1. The Working Group was established by the Agriculture Committee in February 1972 with the following terms of reference: "to examine the various techniques and modalities for future negotiations as they relate to agriculture, and to report to the Committee". (COM.AG/24)

2. The Working Group met on 27-30 March, 1-2 May, 8-9 June and 24-28 July 1972. The documentation before it included, in particular, a working paper prepared by the secretariat (COM.AG/W/77) and annexed hereto.

3. The order in which the Working Group examined the techniques and modalities of the various measures will be found in the table of contents which follows. The Group recognized, however, that the list of the measures it had examined was certainly not exhaustive and that the fact that certain measures or combinations of measures had not been examined in no way meant that they ought to be excluded from future negotiations.

4. In accordance with the method which had been proposed, the members of the Group, when examining each measure, gave their views on the various advantages and disadvantages which they seemed to involve. It follows that the expressions of opinion for and against each measure in no way represent the unanimous opinion of the Group. A measure regarded by one or more members of the Group as being advantageous may be unfavourably viewed by one or more other members. For instance, a technique which is favoured by an importer will not necessarily be favoured by an exporter.
5. The listing of the advantages and disadvantages of each method should not be
taken to imply that members of the Group or the Group as a whole were in agreement
on each of the points mentioned in the report; it simply means that each of these
advantages or disadvantages was referred to by one or more members of the Group.

6. This is all the more inevitable because the Group's work was essentially
of an exploratory nature, and because the examination of the techniques and
modalities does not imply any commitment by delegations to conform to a
particular technique or method in the negotiations.

7. The Group is nevertheless of the opinion that the work which its members
have carried out together has been very useful, since this has made it possible
to obtain a better understanding of the content and scope of the suggestions
made by the various participants in this discussion.

8. The Group took note, however, of the limitations on its work caused by the
fact that it has not yet been possible to discuss the objectives of the future
negotiations. The observation was made that it might be useful to reach consensus
on the general objectives of the work in hand and of the future negotiations on
agriculture. It was suggested that such objectives should be to ensure stable
markets for agriculture products and a steady expansion in agricultural trade;
and co-operation between exporters and importers to this end. Several delegations
agreed that it might be desirable to establish common objectives for future
negotiations on agriculture, but felt that this matter lay outside the scope of
the Working Group and could usefully be taken up by the appropriate body at a
later stage.

9. The Group also noted that its work had always remained on a theoretical
plane, in the sense that no reference was made to the special position of a
particular product or country. Some members of the Group expressed the view that
it would perhaps be desirable to provide a specific illustration of the exercise
on techniques and modalities by referring to a clearly defined product or sector.
10. It was also suggested that a final evaluation of a particular technique could only be made in the light of the general offers, which might cover a wide range of techniques. This does not mean that the offer made by a particular country in future negotiations cannot consist in essence of concessions on the application of a particular global technique, but rather that that offer can be compensated by offers from other countries relating to other techniques.

11. Members of the Group expressed the hope that the Agriculture Committee would try to specify the objectives of the 1973 negotiations in the agricultural sector, and that the Committee would state its views on the various techniques and modalities discussed by the Group, so that participants in the 1973 negotiations would be able to determine with greater precision which of them were the most appropriate for the negotiation.

12. The Group did not discuss the relationship which it might be possible to establish between the techniques and modalities of negotiation on agriculture and those of negotiation on industry.

13. The Group recalled the understanding reached in the Agriculture Committee that "the Working Group shall pay special attention to the particular interests of developing countries". It also recalled that in this connexion the hope had been expressed that developing countries, members of the Committee, would actively participate in the Working Group, and agreed that the interests of developing countries would best be served if their representatives made known their views on each technique or modality as it was being examined, especially as regards any particular adaptation that might be required. Consequently, the particular adaptations which certain developing countries would like to make to the application of certain techniques and modalities have been noted throughout the present report.

14. The Group also decided to ask the secretariat to submit to the Agriculture Committee at its next session a study on the implications for the developing countries of the various techniques and modalities of the future negotiations relating to agriculture.
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I. SPECIFIC MEASURES

Examination of techniques and modalities for negotiations on export assistance (Section 1)

"Direct" techniques for the abolition of export aids (Section 1, paragraph 4)¹

1. A member stated that his objective was the ultimate elimination of export aid and that any techniques leading to this, whether in single steps or in stages, should be examined.

Prohibition of export aids (paragraph 4(a))

2. The point was made that this technique would require a definition or a listing of export aids. Reference was made to the list of practices annexed to Section 1. The following alternative suggestions were made in this regard:

(a) Define all practices that should be eliminated, but agree that the list is not limitative so that other forms of export aid, including newly devised ones, could be added.

(b) Define a limited range of practices, selecting those which can be easily defined and controlled; agree to a general basket provision covering all others, e.g. not to engage in any practices with a similar effect. A safeguard provision with a nullification or impairment clause could be added.

(c) Define a list of practices for each country on the basis of a request and offer procedure; the equivalence of commitments would be a matter of negotiation. A nullification or impairment clause could be added, with provisions for representations, consultations, etc.

¹ See also L/3472, Annex I, paragraphs 4-18.
3. It was suggested that as a complete elimination at short notice might create difficulties, one might set a date in the future by which the elimination should be complete. Each country would be free to adjust in the intervening period as it saw fit.

4. The point was made that an agreement on abolition of export aids might not be self-balancing and that counterparts might need to be sought in other areas. A member observed that a complete elimination of export assistance might prevent some countries from exporting; another member commented that the elimination of such assistance was a matter for negotiation, and for assessment by each country concerned.

5. A member saw the following advantages in a prohibition of all export aids as listed in the Annex to Section 1: it would put a stop to all the practices listed, some of which had so far not been covered by GATT provisions; it would lead to a reduction in the volumes offered on world markets and thus have an upward effect, considerable at times, on world prices; it would reduce outlays by national exchequers and the savings could be put to more fruitful use. Another member pointed to additional advantages of elimination: it tended to restore the validity of a world market and make it a more effective instrument for distributing world production and trade on the basis of price criteria.

6. It was pointed out that the elimination of export aids might shift the burden of adjustment onto other mechanisms. If export aids were banned and governments did not wish to rely solely on the world market, they could deploy their support in other ways, for instance by stockpiling, production controls, or by measures of income assistance. In the absence of other internationally agreed limitation, importers might also try to insulate themselves from imports, while those who were both exporters and importers might restrict imports of substitutes to enable them to dispose of the non-exportable quantities of the product on the home market.

7. A further member considered that an abolition of export assistance would also have the following effects: competition among exporters based on financial strength to subsidize exports would stop; some exports would expand and provide reasonable returns to producers; world prices would change and would need to provide a larger share of returns; alternative outlets for supplies not sold on international markets would have to be found, e.g. through increased domestic consumption or storage; higher unit costs to importers might influence production
levels and patterns; the withdrawal of export subsidy payments would cause some farmers to abandon production, but if other methods of support were found this might result in more overall support than before.

**Techniques for progressive abolition** (paragraph 4(b))

8. Several members considered that a prohibition of all export assistance measures was preferable to their gradual elimination. The view was also expressed that the value of a commitment to eliminate gradually would depend on the speed with which aids were to be phased out. The possible need was mentioned to provide for unforeseen effects, for instance by means of a temporary escape clause permitting a country to reduce the rate of phasing out under certain conditions such as an accumulation of stocks that might otherwise be exported; at the same time it was pointed out that escape clauses tended to lead to uncertainty. The question was discussed as to whether and to what extent the various techniques of prohibition or progressive abolition were likely to have a stabilizing influence on world prices; opinions differed on this.

9. It was pointed out that all the techniques in paragraph 4(b) involved problems of measurement and accounting, but it was felt that most of them could probably be overcome. The suggestion was made that different methods might need to be used to deal with different measures. The comments made on the individual techniques listed in paragraph 4(b) under (1) to (5) respectively, are given below.

10. **Sub-paragraph (1) (Annual reduction of total assistance payments on all products)** This technique would require an assessment of total subsidy payments which should preferably be expressed as three-year average because of variations in quantities exported. The fact that the commitment applied to an overall total and left countries free to concentrate aids in areas of their choice, was a disadvantage as it might lead to distortions. In this connexion it was also observed that the value of a commitment must be judged against the export pattern of the country concerned; for a single-crop exporter, for instance, a commitment on that product was equivalent to a commitment on all. On the other hand, the flexibility inherent in this technique as compared to technique (2) below constituted an advantage to the individual exporters.
11. Sub-paragraph (2) (Annual reduction of total assistance payments for each product) If exports of the product were large in the base year, the total permitted amount could be applied to a smaller volume of exports in a given year, leading to a higher subsidy per unit. While this was considered a disadvantage by some, others felt that the unit subsidy would change in inverse relation to the volumes exported had the advantage of tending to stabilize the market in the longer run. This technique also had the advantage of allowing traders to assess the market situation better than the method above. It was, however, also pointed out that even within the same product, an exporter could concentrate subsidies on a particular quality. Difficulties might arise in the administration of this system to the extent that the volume of exports in a given year was not known in advance.

12. Sub-paragraph (3) (Annual reduction of unit export assistance per product) This technique required comparable bases for assessing producer returns and export prices, but had some advantages over the two preceding techniques. As seen by another member, the advantages lay in its relative simplicity and in that it limited the exporting country's flexibility between products; the disadvantage was that it would apply only to direct aids.

13. Sub-paragraph (4) (Setting of annual unit subsidy ceiling for each product according to a formula involving a domestic price ceiling and an estimated world market price) This technique would require an estimate of world prices for each commodity each year, which might be difficult in particular as world prices did not exist for all commodities or all years. The view was expressed that for some commodities, such as meat, it might not even be possible to make such estimates. The suggestion was made not to estimate world prices but rather to take the average level of the three preceding years and adjust this by an expectancy factor. Another suggestion was to use benchmark prices for key commodities, based on returns to producers in major exporting countries. It was pointed out, however, that
world prices were already affected by subsidies and that similarly, prices to producers in the main exporting countries were affected by subsidies maintained by others; benchmarks should therefore be determined by agreement rather than based on actual prices.

14. The advantages attributed to this technique were that it did not require a definition of export aids, and that it covered both direct and indirect aids.

15. In the view of some members this technique should be considered as applying to domestic policy measures rather than to export assistance, because of its effects on domestic price levels. The reply was given that the technique could be viewed in either way, as in given circumstances one might need to act on certain elements of domestic production policy so as to reduce the difference between world and domestic prices; countries might wish to stabilize either the domestic or the world price, but they should not stabilize the former at the expense of the latter. The comment was made that if the domestic market of an exporter was protected by a tariff, the difference between internal and external price levels could never be eliminated.

16. The more general question was raised as to whether and how certain practices such as those listed as items 8, 9 or 13 in the Annex to Section 1 would be covered by this or similar techniques. The answer given was that these practices would be eliminated if it were agreed to include them in the technique; if, on the other hand, they were recognized as constituting food or development aid, one might wish to exclude them, by mutual agreement among the negotiators. These were general problems that applied, for instance, to sales for inconvertible currency, or sales on different types and conditions or credits. The particular problem posed by multi-year contracts could be solved either by agreeing to abstain from concluding new ones, or by specifying only the volume but not the price for future deliveries. Provisions might need to be made for allowing slight variations in prices resulting from discounts on large sales. A body to settle differences arising from unusual situations might need to be set up.
17. **Sub-paragraph (5) (Priority consideration to products of interest to developing countries)** It was suggested that developed countries might consider eliminating on a priority basis export aids on products of particular export interest to developing countries. Such products might be identified according to one or more of the following criteria: share of developing countries in world exports of the product; share of product in total exports of a given developing country or countries; the interest of developing countries as reflected either by their potential to produce efficiently or by the export potential of their products if barriers were reduced. Two forms for priority treatment were suggested: developed countries might eliminate export aids on these products outright, or phase them out more rapidly than those on other products.

18. It was pointed out that adequate emphasis should be given to food aid to developing countries; in addition to meeting humanitarian needs, food aid also helps to create new markets.

19. The question was raised how the techniques for abolition of aids to exports would apply to developing countries. It was pointed out that these countries frequently suffered from balance-of-payments difficulties, and needed to diversify their exports and to find increased and new markets. This meant furthering infant export industries, now techniques of production, packaging, marketing, for all of which some form of aid had to be used.

20. The following suggestions were made:

   (a) Developing countries might be exempted from obligations to reduce or eliminate export aids, and their obligations in this area might be confined to a reporting and consulting procedure, possibly in connexion with the Committee on Balance of Payments;

   (b) if developing countries participated in an agreement to eliminate or reduce export aids, they might be granted a longer phasing-out period than developed countries;

   (c) it might be necessary to examine whether developing countries could take similar commitments to those by developed countries. Responsibility should be shared, on the basis of relative reciprocity.
21. The observation was made that if developing countries were generally exempted from all obligations with respect to subsidized exports this would lead to price competition among these countries, to the detriment in particular of the least developed of them. The reply was given that the exemption should be granted only to developing countries with balance-of-payments difficulties, and that moreover some obligations on reporting and consulting might still apply. Doubts were expressed as to the wisdom of any exceptions which might endanger the viability of the system as a whole.

22. The importance was stressed of the widest possible participation in any scheme for the elimination of export aids. Thus, it was considered desirable that "potential subsidizers" also participate in an agreement which by being universal would hold out more promise. An alternative would be an agreement among a limited number of countries with provisions for appropriate exemptions if difficulties arose from non-participants who engaged in practices to which the agreement applied. Similarly, where an agreement covered only some products, the aim should be to include all producers and potential producers with safeguard clauses concerning related products not covered by the agreement, in addition to the provisions concerning non-participants.

