

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Agriculture

SUMMARY OF POINTS MADE IN THE DISCUSSION 18-20 FEBRUARY 1964

Note by the Secretariat

INTRODUCTION

1. At its first meeting in November 1963, the Committee had begun its discussion with the question of how to proceed with its work. However, at that time the Committee was unable to reach agreement on the question of procedure since delegations held the view that this involved major questions of principle which could not be agreed at that stage. A report on this meeting was made by the Chairman to the Trade Negotiations Committee (TN.64/SR.3). The second meeting of the Committee was held from 18-20 February 1964.

PROPOSAL OF THE EUROPEAN ECONOMIC COMMUNITY

2. The representative of the European Economic Community informed the Committee that he was now in a position to present to the Committee a negotiating plan drawn up by the EEC. This plan was not an offer in the sense of conventional tariff negotiations but its objective was to provide an overall solution to the problems relating to production and international trade in the agricultural sector. In the view of the EEC, the basic elements for the agricultural part of the Kennedy round had to be found in the Resolution adopted at the GATT ministerial meeting in May 1963 which specified that it was 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. The Ministerial Resolution had not, however, replied to the fundamental question of how to reconcile that expansion of international trade 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. The EEC was of the view that the tariff approach was inadequate for negotiations on agricultural products; indeed, there was no country where the government was unconcerned with conditions for the production and marketing of agricultural products, and the generalization of such interventions was manifest. After having carefully

considered all the relevant data, the EEC had reached the conclusion that the fundamental element, the factor common to all the contracting parties, was the support granted to agriculture. One should therefore take the margin of support as the starting point for defining a minimum of flexible rules, the observance of which could really ensure uniform relations between the contracting parties in the agricultural sector. The EEC, therefore, proposed that the negotiations should be on the margin of support, with the object of binding a maximum support margin on a given agricultural product.

3. The representative of the EEC went on to say that if that approach were adopted, countries would renounce part of their freedom and would be able to develop their agricultural support measures autonomously only if the economic repercussions of action by the public authorities did 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 had led governments constantly to increase support measures in order to respond somehow to the demands of their agricultural producers. On the other hand, for the countries benefiting from the binding of a maximum support margin, it would have the great advantage of clearly defining conditions of access to import markets; in recent years, the partitioning of markets had been strengthened and import conditions had 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 unexpected changes in the support measures granted by importing countries. The EEC considered that it would thus be possible to overcome isolation of markets, and that would contribute to the development of world trade in agricultural products.

4. The representative of the EEC explained in detail the method of negotiation as put forward by the Community. The method should be elaborated by general rules which should be as flexible as possible and should promote continuing co-operation between the contracting parties. Furthermore, supplementary rules would be necessary for certain products for which world wide arrangements should be drawn up. The full text of the EEC statement has been reproduced in document TN.64/AGR/1.

5. Members of the Committee, while declaring themselves disposed to examine the EEC proposals, considered that further study was necessary before the EEC negotiating plan could be fully appreciated. The first meeting was therefore devoted to a first more thorough examination of the principles underlying the plan.

POINTS MADE IN THE DISCUSSION

6. Some members of the Committee expressed the view that the EEC's concept in principle aimed at a consolidation (binding) of the status quo and that a negotiating downwards of the existing trade barriers was practically excluded. They inquired how this could be brought in line with the objective of the trade negotiations of a significant development and expansion of world trade in agricultural products. Some members recognized that this latter point, although of overriding importance to exporting countries, was not the only objective of the trade negotiations in the agricultural sector, but they stressed that the aim should not be to seek a solution for other agricultural problems without expansion of agricultural trade. The representative of the EEC replied that it was unpredictable at this stage what the final result of the negotiations would be. The Community suggested a limitation of the validity of the obligations to a relatively short period of three years. At the end of that period the agricultural and commercial policies of the contracting parties would be reviewed and compared in order to make any necessary adjustments in the obligations taken on. The Community was of the view that the possibility of influencing the policies of the other contracting parties through the negotiation of certain bindings and through the regular review of agricultural policies, constituted the only real means of expanding agricultural trade as a whole. Exporting countries would probably benefit more from an exact knowledge of the policies of the importing countries, to be maintained in the next few years, than from import commitments. Import commitments would not prevent production in the importing countries from increasing and producing countries, while complying with their import commitments, could be forced to dispose of their surpluses on the residual world markets in competition with traditional exporting countries. Under the EEC system, however, any undesirable development in production in an individual country might be discussed in the periodical review of obligations, and a lowering in the support margin, if necessary, could then be negotiated.

