Articles

The Uruguay Round: Final Agreements and Directions: Domestic Support

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In this and the following article the conclusion of the Uruguay Round negotiation of the General Agreement on Tariffs and Trade (GATT) is discussed. This article sets out the details of the last stages of the negotiation, the main points of the agreement, and the implications of the domestic support arrangements. In the following article, Jimmye Hillman discusses the implications of the agreements for national governments, the development of rules for national policies, developments in the area of non-tariff barriers, and the future role of the United States.

1. Introduction

The Uruguay Round of the GATT negotiations has concluded and agreement has been reached between the signatories on major changes in the area of agriculture. The debate has been drawn out and the resolution of major differences only achieved in late 1992 when the US and the EU reached agreement on reducing agricultural subsidies over a six year period and export volumes by 21 per cent between 1993 and 1999. This allowed multilateral discussions to resume in Geneva so that a global trade pact could be forged that involved all 108 GATT countries.

The Uruguay Round concluded on December 15 1993 and included among its components several far-reaching reforms in the area of agricultural trade. It particularly reached agreement in the areas of market access, domestic support, export subsidies and non-tariff barriers. Subject to ratification by the member countries, the Agreement will come into effect on July 1 1995 and last until June 30 2001. The Agreement will be administered by a new and more powerful body to replace the GATT secretariat, the World Trade Organisation (WTO).

It has been stated that it is necessary to take cognizance of the agro-political complex within Europe if the analyst is to understand the difficulties of the negotiation process (MacLaren 1991). This suggests that political economy models of behaviour would be more suited to such situations where government policy and interests are part of the process. Such models combine politics and economics to introduce the rational self-interest of the policy makers. In the absence of complete information, consumers and taxpayers are in a weak position and hence are under-represented in the negotiation process and the groups with the political strength win out. Furthermore, the EU has a long history of pursuing protectionist agricultural policies, has well-established lobby groups, and Ministers of Agriculture dominate the decision process. With the veto power given to any one Minister, national interests tend to dominate. Such an institutional structure is not likely to respond to traditional, normative economic analysis and a wider agro-political view is necessary to find ways to respond to and extol the advantages of expanded agricultural trade (MacLaren 1991, pp.90-91).

A more institutional view of the process is to understand the regulation of international trade as an exercise in property rights and rules (North 1987). Expanding trade between countries is associated

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with rising transaction costs, unified political systems and effectively enforced rules and laws over a large area. Western societies, says North, are characterised by formal contracts, bonding of participants, guarantees, brand names, elaborate monitoring systems and effective enforcement mechanisms. Although the resources devoted to such mechanisms are high , the productivity gains from trade are even higher. Thus reform and rationalisation of international trading rules have widespread benefits to all trading countries if international agreement can be reached.

The political economy model of protectionism advanced by MacLaren (1991) and transaction costs model of North (1987) thus provide useful explanations of the forces behind the growth of trade in agricultural products (or lack of it) and how they may be resolved. There are a large number of participants in the market channel that are not necessarily owners of product, but who have an interest in any outcome. The role of government goes well beyond policy formulation alone and extends to delivery of services, international and bilateral negotiation, and trade reform as well as mediation between interest groups. In the particular case of sanitary and phytosanitary rules and regulations, there are also distinct roles for science, scientific organisations and experts as well as the other interested groups. International agreement on the conduct of trade allows problems to be resolved and confers benefits on those who can see the advantages. The whole process is held together by a common set of rules codified by GATT (Petrey and Johnson 1993, Hillman 1994).

In this paper the final negotiations of the Uruguay Round are discussed, the implications of the arrangements for the reduction in domestic support are analysed, the alternative potential of direct income support where needed is canvassed, and future directions assessed. In the following paper, the reaction of national governments to the arrangements is discussed, the development and implications of the rules chosen analysed, the role of sanitary and phytosanitary regulations discussed in the general framework of non-tariff barriers, and the possible future role of the United States analysed.

