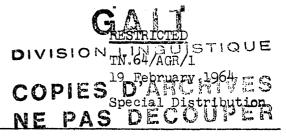
GENERAL AGREEMENT ON TARIFFS AND TRADE



Committee on Agriculture

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STATEMENT BY THE REPRESENTATIVE OF THE EUROPEAN ECONOMIC COMMUNITY BEFORE THE GATT COMMITTEE ON AGRICULTURE REGARDING THE NEGOTIATING PLAN OF THE EEC FOR THE AGRICULTURAL PART OF THE KENNEDY ROUND

INTRODUCTION

1. At the meeting of the Committee on Agriculture at the end of 1963, the representative of the European Economic Community drew the attention of the members of the Committee to the fact that the Community attached extreme importance to the unity of the agricultural sector, having regard to the specific nature of conditions for production and marketing of agricultural products, and that it intended to bring all agricultural products under the same negotiating rules. In that, the position of the EEC was consistent with the GATT ministerial resolution adopted in May 1963 which stated that it was necessary to establish "the rules to govern, and the method to be employed in, the creation of acceptable conditions of access to world markets for agricultural products in furtherance of a significant development and expansion of world trade in such products".

Today, the representative of the European Economic Community is in a position to present to the members of the Committee on Agriculture the negotiating plan which has been drawn up by the Community for the agricultural part of the Kennedy round.

2. A few preliminary remarks are essential, and first of all, it seems that it would be inopportune to reduce the agricultural negotiations to a confrontation between those who seek only "the creation of acceptable conditions of access to world markets" and those who intend to limit themselves to defending their farmers' income at the highest possible level. More than a confrontation, the Gennedy negotiations must be a dialogue based on clear knowledge of the problems arising from production of and international trade in agricultural products.

3. At the present time, agriculture is benefiting from the combined effects of biological discoveries and improved productivity resulting from the transformation of production conditions. This has resulted in a real acceleration of technical progress and, paradoxically, in quite substantial difficulties.

4. Producers in the industrialized countries in particular have found in the customs duty, in the quota restriction and in many other measures, a means of evading competition and the influence of international prices, whether on the national market or the export market. This is still time, for the moment, even though the interdependence of markets is more easily recognized today, and consequently there is a growing readiness to redefine the conditions of international exchanges.

5. In seeking the most favourable conditions for expansion of international trade, one all too frequently tends to be content with opposing the partisans of resort to the traditional principles of trade liberalization, on the one hand, to the partisans of organization of markets, on the other. It is essential gradually to dispel the misunderstandings which arise from such a doctrinal position and to demonstrate that the organization of markets is a perfectly harmless instrument of commercial policy and that it can facilitate the continuous and smooth development of international trade in agricultural products.

6. The European Economic Community is conscious of its responsibilities towards third countries and intends to see to it that the mechanisms of common organizations of markets operate in such a way that, even in the long term, outlets will remain in its markets for imports of agricultural products from third countries.

7. In proposing to the contracting parties a method and rules for negotiation adapted to the agricultural sector, the Community realizes that its action and the novel character of its proposals may give rise to certain apprehensions and even to some scepticism, but it should be possible to dispel these in the course of the negotiations.

In following the terms of the ministerial resolution of May 1963, the Community believes that it has found the best possible approach for the negotiations, which one might forthwith term the "method of the support margin".

- I. The negotiating plan which the EEC presents today to the contracting parties does not constitute an offer in the sense of conventional tariff negotiations but its objective is, by proposing to negotiate the margin of support granted to products, to provide an overall solution to the problems relating to production and international trade in the agricultural sector
- 8. The basic elements for the agricultural Kennedy round must be found in the resolution adopted at the GATT ministerial meeting in May 1963

This resolution specifies that on the one hand, the trade negotiations "shall cover all classes of products, industrial and non-industrial, including agricultural and primary products"; on the other hand, that it is necessary to establish "the rules to govern, and the methods to be employed in, the creation of acceptable conditions of access to world markets for agricultural products in furtherance of a significant development and expansion of world trade in such products".

One must ask oneself what is the best method of attaining these objectives without losing sight of the fact that international trade is only one aspect of the agricultural problem and that trade liberalization alone cannot suffice to guarantee economic prosperity.