7. Members of the Committee noted that under the EEC concept the margin of support of a given agricultural product would have to be bound. The margin of support was to be equal to the difference between a reference price and the remuneration actually obtained by the producer in the country concerned. They also noted that if world market prices fell below the reference price, the corresponding increase in protection at the frontier would not be considered as exceeding the consolidated support margin. These members concluded that in these circumstances the margin of support was not bound but in fact the level of support was being consolidated. They inquired whether a direct binding of the level of support, preferably a lower level, would not be more

practical and effective. The representative of the EEC explained that under the Community scheme two things would in principle be consolidated: the reference price and the support margin. The reference price, which was to be negotiated and would, in principle, remain unchanged for a three-year period, played an essential rôle in the Community concept; this rôle went further than the mere fixing of the support margin. Furthermore, the EEC was of the opinion that a binding of the level of support would involve many more practical difficulties than a binding of the margin. This could be illustrated by difficulties arising from changes in the nominal value of the currency; in such cases it would be easier to adjust the protection at the frontier than the internal support price. He further explained that if world prices would increase beyond the reference price, governments would, in principle, be free, but not obliged to increase the level of support while maintaining the margin above the world price at the consolidated amount. Part of the EEC's concept, however, was to promote consultation procedures between governments so that increases in the level of support following a rise in world prices might be brought under such procedures.

8. Under the Community proposal, it was understood, the margin of support would be based on the returns effectively received by the producers for a given commodity, including various subsidies relating to the product concerned. Since, however, in many countries certain subsidies or support measures did not relate to a specific commodity but were applied in a more general way, the question was raised whether and how the effect of such measures would be allocated to the product concerned. Would the total remuneration be taken into account including subsidies of a general kind, social payments, structural subsidies, etc.? Furthermore, would, in determining the margin of support, measures of restraining production or limitation of subsidies to a certain volume of production be taken into account? The representative of the EEC replied that the Community in its approach had considered it wise to limit the margin of support to include only direct subsidies since these subsidies had an immediate effect on production. It was considered impracticable to include subsidies of a general character; neither would it seem possible to take account of measures limiting support to a certain volume of production. He repeated that one of the main elements in the Community's concept was the possibility of an eventual regular review and comparison of the agricultural policies of the contracting parties. At such review, any effect on production and trade of certain policy measures, which were not accounted for in the consolidated support margin, could be considered. Nevertheless, an endeavour might be made to find a solution in respect of measures aiming specifically at restraining production of a given commodity.

9. Members of the Committee recognized the importance of the level of the reference price. They noted that the reference price had a dual function. First to determine the amount of support to be consolidated and to allow it to be raised if world prices fell below the reference price, and secondly the reference price might have a stabilizing effect since there might be an incentive for exporters to maintain prices at about the level of the reference price. Members of the Committee noted that the higher the reference price was set the greater the number of countries who would technically be found to have either a zero support margin or a negative one although in fact such countries did support their agricultural producers. It was evident that the height of the reference price would be of considerable importance, in view of the financial implications, for countries greatly relying on imports of agricultural products. The representative of the Community explained that agreement on the reference prices would have to be reached product by product during the negotiations. It was impossible at this stage to make any predictions about the height of the reference prices as compared to present world prices. It would be useful, in his view, to make an attempt to reach agreement in advance, on certain criteria, but even such agreement would not avoid the necessity of having some kind of negotiations. Agreement would also have to be reached amongst the contracting parties about the reference prices for products for which no representative world prices were available. In the latter case the export price plus the amount of any subsidies might give an indication of the level of the reference price.

10. Members of the Committee noted that in the EEC system, the binding of the support margin could be corrected whenever in the course of the three-year period the nominal value of the currency of a contracting party was changed. They enquired whether there was also a possibility of revision in case of a gradual change in the value of the currency. The representative of the Community replied that the undertakings regarding the margin of support were to be reviewed every three years. In the course of this period there would be many developments which required adjustment such as a gradual change in the currency, increases in production costs, an increase in productivity etc. Such developments had effects not necessarily in the same direction. It was, therefore, in his view, not necessary to provide for specific rules for adjustment of the margin of support during this relatively short period except in the case mentioned of official changes in the nominal value of the currency.

11. Members of the Committee noted that in the EEC concept, within the limits of the margin of support, governments would remain free in the choice of their techniques of agricultural or commercial policy. They observed that the system might probably function if any difference between the world price and the reference price was made up by an additional charge on imports and other import barriers were to disappear. They felt, however, that if for example, quantitative import restrictions or import prohibitions were not to be discontinued,

any obligations undertaken could easily be nullified. The representative of the EEC stated that the existence of import restrictions, which were only one of the means of support, was reflected in the domestic producer price of the importing country. Therefore, in determining the amount of support these restrictions would be fully accounted for and even the question whether they were legitimate in terms of the General Agreement need not be relevant in this connexion. In this respect the EEC scheme might function properly while maintaining complete freedom for governments in the choice of their policy measures. However, in the Community's concept the support margin constituted the link between the internal market and the world market and if this link could be broken up by certain measures at the frontier the good functioning of the system would suffer. It was evident that appropriate measures to avoid possibilities of nullification needed careful further reflection.