2. Reaching Agreement

Punta del Este

During 1987 and 1988 certain of the Contracting Parties to the GATT tabled proposals to initiate negotiations to give effect to the Punta del Este Declaration on liberalisation of trade in agriculture. The US proposal was to eliminate all trade barriers over a ten year period, to remove agricultural subsidies that were coupled with production levels, and to use an aggregate measure of support (AMS) for monitoring purposes. The EC (as it then was) proposed short-term action to stabilise markets and to reduce further imbalances between commodity sectors, and longer-term action to cut support over an agreed time period using an AMS to monitor progress. The position adopted by the Cairns Group suggested an immediate freeze on trade distorting measures, reductions in support levels over a ten year period towards some agreed target level using an AMS, and over the longer term a strengthening of the rules and disciplines of GATT together with a move towards transparent, tariff devices to control imports. The proposals tabled by the Nordic countries and Japan contained similiar but not identical elements. Subsequently, the US proposed that all protective instruments be converted to tariffs, which would be bound and then reduced over time through negotiation (MacLaren 1991, p.87).

By the end of 1991 the draft final act had been prepared (the Dunkel text)(GATT 1991), but several outstanding issues remained, including the time period over which agricultural subsidies would be phased out, the base year for the begining of tariff reductions, and the related dispute between the the US and the EC over oilseeds (*Agra Europe* Nov 27 1992). The broad aim of using an AMS mechanism had been agreed though not its specific details. The sanitary and phytosanitary negotiation had been agreed but had to wait for the main Agreement to be reached.

Blair House

The Blair House Accord (as it was called) was reached on November 20 1992. EC Farm Commissioner MacSharry negotiated on commitments made by EC Ministers early in 1992 to introduce direct aids to farmers on a fixed hectarage or headage basis. This step would free up farm decisions at the margin and allow more market allocations of resources to emerge beyond that point. Blair House achieved general agreement between the two parties that the reduction of agricultural subsidies would be phased in over a period of six years and that there would be a commitment to reduce export volumes by 21 per cent between 1993 and 1999. It was agreed that border protection measures would be 'tariffied' and reduced by 36 per cent over a period of six years. Individual tariffs must be reduced by a minimum of 15 per cent over six years. The base period of the calculations would be 1986-88. Provision was made for special safeguard clauses on tariffied products to avoid excessive increases in imports or falls in import prices of the said products. On minimum access, it was agreed that import opportunities will be opened, equal at the beginning to 3 per cent of internal EC consumption rising to 5 per cent at the end of six years.

On *internal support*, it was agreed that the basis for calculating support would be the average of the years 1986-88 and credit would be given for reductions in support since 1986. The AMS is to be calculated on a global basis and not policy by policy. Internal support is to be reduced by 20 per cent in comparision with the base. Direct aids (the hectarage and headage payments) adopted by the CAP would not be subject to any commitment to reduce internal support.

There was also agreement on export commitments for reductions of direct export subsidies and the volume of subsidised exports, on non-grain feed ingredients, and a peace clause which exempted internal support measures from actions which might be taken under Article 16 of the GATT (*Agra Europe* Nov 27 1992).

Final Agreement

The broad thrust of these proposals then emerged in the final agreement on the Uruguay Round which was announced on December 15 1993. The Agreement on Agriculture consisted of the concessions and commitments Members are to undertake on market access, domestic support and export subsidies, the Agreement on Sanitary and Phytosanitary Measures, and the Ministerial Decision concerning Least-Developed and Net Food-Importing Developing Countries (GATT 1994).

In terms of *market access*, non-tariff border measures are replaced by tariffs that provide substantially the same amount of protection. Tariffs resulting from this 'tariffication' process, as well as other tariffs on agricultural products, are to be reduced by an average of 36 per cent in the case of developed countries, and 24 percent in the case of developing countries, with minimum reductions for each tariff line being required. Reductions are to be undertaken over six years in the case of developed countries and over ten years in the case of developing countries. Least-developed countries are not required to reduce their tariffs.

Minimum access tariff quotas are to be allowed where current access is less than 3 per cent of domestic consumption rising to 5 per cent at the end of the implementation period. There is provision for duties to be applied in special cases where prices fall or there is a surge in imports. A trigger mechanism is introduced to manage such import surges. Special treatment is also allowed for countries to continue import restrictions for less important and designated products.

