OPTIONS FOR THE USE OF AN AGGREGATE MEASUREMENT OF SUPPORT IN CONNECTION WITH POSSIBLE COMMITMENTS WHICH MIGHT BE ADOPTED AT THE MID-TERM REVIEW

Report by the Chairman

1. The present report has been prepared at the request of the Technical Group following its consideration at meetings held on 10 October and 3-4 November 1988 of Options for the use of an aggregate measurement in connection with possible commitments which might be adopted at the Mid-Term Review (MTN.GNG/NG5/10, paragraph 4 refers).

2. It has been apparent from an early stage in the Technical Group's discussions that there are as many possible variants of the AMS as there are negotiating approaches and that the scope for debate on the related technical issues is boundless. In practice the Technical Group's discussions focused on two broad options in relation to possible short- and longer-term commitments, and this was without prejudice to whether, and if so how, an AMS might be used in the negotiations.

3. One option would involve commitments on the AMS itself and thus, at least indirectly, on internal levels of support (Option I). The other would involve using the AMS in connection with commitments on specific policies and measures both as a medium for setting overall reduction targets and as a rough yardstick for measuring and comparing proposed commitments (Option II). The use of an AMS in a monitoring role would be a feature of both options.

Freeze

4. A freeze on levels of support or on support and protection is a common feature of the options considered by the Technical Group. In one case (NG5/W/62) the basic concept involved would be that the level of support prevailing in a selected base period (1984), as quantified in AMS terms using a fixed external reference price, would constitute a ceiling on support in 1989 and 1990. One effect of employing a relatively remote base period would be to capture the net effect (positive or negative) of intervening changes in support. This approach would presumably mean that in 1989 and 1990 there could be products for which support would have to be
reduced in order to meet the commitment, as well as products for which there could be scope for increasing support within the ceiling. A fixed external reference price would eliminate the impact of currency and world market price fluctuations on the price gap component of the AMS ceiling. Calculated in this way the AMS ceiling, depending on whether it is expressed in total or per unit terms, would only be affected by changes in internal support measures that are captured by the policy coverage - mainly internal prices, direct income and other budgetary outlays. The policy coverage of an Option I freeze would be fairly comprehensive but product coverage would be limited to selected major products for which AMS estimates are available. One of the hallmarks of an Option I approach is that there would be flexibility as to how commitments are implemented.

5. From a technical viewpoint a low fixed external reference price could result in an automatic breach of AMS ceilings in countries where internal prices are linked directly to world market prices. The same could apply to deficiency payment systems unless the fixed external price is also used to quantify this type of direct income payment. These are some of the points which probably underlie observations made that it would be risky for smaller participants, given their relatively greater exposure to exogenous factors, to undertake commitments of a legal character on the AMS itself, at least in the short term. Another feature of an Option I freeze is that price-related trade measures (export restitutions and import levies) could cover the difference between internal and external prices even where the world market prices are below the fixed external reference price.

6. A freeze is also a feature of the broader Option II and other approaches discussed in the Technical Group (e.g., NG5/W/69 and 83). In these cases, presumably, the freeze would be defined in terms of policies and measures and related budgetary outlays, not in terms of an AMS. Under this type of approach, policy or measure coverage would be more explicit and product coverage would not be limited by the availability of AMS estimates. A number of these points have yet to be elaborated in detail.

Reduction

7. As mentioned in paragraph 5 above there could be an element of reduction under an Option I freeze for particular countries and products depending on the base period selected. In principle further reduction would appear to be a matter for the longer term (NG5/W/62 and 82).