Techniques for limiting export aids (paragraph 5)

23. The observation was made that disturbance of world trade which might be caused by competition of export assistance hampered a steady and stable growth of world agricultural trade and was undesirable to both exporting and importing countries.

24. Several members stated that techniques that led to an ultimate elimination of export aids were preferable to those that merely limited them. In this connexion it was pointed out that a mere limitation would not tend to re-establish the world market in the same extent as elimination. Some members also considered that while elimination and limitation had many problems in common, the latter involved in addition a certain inequity due to present country-to-country
differences in levels of export assistance, and thus in starting positions. The
title was asked as to what advantage, for instance, a country not granting aids
would derive if both it and a highly subsidizing country were each to freeze their
position. Other members, however, pointed out that different starting positions
were also inherent in other types of negotiations.

25. It was suggested that a limitation of export aids could be combined with a
previous reduction. A member considered that one might, for instance, set the
objective as "a mutually agreed reduction", but would then have to agree on the
level to which one should reduce. It might, however, be politically difficult to
find a level which would be seen as reasonable, given the pre-existing historical
pattern. By the same token, it might be difficult to maintain a limitation in the
face of changing circumstances, while an elimination seemed more durable. In this
member's view an elimination of aids by all countries was thus politically more
acceptable than a mere limitation, because it had a clear common goal; any
exceptions that might prove to be necessary should take the form of clauses but
not apply to the goal itself.

Financial techniques (paragraph 5(a))

26. It was noted that these techniques were analogous to those mentioned in
paragraph 4(b) of the working paper, but without the progressive annual reduction
clause. It was, however, suggested that provision might be made for progressive
modification down (or up) to a certain limit.

Techniques involving price clauses (paragraph 5(b)\(^1\))

27. (Sub-paragraph 1 - technique as in 4(b)(4) but without annual reduction)
It was suggested that a reduction clause might, in fact, be incorporated. It was
pointed out that in this and certain other techniques for reducing or limiting
export aids, account might need to be taken of the levels of freight charges.

28. (Sub-paragraph 2 - limitation to difference between domestic price and an
international price of a given product) The difficulty was pointed out of
determining and agreeing on the stipulated marketing stages.

\(^1\)For convenience, the items under the respective dashes in COM.AG/W/77 are
referred to as numbered sub-paragraphs.
29. (Sub-paragraph 3 - absolute floor for export aids) It was explained that the reference to an absolute floor meant an obligation not to grant export aids which resulted in prices lower than those of countries that did not grant such aids. The comment was made that this technique would involve complex negotiations; and that problems might arise if the "best-placed competitor" at the time of negotiation were to be replaced by another during the lifetime of the agreement. On the other hand, it was pointed out that such a system would have the advantage of avoiding injury to efficient producers.

30. (Sub-paragraph 4 - avoidance of altering in international markets price relationships adopted on domestic market) The comments were made that such a concept would be difficult to negotiate and agreed upon, as price relationships in most markets shifted continuously as a result of market forces.

31. (Sub-paragraph 5 - establishment of fair relationship between price of primary and processed product) The same comments applied as in respect of the technique in sub-paragraph 4; furthermore the term "fair" could not be defined.

32. The limitation of export aids by means of minimum prices on international markets was discussed A minimum price system, defined as a commitment by certain countries not to offer or import below a certain price, was stated to have the following advantages: under certain conditions it could prevent or eliminate the instability, irregularity and abnormality of prices; it would provide a guarantee against their decline and, if accompanied by maximum price provisions, against undue increases; it allowed a limitation of expenditure on export subsidies; it could be presented to producers and exporters in a politically clear fashion; it protected exporters against the monopolistic position of one or two among them; it could be applied, administered and implemented more easily than other techniques, and also by centrally-trading countries; it increased the receipt of exporters; it could allow importing countries to relax their methods of protection against certain practices; it would not require commitments on countries' production policies; nor would it require a definition of export aids.

33. The following difficulties or problems were mentioned: a minimum price set a limit to the free play of genuine competition; the problem of dealing with
sales on credit; the problem of implementing and supervising the observance of prices, in particular where trade was in private hands; the problem of quality differences; the adaptation of the minimum price to changing market situations.

34. It was also pointed out that it might be difficult to negotiate and agree on price levels that would be satisfactory as regards, for instance, their effect on production. The point was made that a minimum price system might not be effective without provisions for supply management, and that it was therefore incorrect to assume that a minimum price system would never impinge on production policies. The suggestion was made that, in addition, provisions for the disposal of surpluses might be required.

35. The question was raised whether a minimum price should be the responsibility of exporting or of importing countries. The observation was made that in either case the co-operation of importers was desirable.

36. Examples were given of bilateral, plurilateral (between an importer and several suppliers) and multilateral minimum price arrangements. A member expressed the view that bilateral minimum price arrangements might raise problems of equity and were thus inadvisable and, for the same reasons, unilateral arrangements were undesirable. An arrangement enforced at the importing end was not necessarily multilateral, nor necessarily tied to export subsidies. It might be bilaterally negotiated with each exporter, and possibly include provisions for sanctions for non-observance; it is then up to the exporter to decide whether to enter into a commitment. The problem of non-participating competitors could be solved by the importer refusing shipments at below the minimum, or resorting to quantitative restrictions or levies; such action might lead to justified complaints by the non-participating suppliers against being subjected to charges without their consent. If the price were enforced only by the exporters, the agreement could be effective only if all exporters participated and patently observed the minimum. This system had the relative advantage of easier control. In his view, the value of a minimum price arrangement would depend on how multilateral it was and on the extent to which it was linked to export subsidies.
37. The question of possible product coverage of minimum price arrangements was raised. The comment was made that whether all or only certain selected products should be brought under such arrangements was a matter for the negotiations themselves, but that experience showed that export aids constituted a real problem only for some major products traded.

**Indirect techniques for limiting or eliminating export aids (section 1, paragraphs 6-9)**

38. The Group's discussion of various indirect techniques mainly dealt with three groups of possible approaches: modification or new implementation of Article XVI; developing a procedure for consultation and/or arbitration, and establishing provisions for steps to be taken in order to strengthen the observance of the rules.

**Amendments to Article XVI (section 1, paragraph 7)**

39. A number of representatives found that, in principle, most of the observations made with regard to direct techniques for limiting export aids also applied to indirect techniques. It was mentioned that direct techniques might be easier to control than the indirect ones suggested. The view was expressed that the latter had qualitative rather than quantitative effects and thus were less precise. A member stated, that, in any case, he preferred techniques of direct elimination of export aids.

40. Some delegations felt that any modification of Article XVI would essentially mean giving possible commitments a legal form. A preference was expressed for the establishment of more complete interpretative notes rather than changes to the Article itself. This would necessitate the development of criteria and an agreement on a basis for action. Another member stressed the need for a better balance in the General Agreement, in particular by bringing primary products under the provisions of Article XVI:4. Such modifications could be subject to negotiations, and not merely a result of these.

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1See also L/3472 Annex I, paragraphs 19 to 40.
41. **Sub-paragraph (1)** (Notification of export aids under the procedures of Article XVI) **Sub-paragraph (2)** (Definition of export aids) The Group agreed to leave aside, for the time being, the matters included in sub-paragraphs (1) and (2) of paragraph 7, for consideration at a later stage.

42. **Sub-paragraph (3)** (More precise criterion for determining injury) It was stated that it would be difficult to define the equitable share, which ought to be based on commercial criteria. This definition would most likely be rather subjective, and would have to be based on biased historical data.

43. A representative suggested as an alternative criterion that a country should be allowed to apply export assistance only if this were linked to various internal measures taken simultaneously in order to limit domestic supplies, for instance by reducing prices to producers. This could help to stabilize the world market through the price mechanism, as internal demand would be encouraged by the lower prices, instead of stabilizing the domestic market through subsidized exports, to the detriment of stability in the world market. The advantages of adopting such a technique would be that it would prevent a contracting party from using export aids to increase its share in the world market, it would be an incentive to reduce export aids and it would place a multilateral restraint on such aid. One disadvantage of such a technique would be the need to establish new machinery, for instance similar to that for balance-of-payments consultations, one of whose tasks might need to be to assess the effectiveness of a country's supply controls. Another member pointed to the political disadvantage of this technique, as it would affect the while field of agricultural support and not merely export subsidies.

44. In the view of another delegation, to permit export assistance to be given on certain conditions would constitute a privilege to very rich countries which can afford to buy out farmers, or to pay them for not producing and at the same time also to disburse export subsidies on the remaining production. It might, however, be worthwhile to consider further a possible link between export assistance and consumers' subsidies aimed at expanding domestic consumption.
Several members reiterated an idea discussed on earlier occasions that a more precise criterion for determining injury should be extended so as to cover specifically the prevention of injury to countries that did not grant export aids.

45. Sub-paragraph (4) (More precise definition of "previous representative period") The opinion was expressed in the Group that a "previous representative period" would have to be defined as a recent period of several years, but the period might vary according to the product. A member said it was important not to freeze the patterns, and it would be necessary to give greater precision to Article XVI on this matter.

46. Sub-paragraph (5) (Application of Article XVI:4 to primary products) Several members reiterated a suggestion discussed earlier, namely to bring primary products under the provisions of Article XVI:4, and considered that this in itself could be an objective of future negotiations.

47. Sub-paragraph (6) (Provisions to prevent injury) A member suggested that establishment of a standing committee for the examination of particular cases. He also suggested that the imposition of countervailing duties be made mandatory in order to prevent injury to the interests of a supplying country which did not subsidize its exports.

48. A member recalled earlier discussion of the term "harmful effects" in Article XVI:2, and suggested that further consideration be given to the question of a more precise definition of this term.

Notification, consultation and arbitration procedures (Section 1, paragraph 8)

49. Some members considered it premature at the present stage to go into detail on questions relating to procedures of notification, consultation or arbitration. A member drew attention to the fact that if any kind of minimum price arrangement were to be agreed upon, this might necessitate the setting up of an appropriate
policing body. The view was expressed that notification was a relatively weak technique for eliminating or reducing export aids, while consultation was useful to the extent it lead countries to respond to requests. The suggestion was made that it might be useful to have a consultation procedure similar to that laid down in Article XII which, in the past, had proved to be an efficient instrument for maintaining respect for the General Agreement.

50. A member of the Group proposed that in the further consideration of notification and consultation procedures, attention should also be given to the matter of establishing arbitration rules.

Provisions designed to strengthen the observance of rules to be negotiated (Section 1, paragraph 9)

51. Sub-paragraph (1) (Application of countervailing duties) As to measures designed to strengthen the observance of the rules to be negotiated, one delegation said that the General Agreement contained adequate provision for imposing countervailing duties on subsidized exports. This could allow a number of financial assistance practices to be brought under review and possibly under control. A disadvantage would be that one perhaps embarked upon a wider spectrum of control before the various types of support had been defined.

52. Sub-paragraph (2) (Use of compensatory measures where a third country benefits from export aid) A delegation recalled the suggestion to make resort to countervailing duties mandatory, either under Article XVI or under Article VI. This could include the right or obligation of an importing country to impose a countervailing duty in order to prevent injury in this market to exports from a country that did not subsidize exports. The advantage of this technique would be that it provided a legal remedy to limit the use of export aids. However, it would be a difficult matter to negotiate, and the number of countries that would co-operate might be limited.

53. One delegation suggested that instead of imposing a compensatory measure in cases where export assistance by one exporter causes damage to a competitor, a group of countries could co-operate and guarantee to keep at least their own customs territories free of subsidized competition from outside. Such a technique
was not thought to require any amendments to the General Agreement and if an agreement of this kind resulted in imposing countervailing duties, this would have to be done in accordance with the provisions of Article VI. Some delegates felt that this technique might tend to undermine and weaken the importance of the injury criteria, both in relation to countervailing and probably, by implication, in the anti-dumping field. In reply, a member mentioned the possibility of removing entirely the injury requirement from the countervailing duty provisions in the General Agreement; he considered that it was important to distinguish between compensatory measures, which were applied to a particular product, and general retaliation measures.

List of Practices (Annex to Section 1)

54. There was some additional discussion on the list of practices. Some members underlined that, in view of the fact that many practices other than just export subsidies and restrictions had an effect on world prices, all those in the list should be dealt with. The possibility of adding to the list should be kept open.

55. Other members pointed out that the list had originally been drawn up to serve as a basis for a notification procedure; the list was not a judgment as to whether or not a practice was covered by Article XVI nor as to what its effects on exports might be. It was open-ended. Each delegation would have its own view on the negotiability of individual items.

56. It was noted that to the extent that the list involved problems of a more general nature, these could be discussed later and in the appropriate form. The point was also made that the list provided a useful check, and that all items should be considered in relation to the various techniques. It was suggested that future discussions and negotiations should be based on it.

Examination of techniques and modalities for negotiations on tariffs, variable levies and other special charges (section 2)

Tariffs as sole or predominant means of protection (Section 2, paragraph 3)

57. The Working Group noted that no discussion had so far taken place in the Agriculture Committee on possible techniques for negotiation on tariffs. Several members expressed the view that negotiations in agriculture on
tariffs alone had little meaning, and would thus need to be accompanied by negotiations on other measures. Some members considered that none of the techniques represented a useful approach by themselves, although some of the techniques might be acceptable as part of a broader package. It was also pointed out that it might prove difficult to find sectors where tariffs were the sole or predominant means of protection in a number of participating countries. Some members pointed out however that there did exist some sectors of agricultural trade where either access or producer returns could be improved by tariff reduction.

58. Sub-paragraph 3.1 (Elimination of all tariffs) A member observed that tariffs could be eliminated only in a sector where they were the sole or predominant protective device; although elimination had the advantage of simplicity, it had the disadvantage of throwing the burden of protection on non-tariff barriers and providing an incentive to use these. In his view it would, on the contrary, be desirable to replace non-tariff barriers by moderate, fixed but negotiable tariffs.