9. The ministerial resolution has stressed the need to promote the expansion of international trade in agricultural products. But is has not replied to the fundamental question of how to reconcile that expansion with the equally legitimate demands of agricultural producers in the various producing countries, 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. It is a fact that even in 1964, that problem is still far from being solved, whatever the countries concerned.

10. Since the ministerial meeting, it has become fairly clear that certain contracting parties more particularly concerned with exports of agricultural products propose solutions according to which it would be the business of the importing countries to create acceptable conditions of access to their market, while the exporting countries would merely undertake to observe a certain discipline in regard to exports.

Other contracting parties make proposals based on the individual characteristics of their own market and which, while seeming to afford specific guarantees to a few traditional suppliers, merely serve to perpetuate the mistaken ideas of the past by dealing with only a minute part of the overall problem.

11. Now, in early 1964, what one must recognize and gradually translate into facts is the interdependence of markets, a certain sharing of responsibilities, and the need to define and conduct joint action in a world in which partitioning and isolation are no longer possible.

The task and the responsibilities of reconciling the aspirations of domestic producers with the requirements of foreign trade cannot be left to the importing countries alone. Similarly, it is not possible, by relying on the importing countries alone, to establish a veritable world agricultural market and to ensure balanced expansion of production and international trade in the agricultural sector.

12. The European Economic Community considers it essential to establish an equitable balance between all the legitimate interests. Consequently, each country, whether an importer or an exporter, must consider its own requirements and agricultural policy in the context of the requirements and policies of the other importing and exporting countries, so as to embark on these negotiations with a thorough knowledge of the objectives to be attained, the possibilities and the limitations to be respected.

13. The tariff approach is henceforth inadequate for negotiations on agricultural products, and this conclusion is daily reached by more and more countries.

Indeed, there is no country where the government is unconcerned with conditions for the production and marketing of agricultural products. Everywhere, governments have multiplied their interventions, giving them either the form of circumstantial measures or the appearance of an economic policy, but in any case the generalization of such interventions is manifest.

That is why, at the ministerial meeting in May 1963 the Community, with the support of other contracting parties, clearly stated its concern that none of the elements likely to affect the equilibrium of world agricultural markets should be excluded a priori from the negotiations. For the Community to limit the negotiations to customs tariffs would be of little interest and would not permit the real situation to be grasped.

14. In fact, agriculture has been practically excluded from past tariff negotiations. The negotiations were limited to some bargaining on a small number of products, and the parties to the negotiations, under pretext of making known their offers, drew up lists of exceptions which from the outset left aside the most important products. Moreover, once agreement had been reached on a few products, the States tried to revert to the corcessions which they had granted and introduced a multitude of non-tariff measures in order to nullify the effect of the lowering of tariff barriers.

Furthermore, the tariff approach has the added disadvantage of laying emphasis only on trade liberalization, which is not enough; in the world of today it is impossible to advocate the international division of labour and the highest possible degree of specialization of production without at the same time considering the effects of such a policy on employment, and its social repercussions, and without making the necessary transitional arrangements.

15. This conciliation of trade liberalization with the "requirements of employment" is particularly essential in the agricultural sector, where one does not find the same professional mobility, the same adaptability of men and of production structures as in the industrial sector.

Furthermore, for numerous reasons of a political character (need for security reserve stocks, political importance of agricultural circles, etc.), the international division of labour will always encounter great resistance with respect to agriculture. 16. It is often noted, from all sides, that the provisions of the General Agreement are only applied to a very partial extent so far as agricultural products are concerned. It is indicative to note that those provisions are practically identical in regard to agricultural products and to industrial products, and that the General Agreement was drawn up at a time when attention was mainly directed towards the inadequate supply of foodstuffs and towards balance-of-payments difficulties. In these circumstances, one may wonder whether one should not make the essential adjustments so that henceforth the rule may correspond to the facts.

17. After having carefully considered all the relevant data, the European Economic Community has reached the conclusion that the fundamental element, the factor common to all or nearly all the contracting parties, is the support granted to agriculture. One should therefore take the amount, or margin, of support as the starting point for defining a minimum of flexible rules intended to be observed and which could really ensure uniform relations between the contracting parties in the agricultural sector.

