

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

MTN/GR/INF/3
17 October 1975

Special Distribution

Multilateral Trade Negotiations

Original: English

Group "Agriculture"

Sub-Group on Grains

INFORMATION NOTE

Transmitted by the Delegation of the United States

Attached is the proposal for an international grain reserves system presented by the United States at the International Wheat Council Preparatory Group meeting on 29 September 1975.

This proposal has been transmitted for the information of interested delegations and should not be considered a "Working Document" for the Sub-Group on Grains.

INFORMATION NOTE

United States Proposal for International Grain Reserves System

(Presented to the Preparatory Group of the International Wheat Council on
29 September 1975)

Introduction

1. Twice in this decade unpredictable shortfalls in world grain production have sharply reduced available supplies. The consequences have been manifested in widely fluctuating prices and abruptly altered consumption and trade patterns. In these circumstances, the most affected have been those developing countries whose economies are most vulnerable. But all countries have been affected by the cost of adjustments to fluctuating grain supplies.
2. After considering the issue, the World Food Conference stressed the urgency of international action to enhance world food security, which may be defined as a reasonable assurance of the availability of adequate food supplies.
3. An international agreement on nationally-held grain reserves would provide a means for offsetting a significant portion of serious global production shortfalls to moderate their disruptive effects. In this paper the United States outlines a concept for such a reserve agreement.

Size and composition of reserves

4. Reserves, for this purpose, would be holdings in excess of normal working stocks. These are estimated to be 10 per cent of national production or consumption, whichever is larger. On this basis, world working stocks are approximately 100 million metric tons of all grains. Reserves would be stocks above this level.
5. The reserve stocks would need to be large enough to meet a substantial portion of major production shortfalls. A reserve sufficient to offset potential production shortfalls completely would be unrealistically large and costly. A reserve adequate to offset at least 90 per cent of production shortfalls would significantly enhance food security while being more feasible from the standpoint of size and cost.
6. Since the emphasis is on improving food security, a reserve of 30 million tons of wheat and rice, the most generally consumed food grains, should be established. Wheat is the most widely traded food grain and is highly substitutable for rice. The reserve could be divided along the lines of 25 million tons of wheat and 5 million tons of rice. This stock would be sufficient to offset over 90 per cent of projected deviations below the world production trend and would meet all of the criteria proposed here.

7. Consideration should be given to whether stocks of coarse grains are needed, since these are used for food in some areas of the world and a shortfall in the production of food grains increases the demand for wheat as animal feed.

Distribution of reserve holdings

8. The responsibility for holding reserves will need to be equitably shared among participants. The criteria for determining these shares should take into account historic rôle of participants in grain production and trade and financial capacity, and should be based upon generally available and accepted data. Measures of trade in food grains, gross domestic product, and variance in production meet these criteria.

Guidelines for holding and releasing reserves

9. Continuation of full production policies on the part of major producers should provide supplies of grain adequate to permit the buildup of reserves. However, internationally agreed rules or guidelines will be required to assure properly co-ordinated action. Action to increase reserve holdings would be triggered by a quantitative indicator based upon stock levels and deviations in production from the long-term production trend.

10. When production is estimated to exceed the long-term trend by an agreed percentage, participants would be required to increase reserves. With regard to reserves accumulation, the obligation of any participant would not go beyond its share of reserve holdings, although a participant would be free to accumulate reserves above that amount at its discretion.

11. Likewise, agreed rules or guidelines would be needed to govern draw-down of reserves. There must be a clear presumption that all participants will make reserves available when needed. Conversely, reserves must not be released prematurely or excessively and thus unnecessarily depress market prices. National action to release reserves would be triggered by a quantitative indicator based on stock levels and production shortfalls operating in a manner similar to that for acquiring reserves.

12. A reserve system based on a two-stage response to shortage situations would provide flexibility in meeting short supply situations, while assuring that reserves would be released when needed.

(i) Warning stage

When a potential shortage situation - defined by an agreed indicator - was identified, participants in the agreement would consult to determine what action, if any, was warranted and to co-ordinate the measures each would take within previously agreed guidelines. These guidelines could provide for:

- measures to reduce stocks (apart from reserves)
- reduction of wheat feeding to livestock
- reduction or elimination of export barriers
- exchange of additional information on anticipated production and trade levels including purchase and sale plans of government-constituted buying and selling agencies

(ii) Shortage stage

When a shortage situation was identified by an agreed indicator, participants would be obliged to make available reserve stocks up to the reserve holding commitment of each. The quantities to be made available would be determined through consultation, taking into account the supply situation in participating countries and the effect of actions previously taken in the warning stage. If a participant were willing to make available more than the minimum quantity agreed upon, it could do so.

Access to supplies

13. Participants in the system should receive assured access to supplies at market prices. Non-participants or participants not complying with the agreement would not be assured of obtaining access to reserves held by others.

14. Should a shortage be so severe that participants were forced to apply export restraints after having taken the measures outlined in the warning and shortage stages above, they would give preferential treatment to other complying participants.

Participation and duration

15. Participation in the agreement should be open to all governments represented at the World Food Conference and the government of any country party to the International Wheat Agreement.

16. A government could withdraw from the agreement upon due notice, but would be required to fulfil its commitments under the agreement with regard to the management of reserves for the current crop year and the crop year immediately following.

17. The agreement would have a five-year term but could be dissolved 12 months after a decision effected by a majority of the votes of both the exporting participants and the importing participants, counted separately.

Special provisions for developing countries

18. Special assistance should be extended to participating developing countries to assist them with meeting their obligation to hold a portion of global reserves.

19. Developing countries with larger reserve obligations could be provided with financial or food aid to help them meet their commitments. The aggregate shares of developing countries with small reserve obligations could be added to the reserve obligation of developed participants without greatly increasing these commitments. This dual approach would help assure that reserve targets were achieved in developing countries without imposing an undue financial burden.

Administration of the system

20. Each participating country should be free to determine how its reserves will be maintained and what measures to provide for their buildup, holding and draw-down.

21. However, participants would have to assure their ability to fulfil their obligations under the agreement. The agreement would not attempt to specify the manner in which individual participants would meet their obligations.

22. To accomplish its objectives, the system would require provision for exchange of information and data regarding crop prospects, supply availabilities and stock, anticipated demand and international trade in grain. Such information would be needed on a timely basis.

23. The agreement would need to provide for governing and executive bodies as appropriate. These bodies, and the agreement itself, could be independent of existing international organizations, but the International Wheat Council could be asked to provide facilities and the services of its Secretariat to administer the agreement. Activities of the governing and executive bodies such as meetings, reporting requirements, etc., would need to be co-ordinated to the extent possible.

24. Administrative costs, e.g. for meeting facilities and the services of the Secretariat, would be borne: (1) by countries which are members of the IWC through their contributions to that organization and (2) by countries not members of the IWC through their direct contributions to the IWC of a pro rata share of these costs.

25. Members of the reserves agreement would bear the costs of managing their own reserves.