12. Members of the Committee noted that in respect of a number of agricultural products, where no price guarantee existed or was considered necessary, imports were subject to a customs duty only. In these cases, prices on the internal market moved in accordance with price fluctuations on the world market. They questioned whether it was necessary to impose here a certain artificial rigidity which so far did not exist. Furthermore, in a number of such cases the customs duty was bound under the GATT. Since in the proposal it would be permissible to increase the margin of support when world prices fell below the reference price, the question was raised whether this did not constitute a withdrawal of a tariff concession for which compensation should be paid. The representative of the Community replied that it was considered essential to deal with the agricultural sector as a whole, so as to avoid distortions in competitive conditions between one product and another. In cases where only a customs duty existed for the protection of domestic production, it would seem that the support margin was equal to the incidence of the duty. The question of how to deal with duties bound under the GATT was a matter for consideration at the negotiations.

13. Various questions related to the position of exporting countries in the EEC concept. In replying, the representative of the Community stated that:

- (i) If a country normally could produce at a price lower than the reference price, it would in his view not be required to bind a negative margin of support, but a binding of the margin at zero would seem to suffice.
- (ii) If an exporting country did support its domestic producers at a level higher than the reference price, then the difference between the price actually obtained by the producer and the reference price would in the Community concept constitute the margin to be consolidated. Any measures necessary in this case to prevent a disruption of the exporting country's support system through imports at the reference price into the exporting country concerned would have to be taken by that country itself.

- (iii) Also the situation of countries which were occasional exporters did not, in his view, require special rules. The difference between the producer price and the reference price constituted the bound margin. In the case of occasional exports it would seem that support could be given within the limit of the bound margin, if necessary increased by the amount that world price had fallen below the reference price.
- (iv) The question of systems of stabilization funds employed by exporting countries had not been thoroughly examined by the Community. A similar problem was perhaps the question of financing storage and gradual sale of stocks. It would probably be preferable not to include the effects of such systems in the margin of support.

14. In reply to a question whether the Community aimed at a balance between obligations undertaken by importers and exporters on a product-by-product basis, the representative of the EEC stated that the objective was not to seek a balance in the case of each individual product. A relative balance in the agricultural sector as a whole did seem desirable but the balance of advantage would be assessed by each contracting party on the results finally obtained from the negotiations as a whole. Questions whether such balance could also be sought outside the agricultural sector were not for discussion in the Committee.

15. It was noted that in the EEC concept there might be considerable difference in the conditions applicable to products for which world-wide arrangements would have to be negotiated and products for which this was not the case. This might have a considerable effect on countries greatly relying on products falling in one or the other category. The representative of the Community explained that the approach of reference prices and support margins was applicable also to products for which world-wide arrangements might be concluded, but under world-wide arrangements supplementary rules would have to be established. It was impossible to estimate at this stage what the effect of such supplementary rules would be.

16. In reply to a question whether the Community interpreted "trade" in the Ministerial Resolution as covering both commercial and "non-commercial" trade, the representative of the EEC said that the problem of "non-commercial" trade in the Community proposal was to be dealt with in the context of world commodity arrangements for certain agricultural products.

17. In reply to a question how the Community would negotiate in respect of products for which a common producer price was not yet determined, the representative of the EEC stated that in any case the Community would negotiate on the basis of a single margin of support. If price discussions within the EEC would not have been terminated, the Community would no doubt be able to negotiate on the basis of a maximum margin.

OTHER MATTERS

18. At this stage of its work the Committee limited itself to considering the method and rules for negotiations proposed by the EEC. It was recalled that other proposals were also on the table, which aimed at a substantial reduction in tariffs and other trade barriers affecting trade in agricultural products.

19. The Chairman pointed out that the Committee should be prepared to meet for a sufficient length of time early in 1964 to permit substantial progress to be made. He also recalled that the Group on Cereals had agreed to commence a negotiating meeting which would be more or less continuous, with the understanding that there would need to be breaks so that governments could consider progress and formulate the necessary instructions to their delegations. The Committee agreed that its next meeting would commence on 23 March 1964. It was also decided that the Group on Cereals should commence its negotiations on 17 March 1964. A short meeting of the Group on Meat should be held as from 1 April 1964 and a date for the Pilot Group on Dairy Products would be determined by the Chairman in consultation with the members of the Pilot Group.