Domestic support measures that have minimal impact on trade (green box policies) are excluded from any reduction commitments. Details are discussed below. Countries will determine their Total Aggregate Measurement of Support (Total AMS) reduction commitments and report them to the GATT. The Total AMS covers all support provided on either a product-specific on non-product-specific basis that does not qualify for exemption and is to be reduced by 20 per cent (13.3 per cent for least developed countries) during the implementation period.

On *export subsidies*, Members are required to reduce the value of mainly direct export subsidies to a level 36 per cent below the 1986-90 base period level over the six-year implementation period, and the quantity of subsidised exports by 21 per cent over the same period. Lesser provisions apply to developing countries.

'Peace' provisions within the agreement include: an understanding that certain actions available under the Subsidies Agreement will not be applied with respect to green box policies and domestic support and export subsidies maintained in conformity with commitments; an understanding that 'due restraint' will be used in the application of countervailing duty rights under the General Agreement; and setting out limits in terms of the applicability of nullification or impairment actions. These peace provisions will apply for 9 years.

The agreement sets up a committee that will monitor the implementation of commitments, and also monitor the follow-up to the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Countries (GATT 1994).

Comment

These paragraphs illustrate the long-drawn out process of negotiation that new rules of international trade demand when the stakes for the participants are high. The significance of the Blair House Accord cannot be ignored. As MacLaren anticipated (1991, p.91), it was necessary to find politically acceptable policy instruments which internalise to a greater extent than previously the external impacts of protectionist agricultural policies. Such negotiation provides a better basis for agreement than a strictly economic rationalist approach on its own. It is clear that the choice of base period largely let the EU and the US off lightly but otherwise they firmly committed themselves to further reform and the transfer of income payments away from production levels and a little way towards supporting real need (however that will be measured in the future).

3. Domestic Support

Direct Income Payments

Reform involves individual countries examining their internal assistance programmes as they are essentially domestic policies. Multilateral negotiation is a way of countries agreeing on an international and coordinated way of removing the excesses of such assistance. In such discussions it has been proposed that countries consider direct income payments to farmers (decoupling) as a substitute for price support and border measures that provide incentives to increase production. What is needed is a reduction in the level of assistance, and direct income support measures not linked to production or factors of production, aimed at facilitating the process of reform by reducing distortions in production, consumption and in trade (OECD 1990, p.43).

A lowering of domestic levels of price support would result in a reduction in farm incomes and an increase in their variability (OECD 1990, p.44). Temporary direct income support is seen as facilitating structural and positive adjustment. Other justifiable direct income support could provide the means to aid:

- specific groups of farmers who have suffered cyclical income losses due to unforeseen and uninsurable circumstances, such as natural disasters;

- groups of farmers who are in disadvantaged areas or circumstances; and to groups who wish to pursue environmental goals. Disadvantaged groups involve considerations of social welfare, but environmental aims should be considered to be more in the realm of public goods that would not otherwise be supported. Other justifiable forms of assistance include R&D, infrastructure improvements, crop insurance, and farm extension.

These principles have already been partially put into effect by the US and the EC (Hillman 1994, p221). In the US, the 'triple base' idea, target-price base acreage yields frozen or historically fixed, and deficiency payments only on 85 percent of base acreage are the first stage of decoupling. In the EC, the MacSharry proposal will shift some of the support on to a fixed hectarage or headage basis and thus make farmer decision making at the margin more market oriented. These reforms must be seen as half-way houses introduced to cause minimum inconvenience to the beneficiaries but nevertheless, as Hillman establishes, they represent significant changes in the way agricultural support has been treated in the past.

The Green Box

Article 6 of Part A of the Uruguay Round Agreement on Agriculture sets out the provisions for exceptions to the agreed domestic support commitments (GATT 1993, pp.6-7). Domestic support commitments are Schedules of Commitments that countries will have to supply to GATT. The exceptions are policies that have minimum distorting effects on trade and production (green box policies). These policies must conform to two criteria: support shall be provided through a publicly-funded government programme, and shall not have the effect of providing price support to producers (Annex 2, GATT 1991, p.14).

Domestic subsidies in the agriculture sector are to be reduced by 20 percent over six years. Calculations are to be based on the Aggregate Method of Support (AMS) method, which takes all products globally. There is no requirement to take specific commitments policy by policy. As negotiated by MacSharry, the basic AMS calculation is to be assessed on the base period 1986-88, and expressed in monetary terms for each product, and credit is given for reduction in support achieved since 1986. The AMS figure represents the average difference in the base period between the internal administered price and a world reference price, multiplied by the volume of production in the reference period (*Agra Europe* Supplement, Dec.1993, p.12).

