SUMMARY OF MAJOR PROBLEMS AND THEIR CAUSES AS IDENTIFIED THUS FAR AND OF ISSUES CONSIDERED RELEVANT

Note by the Secretariat

Revision

1. The present revision has been prepared by the secretariat, in consultation with the Chairman, in accordance with paragraph 7 of the Note on the second meeting of the Negotiating Group on Agriculture (MTN.GNG/NG5/2).

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2. The major problems affecting trade in agriculture as identified by participants may be summarized as follows:

A. Substantial imbalances between supply and demand for the main agricultural products, together with depressed prices on world markets and large surplus stocks;

B. Protectionism through the maintenance of support policies and measures which insulate domestic producers from the normal functioning of an international price mechanism, and the level of government intervention in agriculture worldwide;

C. The lack of effective GATT rules and disciplines on agriculture and the unwillingness of many countries to agree to effective international disciplines to liberalize international agricultural trade;

D. The adverse effects that sanitary and phytosanitary measures and barriers have on trade in agriculture.

3. Imbalance in supply and demand for the main traded agricultural products was identified both as a major problem in itself and as being closely related to other problems. These were generally described as reflecting the specific character of the agricultural sector or structural problems linked to the type of production involved, the methods of support
employed, and its specific context (net importer, net exporter, industrialized countries, developing countries, densely or less heavily populated countries, intensive or extensive production). Causes or factors identified as being responsible for, or as having a bearing on, these problems are:

(i) the widespread development of productivity associated with technological progress which in the case of cereals, for example, had led to a large number of importing countries increasing their self-sufficiency or becoming exporters. In this situation demand might not only continue to stagnate but could well contract in the future. Greater utilization of technology as a means of improving productivity in agriculture was likely to continue with or without agricultural support;

(ii) scarcity of foreign exchange was an important constraint on effective demand in certain countries that were potential importers;

(iii) expansion of production in major exporting countries as a result of policies which did not give due heed to the demand side;

(iv) the growing disequilibrium between supply and demand and the nature of agricultural policies pursued were cited as being inextricably linked as causes of the current situation. Supply in developed countries continued to grow in the face of slow or static demand as producers continued to respond to government administered price signals which bore little relationship to market realities. In this analysis income support through producer prices, generally entailing import restrictions and/or export subsidies, was the main cause of the imbalances and of current international strains;

(v) the lack of responsiveness of national policies to international market signals and various factors related to the special rôle agriculture plays in the national context limited the scope for adjustment. Social and structural factors imposed important constraints on moving labour and capital out of agriculture and made it difficult to rely on price policies exclusively as a method of adjusting supply to offset rising productivity. Modest changes in domestic production in these circumstances could have disproportionate effects on the relatively low proportion of production that was traded internationally;

(vi) conditions in international markets also had an influence on national measures and how they operated. Exchange rate volatility could completely alter market signals and amplify the inherent volatility of markets that were often residual in character;

(vii) deficiency payments, the practices of marketing boards and monopolies, and trade embargoes were also cited as having played a role as regards the surpluses and low prices in the cereals sector. Other causes cited were increased self-sufficiency in certain countries related to national security and balance-of-payments considerations and the almost generalized extension of production in response to the scarcity of cereals in the mid 1970's and related forecasts of longer term supply and demand trends;
(viii) the lack of harmony between different systems of support could result in a situation in which support measures applied in one country created distortions within other countries. The availability of cereals substitutes, it was suggested, created surplus production in the dairy and meat sectors and displaced the production or utilization of indigenous cereals. Technological progress and substitutes were also amongst the difficulties affecting the highly residual sugar market. It was suggested that the fact that production of isoglucose was limited in one group of countries but unrestricted elsewhere led to increasing difficulties and to a situation where measures designed to limit domestic production could be overtaken by events;

(ix) a series of causes whose effects were cumulative and which posed difficulties peculiar to the agriculture sector. These included: causes of an economic character, notably the growing imbalance between stagnant demand and increasing supply resulting from, inter alia, productivity and technological progress; objective or natural causes, such as the weather, the soil and other factors of production which played a specific role in the field of agriculture; causes related to political considerations which went beyond simple economic considerations, such as strategic considerations (security of supply), ecological considerations (maintenance of the countryside and the regulations under which farming had to be conducted), and socio-demographic considerations; and, causes associated with deficiencies in the panoply of governmental support policies. One aspect of this was the selection of the type of support system (price support versus other income support measures). Another aspect was the amount of support provided relative to the objectives sought to be attained.

