

RESTRICTED

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## GROUP ON CEREALS

### Summary of Discussions

I.

#### Introduction

At the meeting of Ministers held at the time of the nineteenth session of the CONTRACTING PARTIES, Ministers expressed great concern about the degree and extent of agricultural protectionism and about widespread resort to non-tariff devices and the serious effects which those devices had on international trade in agricultural products.

In order to give effect to the Ministers' Recommendations, the CONTRACTING PARTIES adopted procedures designed to establish the basis for the negotiation of practical measures for the creation of acceptable conditions of access to world markets for agricultural commodities. To this end they decided that beginning be made with a preliminary examination of possibilities for solution of the problem of cereals. For this purpose a group was established composed of Argentina, Australia, Canada, the European Economic Community, the United Kingdom and the United States. The Group met in Geneva from 12 to 16 February 1962 under the Chairmanship of Mr. E. Wyndham White, Executive Secretary.

II.

#### Establishment of facts

The Group discussed various aspects of the factual situation with regard to temperate agricultural trade and in particular cereals.

The representative of the EEC, referring to the suggestion made by Mr. Baumgartner during the ministerial discussion, stated that the facts had not since changed except that the EEC had taken important decisions relating to the Common Agricultural Policy. As Mr. Baumgartner had pointed out at that time, the low elasticity of effective demand for agricultural commodities and the high rate of increasing production led to the adoption of national policies which did not permit the free play of market mechanisms, and this in turn, made it impossible for rules of free competition to be applied to agricultural trade. The situation still existed where there was on the one hand an accumulation of surplus stocks and on the other a tremendous unsatisfied need. The exporting countries further were engaged in a ruinous price war which resulted in their subsidizing the foodstuffs

consumed by industrial countries. Mr. Baumgartner had said that if the EEC based its agricultural policy on normal prices, this might have a salutary effect by encouraging exporting countries to raise their prices. In the view of the representative of the EEC, consideration could usefully be given both to the establishment of a reasonable price and to measures which would prevent over-production in each of the producing countries.

In the discussion there was a general measure of agreement on the following facts.

A major basic factor was the existence of national policies which for many obvious reasons of an economic, social or political character supported the price of domestic agricultural products in order to assure the farmers a certain level of income. These national policies differed as to the way in which they were implemented and in the degree of protection they afforded. There was agreement that to the extent that the degree of protection induced non-economic and less-efficient producing farmers to increase or in some cases maintain production, these policies had adverse implications on international trade.

Technological progress in agricultural production, in particular during the last decade, had led to a very rapid increase in production in practically all countries. There was every indication that by further improvements the growth of agricultural production would continue in the future. These developments in fact increased the problems arising out of the national support policies.

The existence of the European Economic Community and the establishment of the basic elements of the Common Agricultural Policy were considered to be important factors which would necessarily have substantial implications on international trade. The EEC was already one of the larger importing areas in the world and would become even more so if it were enlarged by the accession of other countries.

In the course of years exporting countries had built up certain trade relations which were particularly significant to their economies and in many instances equally important to the importing countries. These historical trading patterns were important and could not be suddenly disrupted. An important part of world trade was directed towards Western European countries and was, therefore, heavily dependent on the development of the European Economic Community.

A basic fact was the predominant rôle which agricultural imports or exports played in the economies of some countries. Where agricultural imports constituted a substantial share of total imports, or agricultural exports constituted a major source of export income, the movement of prices on the world market had a considerable effect on the balance of payments of the countries concerned.

A further very important factor was considered to be the fact that, while the technological progress put the agricultural producing countries in a position to produce an abundance of food, for which it was not always possible to find a commercial demand, in many other parts of the world there was fairly widespread hunger and malnutrition.

### III.

#### Considerations and principles underlying possible solutions to international trade problems in cereals

The United States representative submitted some general principles which he felt were fairly universally applicable to trade in temperate agricultural products. As a first principle he considered that where possible GATT rules ought to apply to this trade in the sense of regulation by a fixed, negotiable tariff and wherever possible nothing else. Secondly, solutions to trade problems concerning these commodities should be sought on a commodity-by-commodity basis, recognizing the inter-relationship between one commodity and another, with the aim of reaching an international agreement, trade expansive in character and not limited to determining minimum price levels. Thirdly, the approach should be as non-discriminatory and liberal as possible. The United States did not favour preferential arrangements in either temperate or tropical agricultural trade. Fourthly, solutions should take into account the right of individual countries to determine internal returns to producers, although such countries should be under certain obligations such as ensuring that national policies do not compromise and impair traditional markets of efficient exporters. These countries should concern themselves with production or supply controls retaining outward-going policies and liberal access to markets. Further, as a fifth principle, countries should seek to ensure that, taking account of national policies, international schemes should be such as to encourage efficient producers and inhibit the less efficient. International prices that are agreed on or attempted, ought to be reasonable and such as to achieve this objective.