Para 5 of Article 6, establishes that direct payments under production-limiting programmes will not be subject to the commitment to reduce domestic support. This was not in the draft final act. The commitment is conditional on a) such payments being based on a fixed area and yields, b) payments being made on 85 percent or less of the base level of production, and c) livestock payments being made on a fixed number of head. The exemption from the reduction commitment for such direct payments is to be reflected in the exclusion of the value of those payments in a Member's calculation of its Total AMS (GATT 1993, p.7).

Thus the MacSharry concessions are enshrined in the main text and not the annex to the agreement. Annex 2 sets out the details of the programmes that are to be exempted. Under government service programmes, the provisions include research expenditure, pest and disease control, training services, extension and advisory services, inspection services, marketing and promotion services, infrastructural services, public stockholding for food security purposes, and domestic food aid. These services are characterised by public good properties and are generally for the benefit of the rural community as a whole. They should not include any direct payments to producers. Food security and food aid purchases should be made at current market prices and made completely transparent.

Special criteria are developed for direct payments to producers. Decoupled income support should have clear rules of eligibility and payments should not be related to, or based on, the type or volume of production (or livestock units), or to prices, domestic or international, applying to any product, or to factors of production employed. This is the main welfare criterion.

For *income insurance* and *income safety-net* programmes, eligibility must be determined by an income loss of only income derived from agriculture which exceeds 30 per cent of average gross income as defined. Compensation will be for 70 per cent of the producer's income loss. Income will be the sole criterion. Combined with disaster relief, total compensation shall be less than 100 per cent of the total producer loss.

For relief from *natural disasters*, eligibility shall be determined by a formal recognition by government authorities that a disaster has occurred, and shall be determined by a production loss exceeding 30 per cent of the agreed average for the affected area. Payments will only be made on losses due to the disaster, and will not compensate for more than the total cost of such losses.

For *structural adjustment* assistance, eligibility shall be determined by clearly defined criteria in programmes to facilitate the retirement of persons engaged in marketable agricultural production, and shall be conditional upon the total and permanent retirement of the recipients.

For structural assistance through *resource retirement programmes*, eligibility will be determined by reference to clearly defined criteria in programmes designed to remove land or other resources, including livestock, from marketable production, retirement of land shall be for a minimum of three years, no alternative production will be allowed, and payments will not be related to any production or price criteria.

For structural adjustment through *investment aids*, eligibility payments shall be designed by reference to clearly-defined criteria in government programmes designed to assist the financial or physical restructuring of a producer's operations in response to objectively demonstrated structural disadvantages. The amount of payments shall not be based on production or price levels (other than the base period), shall be for a fixed period, and will not in any way designate the agricultural products to be produced.

For payments under *regional assistance* programmes, eligibility shall be limited to producers in disadvantaged regions of a defined administrative identity. The amount of payments shall not be related to production or price levels, but shall generally be available to all producers in the defined region. Payments to production factors shall be paid at a degressive rate above a threshold level of each factor, and the payments shall be limited to the extra costs or loss of income involved in undertaking agricultural production in the prescribed area (GATT 1991, pp.14-19).

4. The Implications of the Agreement

The GATT process provides for participating countries to make market access commitments to the GATT for attachment to the protocol. The Articles specify that domestic support policies for which exemption from the reduction commitments is claimed must meet the fundamental requirement that they have minimal trade distortion effects or effects on production. The above discussion shows that many government services to agriculture have been put in the 'green box' (no environmental implications intended apparently), including R&D. Some of these are production enhancing especially research and pest and disease control. Others like infrastructural services of electricity reticulation, transport, and water supply are to be restricted to capital works on an off-farm basis. Some direct payments survive, especially in the area of income support, safety net programmes and disaster relief. Here the rules specify complete disassociation of payments from production and prices except for establishing income in any base period.

