

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Multilateral Trade Negotiations

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Group "Agriculture"
Sub-group on Grains

STATEMENT MADE BY THE REPRESENTATIVE OF THE EUROPEAN ECONOMIC COMMUNITY ON 26 MAY 1975

At its meeting on 8 May 1975, the Group "Agriculture" agreed that for grains a multilateral solution should be negotiated in this Sub-Group in order to settle all the elements of the problems relevant to trade in this sector.

The Community believes that a solution consisting of formulating and concluding an International Agreement on Grains might be the answer to all the fundamental problems that arise.

The purpose of this statement is to explain the details of this Community approach and to determine what are the fundamental elements on which the negotiations should bear.

Instability, as past and recent trends in the market for grains show, is the major problem facing trade in these products; and for a product sector of such importance for the security of the world's food supply, this instability has harmful repercussions not only on the conditions governing trade and the level of trade, but also on the supply of food, the economically least advanced countries being the ones most affected by the situation.

With this in mind, the Community conceived the idea of an approach to the negotiations calculated to promote international action in respect of some of the causes underlying this instability.

The root cause is a lack of adaptability in the trend of supply in relation to demand, since the vagaries of climate expose the production of many countries, exporting and importing countries alike, to unforeseeable and uncontrollable fluctuations. The resulting uncertainty regarding availability, conditions of

supply and outlets makes for the adoption of domestic production policies which over-react to market conditions and more often than not are ill-timed in their effect.

These policies have often been accused of being "destabilizing" factors which upset the grains market - hence the desire expressed in certain quarters for the abolition of these policies and the complete liberalization of access. The instability of the market may well have been accentuated by these policies, whether practised by importing or by exporting countries, and there is no doubt that lack of co-ordination between the various initiatives taken by governments has been an aggravating factor in this instability.

But efforts to remove tariff and non-tariff barriers would inevitably clash with the need felt by governments to apply a domestic policy protecting the producer from this instability and allowing them to ensure a certain level of self-sufficiency.

What is more, such domestic policies are not the cause of the instability, which has its roots rather in the chronic natural lack of adaptability of supply and demand. During the sixties it might have been thought that this lack was simply and solely the outcome, in a period favourable to the growth of productivity, of giving undue encouragement to relatively inefficient production. Developments since 1972 have tended to modify that view. It has transpired that fluctuations in production could be such as to render it incapable of coping with increased demand, chronologically and geographically. The persistence over the years 1972-1974 of a situation of relative inadequacy of supply in relation to demand, in spite of increased acreage, has brought about a drastic falling-off in stocks, and the resulting price trend has made it clear that in such circumstances the significance of price variations in relation with the relative variations of supply and demand was increasing spectacularly. What seems to be in the offing on the eve of the 1975-1976 crop year, when production promises to be exceptional, points to the same indication of an unstable market.

The sustained rate of growth of production was only achieved as a result of the intensified use of available resources. In addition to higher production costs, increased vulnerability of agricultural production to the vagaries of climate is probably also involved, together with a more marked dependence of the grains production sector on variations in factors alien to agriculture - including energy resources and general economic phenomena such as inflation.

All this makes it more difficult than ever to forecast future trends of the grains market, and the present situation reveals in accentuated form the phenomenon of instability on the world market for grains and increased risk for the future of a situation of alternating shortage and surplus.

Since this alteration of shortage and surplus on the world market is a factor making for protectionism (economic groupings or countries where production is most stable naturally try to avoid importing any instability prevalent on the world markets) everything suggests that an improvement in the stability and security of the market will help the policies followed by trading partners to be focussed more on expanding trade and to consider the interest of seeking the advantages inherent in such expansion.

The Community stated at the first meeting of the Group "Agriculture" that it proposed, in the light of this situation, that an international agreement be negotiated, in other words that a framework be set up within which commitments would be carried out concerning a price discipline backed up by concerted national policies on stocks. It also intimated that it was ready to participate in such an agreement, an offer which it regarded as meaningful for the objectives of the negotiations in this sector as well as a positive contribution to the type of action to be taken for the security of the world's food supply.

The type of International Agreement on Grains that the Community proposes would comprise three elements:

- (a) Strengthening of machinery for the exchange of information on market prospects and production policies;
- (b) Setting up of stabilization mechanisms calculated both to stabilize the international grains market in terms of price and supply levels in a manner acceptable to importers and exporters alike, and to isolate that market from any destabilizing factors that might emerge in domestic markets;
- (c) Improvement of the situation of developing countries, in particular by reorganization of the food aid structure.

