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Dear Tony,

GATT: AGRICULTURE: MTR

1. As agreed at Rodric Braithwaite's meeting on 16 February, we have revised this paper on agriculture and the MTR. I should be grateful for any further comments as soon as possible.

Yours ever,

Rosemary

Rosemary Spencer

cc: R Carden Esq, MAFF
H Evans Esq, HM Treasury
Mr Braithwaite
Mr Richardson, ERD ✓
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GATT: AGRICULTURE: MID TERM REVIEW (MTR)

SUMMARY

This paper seeks to identify the agricultural issues that the UK will want to be addressed in the Uruguay Round Mid-Term Review (MTR), and points to the consequences of internal EC agreement on reforms that will affect the Community's approach. It draws attention to the need for UK contacts with other CPs, especially the like-minded, as well as with the Commission and other EC member states. A list of forthcoming meetings which will provide opportunities to pursue these issues, is Annexed.

INTRODUCTION

1. In trade terms, agriculture is not the UK's only objective (nor indeed the main one) for inclusion in the MTR; but our concerns about the effects of distortions in agricultural trade and their implications for the cost of the CAP, agriculture's central role in trade disputes with the US, and its high priority for other major GATT partners necessitate an early examination of our objectives and an appraisal of the difficulties ahead. The main pressure for agricultural reform in the Uruguay Round as a whole will no doubt continue to come from the US and the Cairns Group. We certainly do not want to get too far out in front within the Community since to do so could make it more difficult for the UK to exercise its familiar role of keeping the EC on track. This is particularly important while uncertainty remains as to how the US position for the MTR is shaping. They may not aim very high, partly because of the timing of the MTR in

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relation to the US Presidential election and partly because of the implications for their farmers of rapid progress in reductions of support.

2. The agenda for agriculture for the coming year focusses on specific elements in the major papers (EC, US, Cairns, Japan, Nordics). A number of GATT members have promised specific papers on elements in their proposals. The Community submitted on 15 February outline papers on short term measures and on PSEs. The Americans also tabled a paper on PSEs and health and phyto-sanitary measures affecting trade. De Zeeuw, the Chairman of the GATT agriculture negotiating group also has his own ideas about consolidating current forms of protection price support into an import levy - which could well prove hard to negotiate.

3. The MTR is now to be in December 1988 as the US has proposed. The Americans and the Cairns Group will certainly want to include agriculture. However, it is not yet clear what the Americans have in mind in the agricultural sector. There are indications that Yeutter himself would be content with a very broad brush approach; and the US paper rejects short-term measures. The Cairns Group proposed specific short term measures in their Geneva paper (eg commitments to freezing subsidies), but they will need to consider how high to aim in the context of a December MTR. Their objectives should be clearer following their end-February Ministerial meeting in Argentina. Japan is likely to be cagey. Views within the EC will no doubt be mixed: the French seem indifferent to the MTR as a whole, and strongly oppose its taking any decisions on agriculture. even of the most general kind. Others within the

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Community, notably the southern member states, and possibly the Germans too, may resist progress on agriculture particularly in view of the hard fought debate at the special European Council in Brussels (see paras 15-19 below). It is a reasonable assumption that the Community as a whole will not finalise its negotiating position on agriculture until all the other elements are in place.

4. Tactically, it would be as well to avoid seeking to define too soon in Geneva which aspects of agriculture should be dealt with in the MTR: the earlier a list of agricultural items is established, the more likely it is to represent a minimal common denominator of GATT members' objectives. We shall need to bear in mind the likelihood of a play-off with other issues for the MTR (cf the French on globality). Above all we will need to ensure that concentration on the agricultural content of the MTR does not distract attention from the substance of the agricultural negotiation, and that the debate does not get bogged down in procedural matters. All this suggests that our lobbying should not begin too soon, either.

