GENERAL AGREEMENT ON
TARIFFS AND TRADE

CONFIDENTIAL

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Group on Cereals

NOTE BY THE SECRETARIAT

1. The Group in its meeting held in June 1965 decided to undertake a joint study on six items laid down in document TN.64/Ce/W/1. Discussions on these items were held from 5-16 July and from 20 September-7 October 1965. The present note is intended to serve as an aide-mémoire in respect of the main points of interest brought forward in the discussions on each of the items. It should be read in connexion with the papers submitted by delegations in the course of the discussions. A list of these papers is appended.

(I) Levels of returns to producers, including direct and indirect subsidies, subventions and other relevant arrangements, in the major exporting and importing countries in relation to actual prices for wheat and the principal coarse grains traded internationally over a representative period

2. On the basis of papers prepared by each delegation and of further information provided during the discussion the Group examined the various guaranteed prices, market prices, aids to producers, and cost factors which were components of the producer's remuneration at farm level for different types of grains.

Argentina

3. The Argentine system of government intervention in the marketing of grains was set out in document Spec(65)68. The representative of Argentina explained that for wheat and maize there were minimum prices at which the Government intervened in the market in order to protect the producer against loss or damage. He confirmed that otherwise no indirect subsidies were granted to cereals production and that there were no export subsidies for cereals. The representative of the European Economic Community noted that the minimum prices played a key rôle in the Argentine support system and said that an undertaking in regard to them might be of great interest in the negotiations.

The representative of Argentina explained that the various prices relevant to the discussion were the following (US$ per metric ton):

	Wheat (Hard/Grade 1)			Maize (Colorado/Flint)		
	1962/63	1963/64	1964/65	1962/63	1963/64	1964/65
Market receipts						
Stage - wholesale	48.10	61.76	50.30		47.45	48.23
- at farm	41.33	54.16	41.22			
Aids to producers	-	-	-			
Producer's remuneration						
Stage - at farm	41.33	54.16	41.22			
Guaranteed prices						
Stage - f.o.r. at port	48.10	60.30-64.70	50.30	35.00	43.80	35.10

Australia

4. The representative of Australia explained that under the Wheat Stabilization Plan, wheat prices were guaranteed to producers in respect of domestic sales (about 50 million bushels) and up to 150 million bushels per annum for export sales (TN.64/Ce/W/16). When export prices exceeded the guaranteed return a tax was imposed on the proceeds of all export sales. The effect of these measures was that some 200 million bushels of a total production of around 350 million bushels were covered by the guarantee. No direct export subsidies were granted. The average net payment per unit of production made by the Government under the Stabilization Plan was for the last three crop years:

$3.25 per metric ton for 1962/63
$0.25 per metric ton for 1963/64
$2.23 per metric ton for 1964/65

There were no direct or indirect export subsidies on cereals other than wheat. In the case of flour exports millers were refunded, on the basis of the quantity of wheat equivalent to the quantity of flour exported, the difference between the domestic wheat price and the export price to the export market concerned. He further explained that since August 1963 an indirect subsidy to cereal production was given in the form of a superphosphate bounty. The estimated value of this subsidy to producers per metric ton of cereal production was $1.03. It should be noted, however, that this assistance did not form part of the producer's remuneration but accrued to him in the form of a cost reduction through cheaper fertilizer costs.

5. On the basis of data provided by the Australian delegation (Spec(65)65), the various prices relevant to the discussion could be set out as follows (US$ per metric ton):

	Wheat (F.A.Q.)			Barley (Malting No.2)		
	1962/63	1963/64	1964/65	1962/63	1963/64	1964/65
Market receipts						
Stage - wholesale	65.65	60.02	60.35	69.60	66.70	
- f.o.r. at port	56.85	59.06	55.37	53.20	52.90	
- at farm	47.65	49.86	46.17	49.90	49.60	
Aids to producers						
- Stabilization Plan	3.25	0.25	2.23			
Producer's remuneration						
Stage - at farm	50.90	50.11	48.40	49.90	50.63	
Guaranteed prices						
Stage - f.o.r. at port	65.16	59.34	60.03	-	-	

Canada

6. The Canadian delegation provided data on the Canadian Grain Policy and on various programmes under which indirect income aids were given to Western Canadian Agriculture, including grain producers (Spec(65)70). The major cereals produced in Western Canada - wheat, oats, and barley - were solely marketed under the jurisdiction of the Canadian Wheat Board. Deliveries to the Board could only be made to the extent that storage space was available, producers having to store the remainder on the farm at their own cost. He pointed out that this policy acted as an effective production disincentive when supplies were heavy.

7. The representative of Canada outlined the various programmes which provided indirect income assistance to Western agriculture, including grain production. Under the Prairie Farm Assistance Act direct crop insurance payments were made to producers. The Prairie Grain Advance Payments Act provided for interest-free cash advances by the Canadian Wheat Board. The interest cost involved could be considered as an indirect aid to producers. He further stated that on three occasions (1958, 1960 and 1962), acreage payments had been made by the Federal Government to supplement low farm incomes as a result of poor crops. The pro rata income assistance of these three schemes together amounted to US$7.67 in 1961/62, US$0.30 in 1962/63 and US$0.02 in 1963/64 per ton of wheat, oats and barley. The representative of Canada further referred to the Temporary Wheat Reserves Act of 1956 under which the costs of storage of stocks in excess of 178 million bushels were borne by the Government. He also explained that railway freight rates in Canada generally were subject to official regulation. For Western grains freight rates could not exceed specified levels. No subsidy existed on the movement of grain. However, draft legislation providing for a Government subsidy to the railways for the movement of grain had been introduced

into Parliament, but with dissolution in September 1965, a similar bill would need to be re-introduced in order for the proposal to be further considered. The bill provided for a subsidy payment formula whereby in 1959/60, for instance, payment to the railways would have amounted to $22 million, while in 1964/65 and 1965/66 no payment would have applied. The EEC, nevertheless, felt that a freight rate subsidy element should be estimated at US$2.50 per ton.

8. On the basis of the data provided by the Canadian delegation the various prices relevant to the discussion could be set out as follows (US$ per metric ton):

	Wheat (No.3 Manitoba Northern)			Barley (No. 1 Feed Barley)		
	1962/63	1963/64	1964/65	1962/63	1963/64	1964/65
Market receipts						
Stage - f.o.b. and wholesale price Montreal	71.92	72.08				
- in warehouse at port (Lakehead)	63.84	64.74		44.86	46.67	
- at farm	57.53	58.62		38.29	40.30	
Aids to producers						
- on stockpiling	2.22	2.41				
- miscellaneous	0.30	0.02		0.30	0.02	
Total of aids	2.52	2.43		0.30	0.02	
Producer's remuneration						
Stage - at farm	60.05	61.05		38.59	40.32	

European Economic Community

9. The representative of the EEC explained that for the purpose of the discussions he had considered it appropriate to examine the return to cereal producers at the single market stage, i.e. for the crop year 1967/68. The data he provided (Spec(65)71) were partly based on decisions concerning prices already taken, and partly on assumptions concerning the behaviour of prices on the market and marketing costs between the farm and the nearest marketing centre. The Council of Ministers had set the basic target price for the 1967/1968 crop year at $106.25 per ton of wheat. Normally, however, the market price established itself at a level between the intervention price and the target price at a given place and a given moment; in order to estimate producers' returns in the EEC, the intervention price therefore counted just as much as the target price. The representative of the EEC assumed, for the purpose of the discussion, that the intervention price for the area with the greatest deficit would be set at a level $7.50 below the target price, i.e. $98.75 per ton, and that it would be about $92.00 per ton in the area of the Community with the largest surplus. Experience in the member States over the past years had shown that market prices tended to be somewhat higher than intervention prices. The difference between market prices and intervention prices could be estimated for 1967/68 at $2.50 per ton in Italy and at $1.25 in the other member States; the higher amount for

Italy took account of higher freight costs. The margin between the market price and the price at farm, allowing for marketing and transport costs, was estimated at $4.00 for Germany, Belgium and the Netherlands, at $4.50 for Italy and at $5.00 for France. The representative of the EEC further explained that under the EEC system the basic target price, and consequently the intervention price, would increase in the course of the marketing year by monthly steps allowing for interest and storage costs. This would promote regular marketing throughout the year. The incidence of these monthly steps, equal for each member State, was assumed to average $2.375 per ton. He also explained that in Germany, Italy and France derived intervention prices would allow for natural price differences according to region. He assumed that the effect of the regionalization would be to decrease the average producer's return by $4.00 in Germany, $7.50 in Italy and $5.65 in France. Taking all these factors into account and making allowance finally for an increase in the basic standard quality of wheat in Italy, he arrived, as set out in document Spec(65)71, at an estimate of the weighted average production price (at farm stage) for 1967/68 of $98.375 per ton in Belgium and the Netherlands, $94.375 in Germany, $93.458 in Italy, and $91.725 in France. It was possible to compare these prices with the average prices obtained by producers in each of the member States in recent years. This comparison showed that in order to reach the estimated 1967/68 average price, the average prices obtained in 1962/63 would increase in Belgium by 6.9 per cent, in the Netherlands by 14.9 per cent and in France by 7.7 per cent, while they would decrease in Germany by 11.7 per cent and in Italy by 9.7 per cent. He finally estimated the weighted average return to the EEC producers in 1967/68 at $93.20 per ton, which compared with $94.20 in 1962/63 and $97.40 in 1963/64.