Ad (a) Exchange of information

It is indispensable for the proper functioning of the proposed Agreement that the parties to it undertake, on a permanent basis, the mutual exchange of information on their production, consumption, commercial and non-commercial exchanges, so that at all times there is an adequate basis for the decisions to be made under the Agreement. A permanent organ should be set up for this purpose to ensure the sound management of the Agreement. This systematic exchange of information, coupled with the machinery of the Agreement, should make for improvement in the orientation of policies in the grains sector.

ad (b) Stabilization of markets

Market stabilization should be sought simultaneously by setting up a minimum and maximum safeguard price mechanism and by putting into operation an international stock-keeping policy.

1. To ensure that the trend of market prices remains within reasonable limits at any rate, minimum and maximum safeguard prices should be negotiated determining a fixed range and involving at those levels preferential commitments to buy and sell which would safeguard exporting and importing members in situations of surplus and of shortage. This price range, corresponding to the most extreme price situations, should be sufficiently wide, since its purpose is not to impose a rigid price structure on the world market. Experience has shown that such a structure can easily be swept away by circumstances. Nor should the price range be too rigidly predetermined; it could be the subject of revision in relation with long-term market prospects on the basis of criteria laid down in the Agreement itself.

The commitments that might be linked with the extreme situations would be the following:

- When world market prices reached the minimum level of the price range, importing members would undertake to give priority in purchasing supplies to exporting members which now their part would observe that price in all their sales and undertake in particular not to sell on more favourable terms to non-member countries.

- When world market prices reached the maximum level of the price range, exporting members would undertake to give priority in supplying to importing members at the maximum price level of their traditional import volumes.

2. In order to attack the roots of instability of the market i.e. the short-term imbalance between supply and demand, a concerted stock-keeping policy would have to be established so as to influence the volume of supply on the market.

It would be agreed that member countries, exporters and importers alike, would build up and maintain such volume of stocks as was necessary, a maximum level of course being set. The parties to the Agreement would undertake to manage these stocks on the basis of rules and criteria incorporated in it, and all the various elements (volume, distribution, criteria etc.) would be the subject of negotiation.

Decisions on stocking and destocking operations would be made in the light of the market situation and would be implemented by the individual parties to the Agreement in respect of the stocks held or to be built up by each of them in pursuance of the Agreement. One of the objective criteria for setting in motion concerted stocking or destocking operations would be prices on the world market.

For this purpose it would be stipulated in the Agreement that when prices reached a certain level to be determined in relation with and within the limits of the price range, stocking or destocking would be carried out, it being understood that the amount involved in these operations would be determined on the basis of consultation within the framework of the Agreement, account being taken of other elements representative of the market situation.

3. In the Community's judgement, these price and stock-keeping mechanisms as a whole, and the commitments they involve, would make it possible to achieve an equitable reciprocity between importing and exporting countries. Such an Agreement would constitute a lasting international framework for entering into commitments and implementing them. It would also provide the necessary flexibility to allow the essential mechanisms and elements of the system to be adapted to market circumstances.

Ad (c) Improvement of the situation of developing countries

It should be noted that the stabilization and expansion of markets will benefit first and foremost the developing countries. Indeed, past experience has shown that the repercussions of free trade on markets subject to such drastic laws are even more difficult to cope with for countries facing problems of economic development. The protection of outlets and supplies that would be provided by the International Agreement on Grains proposed by the Community would therefore be particularly beneficial to developing countries. Exporting countries would find themselves safeguarded by the stabilizing mechanisms involved against a fall in their export earnings. In addition, for the benefit of developing countries which are importers, the Community feels that the proposed Agreement should be accompanied by arrangements for food aid in line with the resolutions adopted at the World Food Conference.

In presenting this outline of an International Agreement on Grains, the Community believes it is putting forward a solution encompassing all the problems that arise in regard to trade in grains, inasmuch as it provides an answer to the fundamental question of supplies and outlets as well as the conditions in which trade takes place.

In setting up mechanisms creating the conditions for achieving a better equilibrium in the grains market without introducing a rigid system which would arbitrarily distort the free play of the market, an International Agreement on Grains would lead to a regularization of the market avoiding recourse to export measures likely to disrupt it through abuse of competition. In the same way, the machinery would help to avoid recourse to drastic import or even export protection measures.

Moreover, a decisive factor for the expansion of trade which the International Agreement brings into play in an indirect way, and which can only be realistically approached in this way, is production policy. The stabilization mechanisms as envisaged by the Community are in fact means of influencing the behaviour of governments in this matter.

The fact that the Community is proposing an International Agreement on Grains - and certain other products - means that it regards these sectors and the nature of these products as sufficiently important to warrant a solution implying a high degree of international co-operation bearing on all the elements of the problem.

Great hopes have been staked on the success of the multilateral trade negotiations as well as on international co-operation to improve the food situation. To respond to these hopes, the Community has tried to present a negotiating approach which it believes to be realistic and meaningful. The Community for its part is ready to enter into commitments in respect of the elements of this proposal to their full extent, and it submits them for your consideration and examination, since in the final analysis it is this Sub-Group on Grains that has responsibility for conducting the negotiations in this sector.