18. The EEC therefore proposes that the negotiations should be on the margin of support

The European Economic Community wishes to present as simple and clear as possible a definition of the margin of support: the margin of support for a given agricultural product is equal to the difference between the price of the product on the international market and the remuneration actually obtained by the national producer in the country with respect to which the margin of support is to be determined.

19. The result expected from negotiations on the margin of support is the binding of a maximum support margin.

20. After rapid reasoning, one might point out that this proposal goes less far than what is envisaged in the sectors other than the agricultural sector.

To this argument, the Community replies that no-one can accurately assess the results which a lowering of customs tariffs will have on the evolution of production and trade in the industrial sector.

Furthermore, it is not possible to make an exact comparison between the value of an agricultural binding and tariff reductions in the industrial sector, since such a binding relates not only to the customs tariff but to the overall effect of all support measures and involves agricultural policies themselves; in this sense, one could assert that the Community's negotiating plan proposes a more comprehensive formula than that envisaged in the industrial sector. Furthermore, the approach of a binding of a maximum margin of support would cover all agricultural products.

21. The mere fact of the binding of a maximum margin of support has a restraining effect on the countries offering the binding. Hitherto, provided they refrained from applying any customs duties or charges with equivalent effect other than those included in their tariff and respected the tariff bindings granted in the past, contracting parties were perfectly free to develop their agricultural support measures and to finance exports at a loss. In future if this approach were adopted, countries would renounce part of their freedom and would be able to act autonomously only to the extent that the economic repercussions of action by the public authorities would not result in the bound support margin being exceeded. In the past however, the very close link between economic and social aspects in the agricultural sector led governments to increase support measures in order to respond somehow to the demands of their agricultural producers.

22. For the countries benefiting from the binding, its value will depend first of all on whether the binding country has blocked its maximum support at an amount which represents an equitable compromise between the understandable interests of the countries concerned.

25. Furthermore, for these countries, the binding of a maximum support margin would have the added advantage of clearly 'fining conditions of access to import markets. In recent years, the partitioning of markets has been strengthened and import conditions have been made more difficult because of the multiplication of internal measures and the resulting instability. Henceforth, exporters would be able to draw up their export policy and even their production policy without running the risk of seeing their efforts jeopardized by sudden changes in the support measures granted by importing countries.

 2^{h} . More than any other approach, the method of negotiation proposed by the European Economic Community thus places reciprocity of concessions in the forefront of attention.

25. So far as it is concerned, the European Economic Community is aware that by binding its own amount of support it would limit considerably for the future the existing scope of its levy machanism, and consequently would slow up the natural tendency to expansion of its production, due in particular to the rapid technological development of an agricultural system which has frequently been acknowledged to be backward.

26. The margin of support overcomes isolation of markets and can in this regard contribute to the development of world trade in agricultural products

27. The support margin is an indicator of the production conditions for the product concerned in the beneficiary country. It fairly faithfully reflects agricultural structures and gives an indication on the internal and external levels of the importance attached to the domestic producer to whom it affords protection. Ey means of its variations, the support margin can be an instrument of economic policy: any increase in the margin which is not connected with a variation in prices on the world market means a strengthening

of the domestic producer's position; any lowering on the other hand, demonstrates the desire of the public authorities to orientate prices towards those on the world market and to discourage productions which might be considered marginal.

28. The support margin constitutes a direct and flexible link between the various national markets and the world market. Henceforth, isolation is impossible and the world market no longer appears as an abstract and arbitrary concept, since the various national markets are attached to it by their margin of support.

29. The support margin also serves to cushion the effects of fluctuations which may occur on the world market and is a stabilizing instrument: adjustments in it, the details of which will be determined at a later stage, can thus offset a sharp drop in prices in international trade, or reflect at regular intervals a general improvement in productivity due to a technical advance which would bring about an appreciable reduction in production costs.

30. Lastly, the margin of support is not determined on an invariable basis. The fact of being bound does not preclude its periodic revision. On the contrary, the European Economic Community considers that agricultural policies and commercial policies, so far as they concern agricultural products, should be reviewed and compared at regular intervals, which would have to be determined, so that essential adjustments may be made.