UK OBJECTIVES

5. It will be in the UK interest for the MTR to cover a range of key GATT issues including reinforcement of the GATT system (notably through improved dispute settlement procedures) and services, as well as agriculture even if it is not possible (given the time available for preparatory work and US political constraints) to go deeply into the substance. Ideally the MTR should cover all GATT topics. The conclusions of the MTR should at

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least provide a baseline on all subjects covered from which Contracting Parties (including the EC) will not be able to retreat in subsequent negotiations.

6. In order to define our objectives for the MTR, we will need a clearer idea of what we hope to achieve in the agricultural negotiation by the completion of the Uruguay Round in 1990. Broadly speaking, the UK is seeking an overall (ie covering at least all the major surplus commodities) reduction in support and protection in a way that can be measured comparatively between contracting parties. This suggests that we should seek reaffirmation of the principle of overall reductions and that there should be agreement on a yardstick which will in itself establish the nature of the negotiation for the rest of the Round. Assuming such a framework is in place, other elements in the negotiation should follow.

LIST OF AGRICULTURE ISSUES

7. Elements relating to agriculture for possible coverage in the MTR could be drawn from the following comprehensive lists of issues to be dealt with in the Round:

(a) Reaffirmation of general principles (cf statements from Punta del Este, last year's OECD Ministerial, Venice Summit).

(b) Agreement on PSE type aggregate measure (and its use as a framework for subsequent negotiation - see c-f below).

(c) Policy coverage.

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- (d) Commodity coverage.
- (e) Timescale for reductions of support.
- (f) Levels of reduction.
- (g) Credit for reforms already undertaken.
- (h) Special and differential treatment for developing countries.

ANALYSIS OF AGRICULTURAL ISSUES: POSSIBLE INCLUSION IN MTR

8. Reaffirmation of general principles should be the basic element of any conclusions on agriculture in the MTR. In practice, this means reading over the 1987 OECD principles (or as many as possible of them) to the MTR: this is an ambitious object in itself and we shall need to work hard on the LDCs. We should certainly resist any backward movement. It may be possible to go slightly further than previous texts but this is not essential. We should try to ensure that further impetus is provided by the 1988 OECD Ministerial and Toronto Summit. An OECD Communiqué which acknowledges the minimal impact that the general principles have had so far would no doubt help to underline the need for action.

9. Agreement on PSE type approach should be our main substantive objective for the MTR. Endorsement of this approach in 4 of the 5 main papers on the table in Geneva - and some recognition from LDCs - suggest that agreement is possible. Work is continuing on PSEs in GATT, in the

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OECD, and within the Community where the momentum is building up well on the basis of Commission papers. Agreement on the use of an aggregate measure would establish by implication the basis of a negotiating framework - a considerable achievement by the time of the MTR. It would imply that negotiations would aim at reductions in subsidies and other support measures and protection across at least the surplus commodities measured against the PSEs at (or some variant), with perhaps a different form of negotiation for commodities causing fewer problems. The Japanese will be difficult, so an intermediate objective is to obtain endorsement of the OECD work on PSE the 1988 OECD Ministerial (see paragraph 14 below) but without attempting in that forum to seek acceptance of PSEs for GATT purposes.

10. Policy coverage, however, presents difficulties. Within the EC the French are insisting on clear definition of policy coverage so as to avoid creating loopholes (eg US deficiency payments linked to set-aside). The possibility of a lengthy debate on what measures do or do not have a significant impact on production and trade (and which should be included in the aggregate measurement) could make it extremely difficult to reach agreement on policy coverage by the time of the MTR. However, the question has been considered in the debate on PSEs and it might be possible to reach agreement on this in conjunction with the decision to go ahead on PSEs. Indeed the establishment of the framework for PSEs necessitates some agreement on policy coverage.

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11. Agreement on the commodities to be tackled under the agriculture heading in the Round will be hard to achieve in the context of a PSE measured framework of reduction. There are particular sensitivities about certain commodities (eg the Japanese on rice). There is therefore a danger in pressing too hard for comprehensive commodity coverage at the time of the MTR: resistance from some could result in a minimal commodity coverage by the time of the MTR, which would be difficult to expand in the later stages of the Round. Within the EC, there is likely to be resistance to coverage of Mediterranean commodities. Nevertheless, the UK (and EC) accept the principle of overall reductions in agricultural support and protection. That ought logically to mean that coverage should be as wide as possible.

