

GENERAL AGREEMENT ON TARIFFS AND TRADE

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DIVISION OF INDUSTRIES

Trade Negotiations Committee

REPORT OF THE GROUP ON CEREALS TO THE TRADE NEGOTIATIONS COMMITTEE

1. At the meeting in November 1963 there was general agreement that a basis existed for proceeding to the negotiation of a World Grains Agreement. It was agreed that a negotiating meeting should commence as early as practicable in 1964, and that meetings would be held more or less continuously thereafter.
2. The Group had several meetings in the period 17 to 20 March and 1 to 8 April 1964, during which it had a substantive discussion on the various elements which at previous meetings had been agreed to be appropriate for discussion and negotiation (TN.64/Ce/2). The Group met again on 21 to 23 April 1964 to take stock of the progress achieved.
3. Various proposals were before the Group. The European Economic Community had submitted to the Committee on Agriculture a comprehensive negotiating plan, covering also cereals (TN.64/AGR/1). This plan had been further clarified in the discussion of the Committee in February 1964 (TN.64/AGR/2). A statement by the representative of the EEC was distributed in document Spec(64)91. Suggestions for an international grains arrangement were made by the United States (Spec(64)47), and a statement was made by the United Kingdom delegation on the United Kingdom cereals policy (Spec(64)50). A note on basic objectives of an arrangement, and on the methods of securing these objectives, was also submitted by the United Kingdom delegation (Spec(64)73). A joint statement by cereals exporting countries, which set out their collective views concerning domestic policies and assurances of access opportunities, was distributed in document Spec(64)74.

DOMESTIC POLICIES AND ACCESS

Objectives

4. The Group recalled that the primary objective of an arrangement as laid down by the Ministers in May 1963, is to create acceptable conditions of access to world markets for cereals in furtherance of a significant development and expansion of world trade. The Group agreed that the arrangement should also have as its objective the promotion of a better and more economic balance between world supply and commercial demand. The Group recognized that the objective of access opportunities should be consistent with the provision of reasonable returns to efficient producers in exporting and importing countries.

5. The European Economic Community emphasizing the unity of the agricultural sector, considered it essential in the first place to establish an equitable balance between the legitimate interests of exporters and importers and to reconcile the expansion of international trade in agricultural products and the creation of acceptable conditions of access with the legitimate demands of agricultural producers regarding the improvement of agricultural prosperity, and the establishment of a better social balance between the various social and professional categories within one and the same country. The European Economic Community considered secondly an essential aim of an arrangement to be the broadest possible multilateral co-operation with a view to achieving, in particular, an equilibrium between production and demand in the long term, the limitation of short-term fluctuations, and the stabilization of prices on the world market.

Means of achieving the objectives

6. There was virtually unanimous agreement that commitments regarding the conduct of domestic policies of individual countries formed an essential means of achieving the objectives set by the Ministers and should, therefore, constitute an important part of any future arrangements. The precise nature of the commitments regarding domestic policies and access which individual countries might undertake had not yet been defined. Most members agreed that the choice of means to achieve the objectives and the precise nature of the commitments to be bound would depend on the situation and the nature of domestic policies in individual countries. The EEC considered that while the contracting parties remain free to choose the instruments necessary for the implementation of their commitments, these commitments should be expressed in each case by the binding of a margin of support.

7. The Japanese delegation stressed the importance of access opportunities for exporting countries, and considered that as long as such opportunities were being provided, no specific commitments regarding domestic policies would seem to be called for.

8. The exporting members of the Group considered that all contracting parties should undertake to so arrange their domestic cereals policies as to achieve the objectives established by the Ministers. They requested the importing countries to so set their prices, and otherwise conduct their domestic policies, as to assure cereals exporting countries as a whole, the opportunity to compete for at least their present share of importers' consumption. This would require cereals importers to maintain their cereals imports at levels at least equal to those of a recent representative period and provide exporting countries as a whole, with the opportunity to share proportionately in any growth in consumption in importing countries. They considered that the levels of producer prices for grains should be established and bound at levels which would effectively reduce the incentive for uneconomic production. The exporters on

their part were prepared to negotiate similar limitations on their domestic cereals policies to the extent required to carry out the broader objectives of the arrangement, including a more economic balance between world supply and demand.