10. Members of the Group commented on the EEC assessments. The representative of the United States stated that in the case of France, it was necessary also to consider the marginal price effect of the progressive elimination of the quantum system by 1967. It was not only the increase in producer's returns due to the transition to the single EEC price, but also the marginal effects due to the abolition of the quantum system, which constituted the price incentive to production adjustments in France. In the latter case a comparison of average producer's returns in 1967/68 with those in any of the recent years would not give a true picture. The average producer's return in 1967/68 should instead be compared to the marginal return to the producer (i.e. the return the producer received for each additional ton of wheat produced over his previous production) in any year in which the quantum applied.

11. The representative of the EEC provided data on the French quantum system in document Spec(65)84. The representative of the United States on the basis of the figures given by the EEC concluded that in these circumstances the increase in returns of 15 per cent for the large producers in France was much more relevant than the weighted average of the three groups of producers as an indication of the price incentive to production which would result from the abolition of the quantum system. The representative of the EEC pointed out that these data showed that the producer price at the farm before deduction of the quantum tax, for example in 1964/65, amounted to $90.94 per ton. The quantum tax to be deducted amounted in that year to $0.30 per ton for producers growing not more than 7.2 tons per annum, $5.83 for producers growing between 7.2 and 15 tons, and $11.36 for producers growing more than 15 tons. As compared to the average price of $91.725 per ton estimated for

1967/68, this meant an increase in producers' returns of 1 per cent in the first case, of 8 per cent in the second case, and of 15 per cent in the third case. Moreover, it should be noted that out of the 750,000 wheat suppliers in France, 450,000 supplied less than seven quintals. In conclusion he emphasized that the average price of $90.94 in 1964/65 before deduction of the quantum tax, was already practically at the level of the 1967/68 average price.

12. The representative of the EEC provided data on the quantities of soft wheat denatured in the EEC over the last years, as well as the total denaturing premiums paid and the average premium per ton (Spec(65)89). He also gave figures for the EEC as a whole on the total amount of export refunds paid in respect of wheat including flour and barley, as well as on the quantities involved (Spec(65)90). The average export refund for wheat and flour had amounted to $48.4 per ton in 1962/63, $34.8 in 1963/64 and $42.4 in 1964/65.

13. On the basis of the data provided, the various prices relevant to the discussion could be set out as follows (US$ per metric ton):

	Wheat (average quality)						
	France	Italy	Germany	Netherlands	Belgium	Lux.	EEC
				1962-1963			
Market receipts							
Stage - wholesale	90.20	108.05	110.90	89.60	96.00	112.00	98.20-99.20
- at farm	85.20	103.55	106.90	85.60	92.00	108.00	94.20
Aids to producers							
Producer's remuneration							
Stage - at farm	85.20	103.55	106.90	85.60	92.00	108.00	94.20
Guaranteed prices							
Stage - wholesale	89.89	104.80	114.00	88.12	97.40	113.80	
				1963-1964			
Market receipts							
Stage - wholesale	91.00	113.50	110.90	96.40	98.00	n.a.	101.40-102.40
- at farm	86.00	109.00	106.90	92.40	94.00	n.a.	97.40
Aids to producers							
Producer's remuneration							
Stage - at farm	86.00	109.00	106.90	92.40	94.00	n.a.	97.40
Guaranteed prices							
Stage - wholesale	91.80	107.20	113.93	95.99	99.40	113.80	

Japan

14. The Japanese representative provided data on Government support prices in document Spec(65)67. He explained that the Japanese Government was obliged to purchase at fixed prices all domestically-produced wheat and barley offered by farmers. The purchasing prices were determined on the basis of the parity prices of wheat and barley taking as the base the average of the prices in 1950 and 1951. The Government selling price was determined so as to stabilize consumer prices. As the result of this policy purchasing prices were higher than the selling prices. Government purchasing prices were set at farm basis and included transport costs up to the nearest warehouse designated by the Government; these transport costs were negligible.

The various prices relevant to the discussion were the following (US$ per metric ton):

	Wheat (Grade No. III/Class 2)		
	1962/63	1963/64	1964/65
Market receipts			
Stage - wholesale	91.25	91.25	91.25
- 1st delivery post	80.14	83.95	75.52
- at farm	80.14	83.95	75.52
Difference between guaranteed price and market receipts, at farm stage	31.16	30.54	44.43
Producer's remuneration			
Stage - at farm	111.30	114.49	119.95
Guaranteed prices			
Stage - 1st delivery point	111.30	114.49	119.95
- at farm	111.30	114.49	119.95

Switzerland

15. The representative of Switzerland explained that domestic wheat was delivered to a State monopoly, the Federal Wheat Administration, at a base price fixed by the Federal Council. The Wheat Administration sold the wheat to commercial millers at prices corresponding to the cost price of foreign wheat of the same quality. The difference between the delivery price and resale price to millers was charged to the Government account. As regards feed grains he explained that an acreage bonus was granted which amounted to $92 per hectare.

16. On the basis of the data provided by the Swiss delegation (Spec(65)66) the various prices relevant to the discussion could be set out as follows (US$ per metric ton):

	Wheat (Class V)			Barley		
	1962/63	1963/64	1964/65	1962/63	1963/64	1964/65
Market receipts						
Stage - wholesale	90.70	90.70	84.78			
- at farm				98.15	90.-	89.75
Aids to producers						
- on production	-	-		25.50	30.50	26.-
Producer's remuneration						
Stage - at farm	139.45	129.41	139.10	123.65	120.50	115.75
Guaranteed prices						
Stage - at 1st delivery point	143.18	143.18	143.18	-	-	-

United Kingdom

17. The representative of the United Kingdom stated that Government support to cereal production was given in the form of deficiency payments to growers. The deficiency payment was equal to the difference between the United Kingdom average market price (ex farm) realized over the season and the price guaranteed by the Government subject, in the case of wheat and barley, to certain adjustments due to the introduction of the standard quantity and the target indicator price system. The United Kingdom did not pay any subsidies on exports of cereals. A subsidy was

available on certain fertilizers. It was estimated that the value of this subsidy to cereal growers in 1964/65 was equivalent to about $2.76 per metric ton in the case of wheat and barley. This subsidy had the effect of decreasing costs to the grower but did not add to the average producer's return per unit of production; it should therefore not be taken into account in considering the level of producer's returns.

18. On the basis of data provided by the United Kingdom delegation (Spec(65)69) the various prices relevant to the discussion could be set out as follows (US$ per metric ton):

	Wheat			Barley		
	1962/63	1963/64	1964/65	1962/63	1963/64	1964/65
Market receipts						
Stage - wholesale*	54.21	63.62	63.57			
- at farm	49.38	58.79	58.74	54.20	56.32	57.13
Aids to producers						
- income stabilization measures	26.01	15.10	13.03	21.82	17.17	14.70
Producer's remuneration						
Stage - at farm	75.39	73.89	71.77	76.02	73.49	71.83
Guaranteed prices						
Stage - at farm	74.18	73.03	73.03	76.02	73.49	73.49

*Note: $4.83 per metric ton has been added to the "at farm" price to cover delivery to port mill.

United States

19. The United States delegation submitted papers on the returns to cereal producers in the United States (Spec(65)72 and TN.64/Ce/W/13). The representative of the United States explained that the price support programmes currently in effect were production negative in that they required the withdrawal of a minimum area from production. A producer deciding to participate in the 1965/66 programme would have to set aside, in conserving use, at least 10 per cent of his wheat base area. For all the wheat produced on his allotted area the wheat producer would then be entitled to receive a guaranteed price of

$1.25 per bushel ($45.90 per metric ton). In addition he would then receive income payments. These income payments consisted of a lump sum of $0.75 per bushel for the "normal" yield from 45 per cent of the allotted area, and an additional lump sum of $0.30 per bushel for the "normal" yield from 35 per cent of the allotted area. The representative of the United States emphasized that these additional payments were production neutral since they were based on historical performance and in no way induced producers to obtain yields in the current year that exceeded the "normal" level. For the 1965/66 crop year the "normal" yield was based (on an individual farm basis) on the 1959/63 average yield adjusted for years of crop failure. Apart from these lump sum payments producers were only guaranteed the loan rate of $1.25 per bushel. He stressed that since in this way producer's returns for marginal production were equivalent to the world trading price a maximum disincentive to production was achieved. Under the 1965/66 programme the average return for all producers of wheat on the basis of total capacity could be estimated at $1.51 per bushel ($55.40 per metric ton). This figure took into account the amount of wheat estimated under minimum diversion at 95 per cent of "normal" yield. The weight for minimum diversion was for 1965/66, 7.2 per cent of actual production.

20. Commenting on the estimates by the United States delegation a member of the Group pointed out that experience had shown that total production continued to increase due to higher yields on the reduced areas. For growers producing at costs below the guaranteed price the programmes did not provide a disincentive to producing as much as possible. Furthermore, the increasing yields per acre would in future gradually increase the "normal" yield based on historical performance. The representative of the United States agreed that if productivity increased in such a way that marginal production costs would be less than the loan rate, producers would continue production. But producers participating in the programme were obliged to reduce their acreage. In addition to the mandatory acreage reduction the programme provided incentives for additional voluntary reduction in crop area.