59. The suggestion was made that if tariffs were to be eliminated, priority might be given to those on commodities originating exclusively in developing countries.

60. Sub-paragraph 3.2 (Linear reduction) There was wide consensus in the Group that linear reduction or any other approach involving a uniform automatic formula might not be an appropriate technique for negotiations on agriculture. While linearity had the advantage of simplicity, it depended on agreement being reached on the uniform percentage of reduction. However, products differed in their sensitivity, their competitiveness and in their importance to individual countries, and this would raise problems of equity and reciprocity. The point was also made that reductions in tariffs would need to be accompanied by an assurance that they would not be nullified by the erection of other barriers.

61. A member questioned whether there was an essential difference between a uniform percentage reduction in tariffs and a uniform percentage reduction in export aids. Tariffs were a means of protection recognized in the GATT which had acquired considerable experience in the conduct of negotiations; and the problem of reduction of high versus low duties had been discussed in earlier negotiations. While possible rules agreed in the past had been worked out essentially for industrial products and might thus not be directly applicable to agricultural negotiations, one might still draw guidance from past experience.
62. Several members stressed that reductions in tariffs were valuable concessions, but would probably have to be arrived at product-by-product according to the more traditional method of offers and requests and subsequent multilateralization.

63. It was suggested that all tariffs and charges should be substantially reduced on primary commodities, including processed and semi-processed, which have a large share in the trade of developing countries, and in respect of which these countries have demonstrated a large measure of competitiveness or have significant potential exporting interest. Alternatively, all products falling within BTN chapters 1 to 24, and processed and semi-processed primary products in BTN chapters 25 to 99, should be included in the Generalized System of Preferences. Either system should be based on preferential adjustments to trade barriers in favour of developing countries with a view to allocation of a defined proportionate share of domestic consumption of such products in the markets of developed countries to imports from developing countries. The point was also made that such a system could directly benefit exports of developing countries and could be in the interest of liberalizing countries.

64. Sub-paragraph 3.3 (Elimination of low, reduction of other tariffs) It was pointed out that this technique had the disadvantages inherent in a uniform approach. Moreover, it involved larger sacrifices by those who had low duties which in spite of their low ad valorem equivalence might make a large difference in protective effect, especially where preferential suppliers existed. A member added that if circumstances in a country were such that elimination could be pursued, this was all to the good.

65. Sub-paragraph 3.4 (Downward harmonization of tariffs) This technique was also considered to suffer from the disadvantages common to automatic reductions. A member expressed the view that harmonization did not make sense economically because it ignored the relative efficiencies of countries and therefore the reasons why they protected themselves. It might make sense politically, if high-tariff countries can be induced to lower their duties. Another member added that the advantage of harmonization might be more apparent than real; tariffs with the same nominal level may differ in their effects.

66. Another form of harmonization suggested was the elimination of differential treatment between primary products in their natural, processed and semi-processed forms, which would be of particular interest to developing countries.

67. Sub-paragraph 3.5 (Tariff quotas) A member wondered whether a country with a high tariff would find tariff quotas (including tariff-free quotas) more appealing as a commitment than the reduction of high duties. He considered that tariff quotas had the disadvantage of being hard to administer; they raised
problems of who should benefit, of allocation or globality, of opportunity of access for distant suppliers, and of timing of supplies. He saw no reason to favour them as a negotiating technique, but thought them worthy of consideration if someone were to offer them.

68. Other members considered that tariff quotas were a valuable concession as they increased revenue to exporters. Their value would depend on the relative levels of the duty and on the size of the quotas; it would be enhanced if an automatic expansion formula applied to the latter. Some members also stated that preferential tariff quotas for developing countries might be a way of meeting the interests of these countries.

69. Sub-paragraph 3.6 (Time schedule). It was considered that the application of a time schedule would depend on the particular negotiating situation. If reductions were to be large, it would probably be helpful if they could take place over time. If they were small, there might be no need for staging.

70. Some members expressed the view that if reduction or elimination were to be carried out in stages, tariffs on imports from developing countries might be reduced or eliminated in advance of others, or at a faster rate, on a non-reciprocal or preferential basis.

Tariffs in conjunction with other frontier measures (Section 2, paragraph 4)

71. Several members felt that as cases where tariffs coexisted with other frontier measures were more frequent than those where tariffs represented the sole means of protection, this area offered more scope for possible techniques. A member pointed out that in many instances tariffs were applied in conjunction not only with other frontier measures, but also with domestic policy measures, such as deficiency payments; in examining techniques in this area one should therefore also bear in mind the relation with domestic measures.

72. Another member pointed out that the problem of how to treat different measures or combinations of different measures in an acceptable way would be simplified if all forms of protection were replaced by tariffs. The problem would then be reduced to agreeing on what should be done on tariffs in general, and what action should be taken in respect of the trade of developing
countries. He thus saw the following advantages in replacing all other barriers by tariffs: it would simplify protection; it would give it a quantitative form, enabling it to be judged; it would leave the price mechanism as a decisive element for regulating imports; it would link all markets together into a single system; and it would make action in favour of developing countries simpler. The disadvantages of the proposed system were that it would be difficult to accept as it would require a uniform outlook of all countries requiring protection and would not allow them to except any sector; a further disadvantage for a country that required protection would be that by participating in the system it also participated in the instability in world markets.

Variable levies (Section 2, paragraph 5)

73. A delegation which did not speak in the discussion on the advantages and disadvantages of the various techniques listed made its position known in the course of the general discussion regarding variable levies (see paragraphs 95 to 99).

74. Technique examined: Establish ad valorem equivalents of variable levies for base year 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 each commodity require that this ad valorem equivalent be reduced by, say 20 per cent for base year plus one, 40 per cent for base year plus two, etc. (paragraph 5(1)).

75. The following advantages were mentioned by one or more members: The technique would be consistent with freeing trade; it would bring domestic prices into line with world prices; it would encourage production by efficient producers; it would be of advantage to producers, and to consumers of the country which made the concession. The reduction and ultimate elimination of levies would relieve and ultimately remove uncertainty due to variability. The technique envisages the removal of levies as a protective device, while other techniques only put constraints on the system but allow it to continue.
76. The following disadvantages were mentioned by one or more members: it was difficult to calculate an average unit differential between domestic price and landed cost; there were problems of weighting by volume of imports and by average height of levies; and it was difficult to define a domestic price. An added weighting problem would arise if all trade was not on a most-favoured-nation basis, e.g. if some was on a preferential basis or under levy quotas or other exemptions. If levies are applied jointly with duties, one would need to bind both the levy reduction and the duty, as otherwise there would be the risk that the latter might be raised. The technique has an indirect effect on domestic prices of the country giving the concession and might thus introduce instability in its market. The observation was made that one should not entirely exclude the variability of levies on products whose world prices are very unstable. The point was also made that the technique implicitly recognizes levies as an acceptable protective device.

77. Other points made by one or more members included the following: If world prices went up faster than domestic prices, the automatic reduction of the levy stipulated by the technique would be regarded as a commitment on a ceiling; there would be no need or obligation to charge higher levy than that required by the market situation. The "domestic price" foreseen in the technique could be the one normally used for calculating the height of the levy, and could vary from commodity to commodity. The "landed cost" would not necessarily be the world price; where there was no trade in a given commodity might need to calculate a theoretical landed cost based on notional world price. The technique could work without destroying the basic pillars of certain agricultural policy systems. Common prices can be maintained through deficiency payments. Free movement of goods does not depend on the existence of levies and can be maintained in markets which are protected only by fixed duties. Financing of an agricultural policy system can operate equally under fixed duty system or levy system, and receipts can come from fixed duties and internal taxation.

78. **Technique examined:** Binding of the height of a levy to a maximum ad valorem incidence (paragraph 5(2)).
79. The following advantages were mentioned by one or more members: The technique would clearly define conditions of access and remove one element of uncertainty; it would give some stability of expectation of access by exporters; it would give exporters the assurance that if the gap between domestic and world price widened, there would be some effect on the domestic price, depending on the height of the binding; it might put a ceiling to, or act as a brake on, the rise in domestic prices and in the amount of protection; it would bring international influence to bear on the latter, which so far has been exposed only to national and sectoral pressures.

80. The following disadvantages were mentioned by one or more members: The technique does not necessarily result in assured or improved access (although this might depend on the level at which the levy were bound); if the binding were at a high level, there would be no result in trade terms; as long as the ceiling was not in effect, there would still be variability, which means that this is only a partial technique from the point of view of an exporter, who would have to assess the value of the concession in terms of future market expectations, i.e. whether the ceiling was likely to come into effect.

81. Technique examined: Levy-free quotas or quotas at reduced levies (paragraph 5(3)).

82. The following advantages were mentioned by one or more members: The technique provides some access but the value of a commitment would depend on the size of quota and, if not levy free, on the level of the remaining levy; it could be a means of preferential access for developing countries; quotas could be allotted to particular sources.

83. The following disadvantages were mentioned by one or more members: The problems of allocation would require some administrative mechanism and unless quotas were sufficiently large, might outweigh advantages. Unless levy quotas were negotiated uniformly, i.e. if they became bilateral concessions to individual applicants, the value of the concessions would become increasingly unpredictable. An individual supplier's success in gaining access would depend on the failure of others to do so, unless suppliers negotiated among themselves on how to approach the country offering the quota.
84. Technique examined: levy-free entry or entry at a reduced levy subject
to observance of a minimum c.i.f. price by the supplying country (paragraph 5(4)).
85. The following advantages were mentioned by one or more members: the
technique might provide access, depending on the level at which the minimum
price is set and on the market evaluation in the long term; and it would avoid
disruptive competition from subsidized exports.
86. The following disadvantages were mentioned by one or more members: if
minimum price were set too high, domestic production would be stimulated and
possibly fill all demand to the detriment of imports; the technique might lead
to higher prices for consumers and thus weaken demand. It might undermine the
rôle of price in efficient resource allocation and would not provide an appropriate
incentive to lower-cost producers. It might lead to difficulties with the most­
favoured-nation principle, as non-participants to the scheme would be subjected
to a levy or an import prohibition; the scheme would thus represent a form of
conditioned most-favoured-nation clause. If prices were uniform, competition
might have to take place on the basis of other factors, such as quality, but
possibly also some that were less desirable, leading to risks of fraud. There
might be problems of supervision and administration, in particular if not all
major countries participated.
87. There was consensus that the technique should not be discarded because
of possible administrative difficulties, which could probably be overcome.
88. Technique examined: Differentiation of the height of levies according to
each supplier's offer price (paragraph 5(5)).
89. The following advantages were mentioned by one or more members: the technique
allows the exporter to price his shipments so as to minimize the levy he attracts.
It could have an advantage in at least one particular instance, i.e. when an
efficient, non-subsidizing exporter is being undercut by a subsidizing competitor, an "automatic countervailing duty system" enters into operation.

90. The following disadvantages were mentioned by one or more members: the technique has the same disadvantage as a levy system in general, in that it prevents the foreign supplier from pricing competitively with the domestic producer in the importing country, and in that it penalizes the low-cost efficient producer, who would still have to pay the highest levy. It would destroy the basis of price competition and remove the ability of foreign producers to compete against each other; competition, if any, would be shifted to another basis.

91. The point was made that the technique would be of negotiating value only on the assessment that a subsidizing situation would continue to prevail. It was also stated that the technique would have value if it were combined with other elements of negotiation.

92. Technique examined: Administrative measures in the application of levies (e.g. lengthening the period of validity of a given height of levy) (paragraph 5(6)).

93. The following advantages were mentioned by one or more members: the technique has a theoretical attraction, in particular for distant suppliers, provided the periods were made sufficiently long; the longer the periods are made, the more the system would approach a tariff system and remove uncertainty.

94. The following disadvantages were mentioned by one or more members: If the result during a given period is an increase in imports leading to a larger increase in the levy for the subsequent period than would otherwise have been the case, then the value of the lengthening of the period becomes neutralized.
It is difficult to assess the value of the concession, which would partly depend on the height of the levy.

95. In the subsequent general discussion regarding variable levies, a representative pointed out that the proposed techniques were in general similar to those already used in GATT in negotiations on tariffs or quantitative restrictions; they could nevertheless not be applied satisfactorily to levies, which were a sui generis instrument. That characteristic of the levy was not disputed, since the techniques suggested were aimed at transforming them into a traditional instrument. He said that the root of the problem was in fact the system of the agricultural policy, applied by a group of countries, and he explained why that policy had been introduced. Two objectives had been taken into account: the need to provide farmers with living conditions approximated more closely to those of other sectors of the economy and the need to stabilize the market. Of the different methods which might have been used, the one chosen had been a price policy. Measures at the frontier had to be of a kind that would allow imports to continue - they had in fact increased - and prevent world price instability from jeopardizing price policy. Resort to the traditional techniques (customs duties and quantitative restrictions), even if used simultaneously, would not have enabled the desired objective to be achieved or the earlier measures applied by individual countries in the group to be dismantled, since they would not have ensured the stability of the domestic market or made it possible to apply the policy of intervention which was a basic feature of price guarantees. Moreover, experience showed that the use of quantitative restrictions could have more harmful effects than the use of levies. Quotas, unless fixed at a level lower than that of real import requirements, would have interfered with the operation of the intervention system and with the working of price guarantees; the fixing of small quotas would have been a source of instability on the world market.
Consequently, the levy system had been preferred as a method of protecting domestic producers against international price instability and, in particular, artificially low prices. Levies constituted the only instrument at the frontier; their sole object was to bring the prices of the goods supplied into line with the prices guaranteed to domestic producers and to enable domestic and third country producers to compete on equal terms. As a principle and as an element in agricultural policy, they were an indispensable part of that policy and of its operation, and to bring them into question again would bring the policy itself into question.

