

GENERAL AGREEMENT ON TARIFFS AND TRADE

DIVISION OF TRADE

CONFIDENTIAL

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Group on Cereals

SUMMARY NOTE ON THE MEETING OF THE GROUP ON CEREALS 24-28 JUNE 1963

INTRODUCTION

1. At their meeting in May 1963 the Ministers decided that comprehensive trade negotiations, covering agricultural products, should take place in 1964. The Ministers gave directives for the elaboration of 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 Ministers considered that for cereals general arrangements might be required and they entrusted to the Group on Cereals the task of negotiating appropriate arrangements. The Ministers requested that the Group should convene at an early date.

2. The Group met in Geneva from 24 to 28 June 1963 under the Chairmanship of Mr. E. Wyndham White, Executive Secretary. The Group had before it documents submitted by the United Kingdom (Spec(63)174), the United States (Spec(63)175) and Japan (Spec(63)186).

3. The Group, bearing in mind the general objective described in the directives given by the Ministers, had a discussion in which it listed elements to be taken into consideration in its further work. Various views were expressed as regards these elements although not all delegations were able to take a firm position and it was agreed that no delegation was committed to the precise wording of them. The Group requested the Chairman to prepare a paper indicating the elements to be considered, a synthesis of the views expressed and where possible the measure of agreement existing at this stage.

4. The present paper has been prepared in compliance with this request. The elements to be taken into consideration are listed under headings as discussed and amended in the meeting.

COVERAGE

5. There was general agreement that the discussions would have to include all cereals, i.e. wheat, wheat flour and the main coarse grains.

AGRICULTURAL PRICE SUPPORT AND OTHER SUPPORT AND ORGANIZATIONAL MEASURES

6. The Group considered the question of:

- (i) internal prices and
- (ii) other organizational measures.

7. In the discussion on these points it was contended that the rapid rise in production in exporting and importing countries due to technological improvements and agricultural price support policies constituted the root of the problem facing international trade in cereals. The various systems of support, the level of internal prices and more generally that of measures to sustain farmers' income both in importing and exporting countries, had an important bearing on the general situation of disequilibrium between supply and effective demand. The problem of this disequilibrium and the effect production, stimulated to unduly high levels by various measures of national policy, had on the pattern of trade were similar in importing and exporting countries. The discussion would therefore have to cover internal support measures and other organizational measures both in importing and exporting countries.

8. Some members of the Group did not fully agree with these views. They pointed out that a distinction should be made between the effects of policies of excessive support prices on the one hand and technical improvements on the other. Technical improvements generally contributed to greater efficiency, although in many instances such improvements had been possible only because of the existence of high support prices. Furthermore, it was suggested by some members of the Group that a distinction should be made between the degree of protection prevailing in natural exporting countries and industrialized importing countries. Exporting countries had to meet a chaotic price situation on a world market affected by various governmental measures of protection to domestic producers, and the policies they had developed had the character mainly of stabilization arrangements and were not primarily intended to afford protection.

9. It was nevertheless generally agreed that the whole question of government support measures in importing and exporting countries needed to be taken into consideration. The discussions would have to deal with the question of restraint on support of financial returns to producers likely to have the effect of increasing cereals production. For example consideration might be given to:

- commitments as regards the height of the domestic support or intervention price level so as to discourage excessive production,
- commitments as regards an adaptation of the height of production subsidies,
- commitments to limit price and income support to a certain negotiated standard quantity,
- commitments to negotiate on any other measure affecting income and price policies.