21. Members of the Group disagreed that the mandatory acreage diversion constituted a cost or loss of income to the complying producer. Therefore, they felt it should not be weighted into the calculation of producer return. In their view the average producer's return should only be calculated on actual production. Producers in making a decision whether or not to participate in the programme would base themselves on the anticipated return for wheat they actually expected to produce. If this return, taking into account the lump sum payments, on an average exceeded the average market price, (which was the maximum return for non-complying producers) they would tend to participate.

22. The representative of the United States explained that a producer considered the total return from his entire production unit in deciding whether or not to participate. Those who participated then determined the yield level according to the cost and return they expected from these adjustments in yield. The complying

producer (once he had decided to participate in the programme) would consider the $1.25 per bushel in deciding the adjustment he would make on his allotted area with respect to his cultivating practices. If the total added cost exceeded the expected total return from increased yields priced at $1.25 per bushel, then the farmer would not make the added investment. If the returns were greater he would. The non-complier based his acreage decision and his yield decision on the marginal costs of production relative to the marginal return of $1.25

23. The representative of the EEC insisted that the effective incentive level was not $1.25 per bushel but that planting decisions would be based on a level depending on the whole range of support prices. He queried the meaning of the $1.50 base price proposed in the United States offer, and stressed that commitments must also be taken on price support. The representative of the United States, while maintaining his point of view set out above, replied that the loan rate was currently $1.25, and in the terms of the proposal should not exceed $1.50. In reply to other questions he stated that the exact relationship of prices in other countries to the base price of $1.50 for the United States still remained to be worked out and this involved the problem of comparability of systems, and regional and quality adjustments.

24. The representative of the United States provided data on export payments on wheat (Spec(65)88), which showed that the average export payment rate had been for 1963/64 $0.51 per bushel ($18.80 per metric ton). For 1964/65 the average export payment rate had amounted to $0.23 per bushel ($8.36 per ton), but those subsidies had been more than fully absorbed by the cost of $0.25 per bushel ($9.18 per ton) for the export certificate.

25. The relevant producer and market prices set out by the United States representative were as follows ($ per bushel and per metric ton):

Wheat Prices

Price	1963-64		1964-65		1965-66	
	per bu.	per m.t.	per bu.	per m.t.	per bu.	per m.t.
Producer incentive	1.82	66.80	1.30	47.70	1.25	45.90
Domestic market:						
f.o.b. elevator	1.85	67.90	1.37	50.30	-	-
f.o.b. Gulf	2.29	84.10	1.76	64.70	-	-
World market:						
f.o.b. Gulf	1.79	65.70	1.78	65.30	-	-
Net export payment	0.50	18.40	- 0.02	- 0.60	-	-

Feed Grain Prices

Price	1963-64		1964-65		1965-66	
	per bu.	per m.t.	per bu.	per m.t.	per bu.	per m.t.
Producer incentive						
Corn	1.07	42.10	1.10	43.30	1.05	41.30
Sorghum	1.71	37.70	1.77	39.00	1.65	36.40
Barley	0.82	37.60	0.84	38.60	0.80	36.70
Market f.o.b. elevator						
Corn	1.09	42.90	1.16	45.60	-	-
Sorghum	1.74	38.30	1.90	41.90	-	-
Barley	0.90	41.30	0.96	44.10	-	-
Market f.o.b. Gulf						
Corn	1.39	54.70	1.42	55.90	-	-
Sorghum	2.21	48.70	2.18	48.10	-	-
Barley	-	-	-	-	-	-

(II) Factual data, projections and exchange of information permitting each participant to form an opinion on the effects on production, marketings and market access of commitments offered by the countries participating in the current negotiations

26. The Group had an exchange of views on the basis of documents submitted under this item by delegations.

Australia

27. In introducing the paper submitted by his delegation (TN.64/Ce/W/4), the representative of Australia stressed that the figures given for 1970 were not forecasts but projections based on certain assumptions, and had also taken into account the physical factors that set a limit to cereal growing in Australia. In reply to questions he explained that the projections of acreage and production did not represent policy objectives but resulted from the assumptions made. While the levels reached in the course of recent years would be maintained, wheat-growing

was not likely to encroach on the bordering sheep lands; the amount of rainfall being a major limitation of any extension of wheat acreage. Changes in the relative profitability of wheat relative to wool, but also to fat lambs, barley, oats and, in certain areas, linseed or safflower, would influence producers' decisions.

28. In reply to other questions the representative of Australia said that average yields were assumed to grow more slowly in the future, and this would be reflected in the level of production. Explaining the upward movement in the level of wheat production in the seven years to 1964-65, compared with the decline in 1965-66 and the slower expansion of production indicated by the projections, he pointed out that recent years had been marked by exceptionally good climatic conditions over much of the wheat-growing area, by purchases by mainland China and the USSR (roughly equal to the increase in production) and by low wool prices. The representative of the United States considered that the paper under discussion still left considerable room for doubt as to the upper limit of Australian wheat production. Replying, the representative of Australia said that the graphs in the paper had tried to show a long period, so that while 1930/31 represented a peak for acreage under wheat, projections must take into account the fact that 1955/57 was a low. A proof of the existence of an upper limit was the failure of wheat growing in certain areas, where growers had to be rescued financially. The representative of Switzerland said that the impressive upward response of production to a rise in demand was an indication of Australia's large productive capacity. He therefore attached great importance to price stabilization, stock-keeping arrangements and information on demand development.

29. Asked to what extent his Government was able to control the relative profitability of wool and wheat, the representative of Australia said that while a stabilization plan was in operation for wheat, the price of Australian wool was absolutely dependent on the world market. The representative of the EEC, noting that a major factor determining the size of output was the availability of markets, expressed concern at the risks arising at what appeared to him an element of laissez faire. He considered that the factors of price - domestic and international - and of domestic price policy, had been left out of account. In reply the representative of Australia recalled that the figures given for future exports did not represent a policy objective but were the result of certain assumptions. The price factor was incorporated in the concept of profitability, together with the cost factor. The continuation of the present stabilization system was implicit in the paper. Under the system a decrease in costs led to a decrease in the guaranteed price. Present guaranteed prices were in fact lower than in 1960/61, 1961/62 or 1962/63. Wheat-growing costs were surveyed every five years, but the final estimate was necessarily a combination of surveys and negotiations. For between-survey years, weighted indices based on various costs were being applied. A 15 per cent cut in the price had resulted from the 1963 survey. The representative of Canada expressed the view that the stabilization system was an incentive to production or at least not a disincentive.

30. Asked by the representative of Canada for more information on storage capacity, the representative of Australia stated that no overall storage policy existed for Australia as a whole, the Wheat Board operating through individual State Boards. In general, wheat was not stored on the farm. The grower did not get paid until his wheat was received at the storage point. The general policy was to have sufficient capacity to hold one year's crop, but it was not the intention to store significant carry-overs.

31. The representative of the United States remarked that while the paper indicated that the volume of production depended on the availability of markets, it did not mention how any restraints operated. The representative of Australia explained that such restraints were inherent in the pipeline storage policy. If there were no markets the pipeline became full and could not accept wheat from the farmers, who thus received no payment. Farmers were kept currently informed, and would cut down production. Replying to further questions he said that the possibility of production controls had not been incorporated in the projections. The present system applying to wheat would allow the Australian Government to control production when necessary, in accordance with possible commitments, but any such controls formed the subject of negotiations.

32. Asked whether the projections had taken account of the possibility of larger participation in non-commercial outlets, he stated that this consideration had been included under the heading "market outlets".

United Kingdom

33. Introducing the first of the two papers submitted by his delegation (TN.64/Ce/W/6) the representative of the United Kingdom emphasized the stability of the acreage under cereals in his country. Comparing the averages for 1950-53 and 1962-65 there had been only a 1 per cent increase in acreage under cereals. The acreage under wheat had declined slightly while that under barley had doubled, but this had been offset by a decline in acreage under oats and mixed grain. Yields of wheat had risen by 50 per cent and those of barley by 45 per cent. Production of cereals had gone up by 48 per cent and consumption by a little over 30 per cent. The guaranteed price of wheat for the current harvest represented a decline of 17 per cent from the 1954/55 peak; taking into account the effect of the standard quantity arrangement the decline was likely to be about 20 per cent. The guaranteed price of barley was at present 13 per cent below its 1957/58 peak, or 16 per cent taking into account the standard quantity.

34. Introducing document TN.64/Ce/W/9 the representative of the United Kingdom said that the National Economic Plan postulated a growth of about 3½ per cent per annum in net agricultural output up to 1970. The expansion was to be selective, but no precise targets had been set for individual commodities. The main emphasis was on meat, mainly beef but also poultry, pig and lamb. The expansion in cereals would largely depend on the growth of livestock production. Any increase in production would be due largely to yields but also to some increase in acreages. The National Economic Plan left policy decisions (e.g. on prices) to be made annually by the Government.