He went on to say that in the techniques proposed in paragraph 5, two aspects of levies were envisaged, namely variability and height. There was a reference to certain variants and to partial methods, but, although a few exceptions to the levy system could be made, adjustments must not call in question basic principles, and it would hardly be wise at the present stage merely to look for partial techniques, when the proposed negotiations were to be of a far-reaching nature. The aim of some of the techniques was to lessen or eliminate the variability of levies. The variability was always adapted to the requirements of the internal stability mechanism and it was compatible with management of the market and existing business practices. For instance, in certain cases it had been possible to apply a pre-fixing system which lessened the variability and made it possible to avoid the quantitative limitation of imports. He emphasized the fact that levies were a link between a system of stable prices and the unstable prices on the world market; variability was a consequence of the instability of those prices. If the variability could be diminished, that would remove an element of uncertainty for trade.
So far as trade was concerned, if the levy remained unchanged for a certain time, a rise in world prices would make imports dearer, to the disadvantage of exporters, while a fall in world prices would facilitate imports and lead to a further decrease, again to the disadvantage of exporters. In the importing countries, the rise in prices would represent an increase in the amount produced by the levies without that being necessary, but a fall in prices would have serious consequences; it would make increased intervention necessary, but the withdrawal of the goods would only be provisional and their reappearance on the market would accentuate the imbalance. Furthermore, the system of the free movement of goods within the member States would be endangered, contrary to the opinion expressed by one representative. If levies were stabilized, other measures would have to be used to guarantee the incomes of producers.

97. He concluded by saying that since levies represented the difference between the world price and the domestic price, it would be necessary, in order to bring about a decrease in the absolute figure, either that world price should rise or that the domestic price should fall. The last-mentioned solution could not be examined during a discussion on measures at the frontier; the question was how, when and by what method the mechanism of levies should be envisaged.

98. Other members, commenting, said that if levies covered 20 per cent of the agricultural imports of the group of countries in question, while for the remaining 80 per cent customs duties seemed to satisfy its needs and its objectives, what were the criteria for selecting levies as the frontier measure? While they
accepted the objective of assuring satisfactory incomes to farmers, they also queried the choice of domestic price policy as the instrument towards its attainment. They considered that this choice, and the use of levies was probably not fixed for all time, because the list of products subject to levies was occasionally added to or, less frequently, subtracted from. The choice was therefore autonomous, except where it might possibly be influenced by negotiations. It was not the intention of these members to attack the system or the levies, but to find methods of negotiating them so as to obtain mutually acceptable results, of benefit to all. Some members expressed the view that adjustments in the levy system would not undermine the agricultural policy system as a whole.

99. The member to whom these comments were addressed explained that levies had been chosen for administrative and commercial reasons and, in particular, because of conditions prevailing in world markets. Thus, primary commodities whose world prices were unstable were subject to levies, which created the link between the stable market within the group of countries and the unstable world markets. Such a link was necessary in order to ensure equitable incomes to the agricultural population. To reach this objective, three means had been open: (a) an enlargement of outlets, which would have implied a substantial reduction in imports, or a significant increase in exports; (b) a direct transfer of incomes, not linked to production. One of the reasons that this means had not been chosen was that it had been felt that transfer payments should not be taken into consideration except as aids strictly limited in time for financial and fiscal reasons; (c) a price policy i.e. a raising of producer prices or a lowering of the cost of the means of production which would be reflected in not
returns. He added that the price policy itself can operate only within strict limits to avoid the dangers of excessive costs of income supports or of disposals of surpluses. As regards possible adjustments to the levies, he said that if levies on a given product were cut, the result might be an influx of low priced imports which would have to be bought up by the intervention agencies, and the system would therefore have to be changed or it would break down for lack of funds. He went on to point out that a price policy together with a structure policy had already been envisaged at a conference that preceded the formation of the grouping he represented. Variable levies were a new instrument and traditional GATT negotiating techniques were thus inadequate in this respect. His delegation had been saying since 1964 that agriculture policies of different contracting parties formed one whole and it was vain to start negotiating policies by examining frontier measures. If agreement was reached on the principle of negotiating on domestic production policies, one would be negotiating on levies indirectly.
Examination of techniques and modalities for negotiation on quantitative restrictions (Section 2)

Techniques designed to achieve the abolition or progressive elimination of quantitative restrictions (Section 3, paragraph 4)

100. Technique examined: Abolish all restrictions generally and replace them by customs duties, established at non-prohibitive levels (paragraph 4(1)).

101. The following advantages were mentioned by one or more members: GATT generally prohibits the use of quantitative restrictions for good reasons: a quota as a permanent measure isolates the market and reduces price competition or any other competition. In contrast, tariffs allow a linkage between the world market and domestic markets, lead to lower prices to consumers and favour greater consumption. The resulting customs duties could and should be progressively liberalized and bound in GATT. An advantage of particular value to developing countries could be derived by giving urgent consideration to priority elimination of quantitative restrictions on products of export interest to these countries and on products covered by the Generalized System of Preferences; the work of the Group on Residual Restrictions should be taken into account in determining products of export interest.

102. The following disadvantages were mentioned by one or more members: It is difficult to calculate precise tariff equivalents of quantitative restrictions. In the same context, it is difficult to assess the likely trade results of a replacement of quotas by tariffs, in particular where quotas have been in existence for a long time. The conversion into duties would have to be followed by
negotiations for mutual concessions. The technique would not be applicable to
countries where imports are not governed by price and market considerations.

103. **Technique examined**: Abolish all illicit quantitative restrictions
(paragraph 4(2)).

104. The following advantages were mentioned by one or more members: The technique
would bring the situation into conformity with GATT, and would be one way of
improving access to markets.

105. The following disadvantages were mentioned by one or more members: The
technique raises the question of which restrictions are or are not legal under GATT:
some involve balance-of-payments problems, some are at present universally
recognized as legal exceptions, others as inconsistent with GATT. Difficulties
which may not be insuperable, but should be recognized, were that automatic
elimination would not give reciprocity; and that if illicit restrictions are
replaced by tariffs, it was not clear what would be the status of these tariffs
under GATT and, hence, the value of the concession. The view was expressed it
is not useful to try to distinguish between legal and illegal restrictions; all
quantitative restrictions should be examined and dealt with, irrespective of what
their status might be. The observation was made that the technique is not very
meaningful; instead, tighter criteria should be established for conditions under
which restrictions would be permitted.

106. **Technique examined**: Eliminate quantitative restrictions having insufficient
economic justification (paragraph 4(3)).
107. The following advantages were mentioned by one or more members: the technique would improve access to markets. Quotas which have not been fully utilized for a given period should be eliminated, in particular where products of interest to developing countries are concerned. In cases where developed countries claim that existing quantitative restrictions are used only to protect their own agriculture against products from other developed countries, these restrictions could be removed vis-à-vis developing countries on a preferential and priority basis.

108. The following disadvantages were mentioned by one or more countries: it is difficult to determine in general what constitutes insufficient economic justification. *The technique is not very meaningful; instead, tighter criteria should be established for conditions under which restrictions would be permitted.

109. Technique examined: eliminate all prohibitions (paragraph 4(4)). It was recognized that such an elimination would improve access to markets, but would be difficult to implement; it was pointed out that some prohibitions are maintained on justifiable health grounds.

110. Technique examined: establish 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 the base year; where this differential is greater than zero, the quota should be enlarged so as to reduce the differential by, say, 20 per cent for the base year plus one, 40 per cent for the base year plus two, and so on; (paragraph 4(5)).
It was pointed out that the technique was related to technique 4(1) and had the same advantages and disadvantages (see paragraph 101 above). A member considered that the calculation might be subject to a bias because the domestic price is already affected by the existence of the quota.

112. **Technique examined:** negotiate formulae for automatic enlargement and negotiation of liberalization time-tables (paragraph 4(6)). The following advantages were mentioned: the technique provides flexibility of negotiating possible action product by product. As a transitional step towards complete elimination of quantitative restrictions, consideration could be given to an enlargement of quotas by a fixed annual percentage or according to an agreed time-table, possibly with provision for some flexibility; the increase could be related to consumption and should provide an increase in the share of developing countries in the markets for such products.

113. A general discussion took place regarding the abolition or progressive elimination of quantitative restrictions. The point was raised that quantitative restrictions were a more effective instrument than tariffs, in that they could lead to a total or partial prohibition of imports. There was a built-in tendency to use quantitative restrictions beyond what was necessary for the protection of domestic prices and the agricultural sector as a whole. On the other hand, tariffs alone often proved inadequate to deal with subsidized exports.

114. Several members therefore considered that a link existed between the abolition or gradual elimination of quantitative restrictions and corresponding action on export aids. Some of these members felt that action on export aids might be a prerequisite to action on restrictions.
115. Various views were expressed on the merits and demerits of different import measures at the frontier as a protection against subsidized exports. Reference was made to tariffs, levies, quantitative restrictions, countervailing and anti-dumping duties. The view was expressed that a temporary surcharge might be an appropriate instrument if short-term protection was needed. It was noted that the task of the Working Group was not to establish the merits or demerits of individual measures but to examine the advantages and disadvantages of negotiating techniques for dealing with the measures.

116. A member pointed out that certain suggestions listed in paragraph 5 of Section 3 of the Working Paper as possible elements for incorporation in a code of principles should more properly be regarded as elements of direct negotiations. This applied in particular to problems of discrimination, including discrimination on the basis of country classification or of product differentiation (e.g. between chilled and frozen meat). Another member stressed that the elimination of discriminatory country classification was important for developing countries, and drew attention to the relevance of the recommendations of the Group of Three to this matter.

117. A member recognized that it was desirable to reduce or eliminate quantitative restrictions with a view to liberalization of world trade. He considered, however, that the fact should be noted that many countries still maintained quantitative restrictions and that, given this fact, quantitative restrictions were to be considered as one of the agricultural protection measures which were being applied as an integral part of agricultural production and price policies. He stressed that any formula to impose the elimination of quantitative restrictions within a limited period was far from being a realistic solution and that one should explore realistic solutions aiming at a steady expansion of agricultural trade. Other members on the other hand felt that setting a time-limit - for instance ten years - for the elimination of restrictions was not unreasonable.

118. Some members were of the opinion that for the purposes of the negotiations, so-called "voluntary" restraints should be assimilated to quantitative restrictions. One member said that the restrictions of that type had been introduced after negotiations. It was pointed out to him that it might perhaps be advantageous for them to be re-negotiated within a multilateral framework.
Techniques aimed at achieving the adoption of a code of principles to govern
the administration of remaining restrictions (Section 3, paragraph 5)

119. It was recalled that, at the appropriate time, the Agriculture Committee
would have to review the applicability to the agricultural sector of any
solutions evolved in the Committee on Trade in Industrial Products in respect
of measures of general application. In particular, it would have to examine
any results which emerge from the Groups on Licensing and on Standards and to
consider whether modifications are necessary to make these results applicable to
the agricultural sector (COM.AG/W/77, page 13 and COM.AG/24, page 5).

120. Technique examined: Rules on the elimination of all discriminatory elements
(paragraph 5(1)). The following points were raised: The rules would be intended
to cover discrimination between outside suppliers. The elimination of
discriminatory elements had been envisaged in the context of the Joint Working
Group on Import Restrictions as one of a series of cumulative steps towards
the ultimate elimination of restrictions and was one of the possible commitments
to be taken pending complete elimination.

121. Technique examined: Rules on the progressive globalization of all bilateral
quotas (paragraph 5(2)). The following points were raised: The technique has
aspects in common with the preceding technique. Because of possible problems
relating to the position of "traditional suppliers", consideration should be
given to whether the volume of the envisaged global quotas would merely correspond
to the sum of the bilateral quotas, or be larger. Similarly, consideration should
be given to whether the global quotas would be open to the previous beneficiaries
of bilateral quotas, or to all countries.

122. Technique examined: Criteria for non-discriminatory administration of
quotas (paragraph 5(3)). It was pointed out that the technique was similar to
that in paragraph 119 above.

123. Technique examined: Legalization of remaining restrictions under provisions
of the General Agreement (paragraph 5(4)). The point was raised that the
technique would be difficult to implement as it would require either a change
in GATT rules or a waiver procedure, which is itself a complex procedure. A
member considered that a waiver under Article XXV may not be necessary if the
various countries concerned agree among themselves.
124. **Technique examined:** Undertakings by exporting countries to observe ceiling levels (paragraph 5(5)). The following points were raised by one or more members. This technique differs from others as it implies an obligation by suppliers. It might be considered as having a certain advantage as the exporting country has an interest to fill the quota and to have an assurance of access. If the exporting country administers the quota, it may be able to arrange for any benefits derived from the scarcity value of the quota to accrue to itself. The view was expressed that export quotas had merits and demerits, and it would be difficult to work out rules that would apply equally to import quotas, export quotas and voluntary restrictions, especially as the latter had already been negotiated and agreed between the trade partners concerned. It was considered that multilateral negotiations could be a means of inducing importing countries to increase the ceilings. It was pointed out that the technique was not necessarily the same as voluntary restrictions; it could for instance also be considered as an element of an international stabilization arrangement. The suggestion was made that developing countries should be free from any obligation to apply export restraints.

125. In a general discussion regarding the value of codes relating to quantitative restrictions, one or more members expressed the following views: Either the observance of existing GATT rules should be ensured, or, alternatively, a code could be drafted to cover present practices and provide rules to govern their continued application. The codes themselves could reinforce the existing rules of GATT or, alternatively, they could contain new rules and thus represent a modification of existing GATT rules. However, codes should not be regarded as a first step; it would be better first to eliminate all restrictions that can be eliminated, and cover any remaining practices by a code so as to arrive at a comprehensive final agreement. The problem of existing GATT rules, in particular those in Article XIII, was not that they did not cover the various practices, but that they were not observed.
Examination of techniques and modalities for negotiations on health and sanitary regulations, marketing standards and licensing (Section 4)

126. The Working Group recognized the competence of specialized technical bodies in the field of health and sanitary regulations, but considered that GATT had a rôle to play as regards the trade aspects of such regulations, taking full account of the work done in those bodies.