Furthermore consideration should be given to the question of:

- direct production control, inter alia through commitments as regards the area under grains production, or the quantities of domestic production entering into commercial markets.
10. Not all delegations were as yet in a position to express clearly their views on the kind of commitments their governments might be prepared to envisage or the kind of commitments they would expect other delegations to consider.
11. A member of the Group expressed the view that the importing countries should be prepared to undertake substantive commitments which would represent real benefits to grain exporting countries and which, to a certain extent, would correspond to the kind of commitments industrial exporting countries expected to receive in other fields in the trade negotiations. Since in the industrial field substantial tariff reductions were envisaged and since, in agriculture, apart from tariffs, mainly non-tariff measures determined the degree of protection, the importing countries should be prepared to enter into meaningful discussions on key measures which affected production and trading possibilities.
12. Other members of the Group also felt that a contribution should be expected mainly from countries where through governmental measures production was maintained at an artificially high level. These countries might undertake certain commitments as to the height of the level of price support so as to avoid encouraging and perpetuating production in excess of effective demand. Other commitments might be possible such as commitments to exercise restraint on the support given to cereals producers, for example limiting support to a certain standard quantity. A combination of measures affecting production in importing countries might be envisaged which would restrain production so as to leave room for imported supplies. Where on the other hand in exporting countries producer prices were already low it did not seem feasible that these countries could contribute much to a solution of the problem through restraint on production, although this should be a matter for discussion.
13. It was also suggested that importing countries should consider the possibility of adopting such price and import policies and to conduct operations in such a way that access for the efficient producers, and preferably room for expansion were maintained. As long as the level of price and income support was above a certain equilibrium support policies should be accompanied by some sort of limitation on the guarantee. Furthermore, the question of negotiability of support prices would not necessarily imply an unqualified commitment; they should be considered in relation to international trade and other relevant factors.
14. It was further suggested that importing countries should exercise restraint on the support given to their producers and shape their policy so as to take into account the interests of the principal grain supplying countries and to maintain a fair and reasonable balance between domestic and imported supplies, both as regards present demand and future increasing demand.

15. Other members of the Group expressed the view that their Governments might not be able to undertake specific commitments as to the height of the internal support price level or to create an artificial balance in favour of exporting countries.

16. There seemed to be general agreement that, while the total effect of measures, including price measures and supply control, should be taken into consideration, it might not be necessary for all countries to undertake the same commitments or to use the same techniques. It could be envisaged that a series of understandings were reached relating to the various systems used in different countries. It would seem appropriate to maintain a certain room for manoeuvre, having regard to the economical, political and social considerations of a particular country, provided that the end results were adequate.

INTERNATIONAL TRADE

17. The Group considered three aspects of international trade in cereals:

- (i) International prices
- (ii) Access
- (iii) Assurances of supply by exporting countries.

(i) International prices

18. It was suggested that a general objective should be the avoidance of undue international price fluctuations arising in the short term, without setting the price pattern in such a way as to distort the ordinary play of forces of supply and demand in the long term. A related objective should be the assurance of international prices which were fair to consumers while providing a reasonable return to efficient producers.

19. In this connexion, since international prices were substantially below the price level guaranteed to the bulk of producing whether in importing or exporting countries, it was suggested that consideration might be given to the question of narrowing the gap between international prices and internal prices, either by some diminution of the support level in importing countries, as suggested in the previous section, or by raising the level of world prices so as to provide reasonable remuneration to efficient exporters or both.

20. Some members of the Group were not very much in favour of an artificial increase in world prices and suggested that already much would be gained if the artificial lowering of these prices through export subsidization practices were discontinued.

21. Some other members of the Group, while not disagreeing with the concept of somewhat higher international prices, stated that any future setting of an international price level should take into account specialization and optimum price conditions; such a price should therefore be established at a level as close as possible to that prevailing in efficient producer areas. It was also maintained that any increase in prices should be such as to avoid encouraging less efficient production in importing countries. If an increase in international prices were to have an impact on production in exporting countries, corrective measures might be considered.

22. Another member of the Group pointed out in this connexion that a moderate increase in world market prices, which would bring these prices into a more reasonable relationship with internal prices in importing countries, would not normally be an incentive to production in those areas, since internal prices in importing countries in most instances were much higher than international prices and would therefore not be affected by an increase in world prices. Neither would a moderate increase in world market prices have an appreciable effect on internal consumer prices and on demand.

