

GENERAL AGREEMENT ON TARIFFS AND TRADE

GATT
RESTRICTED
DIVISION LINGUISTIQUE
TN.64/AGR/5
3 August 1964
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Original: French

CONTRIBUTION OF THE EUROPEAN ECONOMIC COMMUNITY RELATING TO THE NEGOTIATION ON AGRICULTURAL PRODUCTS IN THE GATT TRADE NEGOTIATIONS

The Executive Secretary of GATT has received the following communication, dated 22 July, from the European Economic Community. This communication is submitted to the members of the Trade Negotiations Committee for their information.

INTRODUCTION

The success of the trade negotiations in the agricultural sector requires at the outset thorough reflection and a proper appreciation of the common interests involved and the objectives to be attained at the end of the negotiations. The present statement by the European Economic Community is designed to answer the objections put forward by the United States delegation to the negotiating plan proposed by the Community (document TN.64/AGR/4 of 17 June 1964) and at the same time to show the interest which the EEC attaches to these negotiations and clarify once more the fundamental bases of the Community's proposals about which there still seem to be a number of misunderstandings.

So far as the European Economic Community is concerned, being fully aware of its responsibilities in international trade, it would nevertheless like to call to mind:

- the rapid increase in its agricultural imports from third countries in recent years. Often the sharpest expansion has been in purchases from the United States. The Community, which is the largest importer in the world, has increased its agricultural imports by \$2,000 million since 1958 and by \$500 million in 1963 alone;
- the size of the agricultural active population which in 1961 still constituted important percentages of the total active population - 13 per cent in the Federal Republic of Germany, 21 per cent in France and 28 per cent in Italy;

- the share of agriculture, expressed as a percentage of gross domestic product, figures which clearly reflect the discrepancy between the income of agricultural workers and their numbers in relation to the total active population: in the Federal Republic of Germany, agricultural workers received about 6.4 per cent of gross domestic product in 1961, in France 10.1 per cent and in Italy 17.4 per cent;
- the accelerated transformation of agricultural structures in the Community, marked in particular by a very substantial rural exodus which in recent years has reached an average rate of 450,000 departures annually for the Community as a whole.

At the very moment when a common policy is being drawn up between the Six member States in such a difficult sector as agriculture, the European Economic Community is agreeing to participate fully in trade negotiations and has no intention of isolating itself and falling back on its own market. It does, however, want a negotiating method and rules to be applied which would be particularly well suited to the problems of agriculture.

I. Replies of the European Economic Community to the objections made in the statement of the United States delegation (document TN.64/AGR/4 of 17 June 1964)

These replies relate in turn to each of the criticisms made in the statement of the United States delegation.

1. The effect of the EEC proposal would be to generalize the variable levy system and to insulate domestic agricultural production from competition:

The United States Government recognizes in its statement of 17 June that "where non-tariff devices and domestic agricultural policies affect trade, these ... should be dealt with in the negotiations". If the United States Government is willing to admit that consequently all measures which influence production volumes, market prices and producers' income also affect trade, there would appear to be no divergence of views between the United States and the European Economic Community. In basing itself on these data, the "margin of support" method has taken account of the diverse nature of agricultural and commercial policies, and has sought a common factor which could be the subject of negotiations and is independent of the various instruments applied by contracting parties (customs duties, levies, direct aids to agriculture, etc.).

The United States Government objects that the margin of support method "would introduce new restrictions and increase protection". In reality, this criticism only applies to the possibility of adjusting the margin of support to take account of variations in actual offering prices in relation to the reference price. The Community wishes to reaffirm the importance which it attaches to stabilization and to mechanisms for ensuring it. The United Kingdom Government, for its part, also seems to have acknowledged the interest of stabilizing mechanisms

so far as its domestic market is concerned, for within the framework of its new cereals policy, it has asked its suppliers to undertake to observe a minimum import price. The reference price envisaged by the Community is more ambitious to the extent that, being reached by agreement between the various partners in the negotiations, it is intended to be a stabilizing instrument both for the domestic market and at the same time for international exchanges; the Community is thus making a proposal which is consistent with the needs often expressed in various international forums. In order to ensure stabilization, protection at the frontier must be adjusted if actual offering prices fall below the reference price, and the Community can see no better instrument for this than the application of an additional levy. Far from wishing to generalize the levy system, however, the support margin method respects the specific character of national systems and leaves contracting parties free to resort to whatever instruments they may choose, provided the latter are in conformity with the GATT rules.