127. The question was raised whether health and sanitary regulations were negotiable; if so, which would be the appropriate multilateral techniques. Some members considered that to the extent that these regulations were not intended for economic protection, they did not seem to be negotiable in the same sense as commercial measures. However, practical experience showed that they frequently were negotiated, generally on a bilateral basis, to ascertain if they were warranted, or could be eased. This proved that they were negotiable and, given the volume of trade covered, as indicated by the large number of notifications made to the Agriculture Committee, it was worth while further to explore whether they lent themselves to multilateral negotiations.

128. One member pointed out that the question had already been settled by the Agriculture Committee and that the task of the Working Group was to examine practical modalities for the negotiations. Furthermore, if the contracting parties reached the conclusion that health and sanitary regulations were not negotiable, taking into account the fact that some contracting parties applied a large number of such measures at the frontier, with substantial limitative effects on trade, then at the outcome of the negotiations a serious problem of overall reciprocity might arise vis-à-vis those countries.

129. Some members felt that it would be difficult to fit this area into comprehensive multilateral negotiations, in particular if governments were convinced that certain regulations were necessary for the protection of human, animal or plant health and therefore regarded them as non-negotiable. Regulations that were being used as a cloak for commercial restrictions should, however, be dealt with. A member said caution was necessary in dealing with health regulations so as not to limit their effectiveness.

130. Some members considered that regulations designed for the protection of health were not negotiable. The view was expressed that if they were appropriate and necessary the country concerned could not relinquish them. If they were
unjustified they should be abolished, but not by way of negotiation because this would imply that another country would be granting a concession to the first country for refraining from an arbitrary practice. A member considered that if the regulations, and the way they are administered, acted as an indirect protection of domestic products, they should not be negotiated but be dealt with under the existing procedures of GATT.

131. The point was made that some countries must maintain high standards of health and sanitation in order to safeguard their exports. This sometimes results in regulations that are more stringent than necessary, including cases where more than two countries are simultaneously involved. The example was given of country A which exports to country B but has to maintain more stringent standards than B would normally require, because B exports to country C whose regulations are particularly severe. There was therefore scope for multilateral discussion.

132. It was also pointed out that economic problems might arise if regulations to protect the environment were applied in some countries but not in others, or where they differed in severity. For instance, producers in a country which prohibited the use of certain pesticides might press for compensation, higher protection or export assistance. Such problems would become larger in time, and had multilateral implications.

133. As regards the form multilateral negotiations could take, it was suggested that in the first instance request lists concerning particular products might be presented, followed by bilateral or multilateral concessions. Some reciprocity might result from this approach.

134. As an alternative, it was further suggested that a code or a set of general guidelines might be drawn up, for the formulation and administration of regulations so as to reduce or eliminate as far as possible any harmful trade effects. It was suggested that the elements listed in paragraph 3 of Section 4 might be useful, and that the relevant principles of Article XX might be further elaborated; the experience of specialized technical bodies might also be drawn upon.
135. In this connexion it was suggested that a code might aim at the harmonization of regulations. While several members considered this desirable, some of them doubted that the concept of reciprocity was applicable to harmonization codes. It was, however, suggested that a degree of reciprocity might be attained in a code, as in a non-self-balancing sectoral approach, with the possibility of an overall balance being found across several sectors. The point was made that strict harmonization might be possible among countries in the same region and with similar economic and natural conditions, but that it would be difficult to achieve for all contracting parties the world over.

136. The point was made that the more liberalization took place on other non-tariff barriers, the more important it would be to have an internationally-agreed code on sanitary regulations, so as to prevent the liberalization being nullified by increased resort to alleged health measures.

137. Some members suggested that a code should be strengthened by an arbitration procedure, administered by a panel of independent experts. Others doubted that this approach was practicable, as governments would not be ready to delegate their right of decision in matters of public health to an outside body.

138. Several members favoured the establishment or strengthening of consultation procedures in this area. While most of these members considered that such procedures would in any case be desirable and necessary for the implementation of a code, certain members expressed a preference for consultation procedures above.

139. The point was also made that making health and sanitary regulations and the related administrative rules and procedures public and easily available, would be a step towards easier access to markets.
Examination of techniques and modalities for negotiations on production measures (Section 5)

General observations regarding production measures

140. A member pointed out that the main problem within the agricultural sector was the surplus production in most industrialized countries; it was the increase in production that had created many of the problems of a trade policy nature. The general objectives of the work in hand should include the concepts of achieving stable markets for agricultural products and an expansion in agricultural trade. He recalled the importance of those objectives for the developing countries which, to a large extent, depend on their agricultural exports. To achieve these aims, the attention of the Group should be focused on a limitation of agricultural production in the developed countries. In this context two factors might have to be taken into account and discussed further: the cost-advantages of an efficient production and the long-term development of global demand for agricultural products. His country had been aiming at a stabilization of agricultural production. A decrease in production would allow resources bound in agriculture to be transferred to other sectors of the economy; and would also create possibilities for increased access to markets and tend to avoid surpluses. However, for various non-economic reasons it might be necessary to
maintain a certain domestic production. It would be unrealistic to overlook the existence of national goals of a not strictly economic nature; such national goals often tended to over-rule purely economic considerations; but it might be difficult to determine a minimum total level of production and to find a common denominator for measuring it.

141. Another member said that the main goal of his country's production policy was to reach a better balance between production and market outlets. In this context, land retirement programmes had been established with the aim to decrease production. Special compensation was paid to the farmers who took their arable land out of production. A part of this arable land had been devoted to forest production.

142. A member stated that his country's price policy aimed at reducing price instability and uncertainty by underwriting a floor price based on a historical market pattern. Another feature of this price policy was to place limits on the volume of production on which subsidies could be paid.

143. Three delegations submitted written statements on the agricultural policies of their respective countries. The texts of these have been circulated as documents Spec(72)42, Spec(72)43 and Spec(72)49.

Specific measures (Section 5, paragraph 2.4)

144. A member pointed out that a commitment ought to cover not only individual specific measures but also all possible similar measures taken by various countries. If contracting parties were to make any meaningful commitment on production measures such a global approach would be extremely difficult from the technical point of view, and even if it were technically feasible it could hardly be called a realistic solution acceptable to all contracting parties. He expressed doubt as to the effectiveness and feasibility of any technique under which contracting parties were requested to make commitments on specific production measures. It might be more realistic to explore the techniques relating to the situation created by the existence of various production measures from the standpoint of facilitating a stable and steady expansion of agricultural trade.

145. Some members were of the opinion that instead of drawing an overall picture of existing measures that would have to be modified, one should first select the measures significant in the policy of each country. Another member felt that all the measures taken by governments in the price field or other fields were significant; the degree of significance varied; where there were measures being seldom applied or having marginal influence their significance might be small.
146. Several members shared the view that measures affecting prices should not be looked at in isolation but they could agree to split up the sections for separate consideration and to discuss each element.

147. It was pointed out by one delegation that national agricultural policies employed a wide variety of measures which affected production. The specific measures, or combination of these measures, used by a particular country often differed from product to product, and were often supplemented by other measures which primarily affected imports and exports.

148. Technique examined: Explore which specific production measures might technically lend themselves to meaningful commitments, and the form that such commitments might take (paragraph 2.A(1)). A member suggested that such commitments might be grouped under four main headings along with possible advantages and disadvantages of these measures.

I. Price measures

II. Measures affecting factors of production

III. Measures affecting the sale of the product or marketing quotas

IV. Measures related to farmers total income rather than to returns for specific products.

I. Price measures

149. Some members considered that negotiations on price measures would have the following advantages: a commitment to limit the level and/or coverage of price supports would restrain measures already widely used, and, since it would modify rather than replace existing programmes, might be more acceptable and more readily implemented; standstill on price levels would gradually reduce real returns to producers due to inflation; reduction of support levels toward world price levels would reduce un-economic production and the cost of support programmes to governments and consumers.

150. Some members thought that such negotiations would have the following disadvantages: producers, generally accustomed to price increases, would strongly oppose reduction unless accompanied by compensating measures; it would be extremely difficult to balance the value of commitments between countries, which would require consideration of existing price levels, import and export policies, and prices of competing products.

151. Some members thought that a commitment regarding guaranteed price for all production might take the following form: fix maximum level of guaranteed price.

The disadvantage would be that a corresponding reduction in any protective import restrictions might be required in order to make the commitment meaningful to the exporter.
152. Some members expressed the view that a commitment regarding guaranteed price for part of the production, the remainder to be sold in the world market without subsidy or stored by producer, might take the following form: determine maximum amount of production to be covered by guaranteed price (absolute amount or percentage of total).

The advantage of this form of commitment was that the producer would be assured a minimum annual return as long as he produced his share of quantity covered by guarantee. The disadvantages of this form of commitment were that it was difficult to administer and that it was hard to avoid illegal sales at higher guarantee price.

153. Some members considered that a commitment regarding guaranteed return to the producer, to be made up of combination of sale at free, i.e. world market, price and government deficiency payment, might take the following form: remove or place limit on import restrictions if any; fix maximum level of guaranteed return.

This form of commitment had the following advantages: it permitted domestic consumption to take place on the basis of world prices; and the producer was assured a minimum annual return.

The disadvantage of that form of commitment was that it could result in large and extensive direct government payments which could cause budget difficulties.

154. Some members thought that a commitment regarding guaranteed price for all or part of production provided producer met certain other requirements (acreage allotments, diversion, etc.) might take the following form: determine minimum level of other restrictions to be imposed.

This form of commitment had the advantage of limiting uneconomic production while assuring farmers a specific return.

The disadvantage of this form of commitment was that it would be difficult to establish the effect of particular combination of support levels and restrictions.

155. Some members thought that a commitment regarding special payments to users of domestic production might take the following form: fix maximum level of premium or minimum of production disincentive payment.

156. Some members considered that a commitment regarding regulation of imports to maintain higher than world prices in the internal market might be entered into. This point could be discussed in connexion with import measures.

II. Measures affecting factors of production

157. One member thought that negotiation on measures affecting land use had the following advantages: land was a major factor of production, was fixed in quantity and was easily measured; the basis for commitment (past use of land by crop) was generally known and therefore was free from disputes about the facts involved.
158. Some members considered that it would have the following disadvantages: land was not the only determinant of production; the efficiency of land also depended on whether and the use of other inputs; the effect was limited to crop products and might be partially offset by increased yields; the poorest and least productive land would be removed first.

159. Some members thought that a commitment regarding limitation on planted or harvested area might take the following form: set maximum area to be planted or harvested.

Some members thought that a commitment regarding diversion of land to other crops or complete removal of land from production might take the following form: set minimum area to be diverted or removed and minimum duration for commitment.

Some members considered that this form of commitment had the following advantages: long-term land retirement permitted more rational planning by individual farmers; the commitment could be a meaningful commitment on a shorter run of time; it could have the effect of reducing the cost of production because of the concentration on better lands.

One member thought that a disadvantage would be that concentration of farm retirements in certain areas could cause major social problems. Another member expressed the view that commitments on limitation of acreage were not necessary because the limits were known and there were other measures yielding similar results. Another member said that the removal of land from production must inevitably tend to increase prices on world markets, and that would be reflected in increased costs for importing countries.

160. Some members considered that a commitment regarding limitation of the absolute use of land for the production of a given product might take the following form: set the area to be devoted to the production of a particular product. Some members thought that a commitment regarding subsidized use of additional inputs might take the following form: fertilizer subsidy. One member considered that this form of commitment had the following disadvantages: complexities for comparison purposes; less significant than more direct measures.

III. Measures affecting the sale of the product - marketing quotas

161. Some members expressed the view that negotiation on marketing quotas had the following advantages: quotas provided a relatively effective degree of control over the amounts entering the market; historical data which could serve as basis for determining commitment were generally readily available.

162. Some members thought that there would be the following disadvantages: marketing quotas required extensive control by a government or quasi-government body over the marketing facilities; they placed the burden of adjustment directly on the farmer; they were impractical for non-storable products; even if they were based on historical performance, such quotas discriminated against new producers
and efficient producers; they were negotiable only with considerable difficulty; negotiating permanent arrangements on marketing quotas was extremely hazardous and not promising.

163. One member thought that a commitment regarding single step or one price quotas, with sales outside of quota prohibited, might take the following form: fix the maximum amount of product which the marketing authority will purchase from producer, possibly with automatic adjustments based on predetermined levels of world supplies or prices.

164. Some members thought that a commitment regarding differential price quotas could be entered into; producers return would be based on allocated share of various markets (food, feed, export, each with its own price and possibly with no quota set for the lowest price market). This commitment might take the following form: determine the maximum amount permitted to enter at the highest price or into the specified markets, usually domestic food market.

One member suggested that in some areas, e.g. wheat, it was possible to negotiate a valuable and acceptable commitment.

Another member pointed out that this commitment could be extremely complicated to administer.

IV. Measures related to farmers' total income rather than to returns for specific product

165. In the view of some members, negotiation on measures related to farmers' total income had the following advantages: an income support measure allowed consumption to be determined in the market place, and to increase; it met an accepted social need to provide minimum level of income to all farmers; it had a minimum influence on the choice of the product grown, the level of production and prices; it could be used to replace other, less direct measures intended to maintain farm income; the commitment on income measure itself could be in relatively general terms if accompanied by specific commitments to reduce or eliminate other production measures; if the measure also benefited those who retired or otherwise left farming, it might as a side effect encourage early retirement.