35. The representative of Australia asked whether the National Plan was the overriding factor in the United Kingdom Government's attitude to the problems under discussion, or whether the projections before the Group had been made in relation to the United Kingdom's offer. The representative of the United Kingdom said that the projections had taken account of the National Plan.

36. The representative of the United States wondered whether the agricultural policy of the National Economic Plan was consistent with the stated objectives of the present negotiations. In view of the emphasis on the need to expand output, he considered that the United Kingdom market for outside suppliers seemed to be narrowing. He felt that the projections for 1970, even if they did represent technical maxima, were conservative, and that the determination with which the United Kingdom Government seemed to pursue the agricultural objectives of the National Economic Plan gave exporters ground for pessimism.

37. The representative of Australia observed that both the lower and upper limits of the projected range of increase represented a shrinkage of imports. His Government's concern did not stem directly from the level of the technical upper limit but because it found it difficult to believe that in view of the British Government's efforts to increase agricultural production generally, the increase in cereals production would be reduced, especially as in the course of the last ten years production of cereals had been rising by 7 per cent per annum in spite of the Government's efforts to curb the increase. The expected increase in consumption would be cancelled out by the increase in yields. Utilization of cereals for human consumption, which his country exported, was not expected to rise, so that the market for exports to the United Kingdom would shrink. The representative of the United Kingdom replied that the figures did not support the contention that the United Kingdom imports were bound to fall. This conclusion could only be reached by taking a low figure for the increase in consumption and a relatively high figure for the increase in production. Moreover, he could not accept that production had been increasing at the rate of 7 per cent per annum over the past ten years. The fact that the production of cereals increased even though their prices were reduced showed an increase in efficiency. His delegation had already stated what it was ready to do towards the agreed objectives and the offer was still on the table. The precise commitments to be undertaken were a matter for negotiation. The extent of the United Kingdom's contribution to the objectives must be viewed against a background of all relevant factors including access and prices.

38. The representative of Argentina, noting that most of the increase in cereals production would be in feed grains, which would be used to expand the production of livestock, stressed his country's interest in exports of both cereals and meat.

Canada

39. The representative of Canada, presenting the papers submitted by his delegation (TN.64/Ce/W/11 and W/18) pointed out that the last four years had been extremely favourable to production because of an exceptional run of good weather. This, he

explained, was the reason why future production could not be expected to remain at present levels, even if acreages were to be extended, as yields fluctuated widely in response to weather. The projections for 1970 contained in document TN.64/Ce/W/18 must, therefore, be viewed with great reserve, as production was concentrated in one area, subject to the same climate. Although there might be some increase in the acreage for grains, there were physical limitations, in particular on the northern fringe of the prairie provinces. A large proportion of the land must be kept in summer-fallow for reasons of water conservation and weed control, and furthermore, other products such as legumes and oilseeds competed effectively for land with cereals. Asked about the price levels underlying the projections, he said that Canada had always been subject to free world market prices, and that the projections had been established on the basis of constant world prices without taking account of his Government's desire to see firmer prices on the international market. The projections were extrapolations of present trends. Replying to a question concerning the planned increases in storage capacity he explained that storage capacity at producer level had tended to decrease, while export terminal facilities were expanding in line with the international market situation. The changes in storage capacity would not alter the projections.

40. The representative of the United States viewed with apprehension the possibilities of extension of acreage, the channelling of summer-fallow into production, together with prospects of increased yields and possibly higher prices. He doubted the efficacy of the Canadian system to maintain a balance between supplies and market outlets by means of the delivery quota system and stockholding operations. When there was a pressure on demand by oversupply protective measures were taken. In 1956, for instance, there had been moderate pressure on farm stocks and the Government had passed the Wheat Reserve Act. The representative of Canada commented that the Wheat Board tried to maximize delivery opportunities, but when there was over-supply, farmers had to carry stocks and this pressure acted as a disincentive to production.

41. The representative of the International Wheat Council, commenting on Canadian storage capacity, said that the highest stock level had been reached about seven or eight years previously, at 723 million bushels. Comparing present production with sales, it would appear that 50 million bushels would have to be stocked annually, and if none of this surplus were sold, 250 million bushels would accumulate in the course of five years. This should be borne in mind when considering stockholding capacity. The representative of the United Kingdom said that he saw no evidence that the pressure on elevator capacity had affected production. As storage on farms was relatively easy it was not likely to have a restricting effect on plantings for the following crop year. The representative of Canada replied that the system did operate as a restriction on acreage, although not necessarily from one year to another, and gave figures in support of his statement.

Switzerland

42. Introducing the paper submitted by his delegation (TN.64/Ce/W/7) the representative of Switzerland said that despite a decline in per capita consumption, total food consumption in his country was stable due to natural population growth and the influx of foreign workers. The main increase in cereals utilization would stem from animal feed, but could not easily be forecast as it depended on the developments in different sectors of the animal industry. Asked about the effects of price movements on production, and possibilities for expanding output he said that prices had been relatively stable since 1948. Guaranteed prices for bread grain had risen by 10 per cent while those for the means of production had risen by 50 per cent. In real terms this represented a decrease, and the result had been a downward trend in acreage in recent years. Technically, Switzerland could not substantially increase acreage further. The land taken out of cereals had been sown to grass, lucerne, beet, etc. or had gone out of agriculture altogether. He also doubted whether the average yield per hectare, which was already quite high, would increase much further.

43. The representative of the United States referring to Switzerland's offer of a guaranteed minimum percentage of imports, said that the size of guaranteed imports would depend on whether the lower or higher point in the range of projected acreage were taken. He asked whether the Swiss Government would discourage production exceeding the lower acreage estimate. The representative of Switzerland replied that it was impossible to say at what level within the range acreage would eventually situate itself. His Government was prepared to undertake commitments on imports as well as prices, in accordance with the proposal. Recognizing that access was of importance to exporters he said that guarantees could be provided as a result of the negotiations.

United States

44. Presenting the paper submitted by his delegation (TN.64/Ce/W/12), the representative of the United States said that it illustrated a system for regulating supplies both in the domestic and world markets. The system aimed at achieving a balance between supply and demand through a storage policy and through acreage restrictions. At the beginning of each season the Government projected the quantities that could be disposed domestically and in foreign commercial and concessional markets. On the basis of these projections of the situation of stocks and of expected yields, it estimated the required acreage and set incentives accordingly. The situation was reviewed in the course of the year, and final adjustments could be made through stock programmes. The system, which combined flexibility and accuracy, could help to bring about a balance between supply and demand, and therefore met the needs of a world arrangement on cereals. The operation of the system had involved high costs to the United States but had brought benefits also to others, whom the United States therefore now expected to share in the burden, whether they were importers or exporters. Recalling the terms of his

Government's offer, he stressed that, in the view of the United States, an adjustment of the cereals price was not a sufficient contribution to the ministerial objectives of acceptable conditions of access and expansion of world trade. Other measures were required and it was essential that all major participants effectively subscribe to some kind of restraint on supplies. The United States would make such commitments provided its partners would assume corresponding obligations. The assumption of constant acreage underlying the projections for 1970 was not a promise but an illustration of what the programme could achieve through its machinery. His Government had ample discretionary power in setting disincentives to output and incentives for taking acreage out of production, and could therefore back up its offers. The present system was not frozen, fixed or non-negotiable; Congress could always be called upon for any adjustments to the system. However, the proposed "base price" of $1.50 per bushel (basis United States farm) was a non-negotiable element. The United States evaluated the systems proposed by others according to their effects. To be acceptable a system must include guarantees of access, and be flexible and accurate enough for quick remedial action if necessary. Commitments would have to be undertaken both by exporters and importers.

45. Commenting on the paper, the representative of the European Economic Community expressed his doubts about the efficacity of the programme. Two projections had been made, one assuming continuation of acreage control and one assuming no acreage control, but under either assumption the projections showed a large increase in production. He also pointed to the large increase in projected yields of feed grains which were the results not only of technology but also of price policy, and which would tend to nullify the effects of acreage restrictions. The representative of the United States replied that, impressive as they might be, yield increases represented gains in efficiency due to technology, breeding and similar factors. They were independent of the support level, as a reduction in unit costs would be a profitable move at any level.

46. The representative of the United Kingdom noted that the projections showed yields increasing faster than in recent years, and production to expand nearly three times as fast as in the past fifteen years. He concluded that the system did nothing to slow down yield increases, and that, if one accepted that payments were production neutral and area reductions production-negative costs must have been reduced and that therefore the guaranteed price levels acted as incentives. The representative of the United States replied that if it paid to reduce costs by employing technology at a given level of prices, it also paid at a reduced level. The relevant comparisons to be made were those between the figures resulting from the two assumptions for 1970, i.e. those corresponding to the presence and absence of controls.

47. Asked for acreage under feed grains showing compliers and non-compliers separately, the representative of the United States gave the following figures for non-compliers adding, however, that any conclusions must be based on figures for total cereals acreage:

1965/66	12.5 m. acres
1964/65	17.3 m. acres
1963/64	30.6 m. acres

48. The representative of Switzerland noting the considerable increase in stocks since the early 1950's expressed his appreciation of the rôle of the United States stockage policy and the financial burden involved. He asked whether a target level had been set for stocks, either between the level of the 1950's and the present level, or in terms of a percentage of domestic consumption and exports. The representative of the United States replied that the question of optimum stock levels was still under discussion. The feeling was that stocks should be higher than in 1950 but that some reduction from the present level was desirable.