9. The United Kingdom delegation considered the key element in securing the basic objectives to be the conduct of domestic cereals policies by all countries, whether importing or exporting. This element was considered to be crucial for the establishment of a better and more economic balance of supply and commercial demand, and for the provision of acceptable conditions of access. The United Kingdom delegation, therefore, considered that all contracting parties, both importing and exporting, should undertake to exercise restraints in the application of governmental measures which would encourage an increase in the uneconomic production of cereals.

(a) In the case of importing countries, such restraints should promote a fair and reasonable balance between domestic production and imports. Such a balance should permit the total volume of cereal imports by each importing country to be maintained, taking one year with another, at a level corresponding to the average level in a recent representative base period, and in addition provide both domestic producers and overseas suppliers with the opportunity to share in any growth in consumption in a fair and reasonable way.

(b) In the case of exporting countries, such restraints should be designed so as to maintain supplies being offered on world markets in a fair and reasonable balance with commercial demand. The total volume of cereals exported from each exporting country to meet commercial demand should be maintained at a level, taking one year with another, not appreciably above the average level of a recent representative base period, which would, at the same time, provide the opportunity to share in any growth of consumption in a fair and reasonable way.

10. The EEC considered it essential that domestic policies of all participating countries, importing and exporting, should be brought into the negotiations. The fundamental element common to all or nearly all countries was the support granted to agricultural producers. The margin of support reflected the overall effect of all support measures, including customs duties, resulting from action taken by the public authorities. It was equal, in each contracting party for a given agricultural product, to the difference between the price of the product on the international market or "reference price" and the returns actually obtained by the agricultural producers. Having regard to the importance of the support margin in connexion with agricultural production and trade, the EEC therefore proposed that the negotiations should be on the margin of support, the result expected being the binding, by all participants, of a maximum support margin.

The EEC considered that the binding of a support margin would constitute a fundamental contribution towards the objectives set forth in the Ministerial Resolution of May 1963. In binding the support margin, contracting parties would renounce a substantial part of their freedom and national markets would in future be tied to the international market through the bound support margins. For the EEC, the creation of acceptable conditions of access to import markets accordingly resulted from the binding of a margin of support at a level representing an equitable compromise between the interests of the parties concerned. The EEC did not consider it appropriate to undertake access commitments in quantitative terms, because it considered that the binding of a support margin, coupled with the possibility of regular confrontation of agricultural policies, was the best way of promoting the expansion of international trade in agricultural products.

11. There was full agreement that the commitments undertaken and the extent to which the objectives were being achieved should be subject to periodic reviews.

12. The position of the exporting countries was that whatever methods are employed these must be effective in achieving the objectives established by the Ministers. Importing countries should commit themselves to take prompt and effective remedial action in the event the objectives were not realized. The nature of the remedial action should be at the discretion of the importing country.

13. The United Kingdom proposed that the extent to which the exercise of restraints was achieving the objective of a fair and reasonable balance should be reviewed annually. If it were found that the restraints adopted by importing countries had failed to secure such a balance with the consequence that the total volume of cereals imports had declined or was likely to decline appreciably below the level of a recent representative base period, importing countries should accept an obligation to take promptly such corrective action as was necessary. Similarly, if it were found that the restraints applied by exporting countries had failed to secure such a balance with the result that the total volume of cereals exports had risen or was likely to rise appreciably above the level of a recent representative base period, exporting countries should accept an obligation to take promptly such corrective action as was necessary. In addition, in furtherance of a significant development and expansion of world trade in cereals and the establishment of fair conditions of trading, all countries, both importing and exporting, should modify their policies as necessary to ensure that the flow of trade was not impeded by unreasonable barriers at the frontier. All such barriers and their effect on the flow of trade should be reviewed annually.