166. Some members considered that there would be the following disadvantages: direct payments from the national budget were more visible than hidden, indirect costs; it might be politically difficult to subject domestic social questions to international control, negotiation or agreement.
167. One member thought that commitments related to farmers' total income might take the following form:

(1) A commitment regarding direct payments to low income farmers to maintain income might be in the following form: general commitment on minimum farm income goal to be achieved through direct payments (fixed amount or percentage of non-farm income).

(2) A commitment regarding guaranteed income to all farmers regardless of amount of production or type of product - could be part of national guaranteed income plan.

168. Technique examined: explore the technical possibilities of separating "production-neutral" farm income maintenance measures from production and price policy measures; and explore the technical feasibility and meaningfulness of negotiating techniques for the encouragement of production-neutral measures and the elimination of measures that unduly stimulate production. (paragraph 2.4(2))

169. One member observed that, in practice, measures with a definitely neutral effect on overall production were at best very few in number. It might be more practical to concentrate attention on income support measures which were product neutral, which exerted little or no influence on the choice of products to be produced. Using this standard, measures might be incentives, neutral, or disincentives to the production of a particular product. Even though product neutral, specific measures might still affect the level of overall agricultural production. The relative product or production neutrality of a number of specific production measures is readily apparent as long as these measures are examined on an individual basis i.e. assuming all other things being equal. However, when these individual measures were actually applied in an existing agricultural economy, together with other production import and export measures, it was usually far more difficult to assess the overall effect of such a combination. Price measures taken alone generally were not neutral, but instead served as incentives to production of the specific product as well as to overall agricultural production; they might be subject to negotiation. However, a price guarantee combined with other requirements which would restrict production of the product in question might, in their overall effect, be essentially neutral to production of the product as well as to total agricultural production of the product. The final effect would depend on the relative strength of the incentive provided by the price guarantee and the disincentive resulting from the restrictive requirements.
While a commitment to take any factor of production out of agricultural production in general would be a product-neutral commitment, it might have little specific value to the negotiating partners interested in exporting particular commodities.

Direct payments to farmers who left farming, either to retire or to move into other occupations, were also relatively product neutral. This group of measures was easily distinguished, and therefore easily separated, from most other production and price measures employed in national agricultural policies. The objective of product/production neutrality could also be approached through the "balancing" of production incentives and disincentives in a nation's agricultural policy. This approach could be discussed in connexion with a combination of various elements selected from the three broad techniques.

170. Another member considered that such income support measures as farmer's retirement pensions and long-term land retirement payments would not be a realistic and acceptable solution because in importing countries the replacement of production and price policy measures by so-called production-neutral measures would finally result in the contraction or extinction of agricultural production. Another member said that, to establish a list of production-neutral measures would be of no practical use.

171. **Technique examined**: Examine possibility of allocating responsibility for the creation of surpluses (paragraph 2.i(3)).

One member made the point that it was not important in the future to allocate responsibility for past surpluses; it was important to try to negotiate arrangements that would prevent the rise of new surpluses or the aggravation of surplus producing conditions. It was suggested that machinery might be established to examine situations in which it appeared that a surplus existed in the international market of a particular commodity. This machinery could include a more precise definition of conditions that would define a surplus. This would be necessary because of the different views that existed concerning the definition of a surplus and who causes it. After the existence of a surplus were established, and the country causing it were determined, techniques would be employed to correct the problem. However, no single set of automatic criteria could actually be adopted for identifying a surplus situation and indicating precisely which countries could be considered as responsible.

172. One member suggested the following criteria indicating the existence of surpluses:

One was that a surplus existed if one or more countries simply asserted that that was the case. In his view, this determinant would have the advantage of eliminating the need for possibly lengthy negotiations on the existence of a surplus. The disadvantage was that it would not provide for the determination of
responsibility, unless that too, was incorporated in the complaining countries' argument. In that case, the fact of a surplus and who was to blame would depend on the word of one country against another.

173. A second criterion was, that a surplus existed if a country had an abnormally sharp and sudden rise in its self-sufficiency ratio. The member concerned thought that one advantage of this technique, was that, if properly used, it could help in determining both whether a surplus exists and who is causing it. It could be said that if the world's self-sufficiency ratio is greater than one, there is a surplus in a particular commodity. Breaking this down by country self-sufficiency ratios, historical data could provide the answer as to which country or countries' output has created the surplus. This country could then be expected to take the responsibility to deal with the problem. Another advantage would be that this technique put the blame equally on exporting and importing countries.

In his view, this determinant had the following disadvantages: countries viewed their self-sufficiency ratios quite differently and, therefore, even if their self-sufficiency ratios could be computed, differences of opinion could still develop over who was to blame for surpluses. For example, a country with a "normal" self-sufficiency ratio of more than 100 per cent for a given commodity and an established export market would probably consider that market as its own. On the other hand, countries which are historically less than self-sufficient may try to increase output in order to increase their self-sufficiency in the product, not considering that this could create a surplus. Neither the exporter nor the importer would admit to be causing a surplus. Moreover, this technique would not allow for genuine changes in production patterns.

174. According to a third criterion, a surplus existed if there was a general decline in the world price of a product. In the view of the member concerned, this technique could be helpful in determining whether or not there was a surplus. If the price of a product was abnormally low, it was generally because there was an abnormal supply on the market.

He considered that this determinant had the following disadvantages: By itself this technique would not be useful in allocating responsibility. Once it was agreed that there was a surplus, another device would be needed to determine who was at fault, how the surplus should be eliminated and future surpluses avoided. Too much product on the market did not necessarily mean that one or more countries are producing more than their normal share. Demand might be decreasing for the product, causing the price decline, and in this case special measures would be required in order to deal with the problem.
175. A fourth criterion was that a surplus existed if it was apparent that many countries were subsidizing their exports. The members in question thought that this could be a useful technique for determining the existence of a surplus. This determinant had the following disadvantages: there might be some difficulty in reaching agreement among countries that many governments were indeed subsidizing exports of that product. There might be cases where many countries were subsidizing and there was no surplus. By the same token, there might be cases where there was a surplus, but no one was subsidizing. This technique alone would not provide for either of these cases. This technique would not allocate responsibility for the creation of the surplus.

176. A member suggested the following forms of commitments:

Commitments regarding export subsidy restraints.

The member considered that this technique had the following advantages: if subsidies cause part or all of the surplus problem and the offending country agrees to cut back or eliminate the subsidy, this would alleviate the problems caused by the surplus in the world market; if all exporting countries maintained restraint on export subsidies during times of surplus, this could also reduce many of the problems caused by the surplus.

In his view, this technique had the following disadvantages: this technique would not be useful if the country primarily responsible for policies that had led to a surplus were an importing country; this technique if directed at all exporting countries would not serve to allocate the responsibility for the creation of the surplus; it would only be effective if used in conjunction with some other device to remove the over-supply from the market.

177. This member considered that commitments on stock maintenance had the following advantages: they could be useful in the short run to help balance supply and demand; they could be useful if the country causing the surplus was a traditional importer.

In his view, these commitments had the following disadvantages: they would not solve the basic problem if the surplus was not a one-time event and recurred each year; they would not be practical for some products.

178. The member in question considered that commitments relating to donations had the following advantages: donations to relief funds, etc., would remove some or all of the surplus from the commercial market, thus helping to stabilize prices; this technique could also be used by an importing country if necessary.

This member considered that the technique had the following disadvantages: if the surplus was too large, or the demand for the product as a donation was too small (such as in cases where the product was not suitable for relief), the surplus-reducing effect could be minimal; it would probably not be politically palatable for a traditional importer to give away a product so that it could continue to import at a given level.
179. This member thought that commitments relating to the increase in domestic consumption had the following advantage: they could be useful in decreasing an international surplus if the action were either taken by an exporting or an importing country. It might be carried out through welfare programmes, school lunch programmes, etc.

180. For this member, commitments relating to the destruction of the product had the following advantages: they would be useful in decreasing over-supplies and would allow immediate corrections in order to maintain world price stability. They could be applied by importers as well as exporters.

Some members considered that these commitments had the disadvantage of being politically impossible in most cases, especially for importing countries.

181. Several members expressed the view that this point could be more fruitfully discussed in connexion with supply management or import measures or general measures. One of these members suggested that one should examine the possibility of determining causes rather than responsibility for surplus creation. The causes could be of either a conjunctural or a structural nature. Another member said that the primary responsibility should be borne by the surplus-creating countries themselves and that his delegation could not associate itself with any suggestion which presupposed the co-responsibility of importing countries for surplus creation. The point was made by another member that both importing and exporting countries had a rôle to play in controlling surpluses.

182. **Technique examined**

Supply management through stock maintenance measures: explore possible types of commitment and their suitability according to product (paragraph 2.A(4)).

One member considered that stock maintenance measures were appropriate and could be a type of commitment; they were integral parts of existing commodity arrangements. Another member said that this technique might effectively serve the objective of a stable and steady expansion of agricultural trade and might merit further exploration if the relation with other relevant elements for market stabilization was duly taken account of. Another member said that commitments to hold stocks would be one way for importing countries to undertake certain responsibilities. The provision of security of supply would be an important consideration for exporters.

183. Another member said that, because of several instability problems, management designed systematically to adapt production to market conditions was difficult; this technique could concern only conjunctural surpluses of products that could be held in stock beyond a certain normal security margin; a stock policy was conceivable only if the relation between storage costs and the possible size of variations in the commercial value of the product so allowed; it would be difficult for a stock policy to be viable as a measure for regulating supply.
184. **Technique examined:** Other possible forms of harmonization of production measures (paragraph 2A(5)).

A member said that the point concerned in general more or less strict commitments in regard to concerted action at the level of production measures. Another member pointed out that a commitment made on a specific production measure could be circumvented through the continued use or introduction of some other measure or measures. Specific commitments on prices or acreages could be coupled with less rigid commitments regarding a standstill on other measures. This kind of commitment could take the form of subscription to a code of conduct with penalties or with rewards and penalties encouraging the taking of actions which did not either impair or nullify the benefits of the concessions that had been exchanged.

185. **Technique examined:** Any farm income maintenance measures should be separated from production and prices in order to ensure that such measures are production neutral (paragraph 2A(6)).

Possible techniques 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 include the following: estimate the value of the 1970 average and/or marginal unit produced per man or hectare in the use from which the inputs (labour or land) are withdrawn. Multiply result by total number of units withdrawn, so as to get the estimated value of the total product reduction. If country is not 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 (paragraph 2A(6)).

A member said that it would not be feasible to evaluate the indirect effects on residual production and the intensification effect that would offset freezing of these various production factors.

Another member considered that this technique presented the following difficulties: it was difficult to take into account the increase of production which, in spite of the units withdrawn, might result from the higher productivity caused by the amelioration of equipment and techniques of production; it was difficult to calculate the reduction of production units which would arise as a result of industrialization and not as a result of the measures taken specifically for that purpose; it was difficult to estimate the number of units withdrawn, because the measures to be taken by the governments were not designed to impose directly the withdrawal of the production units, but were designed to induce it by special payments: it was difficult to calculate the average and marginal value of production per unit. Another member said that it was difficult to make this technique operational, and that it would be a complex administrative-type arrangement.
Possible techniques 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 include:

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 increase consumption by this amount. Convert this price reduction to ad valorem percentage terms. Provide for abolition of the domestic producer income supports in question, giving negotiating credit as if duties had been reduced by the ad valorem percentage calculated above (paragraph 2.A(6)).

One member thought that this technique had the following disadvantages: it was difficult to calculate the various elements of the estimated production in the absence of the income support measures; it would not readily be applicable in an agreed fashion.
II. GENERAL MEASURES

1. International stabilization arrangements

187. Some members of the Working Group said that international stabilization arrangements should be the subject of broader technical examination than would seem to indicate the fact that this point had been included under the heading "production measures", because such arrangements could bear on elements other than those relevant to production. One representative said that they should be viewed as a legal framework within which certain commitments could be entered into on a basis of mutual advantage.

188. Many delegates indicated that international stabilization arrangements seemed to constitute a possible approach that could be used in the future negotiations. Because of the diversity of measures applied in various countries, a solution was necessary that would allow the interests of exporting countries to be reconciled with those of importing countries. In the view of several delegates, such arrangements constituted the most realistic way of tackling the problem; they could play a valuable role in trade, whatever the economy of the countries concerned, and could be particularly useful for developing countries.

189. With regard to the advantages of international stabilization arrangements, the following suggestions were made by one or more members. Some members considered that the conclusion of international stabilization arrangements would allow short-term difficulties to be overcome (e.g. disequilibrium between supply and demand, or excessive fluctuations in prices); it would ensure stability of prices and trade for the products covered and afford an orderly framework allowing importers to improve conditions of access to their market with some security (possibility of fixing safeguard clauses). Some representatives pointed out that this arrangement would ensure developing countries of price stabilization and of access conditions conducive to trade's expansion, allow orderly growth to be achieved (particularly in low-income countries) and help developing countries to obtain their own financial resources to develop their trade, and that, consequently, the interests of developing countries could be defended as a particular element. Lastly, it was pointed out that the arrangements approach would allow all problems affecting the products considered to be dealt with together in one specialized negotiation and that they should be examined having in mind the effects which they might have on income transfer and volume of trade.

190. One delegate said that the discussion on the content of the arrangements should be preceded by an exchange of views on the objectives to be set for them. According to the objectives envisaged, one might subsequently consider the content of the commitments to be undertaken, as well as their respective advantages and disadvantages. Moreover, the objectives could not be examined in abstracto; it was desirable to know whether they were feasible from the practical, technical and political aspect to present market conditions. Each objective furthermore carried
advantages and disadvantages, and two questions would have to be settled in due course before the parties to the negotiation could decide what the scope of the international arrangements was to be. The first question was to know whether the governments were ready to accept the disadvantages of international arrangements which constitute so many restrictions on their freedom of action; the other important question was to know whether the types of national policy currently applied would allow implementation of the type of measures necessary in order to attain the objectives of the arrangements.