There was general agreement within the Group on the desirability of the maximum application of the GATT rules. The representatives of the European Economic Community said that the establishment of the Common Agricultural Policy constituted progress in this respect as compared with the existing situation. Quantitative restrictions and waivers would no longer be needed and the levy system would give exporters a clear indication of the conditions governing the import of their products. The situation would be further improved by any new system which at the international level would lead to the elimination of the export subsidies which GATT tolerates under certain conditions in the agricultural sector.

There was also general agreement on the necessity of adopting a commodity-by-commodity approach, although the representative of Canada thought that the adoption of more liberal trading arrangements was all that was necessary in respect of some commodities and the representative of the Community noted that when it came to practical application and final decisions it seemed to him that account must be taken of the treatment accorded to other products, and any finding must be based on the overall view.

As regards the non-discriminatory and liberal character of solutions to these problems there was broad agreement on such a principle. It was pointed out, however, that the GATT recognized certain existing tariff preferences of long standing; these were important to a number of countries. The Australian representative stated that there were provisions in the GATT for their modification through mutually advantageous negotiations.

On the question of the right of individual countries to determine internal returns to producers, the representative of Canada noted that excessive protection had severely disturbed the pattern of international trade to the detriment of efficient producers. There should be a new willingness to relate internal action on farm incomes to external effects. Some discouragement of less-efficient producers was needed and he wondered whether there would be a general willingness to bring domestic price supports and equivalent measures into international discussion and possibly negotiation. The representative of the Community noted that, in reply to the representative of Argentina, the United States representative had agreed that the repercussions of support policies could be the subject of international discussion. In the view of the Community, for any change to be made in the present situation; which does not provide for negotiations on internal support levels, all the countries concerned, without exception, whether importers or exporters, would have to be prepared to abide by an arrangement which would introduce a new commitment to negotiate on the domestic price.

Commenting on the fifth principle suggested by the United States that international prices that are agreed upon ought to be reasonable, to encourage efficient producers and inhibit the less efficient, the representative of the Community said that the EEC was entirely in favour of reasonable prices. This principle fitted into a hypothetical case not far removed from that outlined by Mr. Baumgartner at the ministerial meeting. As far as the Community was concerned, production in member countries would not be affected by the fixing of an international price, provided that price was not higher than the common price applied in the Community. For other producing countries the effect would depend on whether or not the price increase was permitted by governments to pass to the producers themselves.

The representative of Australia doubted whether the principles enunciated were uniformly applicable to the different temperate zone agricultural products. He suggested also that a sixth principle should be added to those being considered concerning the movement of surpluses to needy people both on humanitarian grounds and for development reasons.

The United Kingdom representative said that as importers it was the national interest of the United Kingdom to buy at world free market prices, which reflected many factors. But they had wider interests and responsibilities, and had always played their part in international commodity arrangements. Now the United Kingdom was negotiating entrance to the Common Market inside which the United Kingdom would pay the higher prices maintained by the common agricultural policy. But plans to raise prices outside the EEC would not be in the United Kingdom interest nor would they be feasible. The negotiating and operational problems involved in such plans would be in his view insuperable. The Baumgartner plan envisaged that the EEC internal prices sustained by variable levies would draw up international prices to their own level. This was arguable, but assuming it were true, the United Kingdom would take the rough with the smooth in the free market within the limits set by the International Wheat Agreement.

If prices did rise, the key question was what quantities of wheat would benefit? Production would be encouraged outside as well as inside the EEC. Exporters interests lay in price of wheat they could sell; a high price for wheat they could not sell would be of no use.

This led to the question of what level would the EEC fix for wheat prices and what quantities did the EEC envisage buying from outside the Community. The lower the price, the greater the need to import, and the higher the price, the less imports would be whether or not the price was raised in the way suggested by Mr. Baumgartner.

These questions might not be answerable now, in a changing situation. But some provisional appraisal of price and access prospects seemed necessary to allay current anxieties. Once the Western European position was clarified the question of concessional sales could be examined. This must be the primary responsibility of the countries with surpluses. But the scope and scale of the problem might change rapidly in future from the growth in world population on the one hand and increased supplies due to technological progress on the other. It would be necessary therefore to proceed empirically, dealing with problems as they arose.