The suggested rules place considerable onus on countries to re-examine their domestic support programmes for agriculture. The thrust is clearly away from *general* price support measures to more specific and targeted measures. Countries would have to examine their motives for giving such assistance. Priorities would need to be clarified for maintenance of the rural landscape, for the welfare of those who have to change and for those who will stay behind, food security and all the rest. It is plausible that income support will have to increase in some countries as previous policies may have disguised the problems of the disadvantaged, the hopelessly uneconomic, and the remote. New programmes may be needed.

For the EU the above arrangements were never an issue once it was established that the 'compensatory' payments set up under CAP reform would be exempted from the reduction commitment (*Agra Europe* Supplement, Dec.1993, p.12). The various reforms in CAP market regimes since 1988 mean that the Community's Total AMS was already more than 20 percent below the reference figure for 1986-88. The impact of further CAP reform - notably the substantial cut in cereals support prices - will ensure that the AMS stays well below its target level throughout the six year period envisaged.

Other provisions provide for different conditions for developing countries. Article 6 para 2, specifies that investment and input subsidies for low income producers in developing country contracting parties will be exempt from domestic support reduction commitments. This provision would include domestic support to encourage diversion from illicit narcotic crops.

Finally there is provision for exemption from the AMS calculation for any Member where product or non-product related support is less than 5 percent of total value of production in each category. For developing country Members, the *de minimus* percentage will be 10 percent in each category.

5. Minimum Income Support

The more price support is removed from the agricultural sector, the more governments are likely to be engaged in welfare schemes for the poor and disadvantaged in the sector. As discussed below, price support mechanisms tend to disguise the welfare problem by overadequate compensation to all producers with the result that income distributions within farming become more highly distorted. Some support systems favour small and remote farmers specifically. If the movement to decoupling continues, governments will have to pay greater attention to minimum income considerations as a result.

Minimum income support schemes need to be designed to provide people with a minimum level of family income (OECD 1990, p.52). The ideal is to ensure equality of treatment to farmers in similar circumstances to those *in the rest of the community*. GATT-compatible characteristics of such schemes might be:

- payments are independent of agricultural production and inputs
- eligibility should be determined by the criteria established for such payments in the rest of the community;
- payments should be made when the farm family income from all sources falls below the levels established;
- participation should be voluntary but available to all eligible farmers.

The OECD observes that only in a few countries are there direct income measures which are generally unrelated to outputs or inputs in production (OECD 1990, p.67). These are the EC's programme of direct aids, the Swiss allowance for farm families and workers scheme, and the NZ adverse events family income support scheme. These include lump sum income payments, farm family income support schemes, and special social security arrangements for farmers. There is no *a priori* incentive to vary the level of production with the amount of assistance and there is no distortion on the consumption side. There are no effects on the marginal revenues and costs for specific commodities and any trade effects would be minimal. It may be, however, that such schemes tie up resources in agriculture when they should be encouraged to move out.

Table 1: Welfare Schemes Currently Operational in Rural Areas in New Zealand

Welfare Scheme	Full-time Employee	Unemployed/ unable to work	Individuals/selfemployed Non-farm	Farm	Disaster area
1 Family Support	*	*	*	*	*
2 Guaranteed Minimum Family Income	*				
3 Unemployment Benefit		*			
4 Domestic Purposes Benefit		*			
5 Special Needs Grant for Financial Hardship	*		*	*	*
6 Special Assistance Farming Sector				*	
7 Adverse Events Family Income Support				*	
8 Exit Grants				*	*
9 National Superannuation			*	*	

6. Income Support in New Zealand

The approach behind New Zealand's income support schemes and its revelance to the rural sector is discussed next. The scope of these measures indicates how a broad-based welfare scheme operates in the absence of price supports (Chadee, Horesh and Johnson 1990, Chadee and Johnson 1990). Table 1 summarises the programmes available and Annex 1 gives some descriptive information about the welfare schemes discussed.

The table shows that family support (child benefits) is the only benefit payable to families irrespective of occupational groups. All other schemes have criteria which target the particular group they are meant to serve. The guaranteed minimum family income is only available to employees as a tax credit. The self-employed are not eligible for the unemployment benefit which is confined to those capable and willing to undertake full-time work. The domestic purposes benefit is for persons caring for children without the support of a partner; these can be found in both urban and rural situations. Special needs grants for financial hardship (emergency one-off payments) apply across the board, and particularly apply in disaster situations. The special assistance programme was an emergency income guarantee plan introduced in 1986, and has since been phased out. Adverse events family income support and exit grants were introduced in 1989 as emergency measures (drought); short-run family assistance for disasters can be re-introduced at any time under the emergency provisions of the Social Welfare Act 1964. Superannuation is available to all on reaching the qualifying age; it is, however, subject to a surtax on other income received above a certain level.