191. In the view of that delegate, three objectives could be set for the international arrangements, the first offering the maximum liberty desirable and the third being the most restrictive form for the partners.

(i) The first objective was the one of promoting economic and trade stability by preventing excessive fluctuations in world prices and in the volume of trade, without, however, influencing long-term trends.

(ii) The second objective was to seek to stimulate world trade. Such an international arrangement should make it possible to raise or at least maintain export income by means of arrangements between exporters who would be required to limit production or exports. In the context of that approach, account could be taken of the interests of developing countries and also of increased consumption. Another possibility was to seek to stimulate trade in co-operation with importers through a formula that would neutralize any shrinkage of the import market.

(iii) The third objective could be to seek a balance of the market in expansion. That would call for concerted action in regard to the policy adjustments necessary for balancing supply and demand in the long term. That objective implied some kind of intergovernmental planning in respect of not only trade, but also production and price policies, stocks and the relations between trade policy, food aid and the economic evolution of developing countries.

192. The speaker then underlined the advantages and disadvantages of those objectives:

(i) The first objective would be advantageous for exporting countries interested in price stability, the level of prices and a reduction of quantitative fluctuations in trade, and also for importing countries interested in obtaining equitable prices and reasonably stable trade conditions. If prices were stabilized under an international arrangement - that is to say, if they were maintained at a level higher or lower than that which would result from market forces - disadvantages for importers
could be advantages for exporters, and vice versa. The essential effect of such an arrangement was that of limiting income transfer between producers and consumers, and consequently its incidence on the balance of payments.

(ii) The trade stimulation objective could be attained in two ways:

- either through a price increase, which to some extent presupposed limitation of export availabilities and co-operation between importing countries with a view to observing prices higher than those prevailing in free trade.

That procedure would bring about an increase in export earnings, possibly at the cost of a reduction in the volume of trade depending on the degree of price/consumption elasticity.

- or through an assurance of better conditions of access given by importing countries to exporting countries.

The natural consequences of selecting this formula for achieving trade stimulation would be:

- limitation of production in importing countries, hence an increase in the volume of trade;

- lower consumer prices;

- a reduction in producer income in importing countries, to the benefit of third suppliers.

To the extent that this international policy brought higher prices in the world market, there would be income transfer from importing to exporting countries; this would carry the disadvantage of increasing the balance-of-payments burden in importing countries; nevertheless, such an approach could bring advantages even for importers of agricultural products because this type of arrangement could favour industrial trade by allowing countries exporting agricultural products to obtain foreign exchange with which to purchase industrial products in the importing countries.

(iii) To seek market equilibrium presupposed that each of the partners must be convinced that such an arrangement operated to his advantage, so that it was almost a question of "political psychology". That objective involved the far-reaching problems of agricultural adjustment and the distribution of agricultural resources at an international level or, if the ambition was more modest, the problem - though no less difficult to deal with - of harmonizing national policies and hence consolidating the respective positions of the various producers.
The objective of an arrangement (and hence its content) depended on its feasibility in current market conditions and also and above all on the readiness of governments to accept certain disadvantages. Without wishing at this stage to make any pronouncement as to the objectives that might be selected, the delegate noted that in appropriate cases international arrangements were also a means of attaining the general objectives that would be outlined for the 1973 negotiations and that, in any case, they could serve the interests of developing countries.

The members of the Group considered that the objectives mentioned and their implications deserved examination in depth. One delegate pointed out that one of the objectives of the arrangements would be to eliminate or reduce the effects of unfair business practices; it was emphasized that it was in the interest of importing as well as exporting countries for that objective to be attained. Another member of the Group said that it was not certain that the trade stimulation objective implied a choice between increasing earnings through higher prices or another mechanism, and expanding markets; those two approaches could be adopted simultaneously. Several delegates underlined the importance they attached to market expansion; that objective was particularly desirable for developing countries for which the principal objective was not only stability but also expansion.

One member stated that the first objective cited by a previous speaker apparently related to the achievement of greater stability in the price of a particular commodity without, however, influencing its long-term trend. Even for those few commodities which had no close substitutes and appeared otherwise to be possible candidates for market management, he saw an inherent contradiction between achieving greater price stability and leaving long-term trends uninfluenced by the measures taken. Measures taken to achieve greater price stability could impair the efficiency of the market as a determinant of price trends, both in the short run and in the long term. How could one be sure that the measures taken would leave the market sufficiently open to serve as an effective guide to the economic use and production of the commodity concerned? Turning to the second objective previously outlined, this member stated that international agreements intended to raise or maintain incomes derived from the export of a particular commodity also required the reconciliation of conflicting objectives. If exporting countries' incomes were benefited by measures sustaining prices above long-term market trends, there could (for a time at least) be an income transfer from consumers to producers. For a few commodities this transfer might be brought about by reducing world market supplies but the reduction could soon reach a point beyond which increased income transfer from consumers to producers would not be possible. As to the suggestion that such agreements would serve the interests of developing countries by transferring income from consumers to producers, he said it should be noted that for any commodity consumers are not all resident in developed countries, and producers (with the general exception of certain tropical agricultural products) are not all located in developing countries. Commodity arrangements aimed at income transfer would result in the arbitrary redistribution of income unless the arrangement was especially designed to bring about an agreed pattern of additional income contributions and distributions. The possibility of accomplishing
such results was doubtful from the technical point of view, and still more from
the strictly political point of view. Balanced economic expansion, which was
the most ambitious objective, would involve either a master arrangement or an
arrangement applicable to a range of products. Any arrangement designed to
achieve the objectives that had been mentioned - stability, stimulation and
expansion - would require agreement on the targets of income transfer to be
accomplished in order to achieve balanced economic expansion. It was not certain
that such agreement was feasible. The same objectives could be attained in other
ways, and that was a matter of judgment for the governments to pursue according
to the case. In pure economics, it could be shown that the most efficient way in
which to transfer income was an appropriate tax system, comprising a system for
distributing the proceeds. If stabilization arrangements were to be used, one
would have to reconcile the various objectives in respect of prices, income, and
degree of access to import markets.

196. It was recognized that the arrangements envisaged were difficult to design in
practice. One delegate noted that such agreements, which are in fact schemes for
organizing world trade so that a reasonable amount of business can be done within
certain price and quantity limits, generally take the form of minimum and maximum
price commitments or a price fork, sometimes accompanied by export or import
quotas, or buffer-stock schemes. The only existing major agreements are for
coffee, wheat and sugar. The coffee agreement is experiencing continual internal
stresses; the wheat agreement does not in fact control the market and is largely
consultative; the sugar agreement covers only a small part of the market. The
outcome of current negotiations with a view to a cocoa agreement is uncertain.
The idea of such arrangements is not new but the few that are in force have
operated successfully only within the terms of their own objectives and for a
limited period of time.

197. Despite the relatively unsatisfactory results achieved, other delegates
considered that the difficulties encountered should not prevent resumption and
improvement of measures taken with a future action. The new arrangements might
differ from existing agreements and should take account of all elements affecting
development of the free international market. If the governments were ready to
take the necessary political decisions for a concerted effort, the technical
difficulties could be solved.

198. As to the disadvantages of international stabilization arrangements, the
following suggestions were made by one or more members. It was considered that
the international arrangements approach lacked the necessary flexibility for
reacting to long-term modifications in supply and demand. International arrangements
might accentuate the short-term disequilibrium between supply and demand should
the market trend at the time of their negotiation not be properly appreciated.
The arrangements could not solve the long-term disequilibrium between supply
and demand if the prices to be fixed were fixed at too high a level, because
in that case the result might be to reduce demand, to increase productions
that were already in surplus and stimulate the production of substitute products.
In addition, arrangements based on export quotas, for example, created difficulties
for new exporting countries, because the quotas were based mainly on transactions
recorded during a base period in the past. It would also be difficult for producers and consumers to reach agreement on prices or price forks; the prices adopted were generally unfavourable for active and forward-looking producers, and quotas were usually fixed on the basis of past performance. Attention was also drawn to the following disadvantages: if inappropriate prices were fixed, the result was that production was inconsistent with demand; it was difficult to finance the operation of arrangements, in particular for the purchase of buffer stocks, and it was difficult to supervise the operation of arrangements, which were frequently infringed. The question of the difficulty of dealing with producers and consumers who were not parties to the arrangement was also referred to, as was the difficulty of defining the product covered, particularly competing products. It was pointed out that the effects on income transfer and volume of trade might be a disadvantage, and that the arrangements did not seem appropriate for all products, in particular perishable products. One representative said that, generally speaking, international arrangements would not solve the problems of international trade in agricultural products. Since they were not appropriate in the case of perishable products, the countries producing them would not be able to solve their problems through the use of this technique.

199. During the discussion, different suggestions and ideas were put forward regarding the field of application, the elements to be included in the arrangements and their operation.

200. As regards products to be considered, the suggestion was made that coverage should include products which had no close substitute and which entered significantly into international trade, trade which involved a reasonable number of exporters and importers, and whose export was hampered by lack of price stability. A number of representatives said that they agreed with that point of view. One delegation referred in that connexion to the statement made by its government, jointly with another contracting party with an important position in international trade, that in appropriate cases international arrangements were also one of the means to achieve the objectives of the 1973 negotiations. It therefore seemed necessary to examine the possibility of concluding international agreements product-by-product. Another member said that the arrangements did not seem to him to be appropriate for all products, in particular perishable products, and that it would be difficult to define the product covered and above all competing products. It was also suggested that products of interest to the developing countries should be taken into consideration. Lastly, certain representatives drew special attention to dairy products; a first stage had been completed with the conclusion of the Arrangement concerning certain Dairy Products; all key products in this sector should be covered in order to arrive at a more orderly international trade.
201. With regard to the elements to be included in arrangements, the following suggestions were made by one or more members.

Elements of the arrangements would vary according to products covered and the nature of the arrangements; it might be useful that they include elements relating to co-operation between importers and exporters by adjusting of supply and determining objectives or indicators regarding exports and imports. It would be necessary to take account of the fact that the nature of the provisions of the arrangements and their management should not prevent a stable and steady increase in trade. If, for example, prices were set at an excessively high level, production would increase, demand would decline and a shrinking of trade would result. It was pointed out that if prices were set at an unrealistic level, disequilibrium could develop between supply and demand, in particular if efforts were made at national or international level to influence elements of the market or of production. Each case should nevertheless be examined separately, taking into account problems of the various products or product sectors because, due to the present international situation, some producers did not receive the prices they should, and the production of economically efficient producers had declined. These elements should be taken into consideration if the arrangements were to be appropriate and correspond to the wishes of developing countries. If an arrangement was concluded fixing a remunerative price for developing countries and the product concerned was grown in developed importing countries, the latter should enter into production commitments, parallel with import commitments in respect of certain quantities. This production control would be useful, particularly if prices in importing countries were artificially high. Another method would be, for developed countries, transfer of production to other sectors, or limitation of cultivable acreage. Such adjustments could be effected more easily by developed than developing countries. Provision might also be made for the possibility of furthering development of consumption of certain products in developed and developing countries.

202. As regards the operation of the arrangements, the following suggestions were made by one or more members. A consultation procedure, which would be applied in cases where the objectives or indicators set in the arrangements were not attained, might be provided. One of the difficulties in implementation of the agreements derives from the fact that they are sometimes insufficiently adaptable and flexible to take account of market realities. In order to achieve a better balance between production and world markets by acting on prices and consequently on quantities produced, the arrangements should not try to make provision for every detail, but should establish a framework within which a quasi-permanent administration of their operation could be situated. Decisions could then be made when necessary to allow free play of the market and take account of forecasts at the level of production and prices. The principal exporters and consumers would in a way be negotiating continuously. Mechanisms of this kind exist at national and even regional level, and it would be worthwhile to examine more closely possibilities at international level. The creation of a consultation body was one of the advantages of these arrangements; flexibility of operation should be provided so that new situations could be met. Such flexibility should not, however, prevent
the parties from knowing what are their obligations under the arrangement so that they can evaluate the advantages and disadvantages and accept the obligations deriving from it.

203. It was suggested that the duration of such arrangements should be the subject of examination. Because of the difficulties inherent in long-term forecasting, a relatively short period would probably be selected.

2. Codes of good conduct

204. The Working Group noted that a certain amount of discussion on codes of good conduct had already taken place in the context of the examination of techniques relating to specific measures.

205. A member expressed the view that codes of good conduct ought to be examined in greater detail. The possible field of application of a code should be defined in relation to the other negotiating techniques at a later stage, when some progress had been made in examining specific measures. The nature and content of any code of good conduct would depend on its field of application. A solution acceptable to all the members of the Group should be sought in terms of the objective of achieving a continuous and regular growth of trade in agricultural products.

206. Several members noted that a code of good conduct would provide a useful way of dealing with questions that could not be embodied in specific commitments. One of these members pointed out, however, that a code could not replace more specific action in the production sector; in his view, a code would provide a criterion, so far as that sector was concerned, for judging the nature and extent of government assistance to agricultural producers and might deal with the question of applying the adjustment programmes for agricultural structures. Another member observed that a code could also cover matters which had not been taken up, such as questions relating to the environment, for example.

207. One member said that a code of good conduct was not in itself a technique, but rather the result of applying a technique; it was a method of negotiation that showed some degree of flexibility. A less strict kind of commitment might take the form of accepting a code of good conduct incorporating penalties, or rewards and penalties, as a means of encouraging countries to take measures that did not jeopardize or nullify the advantages obtained from an exchange of concessions.