Japan

49. The representative of Japan, in introducing the papers submitted by his delegation (TN.64/Ce/W/8 and W/19), pointed out that neither of the two projections represented policy objectives of his Government. Both the official long-term projections prepared by his Government and the unofficial medium-term projections by the Ministry of Agriculture agreed as to an increase in demand, but did not agree on future estimates of production. The most probable forecast was that production would show a downward trend in spite of some increase in yields. In Japan there was strong pressure for increasing wheat production because of the need to ensure supplies and because of needs for soil conservation regardless of profitability. On the whole the future pattern of consumption and production of wheat fitted into the commitments that Japan proposed to undertake. Whatever the projections might be, his Government would honour any commitments it made, in particular with respect to the maintenance of such imports as to preserve a reasonable balance between these and domestic production.

50. Replying to questions from members of the Group, he said that there was no published policy for increasing production through rationalization. Increases in yield would only be small, available land was limited, and there was an outflow of labour to industry. Land taken out of wheat production was left uncultivated or went to forage crops or vegetables. Rice consumption seemed to level off, while consumption of wheat was expected to rise further, due to increased popularity of wheat products. Barley for human consumption had been replaced by wheat and also rice. Both wheat and barley were much less profitable to grow than rice. Asked by the representative of Australia whether the extraction rate of flour from wheat was likely to change, the representative of Japan said that this rate was assumed not to change significantly in the future. It was determined by the millers themselves and not affected by changes in the consumption pattern. To another question he replied that the increased quantity of feed grains was going to chickens, pigs and beef cattle, in this order.

European Economic Community

51. The representative of the European Economic Community, in introducing the papers submitted by the European Economic Community delegation (TN.64/Ce/W/15 and W/20) pointed out that between 1934-38 and 1963/64 production of cereals in the European Economic Community had increased by 41 per cent, that in the main

other countries by 49 per cent. During the period consumption in the European Economic Community had risen more or less parallel to production, and net import needs had remained virtually steady, gross imports of all cereals had continuously risen. The degree of self-sufficiency had remained steady between 84 and 86 per cent during the last ten years. Analyzing the future evolution of the cereals market in the Community, the European Economic Community representative emphasized that account must be taken not only of recent trends since the publication of the projections for the period 1958-1970, but also of the recent adoption by the Council on 15 December 1964 of the common price levels to be applied on 1 July 1967. The re-assessment of the 1958-1970 projections in regard to production, consumption and trade by the European Economic Community showed clearly that in conformity with the objectives of the single price policy, there would be no radical change in the supply situation of the Community but that on the contrary reasonable import flows would be maintained from third countries.

52. The representative of Argentina said that in the last three years the degree of self-sufficiency had not exceeded 85 per cent only because increased imports of maize had offset the decline in imports of other cereals. If the maize price continued to increase it would stimulate production and the degree of self-sufficiency would increase. The representative of the European Economic Community said that the figures he had referred to applied to all cereals, in accordance with the common agricultural policy. The establishment of a common price would not result in an increase in the price of maize that would lead to such an increase in maize production as to affect the overall estimates he had given. The representative of Canada expressed his interest in obtaining in the negotiations a share for exporters in the growth of consumption; he asked how recent consumption trends compared with imports. The representative of the European Economic Community replied that although consumption of bread wheat had slowed down, imports of quality wheat from third countries had remained steady, so that the relative position of third countries had improved.

53. The representative of the United States expressed his concern about the effect of the common cereal price on trade opportunities. He felt that the paper submitted by the European Economic Community was conservative in its assessment of the effects of higher prices on production and consumption, and that it under-estimated the impact of the removal of the "quantum" in France on production. The representative of the European Economic Community stressed that the "Perspectives 1970" had been brought up to date by objective scientific methods.

54. The representative of the United States noted that the degree of self-sufficiency in all cereals in the Community as a whole had been fairly stable over the last ten years. He asked what mechanism there would be to ensure that domestic production was kept at a given percentage of consumption, in the event that production increased while consumption slowed down. The representative of the European Economic Community replied that the question of corrective measures if the import level were not maintained was a question to be dealt with at the stage of the negotiations proper. Moreover, he reaffirmed that the binding of the support margin, as proposed by the European Economic Community, was in itself sufficient to influence production and ensure the maintenance of certain trade flows.

55. A question was asked on the effect of denaturing wheat on demand for coarse grains. The representative of the European Economic Community replied that while denatured wheat could have a downward influence on consumption of other feeds, it could be used only in limited proportions in the manufacture of compound feedstuffs. The denaturing process was costly and the quantities so treated had recently declined. Replying to another question by the United States, he said that the commitments undertaken by the European Economic Community would have repercussions on the Community's policies with respect to production as well as stockpiling.

56. Members of the Group referred to the table, presented by the European Economic Community, giving a series of projections under several alternative assumptions, of the situation of the Community's cereals market for 1970 (TN.64/Ce/W/20). The representative of Switzerland said that the table showed that the increase in consumption would be entirely in animal feed, and would be met by higher production not only of coarse grains but also of wheat; this gave wheat added importance in any arrangement. The representative of Canada stressed that the low level of European Economic Community projections for 1970 confirmed the need for access commitments, for all cereals and not wheat alone, in the form of a minimum import quantity and a participation in growth of consumption.

Argentina

57. The representative of Argentina, in introducing his paper (TN.64/Ce/W/10) described the geographical and historical conditions affecting agriculture in his country. The present area available for cereal crops, oilseeds, and the major part of high breed cattle was 56 million hectares, 23 million of which were under crops while the remainder was suited either to cropping or to rearing of livestock. The present area under crops was 20 per cent below the 1935-39 average, but yields had doubled in the period. Some extension of the present area was possible, and research to improve agricultural production was continuing. The technical maximum for wheat production was 13 million tons, but in view of Argentina's offer and taking account of economic factors, future production could be estimated to lie between 8 million and 10 million tons of wheat. Domestic Argentinian price levels were being maintained below international prices.

58. Replying to a series of questions put by the representative of the United Kingdom, the representative of Argentina gave the following figures for 1964/65 (Spec(65)91):

	Wheat	Maize	Oats, Barley, Rye, Sorghum
Area sown (million ha.)	6.2	3.7	5.4
Area harvested (million ha.)	5.8	3.0	2.7
Production (million tons)	10.1	5.1	3.2
Yield (kg. per ha.)	1,741	1,700	1,200

Current exports of wheat were about 4.5 million tons, but might reach 6 million tons by 1970. The difference between areas sown and harvested represent area used directly for grazing purposes. Maize yields were at the pre-war level and were considered satisfactory for the type of maize grown; unless other types were introduced no increase in production was foreseen. The competition for land between maize and wheat would depend on prices and farmers' decisions.

59. Replying to questions by the representative of the United States, he said that the figure of 13 million tons of wheat in 1970 was a technical maximum assuming no change in prices, while the aim of 8 to 10 million tons was part of the offer, provided the offer could be maintained. Noting that the offer proposed to undertake to keep domestic price levels below world prices, the representative of Australia observed that the guaranteed price had been moving in the same direction as the world price. He asked whether it was the Argentinian Government's intention to let the guaranteed prices move up and down with the world price in the future. The representative of Argentina replied that the ideal would be to establish a price that would remain stable over a period of time. Argentina would keep its guaranteed prices below the fixed international price, but there was no reason why the guaranteed prices should not fluctuate according to market conditions. Asked whether his Government's offer contained proposals for management of excess supplies, the representative of Argentina stated that his country would do everything necessary to ensure supplies; it was however not the objective to decrease production. The representative of the European Economic Community asked whether in that case Argentina was ready to make commitments on the level of domestic prices. The representative of Argentina replied that this was a negotiating point but that the possibility of such commitments was not excluded. To another question, he replied that in his view normal stocks should amount to about one half of annual production. He provided data on grain storage capacity (Spec(65)91) which showed a present capacity of port installations of 3,437,000 tons, of rural installations of 3,000,000 tons and of farm installations of 1,790,000 tons.

(III) <u>Alternative bases for fixing an international minimum price with particular emphasis on the possible effects upon the competitive position of all wheat traded on world markets; this is also applicable to coarse grains</u>

60. Mr. Moore (Executive Secretary, International Wheat Council) introduced the study prepared by the Secretariat of the International Wheat Council on some of the technical questions relevant to the selection of a basis for an international minimum price or a price range (TN.64/Ce/4 and Add.1). He said that the paper covered two interrelated subjects:

I. the choice of a basing point, and

II. the choice of the reference wheat.

It appeared that the possible alternative basing points were:

(i) an interior point in the country concerned,

(ii) f.o.b. at a named ocean port, and

(iii) c.i.f. at a named destination.

61. A disadvantage of the first alternative was that variations in internal transport costs directly affected the minimum price for all other wheats. The second alternative, the fixing of the international price in f.o.b. terms, required a choice between two possibilities:

(a) a system which provided that any two wheats of identical quality and characteristics coming from different sources could be landed c.i.f. in any importing country in the world at the same price, or

(b) a system which allowed the benefits of geographical proximity to markets to operate by fixing a common price, subject to quality differentials, at each exporting point.