Comparisons of urban and rural recipients of welfare benefits do not show a bias one way or the other (Fairweather and Gilmour 1993). Their comparisons show that superannuation is received by 18.7 percent of the rural population compared with 14.5

percent urban. The domestic purpose benefit is received by 3 percent of the rural population compared with 2.8 percent urban. The unemployment benefit is received by 5.2 percent of the rural population compared with 4.2 percent urban. The authors define rural as centres with lower than 1000 population plus non centre population.

These data can be interpreted to show, especially in the case of superannuation, that the residential location of the recipients is important. The survey indicates that superannuitants tend to be concentrated in small centres rather than being located in farm areas *per se*. For the remaining two benefits, the difference between urban and rural location does not appear to be significant.

The aims or social objectives of these programmes can be set out as:

- prevention of financial hardship;
- protection of the sick, disabled, etc;
- protection of the aged;
- assistance in emergencies, including climatic emergencies and recovery;
- assistance for economic disasters and recovery.

In New Zealand, there do not appear to be explicit policies for rural people in terms of rural population goals or maintaining the countryside in its present form. There is no clearly identified welfare policy specifically for rural communities apart from disaster relief. The concept is essentially one of a welfare safety net for protection of *all people* at some minimum standard.

The welfare safety net is necessary, in part, because earlier explicit social and economic goals of full employment and balance in the external current account have been replaced by growth and efficiency goals. In a full employment society, the minimum standard of living can be delivered by minimum wages and job spreading, with less emphasis on delivery by welfare payments. Similarly, agricultural assistance directed towards increasing exports assisted marginal farmers to stay in farming, and also kept people in agriculture and rural communities at levels higher than were warranted by undistorted market prices and economic necessity. In turn, such assistance kept more schools open in rural areas, maintained small businesses in rural communities, and maintained levels of services such as health and roading at higher than otherwise levels. It is doubtful if these were the explicit goals of such programmes.

Welfare assistance in the form of direct income support to the rural sector in New Zealand has increased since 1984 following the dismantling of the investment incentives and minimum prices schemes of the previous period, and the general decline in the profitability of farming. The unemployment rate in rural areas has risen from 2.7 percent of the population in 1986 to 5.2 percent in 1991. Universal benefits were available before these changes and have continued since. Income smoothing and loss write-offs through the tax system have been preserved as well. However, as farming profitability declined in the mid 80s and support was removed it became apparent that the weak, the marginal and the non-viable farm units were not protected by the existing social welfare provisions. As a result, the special assistance scheme was devised to meet the situation.

This was the only mechanism whereby farm owners and their families could receive a full welfare benefit equivalent to the unemployment rate, apart from special disaster schemes. Family support is based on the number of children in a family and is not designed to maintain the whole family. Guaranteed family income is restricted to families on low wages and is not available to farmers as self-employed. However, for declared disaster situations it is now accepted that normal social welfare emergency provisions are available.

At present, government support to the rural sector in New Zealand is limited to these welfare measures and certain cross-subsidies that arise in the education, postal services, roading services and electricity areas (Harris and Scrimgeour 1992, Scrimgeour 1994). These infrastructural transfers are common to most countries, and are specifically exempt from the Aggregate Method of Support calculation agreed to in the GATT negotiation (Annex 2 of the Agreement).

7. Compensation Payments (OECD)

The OECD includes compensation payments in the range of measures that governments should consider when removing price support policies. Such payments might be made to compensate producers for the withdrawal of price support during the transition to lower total assistance levels or as a more permanent part of a restructuring package of support measures intended to produce less distorting consequences.

When assistance levels are permanently reduced expectations of lower future income streams are translated into a fall in market values of land and other fixed production assets. There is also a devaluation of farmers' human capital. Agriculture is characterised by self-employed and family businesses so that the same family bears both the capital and the income loss.

