence production of particular products as little as possible. One such system might be direct payments to low income farmers designed to maintain their income on a par with that of industrial workers in the area. The method and level of income maintenance would remain the decision of each country, subject to the general understanding discussed above and subject to challenge in the GATT.

7. Preferential arrangements on agricultural products not eliminated by the changes mentioned above could be removed by gradually increasing the preferential duty to the most-favoured-nation level over the same time period. A GATT decision could be taken on this prior to negotiation.

Within the context of equally far-reaching reforms in other areas of our international economy, this negotiating framework should enable the CONTRACTING PARTIES to advance toward solutions of the principal problems of agricultural trade, at the same time taking full account of the special needs of the developing countries.