The first possibility was flexible and maintained the possibility of competition in the importing country concerned. The second possibility favoured producers closest to markets and could lead to a serious distortion of existing patterns of trade. A disadvantage of the third alternative, expressing the international price on a c.i.f. basis, was that fluctuations in freight rates were entirely carried by the exporter. It was possible to convert the second system, based on an agreed f.o.b. price, to a c.i.f. basis using current freight rates, and thus avoid the effect of rises and falls in the freight market on the net commodity return to the exporting country.

62. As regards the choice of the type and grade of the reference wheat, there were various criteria which could be applied but four postulates appeared to be particularly relevant:

(a) the wheat should be regularly traded on international markets;

(b) it should be widely traded;

(c) it should have a definable price relationship with the principal coarse grains; and

(d) the wheat chosen must be capable of precise definition as regards quality.

63. The Group expressed its appreciation for the clear and comprehensive way in which the difficult problems and possible alternative solutions had been set out by the Executive Secretary of the International Wheat Council.

64. On the request of a member of the Group the representative of the International Wheat Council explained the working of the International Wheat Agreement. He said that the International Wheat Agreement maximum price had been tested under the first Agreement (1949-53) and the system had worked. During the next six years (1953-59) market prices at times approached the minimum price. During the 1959 Agreement, market prices moved well within the International Wheat Agreement range and did not test either extreme. Article 14 of the present Agreement spelled out the action to be taken at the minimum price or if the minimum price was being approached, as happened at the start of 1965. The Advisory Committee on Price Equivalents established the facts and made a decision on the price differential. Subsequently it reported to the Executive Committee which in turn reported to the Council. The present Agreement fundamentally worked on the basis of establishment and agreement on a set of facts and on the willingness of participants to comply with their obligations.

65. The representative of Australia in this connexion recalled that the present Agreement was a balance between exporters' and importers' rights and obligations. In the Kennedy negotiations however, his country expected to receive certain benefits in an agreement on wheat, for which it was prepared to provide compensation in the industrial area.

I. Choice of a basing point

66. The Group had a discussion on the three alternative choices for a basing point set out in the paper by the International Wheat Council.

67. The question was raised whether it would technically be possible to have more than one basing point. The representative of the International Wheat Council could see some merit in having subsidiary basing points. However, if they were proliferated, problems would result from having to negotiate the differences between them. The representative of the United Kingdom recognized the disadvantages of having an interior point as basing point, due to the effect of variations in internal freight rates. Although this system had worked reasonably well for wheat he did not think that any other interior point for wheat would be acceptable and this would certainly be the case for coarse grains.

68. The disadvantage that under a system of a rigid c.i.f. price exporters would solely carry variations in freight rates was recognized. For this reason the representative of Australia suggested examining the possibility of having a fixed c.i.f. price within a range, allowing for fluctuations in freight rates. The representative of the International Wheat Council felt that such a system would be technically possible. It would however require detailed spelling out in a possible agreement of variations in freight rates for major routes. It would also require that when freight rates moved outside the range the basic c.i.f. price would have to be revised. He doubted whether it would be possible to negotiate a sharing between exporters and importers of variations in freight rates. The system would include a risk factor due to external circumstances which could not be influenced.

69. The representative of Australia also tentatively suggested the possible establishment of c.i.f. prices for various areas of the world. It was felt by other members of the Group that this was a negotiating matter which required a weighting of possible results by both importers and exporters.

70. The representative of the United Kingdom referred to the system of the International Wheat Agreement under which, for European exporters, the derived f.o.b. prices at the minimum were worked out on a c. and f. country of destination basis. He wondered whether this system could be extended on a broader regional basis. The representative of the International Wheat Council explained that the present International Wheat Agreement system allowed European exporters to sell at distant destinations at a lower minimum price than would have been the case under the general formula, based on a c. and f. United Kingdom equivalent. He doubted whether it could be applied on a wider regional basis.

71. Commenting on the two possibilities of fixing the international price in f.o.b. terms, referred to in paragraph 9 of the International Wheat Council paper (TN.64/Ce/4), the representative of the International Wheat Council said that he favoured the system under (a), which would provide that any two wheats of identical quality and characteristics coming from different sources could be landed c.i.f. in any importing country in the world at the same minimum price. Under this system exporters proximate to importing markets would, as far as the determined minimum price was concerned, not be favoured and all exporters would be on an equal footing. If realistic quality differentials were agreed, this system would tend to consolidate traditional channels of trade. A substantial number of derived f.o.b. prices would be involved but the number would be less than the number of suppliers since freight rates were identical for certain suppliers to particular markets.

72. The representative of the United Kingdom also expressed his preference for the system described in paragraph 9(a) of document TN.64/Ce/4. Under this system minimum prices tended to be fixed in accordance with normal conditions of competition. If prices were at the minimum there would be no reason for importers to change their normal sources of supply. Exporters from countries near importing markets would get a higher net return because of lower freight costs.

73. The representative of the European Economic Community said that it might be possible, working from a basing point, in f.o.b. terms, to derive the c.i.f. price for an import market and then calculate back the f.o.b. price for each exporter, on the basis of actual freight rates at a given point of time. This price would then be fixed as the minimum f.o.b. price for exports from the country concerned to the particular destination. Such a system could remove the need for the imposition of a levy by the importer and the c.i.f. minimum import price would only operate against exporters who did not maintain their f.o.b. export price. It would imply that one exporter had different f.o.b. minimum export prices for different destinations. It had the advantage that minimum export prices would not be affected by variations in freight rates. Under such a system, the European Economic Community being an exporter and an importer, would have a single c.i.f. price and various f.o.b. prices depending upon its export markets. It might also be possible to derive c.i.f. prices for regions rather than for individual countries.

74. Some members of the Group felt that under a system when c.i.f. prices or f.o.b. prices were derived from a basing point no fixed prices could be set, but a margin of allowance for fluctuations in freight rates should be determined.

75. The representative of the International Wheat Council, commenting on the tentative European Economic Community suggestions, said that in the negotiations on various single f.o.b. prices each country would negotiate for the prices which it considered most beneficial. As far as private trade was concerned it would

seem sufficient to determine on the basis of the f.o.b. reference price a derived c.i.f. price for each importing country, and it would probably not be necessary to determine as a second step derived f.o.b. prices in each exporting country. The fixing of a clear set of derived c.i.f. prices would avoid difficulties for private trade of having in each exporting country a number of f.o.b. prices varying according to destination.

II. Choice of the reference wheat

76. In connexion with the selection of the reference wheat the representative of the International Wheat Council said that a possible agreement might:

(a) establish one price for one particular wheat and then derive prices for other wheats and certain coarse grains from that price;

(b) establish one price for one particular wheat and another price for a principal quality coarse grain; or

(c) establish one price for one particular wheat and a series of prices for the various coarse grains.

The representative of the International Wheat Council also said that there were various criteria which could be applied to the choice of the type and grade of wheat to be adopted as the reference wheat, but four of them seemed particularly relevant:

(a) the wheat should be regularly traded on international markets;

(b) it should be widely traded;

(c) as part of a Grains Agreement, it should have a definable price relationship with the principal coarse grains; that might be an argument in favour of the choice of soft wheat as the pilot quality for the international price;

(d) the wheat chosen must be capable of precise definition as regards quality and grade so that differentials in relation to other wheats could be calculated without too much difficulty.

He further said that the grades established for the reference wheat must not change from year to year. Wheat not capable of precise definition as regards quality would be only loosely tied to the reference wheat by a relatively narrow range rather than by a specific price differential. A member of the Group suggested that since the reference wheat should be regularly traded probably a wheat from a country that generally held stocks should be selected. In reply to

a question by a member of the Group the representative of the International Wheat Council said that No. 1 Manitoba Northern did not meet the criteria that the reference wheat should be regularly and widely traded. No. 2 Manitoba Northern would have been a better choice. However the price relationship between the two wheats had been very constant.

(IV) Quality differentials for the various qualities of wheat and the principal coarse grains

77. Mr. Moore (Executive Secretary, International Wheat Council) explained the functions of the Council's Advisory Committee on Price Equivalents on the basis of a specimen working paper recently used in the Committee's discussions (TN.64/Ce/5). The Committee had at its disposal information on the various c.i.f. prices in a number of important markets. On the basis of these data, calculations were made of the corresponding f.o.b. prices which by applying a quality differential were compared with the International Wheat Agreement minimum price. Obviously, when prices were approaching the minimum, it was sometimes very difficult to reach agreement on the differential. Quality differentials had not been negotiated under the International Wheat Agreement, and the Advisory Committee on Price Equivalents used historical data from the 1959-62 period as milestones for making its judgments. The Committee's task would have been much easier if quality differentials had been negotiated. As long as differentials had not been negotiated and prescribed the system could not work effectively. Mr. Moore further stated that the starting point in establishing the scale should be the differences noted on the market over a specified period. According to his experience price differentials tended to widen when market prices went down; at high prices differentials tended to contract. This made it desirable to negotiate differentials at the minimum and probably a somewhat different set of differentials at the maximum.