14. Japan would be prepared to undertake commitments to enter into consultations concerning remedial measures which might be taken when imports decreased below the level of a recent representative base period.

15. The EEC concept of a negotiating plan provided for a review and comparison every three years of the agricultural and commercial policies of the participating countries in order to make any necessary adjustments in the obligations taken on, having regard to the prevailing world economic situation, to any substantial rise in prices of agricultural products and to the desirable development of agriculture and of commercial policy. The EEC proposed that the renewal of any agreement should be negotiated in good time before the end of the three-year period. Whether or not a new agreement was concluded, either in the terms of the former one or in terms adapted to new circumstances, the contracting parties would have to restore the balance of advantages deriving from the trade negotiations as a whole, the cereals agreement being an integral part thereof.

16. There was unanimous agreement that the arrangements and the obligations undertaken thereunder, being an integral part of the Kennedy Round, should represent GATT commitments and be subject to the principles, rules and procedures established in the General Agreement, and should have the same validity and continuity as tariff bindings.

17. In the EEC concept:

(a) Throughout the duration of the agreement it would be necessary to ensure that commitments undertaken should be subject to control in accordance with procedures to be determined. For the EEC, such control would have to relate to observance of the binding of the support margin. During the three-year period, a contracting party might also find itself obliged to revoke its commitments and, for example, to exceed its bound support margin. The EEC considered that there should be procedures defining the nature and the modalities for granting compensation in such circumstances.

(b) At the end of the three-year period the support margin method advocated by the EEC would permit the necessary adjustments to be made, either by revising the reference price or by adjusting the support margin or by combining both possibilities. For example, greater productivity with a consequent lowering of production costs in all countries could result in a downward revision of the reference price, while a general rise in production costs would, on the contrary, justify increasing that price. Similarly, any marked drop in production costs limited to one contracting party, or again an adverse production trend in one country, might make it necessary to negotiate and reduce the support margin at the end of each three-year period. The consultation procedures envisaged in the renewal or revision of the agreement at the end of the three-year period as suggested in the EEC plan, would provide full opportunity for determining whether the change in the margin of support was of a kind which required compensation or not.

18. There was an extensive discussion as to whether and how the Community system of binding of the margin of support could be applied in the field of domestic policies and access. The following questions were raised in the discussion:

(a) It was not clear as to how the implementation of the system of binding the margin of support would achieve the objectives laid down by the Ministers. Indeed, it was the considered view of the exporting countries that the mere binding of the margins of support would not achieve the objective established by the Ministers. In judging whether these objectives would be achieved, a key factor would be the level of these bindings.

(b) A number of questions relating to the measurement and effectiveness of the system of binding the margin of support required greater clarification and precision. These questions concerned indirect subsidies and the various measures of restraint to agricultural production applied by members, such as acreage diversion payments, and the way in which such measures would be taken into account and calculated in determining the margin of support.

(c) If the EEC system were to apply generally, the question would arise whether commitments undertaken for individual countries would be equivalent and comparable. It was pointed out that there would be a disparity between obligations undertaken by efficient producers and by high cost producers. To the extent that efficient producing countries would have to bind the margin of support at zero, they would be contributing to the improvement of the balance between supply and commercial demand; and they would be surrendering their freedom to introduce any new income supports or related measures. On the other hand, high cost producers would bind a high margin of support thus perpetuating policies resulting in further uneconomic and excess production. The system would also introduce inequities to the extent that it failed to take account of measures to restrain production.

(d) It was pointed out that the system of the margin of support would permit an automatic increase in the effective margin of support (correlated with the import levy) whenever world prices fell below the reference price.

