

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SCM/M/Spec/6
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Committee on Subsidies and Countervailing Measures

DRAFT MINUTES OF THE MEETING HELD ON 30 APRIL 1982

Chairman: Mr. M. Ikeda (Japan)

Conciliation: US/EC Sugar

1. The Committee on Subsidies and Countervailing Measures met on 30 April 1982, in a restricted session.
2. The Chairman recalled that at its meeting of 7 April 1982 the Committee had had a preliminary discussion, in the context of the conciliation process under Article 17:1 of the Agreement, on the matter referred to it by the United States (SCM/Spec/14). The parties to the dispute, the United States and the European Community, agreed to have, as a part of the conciliation process, informal consultations with the Chairman in order to examine the possibilities of a satisfactory solution. On 21 April 1982 the Chairman had had an informal conciliation meeting with the two parties concerned. Both parties had exposed in detail their positions. No solution, however, was arrived at during that meeting. He added that on 28 April 1982 the secretariat had circulated a communication from the European Community concerning a multilateral approach to the question of export subsidies on sugar in the context of the actual situation on the world market (SCM/Spec/15).
3. The representative of the EEC thanked the Chairman for his efforts at conciliation in the informal consultation. A better understanding of the problem had been reached through these consultations, even if an agreement had not been arrived at. The EEC was of the opinion that the situation of the sugar market was too serious for the countries concerned, such as the United States, Japan, Australia, Brazil, Argentina and the EEC, to waste time on attributing responsibilities for this state of affairs. Sugar prices were at an all-time low; this would inevitably discourage production which in turn would lead to further unbearable price conditions. While the European Economic Community did account for 40 per cent of the sugar market, the solution to the problems in the sugar market did not depend exclusively on the Community; all producing countries were concerned. He recalled the recent measures taken by the Community to withhold from export sales 5,000 tons a week; but this had had no effect on the depressed price level. He also remarked that the situation was so grave that the United States was reconsidering its sugar policy. He suggested that the time had come for multilateral talks on the sugar problem. While it might not be directly within the competence of the Subsidies Committee to undertake such a multilateral dialogue, (certain producer countries such as Cuba, Argentina and

the Philippines were not members of the Subsidies Committee), the Signatories were nevertheless required to make their best efforts to reach a mutually satisfactory solution throughout the period of conciliation. As non-Signatories to the Subsidies Code were also concerned with the underlying problem, the search for a solution should not necessarily be restricted to Committee members.

4. The representative of the EEC explained that he had received a collective letter from ten different contracting parties complaining of the EEC's sugar policy. At present two courses of action were open: either, complaints could be filed against the EEC, and the EEC could take the blame for its sugar policy but nothing would be changed to the underlying sugar problem; or, one could choose to tackle the underlying problem and initiate multilateral talks on sugar. This could possibly be done in London at the Sugar Council although the prevalent positions of members of the International Sugar Agreement would hardly be conducive to finding a solution. Alternatively, multilateral talks could be initiated in the GATT by the Chairman of the Subsidies Committee referring the matter to the Director-General of the GATT, who could then initiate consultations, informally or formally, at the CG.18 or the Council early in May. Finally he appealed to delegations to consider the proposal made by the EEC, contained in document SCM/Spec/15, as a way to resolve a difficult sugar situation which was of grave concern to all producing countries.

5. The representative of the United States thanked the Chairman for his efforts toward conciliation of this dispute. He noted that the paper submitted by the EEC (SCM/Spec/15) was a unilateral view and recalled that the United States' position at the informal conciliation meeting had been different from the impression created in this document. He pointed out that the United States had said that it did not contend that the EEC was the sole and exclusive cause of present low world sugar prices. However he had noted that the United States and the EEC would probably differ as to what proportion of the problem, between 1 and 99 per cent, was the responsibility of the EEC. His delegation had reported the EEC's proposal, as set out in SCM/Spec/15, to its authorities. However, the United States had also advanced ideas for a practical resolution of the dispute with the EEC at the 21 April 1982 informal meeting. He recalled these proposals: the United States sought a solution that would lead to the elimination of the harmful effects caused by the operation of the present EEC sugar régime. In particular the United States wanted to see the EEC sugar régime operate in a manner that did not depress world sugar prices. This price depressing effect resulted from consistently expanding surplus production and, consequently, expanding heavily subsidized exports by the Community. In the short-run, measures such as the sharp reduction in total exports from 1982/83 to levels more consonant with the present world sugar supply/demand situation would be a useful first step. In the long run, measures would be necessary to prevent the EEC exports from disrupting or depressing world sugar prices. As in the case of short-run measures, EEC measures to limit export and export subsidies would seem to be necessary.

6. He said that the Community's proposal for a mutually satisfactory solution to the United States' complaint under the Subsidies Agreement was not appropriate to this forum, or to the settlement of this complaint. He reminded the Committee that the matter before it concerned consistency of EEC policies with the Subsidies Code rules. The EEC used subsidies and export

subsidies for sugar in a manner inconsistent with these rules. The subsidies had encouraged EEC production far in excess of consumption. This had resulted in the EEC obtaining a share of the world market that was clearly more than equitable. As a consequence this had depressed world market prices causing serious prejudice to the United States and to other countries.