Such changes create pressures for government action to provide compensation for the losses incurred where the effect is directly linked to government action. Such payments might be justified if they made it easier for policy makers to implement effective reform programmes. There has also been a form of a social contract in the past to provide assistance to these groups. Nevertheless the OECD argues that payments of this sort, if used by member countries, should have the characteristics and meet the recommendations for other direct payments discussed above (OECD 1993, p.32). To be GATT-compatible, such payments would have to match the green box specifications for income insurance and structural assistance programmes.

There is some debate on the relative merits of annual and one-off payments. An annual payment lends itself more readily to compensating the farmer for the loss on all owned assets including human capital for which there is no asset market. One-off capitalised payments however deal with all the effects at once and leave the farmer free to decide what to do. A flexible combination of the two options might be a transferable bond which entitled the farmer to an annual payment for a certain period. The bond could be sold at any time at its current capitalised value. Such a scheme would spread the cost to governments while providing recipients with significant lump sums.

8. Discussion

There is no doubt that the GATT Agreement is a significant change in the conditions of world trade and domestic agricultural policy. The arrangements for reductions in subsidies and alternative methods of support have pointed world trade in a new direction. It seems reasonable to assume that there will be a greater momentum toward further direct income payments in the move away from production-based support. Individual countries will need to adjust their domestic agricultural policies to the new environment.

The GATT Agreement has now been put in place albeit with the domestic support exemptions considerably weakened. The MacSharry proposals were essential to obtain the cooperation of EC Ministers hence this was probably the price to be paid for international agreement. The levels of reduction in the AMS for the EC are disappointing, as it looks as though these have already been achieved in reforms introduced since 1986.

At the same time, the criteria adopted in Article 6, para 5(a) offer an opportunity to adjust the desired reduction on the base level of support in 1986-88. Payments calculated on 85 percent on the base level could be brought down to a lower figure and so on. Greater restrictions could also be placed on qualifying areas, yields and headages. It remains to be seen how other countries are going to react to the exemptions on direct income payments that were negotiated for the EC's benefit.

The next step is for countries to examine their domestic agricultural policies and to move towards less production and factor distorting frameworks. With the Uruguay Round agreement, countries will also have to commence tariffication of their existing assistance measures. Countries will also need to assess their priorities in giving agricultural assistance and investigate whether declared objectives can be met in other ways. This will involve investigation of social welfare measures in particular as previous forms of agricultural assistance will be phased out.

It remains a problem to distinguish between temporary and permanent changes in economic conditions. The general rule seems to be that temporary assistance is warranted in cases of disaster and economic distress, but longer term assistance is unwarranted. The GATT rules do not seem to cover this situation but OECD, for example, does specify that programmes for agriculture should be transitional.

Welfare assistance (direct income support) is oriented to financial need and is normally targeted to defined groups. In the New Zealand case, only those transitional programmes introduced for relief from the 1986 economic downturn could be regarded as partial compensation for removal of earlier production support incentives.

Under the current NZ policy framework, existing schemes provide only limited compensation to farmers who are adversely affected by natural disasters. Indeed the Social Welfare Department regards adverse events family support and special assistance as subsidies to farming as they believe the conditions are more generous than for other sectors and employers. At present (see Annex 1) the schemes available are expressly defined in terms of universal benefits and not sectoral ones.

The GATT Agreement clearly specifies how direct income payments should be treated (the green box). Many infrastructural measures are exempt from the assistance reduction requirement and will clearly continue to be provided. Research and development expenditure, and pests and disease expenditure appear to be at the borderline of permissible exempt status as they clearly confer some sectoral benefits.

There is clearly a relationship between a high level of price support assistance for the rural sector and a low level of welfare payments. Evidence from countries with high levels of price assistance would be useful in this regard. Equally, welfare assistance cannot replace the bonuses and incentives provided by price support. In the new scheme of things, the agricultural sector has to find its own level of output and factor employment consistent with international trade trends. Positive adjustment measures will be needed to reach this objective.