II. The general rules for negotiations on agricultural products should be as flexible as possible and promote continuing co-operation between the contracting parties

31. The European Economic Community hopes that the negotiations will cover all agricultural products which, whether directly or indirectly, play a rôle in international trade. From the linear method, the Community would retain the obligation to include all agricultural products in the negotiations. It is not possible, however, to negotiate on all products in the same way and the negotiations would have to combine the various possibilities so as to take account of the exact nature of the products concerned, their importance in international trade, the similarity or, on the contrary, the extreme diversity of agricultural and commercial policies. This would no doubt result in distinctions being made according to sectors of agricultural production and groups of products in the various contracting parties.

52. The European Economic Community attaches a great deal of importance to the unity of the agricultural sector and the definition of the agricultural sector

33. It is indeed essential to take account of the close links existing between the products of agriculture and those of the agricultural foodstuff industries so as to avoid distortions in competitive conditions which might adversely affect production and trade in processed products.

That is why the Community is desirous that all products of the agricultural sector should come within the competence of the Committee on Agriculture, even if in certain specific cases, the Committee had to consult the specialized Sub-Committees established by the Trade Negotiations Committee. All agricultural products would consequently be subject to the same method of negotiation and the Community wishes to propose two possible concepts of the agricultural sector to the other contracting parties: a minimum concept which in its view cannot be further compressed, and a broader concept.

34. The minimum concept might comprise, first of all, the first twenty-four chapters of the Common Customs Tariff, i.e. the first twenty-four chapters of the Brussels Nomenclature; then, a limited number of other products whose manufacture is largely dependent on agricultural raw materials on which agreement could easily be reached for their inclusion in the agricultural sector;

35. As for the broader concept, it might comprise other sectors which may be of interest to certain contracting parties. The position of the EEC will be very flexible in this regard.

36. The determination of the margin of support requires some clarification for a better understanding of the Community's approach

37. The margin of support is the fundamental element which should be the subject of negotiation under the negotiating plan, and the European Economic Community understands full well that objections relating to practical possibilities of determining the amount of support may be presented by certain contracting parties. It would therefore be appropriate to define as soon as possible a simple yet precise common method, which might also be supplemented later to take account of the interests of various contracting parties.

38. Contracting parties themselves will have to determine the margin of support which they grant to their various production sectors. The method proposed must therefore be one which can be applied in the same manner by all contracting parties, who will have to be able to justify the results arrived at. If necessary, a procedure could be established for arbitration on any queries concerning the results submitted.

39. It will probably be necessary to establish institutional mechanisms to specify the common method for determining the margin of support.

40. According to the definition established in the negotiating plan, the margin of support is the difference between a reference price and the remuneration obtained by the producer in the country concerned; this reference price is, of course, an essential element of the comparison.

41. According to cases, the reference price could be either a price established on the basis of the average of offering prices on the world market or franco frontier prices, during a reference period; or a price negotiated between the contracting parties concerned in the event that the recorded prices do not seem satisfactory.

42. The remuneration obtained by the producer on the internal market is the annual average price received at the farm, for all the qualities sold as a whole, with the possible addition of any <u>direct</u> subsidies granted on the product concerned.

What is interesting is to see what result is obtained by the producer and what interest he has or has not in continuing his production lines.

43. It will be necessary to specify, between contracting parties, how the remuneration of the producer is made up: certain essential adjustments will have to be envisaged.

44. The binding of a maximum support does not imply harmonization of support margins as between the various contracting parties. On the contrary it is normal that margins of support should differ from one country to another, since they merely reflect the different agricultural and social structures of the countries concerned.

45. A very clear distinction must be drawn between the margin of support and the instruments of support:

According to the definition given, the margin of support results from a mere photograph, in the framework of a reference period selected for the purposes

of the negotiations, of the difference between the reference price and the remuneration of the producer in his own market. The approach adopted by the Community in the negotiating plan does not take as a basis the number and nature of the instruments applied at the frontier or within the territory in order to assist agriculture. It is therefore not a matter of constructing the support margin piece by piece on the basis of the various instruments of support, for one cannot add together instruments of different kinds, but of bringing out the global incidence on the remuneration of producers of the application of these various instruments.

46. Thus, the negotiating plan covers all agricultural products, whatever the nature of the instruments of agricultural or commercial policy applied to them.