19. The representative of the EEC emphasized that if the effective world price were to exceed the reference price, the level of support (correlated with the price level on the domestic market) would not automatically be raised; any raise in the level of support would be subject to consultation.

INTERNATIONAL PRICES

20. The Group agreed that the arrangement should aim at assuring a greater measure of stabilization of prices. These prices should be at levels which were fair to consumers while providing a reasonable return to efficient producers. Such a general formula, however, was open to different interpretations. There was also full agreement that a solution of the question of international prices

would not be meaningful without a simultaneous solution of the question of access. It was recognized, however, that the level of international prices and whether the price provisions should take the form of a fixed price or a price range would require further examination in the light of policy and practical market considerations.

21. In the course of the discussion, a number of questions arose which needed further reflection and detailed examination, e.g.

- (a) the future level of international prices;
- (b) the concept of a fixed reference price, possibly with a margin of tolerance above and below the reference price;
- (c) the possibility of reconciling an international price range system with the reference price system;
- (d) the possibility of maintaining a price range as under the International Wheat Agreement, in addition to price and related commitments applicable to countries participating in the general arrangement;
- (e) the possibility of the arrangement preventing short-term fluctuations in international prices, while recognizing that the longer term price levels would, in a free market, be determined by the balance of supply and commercial demand;
- (f) the problem of establishing a schedule of price equivalents for different products, classes and qualities in connexion with the establishment of a reference price, a minimum price or a price range.

22. The EEC considered that the arrangement should envisage the stabilization of prices at an equitable and remunerative level which would, at the same time, be satisfactory for the exporting countries, whose earnings are, or could become, inadequate, and for the importing countries desirous of ensuring the maintenance of a certain income for their producers, and the legitimate interests of their consumers. The EEC felt that the level of reference prices (i.e. international prices to be negotiated) should be at a level sufficient to eliminate the need for export subsidies in a reasonably efficient producing country.

23. In the negotiating plan of the EEC the system of reference prices and binding of the margins of support would provide the means of achieving the price objectives of the arrangement. The reference price would have more than one function in the arrangement. It would provide the basis for determining the

margin of support, but the reference price would also become an equilibrium price in international trade and, at the same time, a target price on the long term.

The EEC did not envisage a price range as broad as the present IWA range; the reference price would have a spread so as to permit free price formation within reasonable limits to avoid haphazard and speculative movements; the spread would be determined in such a way that the reference price could operate as an instrument for stabilizing trade. When determining the reference price it would be advisable to establish scales of equivalences, taking into account the price ratios between the different qualities of the same product, as well as the price ratios between the various cereals covered by the agreement. The representative of the EEC stated that the EEC system was not designed to change present trading practices.

24. The United Kingdom suggested that exporting countries should undertake to exercise restraint in the application of measures which would encourage any increase in the subsidization of cereals exports, and to aim at a gradual reduction of existing export assistance. It was also the considered view of exporting countries that all parties should agree to progressively reduce export subsidies. In the EEC concept, the reasonably efficient producing countries would be in a position to eliminate the need for export subsidies if the reference price were set at a level sufficient for such elimination.

ASSURANCES OF SUPPLY

25. The Group agreed that one of the objectives of the arrangement should be the assurance of regular and adequate supplies of grains to importing countries at equitable prices. To this end, exporters were willing to undertake to supply importers within a specified price range, but in relation to market assurances.

26. A number of questions arose during the discussions which required further examination, for example:

- (a) Whether supply assurances should take the form of a commitment by exporting countries to sell to importing countries, at not more than the maximum price of the price range, the balance of their commercial requirements, based on their commercial purchases from participating exporting countries during a specified period.

- (b) Whether the arrangement should also provide for the establishment and maintenance of reserve stocks by exporting countries, individually or as a whole.
- (c) Whether importing countries should also undertake commitments to maintain stocks.
- (d) The basis for determining the volume of reserves which individual contracting parties would be committed to maintain.