78. The representative of Japan expressed the view that instead of determining fixed differentials a margin should be agreed wide enough to allow for normal fluctuations. He enquired whether or not regular seasonal price fluctuations for each wheat should be taken into account in establishing the range of price differentials. The representative of the International Wheat Council replied that he did not believe that there was a regular seasonal variation in relative values, with the one exception of Canadian wheat whose prices in relative values increased during the winter when the St. Lawrence was closed. However the difference was less than the actual difference in freight rates because much of the wheat sold in the winter was shipped through the St. Lawrence during the summer.

79. Referring to the phenomenon that differentials were wider when market prices were low and tended to narrow when the market strengthened, a member of the Group wondered whether these differences were sufficient to be taken into account. The representative of the International Wheat Council replied that this question

depended to some extent on the span of the range between the minimum and maximum price. If the range was narrow the determining of a different set of differentials at the maximum and at the minimum would be less important that if the range was wider.

80. The representatives of the United Kingdom and the United States noted that in some countries there could be significant changes from year to year in the quality of the same wheat. They also noted that there were at times great differences and even reversals in differentials in different markets. The representative of the International Wheat Council felt that it would not be desirable to determine for the same wheat different differentials for different markets. When considering quotations in the short term differentials did vary. However when considering a much longer period, as was presently being done under the International Wheat Agreement, such differences tended to disappear. In negotiating an agreement it would however be up to the participants to decide whether or not short-run discrepancies should be taken into account.

81. In reply to questions and comments by the representatives of Canada and the United States, the representative of the International Wheat Council said that the purpose of minimum prices was to sustain international prices at certain desired levels, while the purpose of differentials was to ensure that there would be no uncertainty as to other wheats. However if the differentials were too great the purpose of minimum prices could be destroyed for particular wheats. Differentials applied only to minimum or maximum prices and market forces were left to establish differentials between these two levels.

82. The representative of the United States doubted whether it would be possible to fix a set of differentials for a long period. He enquired whether the Committee on Price Equivalents could be entrusted with the task of regularly considering the current market situation and announcing differentials for other wheats. The representative of the International Wheat Council said that under the present system of the International Wheat Agreement there was not much purpose in strengthening the Committee on Price Equivalents; its findings could always be contested. This was one of the difficulties of the present Agreement, which functioned essentially on the basis of the establishment and acknowledgement of a series of facts and on the readiness of the participants to fulfil their obligations. Such difficulties should be overcome by determining a set of differentials. It was however feasible to make the Committee on Price Equivalents fully independent and to give it precise terms of reference and the power to fix differentials within the terms of reference. In that case the Committee should not only be guided by current market conditions, but it should be entitled to determine differentials in advance, for example for the following month. In the terms of reference probably some restraint should be laid down, so that only minor deviations from published differentials would be allowed.

83. The representative of Australia felt that an independent Committee on Price Equivalents could not prevent trade taking place below the minimum price. In his view it was essential to establish a system of minimum import prices supported by a levy system, so that trade would not benefit from a breaking of the minimum. This system necessarily had to be complemented by a set of differentials pre-determined in the negotiations. The representative of the International Wheat Council agreed that precisely fixed differentials were operationally preferable, but would probably be difficult to negotiate. A narrow range rather than a single differential would facilitate the negotiation of differentials. One might envisage preliminary action when the price of the particular grain approached the range, later action when the price entered the range and final action at the other end of the range. The United States representative emphasized that the important question was not how to fix differentials but should they be fixed. He stated that fixing differentials was tantamount to either fixing market shares or to driving competition to non-price methods.

(V) <u>The possibility of determining the relationship between prices of wheat and the principal coarse grains</u>

84. In the proposals tabled on 17 May, most members of the Group had expressed the desire that any world arrangement on cereals should cover wheat and the principal coarse grains. In the discussions on international prices there may have been some doubt as to the feasibility of determining the relationship between prices of wheat and of the principal coarse grains. The Group had before it a paper, prepared by the secretariat of the FAO, on Trends and Interrelationships in International Prices of Coarse Grains (issued as GATT document TN.64/Ce/6).

85. Introducing the paper prepared by her organization, Dr. Anneliese Binder, representative of the FAO, gave an outline of the structure of the paper and its methodology. Summarizing the findings she said that in a ten-year period prices of coarse grains had shown more or less similar trends. Price relationships between different coarse grains were continually changing in the short term, reflecting the demand and supply situation for different grains. In the longer term there had been a gradual relative decline in the price of maize. It was significant to note that relative prices in times of great supply tended to be close to the relative feeding values. In view of the constantly changing relationships it was difficult to say what "normal" price relationships were. Turning to some implications for price provisions of an international arrangement on grains, she outlined the three possible schemes considered in the paper. The first possibility was the establishment of a basic price range for one grain and of derived price ranges for other grains, as well as of quality differentials. The second possibility, arising from the first, would be the establishment of minimum price levels and of differentials at the minimum for all grains, but a maximum price only for the leading grain. The third possibility would be the establishment of a price range for one leading grain, leaving prices of other grains to find their own level. The paper abstained from expressing any preference among the schemes considered; its aim was to contribute a background to the discussions.

86. The Group expressed its appreciation of the work done by the FAO secretariat in preparing the paper and of the clear way in which it was presented by the representative of the FAO.

87. The Group had an exchange of views on some of the findings which appeared in the FAO study. It was noted that prices of maize and sorghum for which the United States was the principal supplier, had been relatively stable, while price fluctuations for barley and oats had been much sharper. It was felt that this to some extent could be explained by the United States stock-holding policy. The downward trend of relative prices of maize on the other hand was more likely due to increases in relative efficiency and productivity. The representative of the United States stated that his country had no definite objectives as regards the volume of stocks. Because of its supply management policy, stocks were no longer as burdensome as in the past.

88. Some members of the Group expressed the view that the arrangement should encompass coarse grains in the same way as wheat. The representative of the United States on the other hand considered that unless agreement was first reached on whether or not price differentials should be set, it would be premature to discuss how and where they should be set. The representative of Japan not only questioned the practicability of an international price scheme for coarse grains because of technical difficulties in establishing quality differentials, but also strongly doubted its necessity taking into account the world situation of demand and supply in coarse grains at present and in the foreseeable future. In connexion with the FAO study which suggested that extreme price fluctuations should be prevented, he emphasized that any artificial increase in prices should be avoided, and further stressed that it would be difficult for his Government to participate in any cereals arrangement if it would contain a clause providing for artificial increase in the level of international prices of coarse grains.

89. The representative of Australia questioned whether the same type of solutions should be sought for coarse grains as for wheat. The problems involved were somewhat different and did not appear as pressing for coarse grains, i.e. the commercial market for coarse grains was growing and the level of world stocks represented only a small proportion of annual consumption. He could envisage a scheme of minimum and maximum prices, applying to all coarse grains, below and above which no imports were to take place. These upper and lower price limits could be set, say, for the United Kingdom and then translated to other importing countries. It was, however, preferable to work out an arrangement for wheat first, then for wheat flour, and only subsequently for coarse grains.

90. The representative of the European Economic Community stressed the interdependence between wheat and coarse grains and among coarse grains themselves, which called for a definition of price relationships. These price relationships could be established using criteria based on:

(1) production targets;

(2) present and future consumption, the latter both in the short and long term, i.e. the criterion of the utilization of cereals in the various countries;

(3) relative feed values (this criterion would tend to lose in importance if prices rose above the minimum, in which case the selection of an alternative criterion might be necessary).

The EEC representative added that with respect to the applicability of the system the FAO proposed two methods - either a minimum price fixed for each cereal with a scale of price equivalents, or the use of a pilot cereal (e.g. maize) from which the price of other coarse grains could be derived. The first method seemed the most interesting at first sight: the Community attached greated importance to the notion of an international reference price and a minimum price, and in that respect there was a convergence between the minimum price and the criterion of the relative value of fodder.

91. The representative of the EEC suggested that the Group might try to define a set of criteria on which to base price relationships. It might further be useful if delegations could supply information on the actual price relationships that prevailed in their countries. The relevant price relationships were those prevailing on the domestic market, at exportation and at importation. The price relationships at these three points were not necessarily quite the same. The data might be given in the form of two series of price relationships:

(i) wheat/coarse grains; and

(ii) coarse grains/maize and barley.

Maize was suggested because it had already been proposed as a pilot cereal, and barley could play a similar rôle. He added that such relationships existed in all countries and resulted from the play of market forces but also from the objectives and criteria of domestic policies. As an example of price relationships he gave the following figures on the basis of the threshold prices which would apply in the Community as of 1 July 1967, and which had been established on the basis of certain criteria reflecting the Community's production targets and the common agricultural policy:

Soft wheat	100
Barley	85
Oats	81
Maize	85
Rye	88
Sorghum	82

As existing relationships in all countries were at least partly the result of policy criteria, the criteria used by individual governments should also be studied.

92. The representative of the United States said that the United States loan rate was normally set in such a way as to make wheat and coarse grains freely substitutable both in usage and production. The Canadian delegation provided figures on price relationships between wheat, barley and oats prevailing in the Canadian market over the last six years (document Spec(65)92). The representative of Australia explained that in his country the domestic price of wheat was fixed under the Wheat Stabilization Plan, while prices for all other grains were determined by normal market forces.