In summing up the discussion the Chairman felt that three questions would probably constitute useful subjects for further discussion. One of these related to the possibility of negotiating internationally internal support levels or, perhaps alternatively, whether it would be possible to hold international negotiations on the external consequences of internal support policies. Both alternatives rested on the assumption that all countries would be prepared to accept such negotiations.

In view of the inevitable long-term character and effects that international discussion of internal price support and its external application would have, the Chairman raised the second question, that of interim procedures. The Group might study what could be done in giving assurances to exporters of the maintenance of traditional exports and of reasonable expansion of exports. In the absence of early agreement on the level of supports, could there be quantitative assurances of access for a limited number of years and, if so, on what basis? The question also arose whether, if competition in import markets between exporters and domestic producers lead to the creation of surpluses in the importing country, these surpluses could be disposed of without causing damage in the traditional markets of third countries.

There remained the question of the relation between the level of international prices on the one hand and of internal support prices on the other, on which the French Minister of Finance had made suggestions looking towards a progressive alignment.

#### IV.

##### Possible solutions to international wheat trade problems

The Group considered in a general way certain proposals designed to meet existing cereals trade problems including some suggestions dealing specifically with wheat which were put forward by the United States representative as a basis for discussion. These were:

###### 1. Price

A gradual moving upward of international prices

###### 2. Access commitments

In conjunction with (1) above, the development of a formula under which traditional free world suppliers outside EEC are assured their historical share of the EEC market plus a reasonable share of market growth.

###### 3. Control commitments

In conjunction with (1) and (2) above, commitments to be undertaken by each country whether importer or exporter, to control production or marketable supplies in line with certain guidelines to be negotiated. The objective would be to limit and isolate national surpluses, if any, from commercial markets.

4. Co-ordination of concessional sales

In conjunction with (1), (2) and (3) above, the establishment of certain "rules of the game" regarding the disposition of wheat on concessional terms.

In introducing these suggestions the United States representative said that he had in mind a gradual raising of wheat prices. There would need to be also some formula whereby external suppliers had a real opportunity and a guarantee to compete for their historical share of the market plus provision for meeting growth of demand in the market over a period time. Agreement on raising prices and provision of quotas (tariff quotas might be one way of dealing with this) would need to be coupled with supply controls and agreement on the removal of surpluses from international commerce. This would also require some agreement on "rules of the game" in respect of concessional sales of wheat.

The United Kingdom representative said that his delegation were not prepared to discuss any proposals which presupposed an increase of prices, since the question of prices was currently under negotiation at the International Wheat Conference, where all the governments in the Group were represented and many other importers as well as exporters. Any such discussion in the Group could prejudice this negotiation. The United Kingdom was, however, quite prepared to enter into a discussion on the other points raised by the United States, provided those points were not linked to the question of price.

The representative of the Argentine considered that the United States suggestions provided a good basis for future work of the Group. The Canadian representative said that, although his Government thought there were good reasons for an increase in prices, there were many factors normally taken into account in price formation, including the position of customers in many parts of the world, which led him to doubt whether an automatic formula for increases in prices related to prices prevailing in a single area would be the best solution. It might be better to proceed empirically on prices taking into account inter alia the application of a system of variable levies, for example, by the EEC countries.

The representative of the Community asked the other members of the Group to declare whether they were in favour of the abolition of export subsidies; to indicate what they felt would be the effect of an increase in prices on production in exporting countries and finally what the standpoint of delegations would be as to the possibility of agreeing to a certain rise in prices.

In replying to these questions it was generally felt that it was not possible to deal with each of them in abstract terms without taking account of a number of other relevant factors. While in principle the possibility of reaching agreement with other countries on a reduction or elimination of export subsidies was considered an important point for discussion, the phenomenon of export subsidies was not an isolated one and should not be discussed without at the same time considering the effect of national support

policies on the international market. An increase in price to such a level that uneconomic producers could export without the help of an export subsidy was considered undesirable. The representative of the Argentine suggested also that importing countries should give priority of access to their markets to products from countries which had not subsidized their exports. The Canadian representative stated that Canada would be prepared to join with other countries in the examination of the possibility of reducing or eliminating export subsidies on agricultural products.

The question of the effect on production in exporting countries of an increase in price could also not be considered in isolation. A substantial rise in price would encourage an increase in production in exporting countries, as well as in other countries, but in this respect the possible application of various safeguards such as controls on production or marketable supplies was relevant. The impact of a rise in price on total world supplies should be considered together with the position of countries which were natural exporters in comparison with the position of importing countries.