47. The contracting parties whether importing or exporting countries, undertake not to exceed the ceiling of support resulting from the negotiation, but each contracting party remains free, within the limits of the margin of support, to select the instruments used. This proposal is designed to conciliate the rigidity of the obligation with flexibility in its implementation, taking account of the very different situations prevailing for the various contracting parties.

48. The validity of obligations might be limited to three years. At the end of that period, the agricultural and commercial policies followed by the contracting parties would be reviewed and compared 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 negotiating plan proposed by the Community would therefore tend to institute continuous co-operation between the contracting parties.

49. In providing for the review and comparison of policies at three-yearly intervals and for adjustments recognized as being necessary, the negotiating plan introduces sufficient flexibility and possibilities to preclude any modifications to obligations in the course of a period as short as three years. This rule is, however, subject to two important reservations:

50. The bound margin of support may exceptionally be corrected whenever, in the course of the three-year period, a modification occurs in the exchange rate ratios between two contracting parties with an interest in the same product; in such a case it would merely be necessary to register the changes in the official parity of the currencies concerned.

51. The bound margin of support can be adjusted and increased whenever, in the course of the three-year period, prices on the world market, or franco-frontier offering prices, fall below the reference price; in this case, the corresponding increase in protection at the frontier is not considered as exceeding the amount of support. So that the reference price accepted by the contracting parties can act as a price stabilizer in international trade, it is indeed appropriate to discourage offers at a level below the reference price.

52. It is necessary, however, to avoid excessive rigidity in defining the reference price and to allow the market to play its part as far as possible in price formation. Furthermore, it seems desirable not to place the bound support margin continually in question, and consequently it would be appropriate not to take account of minor variations in offering prices in relation to the reference price. Consequently, a price range should be determined for the reference price, its upper and lower levels being fixed in relation to considerations peculiar to each production sector or each group of products.

53. If in response to a given situation a contracting party is obliged to exceed the bound ceiling of support, in breach of its obligations, it has the possibility of taking the measures which it considers inevitable.

However, it must accept a procedure relating to the compensation to be granted, particularly in the event that the exceeding of the support margin has resulted in increased supplies on the world market.

54. The procedure, for compensation, as well as its nature and the modalities for granting it, would be established during the negotiations. It would be necessary to define compensation to be granted for the nature and the rôle of the support margin in production and international trade in agricultural products.

55. The negotiating plan proposed by the Commission applies to developing countries as well as to the other contracting parties. So far as they are concerned, however, account should be taken of certain special factors. In particular, production must be allowed to rise in developing countries where internal demand for agricultural products increases rapidly as a result of population increase and of the industrialization trend which causes a rapid development of the population and of the internal market.

56. The developing countries would encounter great difficulties if they renounced operational freedom which is essential to their economic growth, and certain adaptations of the principle of reciprocity of concessions can be envisaged for them, in the form of either relaxations or waivers.

III. The resolution of the GATT ministerial meeting clearly specified that the rules adopted for negotiations on agricultural products as a whole should be supplemented for certain products and lead to world arrangements

57. The Community considers that world arrangements should be drawn up with respect to products which play an important rôle in international trade and for which it seems possible either forthwith to acknowledge the existence of permanent imbalance between supply and demand in those products, or to foresee such imbalance in the short term.

58. The "world commodity arrangement" should, however, be different from the international agreements concluded in the past which, on account of their limited number as well as the methods used, being unduly limited to the trade aspects, would not suffice to settle current problems. Nor can it be envisaged as a mere arrangement on conditions of access to a few privileged markets. The world arrangement must cover, as in the case of all agricultural products, to internal support measures and other measures for organization of markets, both in the importing and the exporting countries, but must in addition constitute a superstructure in relation to the general rules of negotiation for agricultural products.

59. The world commodity arrangement is essentially aimed at promoting the broadest possible multilateral co-operation with a view to achieving:

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- equilibrium between production and demand in the long term as well as the limitation of short-term fluctuations, in general by means of expanding existing demand and broadening the international market and, to the extent necessary, by means of restricting supply or even production;

- stabilization of world market prices at an equitable and remunerative level.