Furthermore, it is important to emphasize that observance of the reference price by the EEC's trade partners, coupled with the binding of a margin of support by the EEC, would ultimately lead to less fluctuation in the variable levies introduced under the EEC common agricultural policy.

2. The support margin method would not result in the reduction of existing protection.

In the negotiations, the European Economic Community insists that all contracting parties, whether importers or exporters, must as a minimum undertake to bind the margin of support currently in force for their agricultural products. It is not possible, as some would have wished, to reduce this proposal to a mere binding of the status quo, for from the point of view of the European Economic Community the status quo corresponds to the present situation in which, in particular, each contracting party has unlimited autonomy in matters of agricultural policy. The European Economic Community proposes that such autonomy should be reduced in favour of permanent international co-operation. The capital importance of the change will become more evident when each contracting party is called upon to indicate whether it is really ready to accept such co-operation, and the reactions of contracting parties will be all the more important because the EEC considers it essential that undertakings be given regarding all products in the agricultural sector which are of interest for international trade.

So far as the Community is concerned it has already declared that it would negotiate on the basis not of national margins of support, but of Community margins of support. Taking into account the present situation of European agriculture, it is improbable that, generally speaking, the Community would be able to go further than bind the situation resulting from the common agricultural policy. It might, however, be able to envisage binding a different margin of support in certain specified cases. Since the Community's margins of support are not yet known, any categorical judgment as to the value of undertakings given by the EEC would be premature.

The Community wishes to point out that the less linear method proposed by some delegations, under which offers would be made on a product-by-product basis, has always in the past had the effect of considerably limiting the scope of agricultural negotiations, since the various exceptions lists rapidly came to cover most of the agricultural sector.

3. The binding of the margin of support is not sufficiently restraining for producers because the EEC proposes a number of escape clauses:

The Community envisages that the margin of support would first of all be adjusted if actual offering prices fall below the reference price, an additional levy being applied to offset the difference. Such a levy is not designed to increase the amount of the bound support margin. It is essentially one component of a stabilization mechanism which should be acceptable to all contracting parties. The European Economic Community wishes to emphasize that this is not an escape clause giving the right to levy an additional amount, but an obligation for importers and exporters to observe the reference price. Consequently, if the reference price is properly observed by contracting parties no additional amount will be levied.

The proposed adjustment of margins of support to match variations in exchange rates stems from the perfectly legitimate desire for stabilization at the domestic level. To the extent that such adjustment were necessary, it would have no incentive effect on production, being designed solely to maintain the support at its previous level by means of an increase or reduction in the margin of support, depending on the nature of the monetary operation; indeed, it seems difficult to impose sacrifices on producers in the Kennedy Round if it is not possible to guarantee that their concessions will not be magnified immediately after the negotiations by contingent fluctuations or speculative manoeuvres.

Lastly in the event that actual offering prices rise above the reference price, the European Economic Community does not allege that it would automatically take the level of offering prices as the basis for the margin of support. Such a trend in offering prices might possibly correspond to a shortfall in production which would warrant an incentive to production in the form of increased support. In any case the Community has formally stated at Geneva that such an increase could not be made unilaterally and the contracting party concerned would have to adjust the margin of support in consultation with its partners.

On the purely technical plane, the United States delegation has asked how the support margin method could be adjusted to take account of fluctuations in ocean freight rates and distribution costs. First of all, it should be noted that freight and distribution costs already account for a relatively minor part of the c.i.f. price of the products concerned; consequently the incidence of variations over a given period would be still smaller. It might perhaps be possible during the negotiations to provide for a review procedure which would enable the reference price to be adjusted in the event of variations in freight costs having an appreciable incidence.

4. The margin of support is not sufficiently representative for it does not include indirect aids:

Negotiations on the margin of support represent tremendous progress as compared with the traditional method of negotiation which concerned only customs duties, whose influence on agricultural production and trade is far less than that of aids directly linked to the products.