27. The EEC recognized that stocks were essential in order to maintain international price stability in cases where changes in the world economic situation led to surpluses or shortfalls at world level. The EEC considered that it would be useful, by means of prior notification and consultation, to have estimates of production and trade volumes. According to the EEC it would undoubtedly be appropriate at a later stage to pose the question whether stock commitments should not be accompanied by commitments relating to the progressive absorption of existing surpluses and the prohibition of new surplus formation.

NON-COMMERCIAL SUPPLIES

28. There was a certain measure of agreement that one of the objectives of the arrangement could be to provide for the fair and orderly disposal of any surpluses of cereals supplies, having due regard to the possibility of using such surpluses for the benefit of developing countries. There was wide agreement that the arrangement should provide for rules of conduct and criteria aiming at preventing harmful interference with and safeguarding the normal pattern of commercial trade in accordance with the principles and guidelines established by GATT and FAO.

29. Preliminary discussion on this subject raised a number of questions, for example:

- (a) Whether the arrangement should provide for commitments in this field, in kind or in cash or a combination of both.
- (b) The basis on which contributions would be determined.
- (c) The relationship of such contributions to existing bilateral and multilateral food aid commitments.
- (d) The relationship between such contributions and access assurances.

30. The representative of Argentina referred to a memorandum by his Government to the CONTRACTING PARTIES on 19 March 1964 (L/2188). In this memorandum it was suggested that international co-operation on surpluses should be replaced by financial assistance to developing countries in order to increase the purchasing power of the recipient countries so that they can buy their agricultural supplies where it suits them best.

31. The representative of Japan considered, while fully sympathetic with the need to provide food aid to under-nourished developing countries, food aid was clearly outside the scope of the Kennedy Round trade negotiations. It should continue to be dealt with by the existing United Nations organ and the rôle to be played by the international grains arrangement in this field should be a limited one. Therefore, he would not favour any proposal that the international grains arrangement should deal with the matter of financing food aid or should provide for sharing the burden between importing countries and exporting countries. It was further indicated that if it was contemplated to raise the price of grains of commercial trade for the establishment of a fund to finance food aid, his country being a major importer was against this idea.

32. The EEC considered that the problem of non-commercial transactions cannot be ignored within the framework of a world agreement on cereals. The EEC representative pointed out however that it was in the interest of all the contracting parties not to develop non-commercial disposal in such a way as to disturb commercial transactions. The contracting parties should, of course, recognize the principles formulated on this subject by the competent international organizations. The Community thought it appropriate, however, to raise the question, at subsequent meetings of the Group, as to whether such principles could be considered as sufficient in connexion with the future agreement. When envisaging the limitation of existing production or the taking up of surpluses of a specific product, one must take into consideration the needs of the food-deficient countries and envisage the possibility of using such products, either directly or after processing, to meet their requirements. Food aid which, in any case, must be an integral part of the economic development programmes of the recipient countries, was not a cure-all, however, and the developing countries must not be considered as mere overflow recipients for surplus production, for in certain cases that might have the effect of inhibiting the development of their own agricultural production. The future cereals agreement should therefore lay down procedures for a co-ordinated programme for the utilization of food products by food-deficient countries.

COVERAGE

33. It was agreed that the Group should make an attempt at an early date to define more precisely the cereals and cereal products considered appropriate for inclusion in a world-wide arrangement.

ADMINISTRATIVE ARRANGEMENTS

34. It was agreed that it was too early at the present stage to have an extensive discussion on the structure and scope of the arrangement and on the relationship of the arrangement with the International Wheat Agreement. It was pointed out that a number of commitments to be taken up under the arrangement were closely related and should be considered an integral part of the Kennedy negotiations. Such commitments would necessarily have to remain within the framework of GATT. It was recognized that the question of membership of countries not participating in the work of GATT would have to be taken up at the appropriate time.