The representative of the United States considered that the third question put by the representative of the EEC could not be discussed in isolation from total world production, from traditional trade patterns and from the surplus situation and its effect on commercial markets of other countries.

The Australian representative regarded the United States suggestion as a suitable basis for further discussion by the Group. He favoured consideration of the need for an increase in international price levels. The existing wheat pricing arrangements did not correspond with present day reality. Only a minor part of world wheat production went into world trade and this at prices substantially below the prices at which the rest of the world's wheat was produced. Moreover, the prices of wheat exports to many markets were geared to prices ruling in the United Kingdom. These were artificially depressed because the narrowing of import demand in other importing countries due to internal production policies led to additional supplies from normal exporting countries being diverted into the United Kingdom market. Production within the United Kingdom itself had increased under price supports. Again, some importing countries at times exported under subsidy to the United Kingdom market surplus supplies from their domestic production induced by their price supports. All these factors tended to distort market prices in the United Kingdom. As this price formed the basis for price quotations in much of the world wheat trade this was a matter of great importance to a number of exporting countries, as well as, no doubt, to some importing countries.

As regards access to the EEC, the representative of Canada said that there seemed to him to be three possibilities:

- (a) a limit on the level of internal support prices which could be such as to permit the flow of trade;
- (b) some realistic upper limit on the variable levy, or
- (c) some form of quantitative import guarantee.

On the question of access, the representative of the Community stated that whilst the Community was not permitted and consequently not prepared to negotiate guaranteed quantitative assurances of access, nor to negotiate access by way of tariff quotas, it could give an assurance that access would be assured. The import system would provide the possibility of access and gave as such a guarantee. As had rightly been underlined by representatives of several countries, the price within the Community was an important factor. When fixed, among the criteria to be taken into account, full consideration would be given to the legitimate interests of other producing countries.

In describing the methods to be employed by the Community the representatives of the Community said that the introduction in the EEC of the system of variable levies provided, in general, for the abolition of all other barriers at the frontier such as customs duties, quantitative import restrictions, etc., which would mean a great simplification. The system was intended only to equalize prices so that the prices of the imported product sold on the EEC market would be at the same level as that of the domestic product. In the interim period, levies would also be applied on the intra-Community trade in cereals, but in order to encourage a certain preference for the member countries, as was the case in other sectors through the reduction of tariff rates, the intra-Community levies would be reduced by a "montant forfaitaire". In the final stage, when there would be a single price level, the intra-Community levies on cereals and consequently the "montant forfaitaire" would have disappeared and there would be on the internal market no price difference between the domestic and external products. In the subsequent discussion the United States representative expressed the view, however, that the variable import levy system did not guarantee access. It all came back to the question of the price level inside the Community. The Canadian representative drew attention to the statement by the representative of the Commission that the price system about to be adopted by the Community could be restrictive or liberal in its effects on trade. In his view whether the system was liberal or restrictive depended upon the price levels adopted inside the Community.

A representative of Australia stated that the level of support prices was a crucial factor in relation to access. He wondered whether the question of access, referred to in the United States suggestion, should not be expanded to include some consideration of other markets as well as that of the Community. The representative of the Community agreed with the Australian representative as far as that representative underlined that discussion of the question of access should not be limited to the EEC alone. This discussion should also cover access to other markets.

Discussing possible control commitments, the Australian representative considered that the fact that a number of countries already maintained high levels of producer prices with consequential effects on production could not be disregarded in relation to an appropriate point of departure. The nature of any commitments of this kind would also depend on the kind of increase in prices. On co-ordination of concessional sales; it would be desirable to examine arrangements for the disposal of surpluses that might arise in areas where they had not previously been significant. Further the "rules of the game" suggested by the United States should perhaps go beyond concessional sales to include e.g. disruptive export subsidies. The Canadian representative indicated that supply management had been practised in Canada for a number of years. As regards surplus disposal he emphasized the importance of safeguarding commercial markets. He also drew attention to a number of problems including finance, supply continuity, and the dangers of building up dependence on concessional food which were involved in judgements about the appropriate rôle of food in aid to less-developed countries.

V

Further discussions

The Group agreed to reconvene on 26 March 1962 on the understanding that the Chairman would in the meantime consult with delegations in order to ascertain whether there existed a reasonable basis for continuing at that time the discussions which have now been initiated.