60. In addition the world arrangement should take account of the food needs of the developing countries.

61. Arrangements of this kind could be concluded for the following products: wheat and coarse grains; meat of bovine animals; certain dairy products e.g. butter; sugar; and perhaps oilseeds.

This list is not restrictive.

62. Contracting parties which participate substantially in production and international trade in a given product would have to accede to the world arrangement, so that it would cover at least a certain predetermined percentage of trade in the product in question. In the past, it has happened all too frequently that contracting parties which could have played an important rôle have not acceded to an agreement, thus devoiding it of all practical scope.

63. The world arrangements would, however, enjoy a certain autonomy so as to permit, <u>inter alia</u>, the subsequent accession of countries which are members of the United Nations and its specialized agencies but are not Members of GATT.

64. In world arrangements, the reference price becomes an equilibrium price in international trade and at the same time a target price in the long term; and in most cases, it will be a negotiated price.

65. The world arrangement envisages the stabilization of prices at an equitable and remunerative level which would be at the same time 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.

66. The notion of an equitable and remunerative price is not a novel one in GATT, but it would be useful to try to clarify its purport in the course of negotiations.

The Community wishes merely to draw the attention of the contracting parties to the interest which lies in determining a real price that would be respected in international transactions and would put an end to discussions on the artificial character of prices on the world market.

67. Certain supplementary obligations can be envisaged to encourage a dynamic balance between world supply and demand in the product considered.

68. World arrangements should contain provisions for taking up existing surpluses and should include the obligation, for producing countries, to take steps in order to prevent the accumulation of new surpluses.

69. Such obligations could relate:

- either to a result, the contracting party undertaking to pursue an appropriate policy;
- or to one or more of the instruments of agricultural or commercial policy, each contracting party remaining free to select the instruments on which it gives undertakings;
- or simultaneously to a result and one or more instruments.

70. It is not possible to establish a model which could be used as a basis for all world arrangements. On the contrary, if such arrangements are to be effective the greatest possible flexibility is essential, so that the arrangement can be well suited as possible to the particular situation of the product concerned.

71. Aid to developing countries can be facilitated within the framework of world arrangements

The simultaneous existence, which has so often been comdemned, of current surpluses and of the needs of under-nourished countries brings one to see food aid as a necessity. Food aid, which is at present dispensed in varying manners according to the countries concerned, should be stepped up as much as possible and should be diversified in order to meet the exact nature of demand from the under-nourished countries.

In this sense, it can be a positive element in the drawing up and proper operation of world arrangements. In a period when production is rising rapidly, when the quantities offered tend to exceed solvent demand, any expansion in global demand constitutes an additional asset for defining the conditions for a new balance between production and outlets. Accordingly, when envisaging the limitation of existing production or the taking up of surpluses of a specific product, one must therefore take into consideration the needs of the undernourished countries and envisage the possibility of using that product, either directly or after processing, to meet their requirements.

72. It should not, however, be thought that food aid is a cure-all and that in all cases it offers the ideal solution to the problems arising from the continual rise in production. For example, it is not always certain that the agricultural products available suit to the requirements of the under-nourished countries. The latter cannot be considered as mere overflow recipients for surplus production, and food aid should not have the effect of inhibiting the development of agriculture in the beneficiary countries.

73. The implementation of provisions of this kind will give rise to a certain number of problems, in particular problems of a financial nature on which the CONTRACTING PARTIES would have to take decisions at an appropriate stage.

CONCLUSION

All the provisions of the negotiating plan of the European Economic Community tend towards the institution of a continuous dialogue between the contracting parties which would permit a conjunction of efforts to harmonize production and trade flows, instead of being limited to discussions which are often sterile, the parties concerned falling back on positions considered unassailable while in fact retaining their freedom of action.

After having examined a whole series of possible formulae, the Community has arrived at the conclusion that none of them offers an overall solution so satisfactory and so complete as the negotiating plan presented above. It is necessary, once and for all, to discuss all the political aspects are really set out on the path of co-ordination.

The European Economic Community is fully aware that the method proposed may sometimes give rise to problems in its practical application, but it is convinced that, with the co-operation of all the contracting parties, any such difficulties can be overcome. If all the contracting parties, in their desire to overcome the difficulties, apply the same imaginative spirit as when drawing up their agricultural policies, it would really be possible to envisage the future with optimism.