93. The representative of the United Kingdom said that in any arrangement containing price provisions, three factors were of importance. These were international prices, domestic guaranteed prices and domestic market prices. Domestic market prices in the United Kingdom had followed world trends; the introduction of the minimum price provisions had not altered the pattern. In the EEC and many other countries, on the other hand, internal market prices were more insulated and were geared to guaranteed prices. In the long run, any system must, however, take account of world developments. Commenting on the concept of the reference price, he said that the United Kingdom found it difficult to accept that a single price could serve all the purposes claimed for it. If an arrangement embracing coarse grains contained price provisions, it must incorporate a system of price relationships between wheat and coarse grains on the one hand, and among individual coarse grains on the other. These relationships might, for instance, be defined at the minimum price level on the basis of feeding values, but supply conditions and import requirements were also relevant.

94. The representative of Switzerland said that the price relationships prevailing in his country were wheat = 100, and barley, oats and maize about 80. There seemed to be a marked difference between wheat and coarse grains in the sense that future demand for the latter was expected to increase substantially by 1970. This gave a guarantee to producers. One could, therefore, include access provisions into the arrangement without fixing minimum prices for coarse grains. If prices were to be discussed, however, one should concentrate on wheat, which in any case showed a close relationship to coarse grains. Should it appear necessary - although he doubted it - price provisions might subsequently be worked out for the leading coarse grains.

(VI) Scope and methods proposed for utilizing wheat and coarse grains surplus to normal commercial requirements as food aid

Scope

95. The Group had a preliminary discussion on the scope for utilizing wheat and coarse grains surplus to normal commercial requirements as food aid. Most members believed that there was ample scope for providing food aid to developing countries

and that financing would prove to be the principal limiting factor. The extent to which financing would be forthcoming was a political matter that would have to be negotiated. It was also brought forward that another important factor would be the absorptive capacity of the developing countries. Projections had been made by different bodies of the level of grain import requirements of food deficient countries under various assumptions. These projections, however, sometimes showed great divergencies. On the other hand projections on production and utilization made under item (II) showed the magnitude of the surpluses that might be expected in the coming years. It was considered essential for further discussions on this point that more precise data on requirements for food aid were available. The Group agreed that the FAO should be asked to provide, if possible, within five months, broad estimates of the import requirements of grain deficient developing countries of wheat and coarse grains for 1970 and if possible beyond, to assist the Group in assessing the future scope for food aid.

Method

96. The delegate of Australia explained his Government's proposed arrangement for non-commercial trade in wheat. He said that it was an essential adjunct to the proposed arrangement for commercial trade in wheat. The proposed arrangement for non-commercial trade was not specific in regard to scope beyond pointing out that the only limiting factor was financing. In regard to methods it stated that the burden of financing should be shared by all developed nations on the basis of capacity to pay. Non-commercial sales should not be allowed to displace commercial sales and thus it would be necessary to follow certain guidelines, such as the FAO Principles of Surplus Disposal. There were various possible criteria for determining the amount of wheat each exporter should contribute under the arrangement. The price to be paid for such wheat, which might be lower than the commercial price, was a matter for negotiation. The Australian Government envisaged a gradual increase in the size of the programme. It had not thought out the details of administration. All of the proposals presented were negotiable, with the single exception of the sharing of the cost by all developed countries.

97. The delegate of Argentina introduced a proposal previously made by his Government to the seventh session of the United Nations/FAO Intergovernmental Committee of the World Food Program in April 1965 (circulated as a GATT document TN.64/Ce/W/21). The proposal aimed at the conversion of the World Food Program into a World Food Fund. He emphasized the similarity between the proposals submitted by the Australian Government and his Government. The only significant difference was in the structure and financing of the arrangement. The Argentinian proposal covered much more than just cereals and the structure of the proposed fund could therefore not be discussed in the Group. However there should be a close link between any cereals arrangement and a world plan for food aid. Food aid should not be a permanent means for disposing of surpluses but the present surpluses should gradually be absorbed by the fund.

98. Various points in the Australian and Argentinian proposals were the subject of discussion. As regards the terms on which the wheat moving under a non-commercial arrangement would be received by the developing countries, a member of the Group argued that it would not be necessary to grant such wheat to developing countries, but it might be sold for local currencies. Another delegate pointed out the monetary implications and the possible effects on domestic agriculture of wheat moving under such an arrangement. Some members expressed concern over the possible effect of such an arrangement upon the exports of developing countries (e.g. rice), especially if concessional sales were tied to commercial sales. One delegate expressed the view that his Government fully recognized the need for aid to less-developed countries and that his Government had in fact contributed its share to the World Food Program. He emphasized, however, that as far as surplus disposal was concerned, the burden should be carried only by those countries which were likely to create such surplus, whether they were importing countries or exporting countries. In reply to a question the Australian delegate explained that since under the Australian proposal wheat would be purchased by the financing agency from exporting countries at less than the market price the programme would have a disincentive effect on production. It was generally agreed that guidelines, such as the FAO Principles of Surplus Disposal, would be required to prevent displacement of commercial sales.

ANNEX

LIST OF PAPERS SUBMITTED BY DELEGATIONS

Item (I)

Spec(65)68	7 July 1965	System of government intervention in the marketing of grains -- Argentina
Spec(65)65	6 July 1965	Wheat and oats prices - Australia
TN.64/Ce/W/16	24 September 1965	Australia - export subsidies: wheat and other cereals
Spec(65)70	8 July 1965	Canadian grain policy
Spec(65)146	23 December 1965	Canada -- prices of wheat and coarse grains; Government income assistance
Spec(65)71	7 July 1965	Working document prepared by the European Economic Community delegation for the study of the level of the return to cereal producers in the EEC at the single market stage
Spec(65)84	22 September 1965	Estimated incidence of abolishing the quantum in France -- working document by the delegation of the Commission of the EEC
Spec(65)85	22 September 1965	Table showing producer's remuneration and components thereof in various countries - working document by the delegation of the Commission of the EEC
Spec(65)89	5 October 1965	Denaturing of soft wheat in the EEC
Spec(65)90	5 October 1965	Working document - refunds on exports/EEC
Spec(65)67	7 July 1965	Japan -- support prices
Spec(65)69	7 July 1965	Producer prices and assistance to cereal production in the United Kingdom
Spec(65)72	8 July 1965	Returns to cereals producers and market prices in the United States
TN.64/Ce/W/13	21 September 1965	United States - returns to cereal producers
Spec(65)88	1 October 1965	United States export payments on wheat 1963/64 and 1964/65

TN.64/Ce/W/14	21 September 1965	United States - storage and handling costs incurred by type of storage on commodities acquired under the price support programme. Fiscal years - 1962 - 1963 - 1964 - 1965
Spec(65)66	6 July 1965	Notes on prices and production of cereals - Switzerland

Item (II)

TN.64/Ce/W/4	20 September 1965	Submission by the Australian delegation
TN.64/Ce/W/6	17 September 1965	Notes on the statistical material relating to supplies and utilization of wheat and coarse grains in the United Kingdom
TN.64/Ce/W/9	20 September 1965	United Kingdom - projections of production and consumption of cereals in the United Kingdom to 1970
TN.64/Ce/W/11	21 September 1965	Canadian grain production and marketing
TN.64/Ce/W/18	27 September 1965	Canada - projections of Canadian cereals production, consumption and foreign trade as at 1970
TN.64/Ce/W/7	17 September 1965	Switzerland - production, exports/imports and consumption of cereals
TN.64/Ce/W/12	21 September 1965	The United States grain situation 1950 to 1970
TN.64/Ce/W/8	17 September 1965	Japan - trends of the production of wheat and barley in Japan
TN.64/Ce/W/19	5 October 1965	Japan - estimates of supply and demand for feedgrains in Japan
TN.64/Ce/W/15	24 September 1965	Trends in production, consumption, and trade in cereals in the EEC
TN.64/Ce/W/20	5 October 1965	Future evolution of the cereals market of the EEC in 1970
TN.64/Ce/W/10	22 September 1965	Argentina - remarks and analysis of background and trends
Spec(65)91	6 October 1965	Argentina - grain storage capacity in public and private installations as equipped at 30 June 1965

Item (III)

TN.64/Ce/4	7 September 1965	Note by the Executive Secretary of the International Wheat Council
TN.64/Ce/4/Add.1	7 September 1965	" (addendum)

Item (IV)

TN.64/Ce/5	8 September 1965	Note by the Executive Secretary of the International Wheat Council
TN.64/Ce/W/5	17 September 1965	Minimum prices for cereals imported into the United Kingdom
TN.64/Ce/W/17	21 September 1965	European Economic Community - coefficients of equivalence between the qualities of cereals offered on the world market and the EEC standard of quality

Item (V)

TN.64/Ce/6	17 September 1965	Trends and interrelationships in international prices of coarse grains - Food and Agriculture Organization
Spec(65)92	7 October 1965	Canada - price relationships between wheat and coarse grain

Item (VI)

TN.64/Ce/W/21	6 October 1965	Argentina - proposal for a world food fund

Note: Some of the papers listed have been distributed by delegations directly and have only been reproduced in the translated version.