The support margin method must be discussed multilaterally in order to determine its coverage and adapt it to the particular situation of one or other contracting party. In proposing that only direct aids should be included, the European Economic Community's object is to simplify the matter and avoid difficulties connected with the identification of indirect aids and their correct assignment to each agricultural product benefiting by them. Clearly, however, any policy of transforming direct aids into indirect ones in order to evade the obligations of the support margin method would be covered by the review and comparison procedures which form an integral part of the support margin method. It is therefore not permissible for a country to modify its legislation in order to evade the obligation to negotiate on its actual support.

On the other hand it is still less justified to include indirect aids of a social character in the support margin because, far from being able to stimulate production, they can effectively contribute in the transformation of agricultural structures and in particular in the progressive reconversion of part of the agricultural active population.

5. The support margin method leaves it possible in practice to resort to the most protective instruments of support:

Of course, the support margin method would leave contracting parties free to select the instruments of their agricultural and trade policy, the global effect of those instruments being expressed in the margin of support. It would not be admissible, however, for a contracting party to place in question the value of concessions granted by modifying its instruments. Each contracting party would therefore have to notify its partners, at the time of binding its margin of support as on the occasion of any change in those instruments in the course of a given period, as to the nature of the instruments which it applies and their conformity with its commitments.

Furthermore, the support margin method precludes any recourse to measures contrary to the provisions of GATT. If any such measures existed prior to the negotiations, they would have to be eliminated at the latest at the time when undertakings are given regarding the binding of the support margin.

Lastly, the Community wishes to emphasize that the elimination of quantitative restrictions under its common agricultural policy is in itself a positive contribution towards improving the conditions of international trade.

6. The EEC's negotiating plan would eliminate existing tariff bindings:

The Community has already affirmed that the support margin method was certainly not intended to enable it to go back on tariff bindings already granted. If any unbinding proved necessary, it would be for reasons totally unrelated to the support margin method and the Community would comply with the compensation procedures provided for in the General Agreement.

The European Economic Community maintains that the binding of a margin of support strengthens earlier concessions to the extent that they imply commitments on elements of agricultural or trade policy which are not covered by tariff bindings: indeed it has frequently happened in the past that tariff concessions have been made meaningless when the beneficiary country came up against quantitative restrictions and other harmful measures introduced after the negotiations. The EEC has specified (see document TN.64/23/Rev.1 of 4 May 1964) that the existence of bound customs duties might possibly result in some flexibility in the support margin method and that if the bound customs duty was the only instrument of support, it would be possible, in order not to affect the previously granted concession to bind a margin of support corresponding to the incidence of the bound customs duty on the reference price.

7. The support margin method is too complicated:

Bearing in mind the work of Committee II of GATT, the United States cannot assert that the method is difficult to implement.

The Study Group set up by Committee II to measure agricultural protection had certain scientific pretensions, while the support margin method attempts to find a factor common to all contracting parties which could be a valid subject for negotiation and commitments. In any case, the fact that the Study Group has been allowed to lapse into inactivity is attributable much less to the technical difficulties encountered than to the reticence shown by some contracting parties.

Furthermore the Community has stated that there could be some flexibility and adjustment of the support margin method in order to match as closely as possible the actual economic situation of the products concerned, such flexibility and adjustments to be determined by the partners as and when actual cases arise. The possibility of waivers has not been excluded, in cases which, admittedly, would be very limited.

A pragmatic attitude implies that one does not reject a priori, a negotiating method whose positive aspects one did not really want to examine. From documents drawn up by the GATT secretariat for the Committee on Agriculture, and in particular document Spec(64)58 of 1 April 1964, it appears that 53 per cent of agricultural imports fall within the scope of non-tariff measures; that figure is reached by adding together trade volumes, without distinguishing between the products and countries concerned; it is hard to see how one could negotiate on products subject to such a variety of systems other than by the support margin method.

8. The nature and objectives of the triennial reviews have not been specified:

The triennial reviews are envisaged within the framework of permanent co-operation to seek the most suitable conditions for expansion of trade in agricultural products consistent with the legitimate interests of national producers. The reviews imply that reference prices and margins of support would be adjusted to new conditions of production and trade at the end of the three-year period.

In due course, procedures for determining the nature and extent of adjustments will be defined, together with the relevant compensatory measures.

In conclusion, the European Economic Community does not consider that the criticisms made in the United States' statement on its negotiating plan are pertinent.