8. Under Option II one approach discussed would be that, since it may not be possible before Montreal to resolve the many issues related to the use of an elaborate AMS in the negotiations, a more pragmatic approach should be considered. In essence this would involve, in conjunction with the freeze described in paragraph 6 above, annual 10 per cent reductions in 1989 and 1990 in the aggregate monetary level of output-based support (AMLOBS) with minimum adjustments being made in respect of export subsidies, import access opportunities, administrative prices, plus commitments or disciplines on supply controls and stock disposal (NG5/W/69 and 70/Rev.1 refer). This approach is, in effect, a combination of Options I and II.
9. From a technical viewpoint the AMLOBS would cover forms of support that are regarded as the most trade distorting. This is defined as including transfers to producers under two-price systems and coupled budgetary transfers. This would represent about seventy-odd per cent of the support measured by the AMS (NG5/TG/W/6, Annex, Trade Measures and Direct Income Payments). Excluded measures such as input subsidies and tax concessions (except decoupled assistance) would nevertheless be subject to a freeze. Like any other AMS-related approach product coverage would be limited to the major products for which AMS estimates are available. A multi-year average is one of the options suggested for accommodating currency fluctuations. Pragmatic options for a recent base period would involve a moving average base starting with 1986-88 for 1989 and so on, or a crawling peg under which the support profile in 1988 would be the base for 1989, with 1989 in turn becoming the base reference for 1990. Unlike the SMU the AMLOBS would be linked to world price movements.

10. Technical points raised in connection with this approach relate to the problem of defining "administered prices", to the exclusion from the reduction process of significant forms of assistance such as transport subsidies, and to the precise nature of the commitments involved as between minimum adjustments in the areas specified (export subsidies, access, etc.), and reductions in the AMLOBS. It would appear that the primary commitment would be to make minimum adjustments in the areas specified and that if a country fell short of, or overshot, the AMLOBS reduction targets in 1989 or 1990, the accumulated debits or credits would simply be carried forward as part of a continuing reform process.

General

11. Although the point is more political than technical it is evident from the discussion in the Technical Group that many participants are rather cautious about undertaking short-term measures that would have the character of binding commitments. A more pragmatic and possibly technically simpler approach would also appear to be dictated by concern that the implementation of short-term measures could become a long-term haggle.

12. It has also been suggested that the AMS be used on an experimental and without prejudice basis to achieve balanced and effective results under flexibly implemented short-term measures. In this and some other approaches it is suggested that the policy coverage of the AMS should be weighted according to the international trade-distorting effects of policies and that account should be taken of trade volume and of certain non-economic factors. Points that have been underlined in discussion are that subsidies or incentives used by developing countries should be considered as non-trade distorting and that there should be compensatory measures to offset the possible negative effects of commitments on support on net food importing developing countries.

13. The country coverage of these various approaches would, at least for the short term, be limited to countries for which relevant AMS estimates are available. However, there would be no inherent limitation as regards
country coverage under a short-term freeze on specific policies and measures. For the longer term, country coverage would seem to be an open question.

14. The Technical Group's discussion of options for the use of an aggregate measurement in connection with the negotiation of possible longer-term commitments covered much the same ground. The approach envisaged under Option I for the long term is an extension of the short-term approach (NG5/W/62 and 82). What is reasonably clear is that technical aspects of certain issues, such as currency fluctuations, external reference prices, inflation, assume correspondingly greater significance in relation to the possible longer-term use of an AMS. One of the points made in this connection is that, as there would appear to be no single solution to these technical issues, consideration should be given to using a family of AMS measurements (NG5/W/83). It is also considered by some participants that appropriate adjustments should be made for effective supply control measures under an AMS.

15. Finally it should be noted that there is a clear distinction between Options I and II as to where commitments would be: under Option I on a level of support expressed in terms of an AMS; under Option II on specific policies and measures. Moreover, as noted in paragraph 4 above, flexibility is the hallmark of the Option I approach. However this would not mean that there would not be a focus on how commitments under an Option I approach would be implemented. As noted in NG5/W/82 there would be scope for the identification of and consultations on how commitments would be implemented. There may well be scope for convergence between, or combining, the two Options in other areas.

16. A general observation that might be made is that in certain cases attitudes to longer-term commitments on support in terms of an AMS appear to be conditioned by at least two considerations. One is how products not covered by this approach would be dealt with in the negotiations. The other is that any approach that is largely focused on internal support should be accompanied by negotiations on strengthened and more operationally effective GATT rules and disciplines on access and export subsidies. In other cases the view is taken that the AMS should only be used in a monitoring role in the longer term.

17. This report is intended to supplement, and should be read in conjunction with, the detailed secretariat summaries of the main points raised at the meetings of the Technical Group on 10 October and 3-4 November 1988 (NG5/TG/15 and 16).