12. An agreed timescale for overall reductions will be more difficult to achieve. The EC and Japanese proposals contain no reference to an overall timescale. The US and Cairns Group are working on a 10 and 5 year basis respectively. There is no indication that these timescales will be pursued in the MTR by others. It is therefore unlikely that there could be any agreement by the time of the MTR.

13. Levels of reduction present perhaps the most difficult element. The Americans are unlikely to move away from their "zero option" until a fairly late stage in the negotiations.

14. Elements c, d, e, f will thus constitute the hard core of the substantive negotiations, and it may be unrealistic to expect too much progress at the MTR. But they all form part of the suggested PSE/framework, and

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endorsement of a PSE alone (without agreement on these elements) will mean little more than a reaffirmation of general principles, as in a. This weaker endorsement could be our last point of retreat, but we should clearly aim higher (a measurement of specific support policies). The fallback position at least commits CPs to a measuring device - and thereby the principle of monitored reductions in support - even if what is to be measured cannot be agreed.

15. Agreement on short term measures is also probably unrealistic. The US remain opposed, though now indicate a willingness to listen. The Cairns Group, for whom early improvement in world markets remains a goal, may come forward with more detailed ideas after their meeting in Argentina in late February. Their initial proposal includes the idea of a freeze on export subsidies, which is not likely to be acceptable in current circumstances to either the US or EC.

16. The EC's position is not helped by the declarations on international reform of agriculture and trade policy annexed to the conclusions of the Brussels European Council. These will not have improved the negotiating prospects. EC proposals for short-term action comprise two elements: emergency measures on specific markets, and immediate reductions in support.

(i) Emergency Measures

17. Here the Commission's ideas (tabled in Geneva on 15 February) have little appeal to other CPs (or the UK): The proposals on the cereals market coupled with action on cereals substitutes are anathema to the US. Proposals to limit sugar exports in consultation

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with other exporters look unrealistic in the light of recent failure to negotiate an ISO agreement with economic provisions. The suggestion that all CPs should project the IDA ring hollow against the background of the EC's breaching of the minimum price provisions which led to the US walkout from the IDA. The European Council Declaration on Trade Policy reinforces and extends the proposal on cereals substitutes by calling for "an appropriate solution to the problems arising in connection with imports of cereals substitutes, oilseeds and protein plants". This, with the accompanying Commission statement regarding the oils and fats tax will not help the negotiating atmosphere, and will be regarded as contrary to its Punta objectives and OECD commitments.

(ii) Immediate Reductions in Support

18. The Commission have not yet produced a further paper on this element for GATT. The European Council Statement unhelpfully suggests that the CAP reforms since 1984 "meet the commitments" made in OECD and at the Venice Summit, and that responsibility rests with others to improve "equivalent discipline". We would not accept that the EC has done more than make modest progress toward proper reform. Other CPs will hardly rate its achievement as high. The Declaration will almost certainly stiffen the resolve of those Member States, reluctant to move ahead with reform, either internally or in GATT.

19. In general, therefore, prospects for action do not look promising. In the case of emergency measures, where the UK would only reluctantly accept cereals and sugar market management arrangements this is not in itself

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disappointing. We will, however, need to resist any EC move to block further CAP reform or to resist GATT negotiation on the long term, justified on the grounds that short term measures had not been agreed.

20. Agreement to give credit for reforms already undertaken is a generally agreed EC objective shared by the UK and reflected in the Commission paper. It is also implicit in the Punta del Este Declaration and explicit in the 1987 OECD Communiqué. It should be possible to restate this point in very general terms in the MTR with the support of all CPs.