23. It was suggested that a negotiated international price might be considered as a concession in terms of the trade negotiations.

24. It was generally felt that the question of any increase in international minimum prices could only be approached very cautiously. The effects of price increases on the balance-of-payments situation of importing countries should be duly considered, as well as the possibility of an impact on demand, particularly as regards grains for feeding purposes and as regards wheat in the case of those countries where the price elasticity of demand for wheat was generally high and which constituted a commercial market.

25. As to the means of improving the international price situation it was suggested that inter alia the following might be considered:

- commitments gradually to eliminate export subsidies,
- the adoption of a precise price range by specifying in advance the price for the different qualities of wheat, wheat flour and the principal varieties of coarse grains,
- the adoption of effective procedures for enforcing such prices by requiring importing and/or exporting countries to take appropriate action when the agreed minimum price is not being or not likely to be observed either by other member countries failing to fulfil their obligations or by non-member countries,
- the question of stock policies as a means of stabilizing international prices.

26. Some members felt that the progressive elimination of export subsidies was a matter of great urgency.

27. There seemed to be general agreement that a system as employed under the International Wheat Agreement of maximum and minimum prices, within which range trade would take place, constituted a solid basis for the establishment of a similar system for other grains. There was a general feeling that although the present system of the International Wheat Agreement contained certain weaknesses, and had never been tested at the minimum price, these weaknesses could be overcome and that the technical difficulties might not be insuperable.

28. It was felt that one of the problems was that under the International Wheat Agreement the price range related to one grade only, so that there existed a continuous uncertainty about the minimum price for other grades. The possibility of setting minimum prices for different qualities of wheat and of the main coarse grains should be considered. An additional problem was the relationship between the prices of the various types of coarse grains and between wheat and coarse grains. The necessity of provision for the reviewing of price differentials was stressed.

29. It was also stated that in connexion with the question of price equivalents there were two elements which had to be taken into consideration. These were firstly a technical and physical element, namely, the innate quality difference, and secondly, a commercial element reflecting the supply and demand situation of a particular quality. As regards the second element account had to be taken of the fact that in many instances, the supply and demand situation and the world market price were distorted by export subsidization.

30. It was also suggested that the setting of a floor in the market would avoid some of the adverse effects of subsidized supplies entering the market. The view was advanced that a minimum import price, predetermined for each type of cereal and where necessary differing according to quality, would not necessarily have to be the same in all importing areas; the fact that such minimum import prices were precise and determined in advance would allow both exporters and importers to take appropriate action to ensure that these prices were observed. The initial responsibility lay with the exporting countries to take the necessary action to keep prices above the minimum, but importing countries should also be able to protect their own markets.

31. As regards stock policies it was pointed out that the maintenance of stocks at a realistic level contributed to the stabilization of prices while, on the other hand, the maintenance of stocks at too high a level constituted a continuous threat to the world market and had a disrupting effect on world prices. It was suggested that the possibility of confining stocks to certain maximum and minimum percentages should be considered.

(ii) Access

32. The general objective of any arrangements on cereals as laid down by Ministers would be to create acceptable conditions of access to world markets for cereals in furtherance of a significant development and expansion of world trade in cereals.

33. There seemed to be general agreement that consideration should concentrate primarily on the price and support policies of the importing countries which should be such as to create acceptable conditions of access. Secondly, questions such as the following were suggested for consideration:

- commitments that the flow of trade should not be unduly impeded by barriers at the frontier, and
- commitments on quantities to be imported.

The third question for consideration should be the fact that excessive supplies on the world market from exporting countries would exert a pressure in importing areas, and on the markets of other exporting countries.