208. One member emphasized that a code of good conduct could only be negotiated if a certain number of objectives had been laid down for the negotiations. The code of good conduct method should be reverted to once the objectives of the negotiation had been determined.
III. COMMON DENOMINATOR OR CRITERIA FOR THE ASSESSMENT OF COMMITMENTS

(a) Self-sufficiency ratios

209. Techniques examined

Technique (1): Determine self-sufficiency ratios for individual countries for the agricultural sector as a whole.

Technique (2): Determine self-sufficiency ratios for selected groups or product sectors.

Technique (3): Determine self-sufficiency ratios for individual products or product sectors.

Technique (4): Possible use of the self-sufficiency ratio as indicator rather than commitment.

It was suggested that the examination of techniques (1) to (4) above might be supplemented with consideration of the following:

(a) Types of obligations to be undertaken by importing and by exporting countries.

(b) Types of action in case of non-observance of obligations.

(c) Combination with other measures.

210. The following were mentioned by one or more members: A commitment by an importing country to limit the self-sufficiency ratio to a certain level would assure exporting countries the opportunity to continue supplying their present share of a country's consumption and to have a proportionate share in any future growth in consumption. A bound self-sufficiency rate may possibly be negotiated downwards, at least in the long run, as resources of an importing country are transferred from agriculture to other sectors. A valid criterion on the balance between supply and demand, which could prove to be a useful instrument in future negotiations as a practical equivalent to an indirect commitment. The self-sufficiency ratio concept could be useful as an essential instrument when establishing national policy objectives. Commitments in this field can easily be combined with other measures agreed upon (e.g. in the field of stock-piling policy, food aid, etc.).
211. The following disadvantages were mentioned by one or more members:
Commendments not to exceed self-sufficiency ratios would tend to freeze the
patterns of agricultural production and trade, irrespective of whether these
patterns reflect efficient allocation of resources. As structural reforms
lead to more rational agricultural production it is likely that importing
countries would want to negotiate upwards their self-sufficiency ratios. The
technique presented problems of definition and measurement, including the choice
of a base period. Commitments concerning a particular product will have to take
into account the presence of substitutes. It is doubtful whether commitments
in this area will be feasible and effective. It might be difficult to find a
type of commitment that could be made by exporting countries. It is difficult
to see what sort of compensation importing countries could receive in exchange
for a binding. The technique does not allow a consideration of aspects related
to the quality of trade or trade value. The self-sufficiency ratio might often
increase even when production and consumption increase at the same rate.

212. Several members considered the self-sufficiency ratio to be a valid criterion
on the balance between supply and demand, and which could prove to be a useful
instrument in future negotiations. Some members reiterated the views brought
forward previously in working groups of the Committee (see also L/3472,
page 28, paragraph 18, page 35, paragraph 17; and page 36, paragraph 18).

213. However, some members emphasized that a number of theoretical and practical
problems would have to be resolved before self-sufficiency ratios could be
utilized as a negotiating technique leading to binding commitments. Some agreement
would have to be reached on definition and measurement of the self-sufficiency
ratio. Several delegations suggested that the self-sufficiency ratio could be
defined as simply as possible, for instance, as domestic production divided by
consumption, with the latter reconstructed on the basis of data for production,
trade, and changes in stocks. In general, the opinion prevailed that the self-
sufficiency ratio for each country would have to be determined on the basis of
a representative period and disregarding years when the production might have
been abnormal due to adverse weather conditions.

214. One member recalled that in the past, this concept had only been proposed
with regard to grains, but it should be envisaged to consider it for several
commodities. Another delegation said that commitments regarding the self-
sufficiency ratio would only be meaningful if applied to a defined product or
group of closely related products, while still another delegation expressed the
view that the product coverage should be as broad as possible. Some members felt
that commitments regarding self-sufficiency ratios should not be circumscribed
to a particular product or a particular product sector without taking into account
the presence of substitutes.

215. With regard to commitments, some members thought that commitments could be
made as well by net importing countries as by net exporting countries, and that
it was important that such commitments were made by as many countries as possible.
A representative suggested that countries should agree to register their self-sufficiency ratios and target supply commitments in the GATT and give them the same legal status as other GATT obligations such as tariff bindings. One member expressed the view that it might be difficult to see what type of commitment a net exporting country could undertake, while another felt that it was difficult to see what sort of compensation importing countries could receive for bindings of their self-sufficiency ratios. One delegation meant that it would be necessary to have a rather wide margin of tolerance, while other delegations expressed doubts as to whether it was realistic at all to envisage commitments in this area to be effective.

216. Some members shared the view that the self-sufficiency ratio reflected a set of measures, which often depended on other things than political will and that this was a concept that did not allow a qualitative consideration of trade to be made. Furthermore, as commitments would have to be based on past experience they might tend to freeze existing production and trade patterns. Several members felt that further reflection was needed regarding a consultative procedure to be followed in cases of complaints about non-observance of commitments which might be undertaken.

217. Several delegations stressed the importance of other measures to be applied simultaneously, and that too much should not be asked of one particular technique. It could, for instance, be imagined that bindings of maximum self-sufficiency ratios for importing countries could be combined with or linked to international agreements concerning stock-piling policy of exporting countries. Some kind of agreement would have to be reached regarding the burden sharing between exporting and importing countries. Some members felt that concessions in this field would be equivalent to indirect commitments which might, however, prove useful for the maintenance of market equilibrium.

218. One member expressed the view that at least as a first step, the self-sufficiency ratio concept might better serve as an indicator of production trends and be useful in a consultative process as a guide to adjustment of production. Other members questioned whether the self-sufficiency ratio in itself could indeed be subject to commitments and would prefer to consider it merely as a sort of illustrative element. Some delegations were in favour of the idea of inviting all countries to participate in a multilateral negotiation aiming at establishing self-sufficiency ratio concepts which might be used as an essential instrument when establishing national policy objectives.
2. Margin of support

219. A member gave the historical and theoretical background of the approach based on the concept of a support margin. He pointed out that this description did not necessarily represent the present views of his authorities on the matter. The proposal made in 1964 had been based on a study of the market conditions prevailing at the time, with the objective of reconciling national agricultural policies with a rational international trade policy. Three techniques had been possible: the setting up of machinery so as to ensure co-operation and facilitate contacts among governments; or the establishment of a certain number of principles and rules which, inscribed in an agreement of general scope, would serve as a guide to governments in their choice of national agricultural policy measures; or, thirdly, an attempt to obtain precise commitments on one or several elements of agricultural policy which determine more or less directly the volume of production and, hence, of trade. The margin of support corresponded to the third approach. It had been found that negotiations on agriculture could not be limited to tariffs alone, and that agricultural support had become generalized in the sector and widespread. It was therefore considered that, in order to reconcile domestic agricultural policies with the establishment of a rational and liberal international trade policy, a link was needed between the two. A common internationally applicable denominator had been sought, and a global approach that would result from commitments bearing on all elements of agricultural policies, all products, and all countries.

220. The margin of support appeared to be a mechanism with a real bearing on all elements. It had to be measurable so as to be internationally comparable. Hence, two elements were chosen: an international price element, and a quantifiable element representing the support given to domestic agriculture. At the time, it had been thought that the first could be either a minimum price written into international agreements, or a price that might serve as a target or criterion, such as for instance a theoretical price such as might prevail in the absence of any agricultural support. The second problem was to calculate returns to the producers, so as to take account of price guarantees but also of direct
payments made in relation to yields, acreage, etc. A particular problem in this respect was how to take account of payments limited to a given volume of production, or linked to the size of holdings or to marketing quotas.

221. At present, it seemed to him that the method was limited in scope. Although support was generalized in agriculture and widespread in many countries, it differed from country to country. Secondly, the extent of support within the same country differed product by product. The method might therefore not be able effectively to deal with the problem of globality of commitments. Furthermore, price policies differed in scope among countries, and were no longer the essential element to the extent they had been at the time of the Kennedy Round. The margin of support method might thus not grasp agricultural support in its entirety. Lastly, he felt that the margin of support approach did not have effects of equal constraint as between different products or different countries and might thus not lead to the attainment of the objectives of a negotiation, such as the orderly growth of trade.

222. Many members recognized that the margin of support provided an approach of a global character in that it formed a link between national policies and international markets through a technique which covered both domestic policy measures and measures applied at the frontier. This was an advantage to the extent that the technique would be feasible in practice, not too complex in implementation, and contribute to the desired objectives. The group therefore addressed itself to the technical aspects of the approach.

223. Some members considered that in order to avoid undue complexity, the method might be applied product by product, or sector by sector, at least in the first instance. A member considered that if the method could be negotiated for one product, it could, at least in theory, be negotiated for any product; on the other hand the method might prove so complex as not to warrant its application to all products.
224. Some members, recalling that the margin of support could be defined as the differential between domestic support prices and an international reference price—which could be a "usual" world price, or the price of the most efficient producer, or an arbitrarily selected price—pointed to the technical problems that arose both at the upper and the lower limit of the margin. A member stressed that the choice of these limits would be a critical factor in operating the technique.

225. It was pointed out that if the upper limit was a support price, it would have to be defined in each case. The definition should be based on legislation, which sometimes makes the support price dependent on certain conditions. Taking the market price as a basis would also present problems of definition in relation to product classification, product comparability and the location of the reference market. If the upper limit were expressed in terms of producers' income, it would have to cover both direct and indirect income; the problem would then be where to draw the line between relevant and other sources of income in a way that would make the results comparable internationally. A member drew attention to earlier work done in the Agriculture Committee in this respect. Some members considered that agreement on the payments to be included in the calculation of domestic producer returns in each country could be reached in the actual negotiations.

226. As regards the international reference price, it was pointed out that it might be difficult to determine a "usual" world market price of a commodity; this involved defining the commodity, the pricing stage (c.i.f. or f.o.b.), the location of the reference market, the types of transactions to be taken into account, and an assessment of what is "usual". These problems could be avoided by taking a fixed arbitrary figure, but then the negotiation would in reality bear on domestic price levels and not on a margin or differential. The question was also raised whether an arbitrarily selected level would be set once for all, or whether it could be modified over time. For example, if arbitrary prices are set for a number of interrelated commodities so as to reflect present price relationships, and are left unchanged, they would not necessarily reflect price relationships prevailing in the future.
227. Various possible commitments in respect of the margin of support were mentioned. These included freezing the margin, limiting its increase, reducing it, or eliminating it. Some members considered that a freezing of the margin might not in itself lead to the desired objectives of reducing support or increasing access to markets, and that it might therefore need to be complemented by other elements. The view was also expressed that freezing existing margins would create problems of disparity, but other members said that the problem of disparities was a general problem that applied also to self-sufficiency ratios and tariff reductions, among others; one simply had to start from the existing situation. Some members, while agreeing that the existing situation had to be taken as a starting point, stressed the difference between a freezing of the margin and a reduction in tariffs. The point was also raised whether a frozen margin would remain the same if world prices increased, or whether the freezing would be supplemented with certain other conditions. Some members considered that while a freezing of the margin, especially if unaccompanied by other measures, might have only limited effects, a negotiated reduction over time might have beneficial effects on trade.

228. It was pointed out that a particular problem that might need to be considered in relation to commitments on the margin of support was that of changes in the parity of currencies and of floating rates. The question was also asked how the technique would take into account changes in agricultural structures, production measures and technology.

229. Several members felt that the various difficulties inherent in the margin-of-support approach could be overcome, and that the technique should not be discarded because of them.

230. Some members said they regarded the technique as a standstill measure rather than a trade liberalizing measure. They felt it could be used as a monitoring device, in the way as had also been suggested for the self-sufficiency ratio. Some members considered that the method could be used where barriers other than tariffs existed and where it was not possible to find another method of direct
negotiation on certain measures. A member said that if the margin is expressed as a differential, negotiating on it would permit to negotiate indirectly on levies and quotas.

231. A member called for greater willingness on the part of governments to change the present methods of support policies. He pointed to the importance of reducing incentives to output by moving from price support to income support, and of increasing assistance to marginal producers to adjust or retrain, as a means to facilitate trade liberalization. The reduction of trade barriers and the improvement of access for agricultural commodities should be an international co-operative endeavour. He stressed that all primary commodities of export interest to developing countries should be covered by any new initiative. It was the understanding of his delegation that priority would be accorded to the interest of developing countries in such an initiative, which would concentrate on the desired trade results, and in which meaningful arrangements would be made for developing countries that could not afford to and did not subsidize their production or exports.
IV. COMBINATION OF TECHNIQUES

232. A member made a statement in the Group in which it discussed possible combinations of techniques for negotiating on agriculture. This statement has been circulated as document Spec(72)82, and the main points are reproduced in paragraphs 233 to 239 below.

233. 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.

234. 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.

235. 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.

236. The bound duties could then be scheduled for reduction to the specified levels over a period of, say, ten years.

237. 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.

238. 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.

239. 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.

240. 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.

241. Several members expressed their gratitude to this delegation for having presented the paper and supported to a great extent the ideas expressed. They considered such types of combinations whereby the disadvantages of one technique could be offset by the advantages of another, to be a convenient and useful approach in future negotiations in the agricultural field. It was felt to be a possible way of dealing with the different situation of different countries and to allow a combination of sectorial approaches and methodological approaches.
Furthermore, the opinion was expressed that options should be kept open for other combinations than those already suggested as the number of various possible combinations that might be imagined would be enormous.

242. Certain other members, although they agreed in principle that it might be necessary to combine a number of techniques in order to obtain a balance in advantages and disadvantages, considered the suggestions referred to in paragraphs 233 to 240 above, to be incomplete and unbalanced. The matter might require a more profound study which presupposes a certain consensus on the choice of negotiating techniques as well as the scope and objectives of the multilateral negotiations envisaged to commence in 1973. This would, however, in fact be prenegotiations or even proper negotiations and would fall outside the mandate of the Group.