II. The agricultural negotiation in the Kennedy Round must change the concept of traditional negotiations which are unsuited to agricultural products

The GATT ministerial Resolution adopted in May 1963 emphasizes the need 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", thus rightly recognizing the specific character of agriculture and acknowledging that in order to succeed, the negotiations must take on a special form in this sector.

In accepting all the terms of this Resolution and seeking the best way to implement it within the framework of the closest possible co-operation between the contracting parties to GATT interested in the success of the Kennedy Round, the European Economic Community has found itself faced with certain considerations

which must be taken into account if agricultural products are effectively to be included in the negotiations. The Community would like a discussion of these considerations, not with any aim of controversy, but so that contracting parties can take their stand in the negotiations with full knowledge of the facts. The considerations are essentially the following:

1. Do the contracting parties recognize that the majority of governments have found themselves obliged to support the earnings of their agricultural producers as a result of the continuing deterioration in terms of trade for primary products and the growing discrepancy between agricultural earnings and those of the other social and professional categories in almost all countries?
2. Is it not true that at the present time support takes a great variety of forms and that, to cite the most extreme among them, governments may either seek the widest possible outlets for their producers by conquering dominant positions on export markets, or on the contrary may encourage them to remain isolated and fall back on their own market? In any case, by multiplying their interventions, governments have profoundly modified the play of economic mechanisms.
3. Can it not be acknowledged from all sides that the now indisputable result of such interventions is a situation in which any reference to the world market is meaningless, the traditional rules of a market economy being unapplied and in most cases inapplicable, unless a resolute endeavour is made during the Kennedy Round to formulate rules suited to present conditions of production and international trade?
4. Do the contracting parties acknowledge that the conditions of price formation in international trade no longer respond to economic criteria, because price levels most often result from anarchistic competition between the principal exporting countries whose ever-increasing offers come up against solvent demand which is generally stagnant?
5. Can one not predict with certainty that the present difficulties will become considerably worse as agriculture continues its "technical revolution" and reaps the benefit of productivity gains which bring about an unprecedented increase in production in all domains and all producing countries?
6. Lastly, is it not paradoxical to find agricultural surpluses existing at a time when many food-deficient regions of the world have immense unsatisfied needs, while the developing exporter countries cannot even derive the earnings which they are entitled to expect from sales of primary products because of the very low prices prevailing in the majority of international exchanges?

Thus agriculture finds itself increasingly trapped in a vicious circle: productivity gains bringing about a rapid increase in production, stagnation of solvent demand with consequent limitation of outlets and merciless competition resulting in a fall of prices, government intervention in a variety of forms in order to maintain agricultural earnings and protect agricultural producers from

the effects of the disorganization of world markets, failure to adjust to the requirements of developing countries, whether importers or exporters. The European Economic Community considers that the true way to show a common desire to negotiate on agriculture on appropriate bases is first of all for the contracting parties as a whole to recognize these considerations.

In short, in the search for a solution, one must abandon sterile discussions and embark on a procedure of real co-operation and permanent consultation which, recognizing the needs and legitimate interests of the various parties to the negotiations, would eliminate separation into national markets and eventually lead to acceptance by the various contracting parties in the field of their production policy and trade policy, of reciprocal commitments adapted to the particular situation of their agriculture and the requirements of international trade.

The support margin method may have surprised some because of its novel character and may have resulted in increasing reticence as the Community has been criticized over the intentions which it is presumed to have. In reality, the support margin method is only the technical framework for negotiations which must take account of the facts of the world agricultural economy and would lead to reciprocal commitments by all contracting parties on all agricultural products.

It is not yet certain that the precise dimensions of a true negotiation in the agricultural sector have been fully appreciated in all the contracting parties. It no longer seems possible, however, to go back to negotiations of the traditional type, during which the participating countries merely reached a compromise on the few products - the least sensitive on both sides - in which they were interested. Because of the rapid transformation of agriculture and the evolution of production, it is not even possible to abstain from negotiations or at least to postpone them for a few years, so great is the interdependence of markets today and so urgent the need for a minimum of common measures relating to production policies and trade policies in the agricultural sector.

If the contracting parties accept the fundamental considerations already mentioned and if, in addition, those same contracting parties are firmly resolved to develop all possibilities of the agricultural negotiations in the Kennedy Round, the European Economic Community is convinced that agreement will eventually be reached on the most appropriate means for attaining the objectives set forth in the GATT ministerial Resolution of May 1963.