34. Some members expressed the view that, in order to create acceptable conditions of access, measures at the frontier and internal measures should both affect domestic production in such a way as to leave room for trade with efficient outside producers in the sense of a share of the market for such producers and for an increasing share where there existed opportunities for a growth in the market. In this connexion it was suggested that the proportionate share of the market should be related not to the total commercial purchases, as was the case under the present International Wheat Agreement, but to the total level of internal consumption. The view was also expressed that in order to promote the expansion of international trade in cereals the freest possible flow of this trade should be secured.

35. Other members of the Group expressed the view that, in aiming at acceptable conditions of access, the practical and political aspects of any commitments in respect of price and production policies and internal measures and measures at the frontier should also be taken into account. It was further emphasized that any expansion of trade should be an orderly expansion and that certain assurances from exporting countries regarding restraint on supplies might be appropriate for consideration.

36. One member of the Group expressed the view that his Government might not be in a position to undertake formal commitments in respect of access in quantitative terms, but since imports into his country were expected to rise considerably in the future, specific commitments would not seem to be called for.

37. There appeared to be a general measure of agreement that once the objectives were precisely defined there would have to be reasonable assurances that steps would be taken to realize such objects. It was suggested that such assurances might not be meaningful unless they were accompanied by specific commitments that, if the provisions initially agreed upon did not lead to the results anticipated, appropriate corrective action would be taken. In this connexion it was suggested that confrontation or consultation procedures could contribute to this end.

(iii) Assurances of supply by exporting countries

38. It was noted that under the present International Wheat Agreement exporting countries had undertaken, in association with one another, to make supplies of wheat available for purchase by importing countries at prices within the price range in quantities sufficient to satisfy the commercial requirements of those countries. At the maximum of the price range individual obligations were undertaken by exporting countries on the basis of specified (datum) quantities based on their past trading record with member importing countries. The question should be considered whether similar obligations would have to be included in any new arrangements.

NON-COMMERCIAL DISPOSALS

39. The Group agreed that, where surpluses develop, consideration should be given to arrangements providing for their orderly disposal, having due regard to the possibility of using such surpluses for the benefit of developing countries. Such arrangements should have regard to the principles and guiding lines established by the FAO, should involve as little as possible interference with the normal course of commercial trade and should not cut across the present responsibilities of existing international organizations for food aid. In this connexion it should be considered whether all grain producers including importers as well as exporters should contribute to world food programmes.

PROCEDURES

40. The Group agreed that, if the discussion of the points enumerated above lead to the conclusion of any arrangements, consideration would have to be given to the question of procedures for the effective implementation of such arrangements. Other points, such as institutions, the duration of any arrangements, membership, confrontation procedures would also have to be considered at a later stage. Another question was whether any arrangements would take the form of an international grains agreement or be formalized in some other way in the framework of the trade negotiations.

41. Some members of the Group expressed the view that, during confrontations, social and economic conditions existing in the country concerned, such as over-population and the small size of farms, should be taken into account.

OTHER MATTERS FOR DISCUSSION

42. It was pointed out that effective arrangements which would lead to acceptable conditions of access would be conducive to an optimum pattern for production and trade. It would, however, take time before the necessary adjustment of existing price levels and of other measures were brought about. During this interval care should be taken so as not to interrupt the normal flow of trade. Therefore the concept of maintenance of trade and assurances that the existing pattern of trade would continue were important. Commitments of this kind could consist of a variety of measures such as quantitative assurances,

long-term contracts, assurances by importing countries as regards the maintenance of the present level of imports etc. Such commitments should be binding.

43. It was also suggested that it should be understood that governments participating in the negotiations should abstain from any measures which in the course of the negotiations might prejudice the trading position of any of their partners in the negotiations.

44. Other members of the Group felt that if it were considered that any such understanding might be appropriate, it should apply to the trade negotiations as a whole and would therefore have to be discussed outside the Group.

Next meeting

45. The Group agreed that, at its next meeting, it would have a substantive discussion on the basis of the various points mentioned above. This meeting might, in principle, last for several weeks and should start some time in September or October 1963 on a date to be set by the Chairman in consultation with members of the Group.