7. The United States was prepared to work towards a practical solution of the problem, but this would have to focus on EEC actions and commitments to bring their practices into line with the Code. This would involve curbs on the use and effects of subsidies. There was a distinction to be made between the specific problem of the United States and other countries with the EEC sugar policy and the broader problems of the situation on the world sugar market. The former required commitments by the EEC, the latter might require a multilateral approach but the Subsidies Committee was not the appropriate forum. He noted that the International Sugar Agreement, of which the EEC was not a member but was involved in a Working Party on accession, was currently dealing with the world sugar problems.

8. It was not acceptable to the United States that the current dispute with the EEC under the Subsidies Agreement should be settled by a proposal to participate in a multilateral study of world sugar problems. A practical solution to the dispute would require that the EEC begin to remedy the adverse effects caused by its policy. He recalled that since 1970 EEC exports had risen from less than 1.2 to 5 million tons. Since 1976 alone they had more than doubled. The EEC share of the world market had risen from 5.6 per cent in the early 1970s to 18 per cent in 1980. As with volume it had more than doubled since 1976. These increases had been effected entirely by the price support subsidy scheme of the Community. A commitment by the Community to return to more equitable levels of sugar exports, along the lines suggested by the United States would have an immediate restorative effect on the world market. Finally he reiterated that his delegation wanted to see a practical solution to this dispute, and solicited the views of other Signatories concerned.

9. The representative of the EEC remarked that the United States was set on a legalistic approach to the sugar problem. This approach could well lead to the establishment of some eleven different dispute settlement panels attacking the EEC sugar policy. This would not prevent the price of sugar from falling. He contended that there were no longer any Community subsidies for sugar, as it had been the case when the FEOGA was effecting the payments. Now, the producers themselves made the payments. He indicated that the increase of EEC production and exports was exclusively in grade C sugar and that the 1981/82 EEC exports of 2.5 million tons of C sugar had been effected without any restitutions. He also pointed to the fact that the United States sugar policy currently in discussion, which might include quotas, had also raised protests from other producers. He invited the United States delegation to consider his proposal and to reply at a later date. Meanwhile, he asked the Chairman to take the initiative to refer the matter to the Director-General, who could then deal with it in the manner he would think appropriate.

10. The representative of the United States assured the EEC that his authorities had continuous consultations with sugar producers. He agreed that a practical solution was called for and asked why the EEC did not respond to the United States' recommendations. At issue was the appropriate allocation

of responsibilities, which fell first on those countries who avoided their international responsibilities. He repeated his invitation to other Signatories to express their views.

11. The representative of the EEC asked whether the United States was opposed to his proposal that the Chairman of the Subsidies Committee take the initiative to refer the matter to the Director-General.

12. The representative of the United States said that he was not opposed at arriving at a practical solution, along the lines he had proposed. If the Chairman's initiative implied that everyone was responsible for the current sugar situation, without specifying that the EEC was in violation of its obligations under the Subsidies Agreement, then he was opposed. It was important that the responsibilities be defined.

13. The representative of the EEC pointed out that in both sugar panels (Australia-EEC and Brazil-EEC) the reports had indicated that the EEC had contributed to depressed world prices. Be that as it might, quite clearly as the first exporter on the world free market, the EEC could not deny that it played a rôle in that market. Should the United States introduce sugar quotas it would also bear a share of responsibility for trends in that market. But what could be achieved by pinning responsibility on the EEC or the United States? Would it really be of help to the United States if the EEC were prepared to say that it was 99 per cent responsible? Beyond such sterile argument, the important thing was that multilateral talks be initiated on the sugar problem.

14. The representative of the United States reiterated his request for EEC reactions to the United States' recommendations.

15. The representative of Australia noted that the views expressed in the ECs paper (SCM/Spec/15) were unilateral. He also took note of the EC statement that it was only partly responsible for the problems currently being experienced in the world sugar market, even if that part might amount to 99 per cent. He expressed scepticism regarding the EC claim that it was genuinely willing to seek a multilateral solution, noting that recent GATT experience in the sugar sector as well as positions adopted by the EC in the context of recent disputes did not seem to bear out that claim. He added that evidence of the Community's preparedness to seek a solution would best be demonstrated by steps to remove the prejudice already found by two panels to exist. Furthermore, noting the ECs expressions of willingness to consult multilaterally as early as the following week, he assumed that the Community would therefore be equally forthcoming in respect of the request by ten Contracting Parties for such consultations under Article XXII of the General Agreement. Finally, he recalled that the United States had requested conciliation under Article 13:2 of the Code, and that this was the issue before the Committee. If no results to the Committee's attempts at conciliation of this dispute were forthcoming, then the United States would be free to have recourse to other relevant provisions of the Agreement if it so desired.

16. The representative of the EEC noted that initiation of multilateral discussions did not preclude the United States from invoking any provisions of the Code, including the provisions for establishment of a panel.

17. The representative of the United States said that his authorities needed to know specifically what the Community was prepared to do along the lines of his recommendations. He was prepared to pursue discussions, and agreed that the following week would be a good time to review the matter at a higher level. He was still awaiting the response of the EEC to his earlier proposals.

18. The representative of the EEC reiterated his proposal that the Chairman approach the Director-General on the problem of sugar, on the grounds that while the Committee was still in the process of conciliation under Article 17:2 the Signatories were called upon to use their best efforts to seek mutually satisfactory solutions.

19. The Chairman concluded that the members of the Committee, other than the EEC and the United States had heard the views of each party, including an invitation to express their views. However only the view of one member non-party to the dispute had been expressed. The matter under dispute was important and complex. It seemed to him that a period of reflection was necessary.