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Annex 1: Description of Welfare Programmes in New Zealand

1. Family Support

The family support tax credit and guaranteed minimum family income schemes are designed to assist low-income families by providing regular financial assistance throughout the year-rather than a lump sum payment at the end of each financial year. The family benefit or child allowance was abolished from 1 April 1991. Family support payments are made to the principal care-giver. The maximum support entitlement is $2184 for the first child and any children aged 16 and over and $1482 for ages 13-15, and $1196 for 12 and under. The maximum support abates above a family income of $17500 per year ($20000 after 1 Oct 1994) at a rate of 18 cents in the $ up to $27000 and at 30 cents in the $ above that.

2. Guaranteed Minimum Family Income

This support is a tax credit which is paid in addition to family support. It ensures that families with dependent children receive a set minimum weekly income. Families with a gross family income of less than $18363 per year qualify. The guaranteed minimum family income level for a one-child family is $278 a week after tax.

3. Unemployment Benefit

This is payable to people unemployed, are capable and willing to undertake full time work, and have taken reasonable steps to obtain suitable employment.

4. Domestic Purposes Benefit

This benefit is payable to a parent caring for children without the support of a partner, to a person caring for a person at home who would otherwise be hospitalised, and in some circumstances to an older woman alone.

5. Special Needs Grants for Financial Hardship

Emergency grants may be granted on grounds of financial hardship to those who do not qualify for the ordinary unemployment benefit. This payment is available to the self-employed and others who have sudden loss of income or whose venture may have failed. Since farmers cannot qualify for unemployment benefit, a special assistance programme was introduced in 1986 (see 6 below).

6. Special Assistance to the Farming Sector

A package for assisting the farm sector due to the downturn in the economic climate was introduced in July 1986. Part of the package was a special needs grant to farmers to provide for ordinary day-to-day living expenses. Grants were made available to *bona fide* farmers who were in a critical financial position with no funds or access to funds to cover living expenses. The criteria for payment were:

(a) the farming operation was in financial difficulty and was not producing sufficient income to meet essential living expenses;

(b) there was no significant off-farm income;

(c) there were no assets unconnected with the farm operation which could be readily converted to cash;

(d) a decision had been made to sell the farm and the asking price was realistic; or the family was in the active process of evaluating the ongoing viability of the farm.

The Department of Social Welfare sets a limit of 6 months on such grants, and applicants must re-apply every 6 weeks. This scheme was phased out by 1989 but it provides an outline of the necessary rules that any such scheme should possess if needed in the future.

7. Emergency Relief Measures Following Extreme Climatic Events and Natural Disasters

After a natural disaster, procedures for the provision of recovery assistance for the community at large are contained in the Recovery Plan for Natural Disasters and Emergencies administered by the Department of the Prime Minister and Cabinet. They are normally triggered by a declaration of a civil defence emergency. Adverse events relief programmes are administered by the Ministry of Agriculture and Fisheries and provide assistance specifically targeted to the agricultural and horticultural sectors. This assistance may be provided as part of a wider disaster recovery package or triggered independently.

Welfare assistance will be provided on a short-run basis through emergency family assistance under the emergency benefit provisions of section 61 of the Social Welfare Act 1964. This benefit provides assistance to meet the immediate needs of people who normally derive their principal income from land, or marine based, industries and who are suffering serious financial hardship as a result of adverse events (see 5 above for one-off financial assistance which also qualifies).

Adverse Events Family Income Support: This programme was introduced in November 1988 when the east coast of the South Island was declared an adverse event area due to a prolonged drought. The programme was funded by the Ministry of Agriculture but was administered by the Department of Social Welfare. Applicants must be resident in the declared adverse event area. The basis of the application for assistance is a statutory declaration that the applicant is in financial difficulty because of the drought. In May 1989, a similar declaration was made for a large area on the east coast of the North Island, with similar welfare provisions.

8. Exit Grants

At the time of the introduction of the Adverse Events Family Income Support Scheme, additional government support was provided for non-viable farmers to encourage them to leave farming. Providing a sale took place, the government undertook to ensure that the departing farmer's assets were made up to the value of $45000.

9. National Superannuation

This is the universal old age benefit paid by the government to all those who qualify. The qualifying age was 60 years for men and women but from 1991 this was to be raised in steps so that it reached 65 years by the year 2001. A surcharge is charged on all other income earned over $4160/year for a single person, and $6240/year for a married couple, at 25 cents in the dollar. For those people with private superannuation, the first half of all such income is exempt from the surcharge.