4. Problems and causes identified as related to protectionism, governmental intervention or the lack of effective GATT rules, together with some of the consequences associated with these problems, are:

(i) the level and pervasiveness of government intervention in agriculture, with ill-conceived domestic measures being the fundamental cause of most of the related problems in trade in agriculture;

(ii) the longstanding and fundamental problem of protectionism in agriculture which had not changed over the last forty years, although the way it manifested itself different from time to time, from commodity to commodity, and from country to country. The root cause was the failure to establish operationally effective GATT rules to shape international trade in agriculture and to guide the process of domestic agricultural policy formulation away from price and other output-linked support measures;

(iii) domestic policies and measures, either generally or in some industrialized countries, were described in several instances as being the primary or the fundamental causes of the problems affecting trade
in agriculture. In this regard reference was made to policies under which less efficient producers practically prohibit import access to their markets and use subsidies to dispose of their surpluses, thus displacing the exports of efficient producers from their own markets as well as from third markets. Such policies directly affected the very mechanism of international markets and imposed a disproportionate burden of adjustment on traditional exporters and developing countries whose producers were heavily dependent on, and exposed to, world market forces;

(iv) protectionist support policies resulting in less efficient producers being faced with nearly unsaleable surpluses which weigh on the efficient and on the less subsidizing or non-subsidizing countries, caused by protectionism and the unwillingness of many countries to take action that would allow structural adjustment in their farm sectors, as well as the lack of political will to liberalize access to markets and to eliminate distorting measures;

(v) an allocation of resources in world agriculture based not on comparative advantage but on capacity to subsidize and competition amongst exporters characterized increasingly by competition between treasuries, as well as declining terms of trade associated with depressed international prices and the existence of large surpluses;

(vi) the allocation of resources independently of market signals is the major problem. National policies that insulate domestic markets from international prices and the lack of strong multilateral rules to ensure liberal trade in agriculture are the main cause of the imbalances in production and trade, the deterioration of prices and the misallocations of resources which the negotiations must overcome. These main causes are the result of specific policies such as encouraging price support systems, increased production independently of factor costs, isolation of the internal market through tariff and non-tariff measures preventing foreign competition, increasing competitiveness through subsidization, the lack of effective multilateral rules penalizing efficient agricultural producers and the weaknesses in national structural adjustment mechanisms;

(vii) the subjection of trade in agriculture over more than thirty years to various protectionist and trade distorting measures alien to basic GATT rules and regulations, causing substantial losses to the interests of many exporting countries, particularly developing countries, and bringing disarray into international trade;

(viii) erosion of the comparative advantage of heavily populated developing and least developed countries in the production of food grains, together with the impairment of their ability to continue to harness the benefits of the Green Revolution and to improve the income and welfare of subsistence farmers;
(ix) distortions in world agricultural trade and their impact on the income position of developing countries reliant on agricultural production and trade, in particular the serious macro-economic consequences entailed in terms of savings and investment, import demand, debt servicing capacity and balance of payments equilibrium;

(x) the lack of effectiveness of the multilateral rules and disciplines, their failure to ensure equality of treatment between agriculture and other sectors of international trade, and the tendency of agricultural disputes to spill over and threaten to disrupt trade and trade relations in other sectors. The unsatisfactory way that GATT rules and disciplines had evolved was attributable, it was suggested, to the failure of governments to pay more than lip service to the need to take into consideration the international consequences of their domestic agricultural policies, and to the propensity of governments to paper over differences on agriculture and deal with it at the margin in previous MTNs;

(xi) sanitary and phytosanitary regulations and measures which are operated as disguised protectionist barriers to trade in agricultural products.

5. Problems identified as being common to the major traded commodities, and as relating back to the basic problem of protectionist policies included: highly restrictive import barriers; high support prices, either through transfers from consumers or some type of deficiency payment; government purchasing and stock holding with surplus disposal often at enormous losses. Other specific problems identified were:

- imbalances in the area of rights and obligations
- export subsidies
- so-called hidden subsidies
- price support in the dairy products industry
- variable import levies
- export refunds
- protection of certain sugar producers
- high or escalated custom duties
- import quotas
- restrictions on land tenure and part-time farming
- production quotas and controls of inputs
- intervention prices
- consumer subsidies
- sanitary and phytosanitary measures
- waivers
- the cumulation of various restrictive measures on the same product

6. The following paragraphs set out the problems and causes identified by product sectors in a document presented by a group of countries (MTN.GNG/NG5/W/4 refers).
A. Grains

Problems

- Up until 1980, production barely covered consumption, but in the past six years an increase in output in both exporting and importing countries has led to a surplus of supply in relation to demand on the world market.