21. Acknowledgement of special and differential treatment for developing countries is also a UK objective, and is advocated in the EC Cairns and Japanese proposals. Integration, the obverse of this coin, is one of our main objectives of the Round. The MTR may reaffirm this principle for the Round as a whole, but if not, a reference in the agriculture section should be aimed for. A very general statement for the MTR may be enough, but we shall need to identify for our own purposes what we expect of the NICs in the agriculture negotiation. For example, if agreement on a PSE type approach (para 8 above) is to be one of our major MTR objectives, we shall also need to be clear whether we expect LDCs to negotiate on that basis or whether (as some will urge) special and differential treatment should apply to some or all of them. The NICs may not be main agricultural producers, but we may still expect action from some of them on access.

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PROCEDURE

22. Our preparations during the coming months and in the run up to the MTR itself, will need to be directed at creating a climate of opinion conducive to agreement on specific items by December. Overactive lobbying by the UK alone would be counter-productive. This suggests that in discussions with the Commission and like-minded GATT partners, we need to tread carefully, and not build up a campaign too early.

23. A series of meetings and bilateral consultations during the coming months will provide opportunities to pursue our objectives (timetable attached at Annex A). The visit of M Paye (24 February) and first meeting of Summit Sherpas (27 February) will have provided a first opportunity to gauge the thinking of others on the subject. A meeting of Cairns Group members at the end of February should reveal whether their intentions for the MTR. It would be helpful to share our ideas with like-minded contracting parties eg Australia, Canada, particularly in the period between the meeting in Konstanz in mid-March and the OECD Ministerial in mid-May. We shall also have regular opportunities to discuss ideas with Community partners. But, within the Community our main priority should be to convince the Commission that our ideas are the right ones - though we shall have to accept that any papers they put forward will take account also of French and other member states' views. Intra-EC coordination should continue as now in the Article 113 Committee, but there are questions over timing of discussion within the EC not least because of French sensitivities over their elections.

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CONCLUSIONS

24. UK objectives for the agricultural negotiations in the Round as a whole are covered by the list in paragraph 6 above. UK objectives for the MTR should be as follows:

(I) Reaffirmation of principle of reduction of support and protection which goes at least as far as the 1987 OECD Ministerial.

(II) Agreement on PSE/framework (perhaps including policy and commodity coverage).

(III) General statement reaffirming that credit will be given for reforms already undertaken.

(IV) Reaffirmation of the principle of special and differential treatment and the need to pursue integration in agriculture.

25. Agreement on a timescale and levels of reduction would also be desirable, but this seems unlikely. If the US press the case in their own proposal (complete abolition by 2000) strongly, others will dig in. We doubt their inclusion is a realistic target. The likely content of the MTR will include I, II, IV and V above.

26. A UK "bottom line" would need to include I above which at the very least did not retreat from previous OECD statements on general principles; and II above which at the very least would accept that PSEs would have a role in the negotiation.

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27. Once agreed, these ideas should be discussed with Commission and selected EC partners, and certain other CPs, notably leading Cairns Group members and US.

28. We should subsequently lobby those likely to be opposed to the UK "bottom line" eg Japan, Nordics, some EC member states.

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ANNEX

TIMETABLE

Konstanz meeg on 18-20 March: possible first discussion of content. We need not aim at this stage to go further than general agreement to include agriculture in MTR.

IMF/IBRD spring meetings on 14-15 April at which we could focus, as the Chancellor did last Spring, on the benefits to LDCs of agricultural reform.

OECD Ministerial on 18-19 May at which we should aim for reaffirmation of last year's principles. In order to avoid watering down of principles it may be best to reaffirm last year's statement in general terms. We should also try to secure more specific language on PSEs than was possible last year.

Toronto Summit on 19-21 June may well involve discussion of MTR and content. By this time we should aim to have support for UK objectives and be in a position to react to objectives of other major GATT players. There is a danger of LDC resentment at what they see as Summit participants presenting them with MTR objectives as a fait accompli.

European Council in Hanover on 27-28 June at which EC position on stabilisers should be finalised and at which we should aim for some discussion of external issues; but it is unlikely to be possible by then to endorse EC approach for MTR in any detail.