

GENERAL AGREEMENT ON TARIFFS AND TRADE

GATT
DIVISION RESTRICTED
COPIES 77
NE PAS
Special Distribution
DECOUPER
JURISTIQUE
TN. 64/AGR/4
27 June 1964

Committee on Agriculture

Original: English

STATEMENT OF THE UNITED STATES DELEGATION ON ITS POSITION CONCERNING THE PROPOSAL OF THE EUROPEAN ECONOMIC COMMUNITY FOR AGRICULTURAL NEGOTIATIONS IN THE KENNEDY ROUND

At the 4-6 May meetings of the Trade Negotiations Committee, Governor Herter advised the Ministers that the United States found unacceptable the proposal advanced by the European Economic Community for agricultural negotiations in the Kennedy Round and indicated that the United States Government would later submit a paper elaborating its position on the Community's proposal. Such a statement has now been prepared and is distributed herewith.

A. Introduction

The EEC has made a proposal to form the basis of the agricultural negotiations, the fundamental element of which is the binding of the margin of support above a fixed reference price. The United States does not find the Community's proposal acceptable. The opposition of the United States to this approach is not based on the fact that the Community proposes that the negotiations deal with forms of protection or support other than fixed tariffs. The United States itself has proposed that where non-tariff devices and domestic agricultural policies affect trade, these can and should be dealt with in the negotiations. The United States cannot accept the Community's proposal as a basis for the negotiations because it not only fails to provide for reductions in existing trade barriers, but it would introduce new restrictions and increase protection. It would thus not achieve the objective established by the GATT Ministers in May 1963 of a significant liberalization of world trade and the creation of acceptable conditions of access to world markets for agricultural products. Instead of providing for the further development of trade in agricultural products based on comparative advantage or changes in relative efficiency, it would eliminate price competition as a factor in future trade.

B. Specific objections to the Community's proposal

1. The Community's proposal would establish for almost all agricultural products a "montant de soutien" representing the difference between the unit price received by producers and a fixed "reference price". Bindings of the "montant de soutien" would replace existing bindings of duty-free status or fixed tariffs. Importing countries would be free to charge a levy equal to this amount plus an additional levy sufficient to offset any difference between the reference price and the price at which imports are offered. The effect would be to extend the variable levy system to almost all agricultural products moving in world trade, thus insulating domestic agricultural production of importing countries almost entirely from foreign competition.

2. The Community's proposal does not provide for negotiating reductions in protection and would not result in the reduction of trade barriers, which is the only way in which the objective of the ministerial decision can be met. Thus, the Community's plan would make no contribution in the major area of interest which brings participating countries together in trade negotiations - the reduction of existing levels of protection.

3. While the Community's proposal has been described as a mechanism for freezing the margin of support extended to producers, the application of the Community's proposal would not have that result. Discussions to date with Community spokesmen show that there are at least three escape clauses. First, in case of changes in exchange rate, the margin of support could be increased. Second, if world prices fell below the reference price, the margin of support would also be increased. Third, when world prices rise above reference prices, the importing country would have the right to shift the base for the margin of support from the reference price to the actual world price. It is also difficult to see how the binding of a "margin of support" based on a reference price could be adjusted to accommodate for such factors as fluctuations in ocean freight rates and other distribution costs. If the reference prices corresponded to minimum import or threshold prices in importing countries, then all the incidence of variations in distribution costs would fall upon producers in exporting countries.

4. Although it has been stated that the binding of the "montant de soutien" would encompass all support received by producers, it would not include indirect aids to agriculture. Thus, a country, once having bound its margin of support, would be free to give added protection to its home producers of the product by initiating new programmes, or enlarging old programmes to give indirect assistance to such producers. This could be accomplished, for example, through the extension of financial assistance for structural improvements or through social payments.

5. It would be possible without exceeding the 'montant de soutien' or affecting producer returns to substitute for an existing measure another measure which would have a more restrictive effect on trade. Contracting parties would be free to replace instruments having a relatively limited impact on trade by instruments of a much more trade restrictive nature. They could, for example, while leaving unchanged the level of producer returns, replace a system of deficiency payments to producers with a variable import levy system, even though previously import duties had been bound in the importing country. These levies, by raising market prices, would reduce consumption, and outside producers, being forced into a residual supplier position, would suffer the full impact of that reduction. Taken literally, the Community's proposal would mean that contracting parties could introduce quantitative restrictions where none existed before, even in cases where such restrictions are inconsistent with the rules of the GATT.

6. The Community proposal would introduce new restrictions on international trade for those items on which import duties are now bound under the GATT. A very important part of world trade in agricultural products now moves under tariffs bound in the GATT. However, the Community proposal is intended to apply to all products, except those in which international trade is negligible and where technical difficulties relating to the implementation of the method prove insurmountable. Items now protected by fixed tariffs only would have reference prices determined for them, and whenever world prices fell below the reference price, a supplementary levy would be added. Thus, the Community would eliminate existing tariff bindings.

The United States does not agree, therefore, with the Community's position that where a bound custom duty is the only instrument of support, the binding of a margin of support corresponding to the incidence of a customs duty on a reference price would not affect the previously granted concession.

7. The proposed system is so complicated and all-inclusive that reference prices would have to be established and effective internal prices identified, not only for raw materials but also for thousands of processed products as well. Experience in GATT Committee II and elsewhere shows that this is a hopeless task. The United States has already experienced the difficulties involved in negotiating minimum import or reference prices. The task involved in doing this for virtually all agricultural products would be so formidable that the negotiating countries could waste years on it and still not come to grips with the major task before them, which is the reduction of trade barriers.

8. The Community proposes that reference prices and margin of support bindings be reconsidered every three years. However, the nature and objectives of these triennial reviews has not been specified. For example, we have been unable to ascertain whether the purpose of consultations would be to reduce protection where improvements in efficiency have occurred or imports have declined, to increase protection where it is deemed inadequate, or to redress the balance of concessions where trade has been impaired. Whereas Article XXVIII provides orderly procedures under which contracting parties withdraw concessions and make compensation, it is questionable whether such procedures could be adapted to the situation in which a country wishes to unbind a previously agreed margin of support. Further, it is difficult to contemplate what procedures might be adopted to restore the balance of concessions should it develop that the operation of the system of margin of support bindings resulted in a reduction of international trade.