- This production increase, partly the result of deliberate policies, has been further accentuated by favourable weather conditions in recent years.

- This trend has resulted in the situation we see today:
  - keener competition among exporting countries in regard to credit, subsidization, etc.;
  - decline in prices and financial difficulties for producers;
  - increased stocks

Causes

- greater self-sufficiency of certain developing countries, in particular India and China, for reasons of national security and balance of payments.

- Following a certain shortage in the mid-1970s and to counter certain forecasts of famine, particularly in Africa, after the price crisis of 1973/74, increased production in certain exporting countries, due to:
  - improved yield (mainly EEC);
  - increase in area cultivated (mainly Australia, Canada, USA);
  - increased support (mainly USA, EEC).

- Import inelasticity of certain developing countries, in particular in Africa, due to:
  - shortage of foreign exchange because of world economic recession;
  - infrastructure problems (roads, storage, handling facilities) limiting capacity.

- Increased use of cereal substitutes, to the detriment of feedgrain producers, particularly in the Community.
- At international level, lack of consistency in production, price and marketing policies for grains.

- State-trading and monopolistic practices.

- Embargoes on exports.

B. Fruits and vegetables

Problems

- Exports that are often of a seasonal nature encounter certain difficulties when entering countries that impose restrictions such as calendar periods, countervailing duties, phytosanitary regulations, etc.

- The increasing production of certain products (apples, citrus fruit) which is liable to create more pronounced seasonal imbalances in the future.

Causes

- Seasonal and regional over-production leading to protectionist measures.

- Low prices of certain suppliers.

C. Vegetable fats and oils

Problems

Despite a supply/demand relationship which as yet does not appear likely to create structural surpluses, prices have fallen considerably over the last three years:

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Causes

The downward trend of prices is due partly to increased competition by South American producers on the soya market, to which the United States responds by lowering the loan rate in order to discourage, by declining world prices, new investments in production elsewhere.

In the oils sector, the price decline is more drastic (-50 per cent in three years), an additional factor being the spectacular increase in the production of palm oil in South-east Asia at very competitive costs. Since the production potential in certain regions (Malaysia) is virtually unlimited, this trend could continue in coming years.

D. Dairy products

Problems

- The world dairy-products market is characterized by a permanent imbalance between supply and demand.
- Considerably increased stocks.
- Inadequate market transparency.
- The minimum prices, denominated in US$, fluctuate with that currency. Those minimum prices are not respected equally by all, in particular by countries not members of the IDA.

Causes

- Genetic and structural improvements have considerably increased supply.
- The very low price of cattle feed affects milk production.
- Production supports are too rigid for the market situation.
- Eating habits have changed to the detriment of butter.
- In some surplus-producing countries, domestic consumption is low, e.g. butter in the United States and cheese in Australia.
- Market transparency as regards prices is reduced by the establishment of monopolies (boards) or voluntarily.
- Imports by petroleum-producing countries have declined with the recession in the petroleum market.
- Production in the Eastern countries, traditionally large importers, is growing regularly.
Access to the market by certain partners is limited, or even impossible.

Certain countries which are not IDA participants can sell their surplus below the minimum price.

Difficulties in arriving at a concerted reduction of supply: the 4 million tons reduction in EEC deliveries was entirely offset by other OECD countries which are maintaining their deliveries at the 1983 level (83 per cent of the Community’s reductions were offset by the United States and New Zealand).

E. Rice

Problems

World rice prices have declined for a number of years, reaching extremely low levels where they have remained since the end of 1986.

Production is greater than in previous years. Exportable amounts have increased, whereas demand has remained stable or even declined.

These two factors have the effect of increasing competition between the largest exporting countries and may lead to a further decline in prices.

Causes

Certain developing countries which were previously net importers have become self-sufficient.

Lack of foreign currency makes it difficult for potential importing countries to purchase rice on the world market.

Increased production and reduced demand have resulted in a decline in nominal prices.

The influence of these factors is compounded by the negative impact of the de facto devaluation of the dollar on foreign exchange markets, as well as by United States policy of exporting at very low prices (EEP, BICEP).

F. Sugar

Problems

- Traditionally, sugar has always shown a cyclical pattern – in surplus for six years and in shortfall every seventh year. The next shortfall should be in 1987, but in view of the substantial surpluses recorded since 1980 (+ 20 million tons in aggregate), the usual phenomenon seems unlikely. The surplus phase for sugar seems to be lengthening, in the absence of any changes in production or consumption policies.
- The so-called free market (not including imports by CMEA countries), 21 million tons in 1982, was only around 17 million tons in 1986.

- This situation has resulted in an extremely long period of very low prices and serious financial difficulties for exporting countries, in particular developing countries.

Causes

- Increased production in all exporting countries and certain importing countries following the shortfall years of 1973-74 and 1980-81 for financial reasons for the developing countries.

- Increasing use of substitutes, in particular isoglucose (also termed High Fructose Corn Syrup - HFCS) in the United States. That country's imports - 5 million tons of raw sugar ten years ago - fell to less than 2 million tons in 1986, and the import quota set for 1987 is only 850,000 t. A similar trend, though less pronounced, can be seen in Canada and Japan, while the EEC has prevented this development by setting production quotas for isoglucose.

- Decline in imports (in particular white sugar) by certain developing countries because of lack of foreign exchange attributable to the recession.

- Lack of co-ordination (effective international arrangement) of sugar production and marketing policies.

G. Bovine Meat

Problems

Because of satisfied demand, production of bovine meat in 1986 was in surplus and prices on the world meat market, particularly for meat from the non-exempt zones, were depressed.

Causes

The above-mentioned difficulties stem from the three characteristics of the meat market:

- The cycle: the cyclical peaks in the producer countries are too great, and the deficits or surpluses of production occur at the same time in the whole of a geographical region.

- Quality: the price of meat exempt from foot-and-mouth disease is much higher than the price of meat from the so-called infected zones. The profit made enables some exporting countries to practice price equalization for various destinations.
- Production: the production of meat from animals fed on grass is not the same as that from cereal-fed animals. One has its own cycle (rising prices equals capitalization of cattle for eighteen months) the other reacts to the price of cattle feed.

- Cheap imports of cattle feed upset producer prices and encourage production of meat competing with bovine meat.

H. Wines and Spirits

Problems

Wine

- Discriminatory treatment of imports by certain trading partners.
- Non-respect of registered designations of origin.

Spirituous beverages

- Discriminatory treatment of imports by certain trading partners.

Causes

Wine

- Decrease of consumption
- Health or religious constraints
- Over-production of inferior quality wine
- Unfair competition

Spirituous beverages

- Protection of the domestic market
- Protection of the balance of trade

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7. The following set of issues, presented by one country and supported by a number of others, was submitted for inclusion in the indicative list of issues considered relevant by participants to achieving the Negotiating Objectives:

(i) the need for the fundamental liberalization of agricultural trade;
(ii) the requirement to apply fundamental GATT principles of liberal trade to disciplines governing agricultural trade;

(iii) to strengthen and make more operationally effective GATT rules on subsidies and restrictions on access;

(iv) to freeze and reduce subsidies affecting agricultural trade;

(v) reduction of high support prices as a matter of urgency;

(vi) elimination of the use of phytosanitary and sanitary regulations as unjustified import barriers.

8. Some other issues which have been highlighted, although not specifically described as issues for inclusion in the indicative list, may be summarized as follows:

(i) market access and fair prices for developing countries, in particular for heavily populated least developed countries, on conditions which ensure that their comparative advantage in agriculture is not eroded;

(ii) the need to take account, in the context of a phase-out of subsidies affecting trade, of differences between the impact of subsidization policies applied by developed countries and the effects of assistance programmes provided by developing countries;

(iii) the need generally to take account of the development and financial needs of developing countries and to translate the principle of differential and more favourable treatment into concrete terms in relation to both tariff and non-tariff measures;

(iv) the need to establish a more harmonious balance between national interests and the broader international interest in a viable and more equitable trading system;

(v) the need to achieve a more stable balance between supply and demand;

(vi) the need to conduct on a global basis responsible production policies.

(vii) the need to respect minimum access commitments where restrictions are imposed to secure the operation of domestic income and price support measures.