

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Agriculture Committee

WORKING GROUP 3 - MEASURES WHICH AFFECT PRODUCTION

Report on Meeting of 4 to 8 May 1970

1. The Agriculture Committee has directed Working Group 3, dealing with measures which affect production, to seek mutually acceptable solutions to the principal problems affecting international trade in agricultural products, and for this purpose to complete such further identification of these problems as is necessary (L/3320, paragraph 5). It was understood that this work would be essentially of an exploratory nature and that the definition of a range of possible solutions did not imply a commitment to conform to any of these solutions (L/3320, paragraph 6). In the Conclusions adopted at their last session the CONTRACTING PARTIES further directed that conclusions be formulated on possibilities for concrete action that might appropriately be taken to deal with the problems that arise and that this task should be completed during 1970 (L/3366, paragraph 4).
2. The Working Group met from 4 to 8 May 1970 under the chairmanship of Mr. K.W. Wilkes (United Kingdom). This report sets out the proposals or suggestions as to how the principal problems might be dealt with and the main points raised in the discussion. It is emphasized that the discussion at the first meeting was not exhaustive, that in many cases the views recorded were only tentative and that delegations would have full latitude to supplement and clarify them when the report was discussed by the Agriculture Committee at its July meeting.
3. Several delegations noted that while a world market operated in a reasonably satisfactory way for a number of commodities, in some cases there was only a residual market of last resort where the prices have little or no relationship with prices at which the great bulk of world production was sold. These delegations suggested the importance of re-establishing a true world market in sectors where markets are at present compartmentalized and isolated from one another and of re-establishing a true world market price which could be used as a guide for the economic allocation of resources. Some delegations said that the aim should be domestic prices which were at or near the true world market price. It would produce a more rational use of resources and would prevent the building up of surpluses by providing an automatic market clearing mechanism. In answer to questions these delegations said that this was clearly a long-term aim which might be reached in stages, but that it was important to reach agreement on the direction to be followed. These delegations said that in selecting measures to be taken to supplement farm incomes there was need to place less emphasis on domestic prices. These domestic prices should directly reflect world market prices and measures to support domestic producer income should not unduly interfere with the free rôle of price in trade.

4. The delegations of some countries stressed that agricultural policy was one element in the overall economic policy and that it was necessarily part of the general incomes policy. They noted that in fact countries often found it politically difficult to allow the world market price to prevail on their domestic markets. They pointed out that the free formation of prices would call for the elimination of all import barriers, all export aids, as well as production support of all kinds. They noted, in this regard, that Food Aid was an important element to be taken into consideration, in view of the effects it could have on producers' incomes. Some other delegations considered that Food Aid did not necessarily constitute an element of production support.

5. Some delegations said that if domestic prices were held above the world market price, other things being equal production would tend to increase; demand to decrease and surpluses to arise. In the opinion of these delegations agricultural surpluses produced by this sequence were the greatest problem in world trade today and affected in particular grains, dairy products and products produced from grains. Whatever measures were taken by a country should not have the effect of exporting its domestic problems. Some delegations said that care should be exercised in the use of the concept of surpluses since some countries might find themselves with a surplus because action had been taken by others which reduced the amount which they themselves could export. Some delegations said that the surplus problem should not be viewed narrowly and that countries which reduced import opportunities by artificially stimulating relatively high cost production also contributed to the problem. Other delegations said that there might be differences of opinion as to what constituted high cost production and that this should be judged in the context of the overall economy. Some delegations pointed out that experience had shown that domestic prices could be held above world price levels without necessarily bringing about an increase in production, and that price levels should not be considered in isolation since they were linked to a wide range of other factors, in particular, the cost of production level, as well as the general level of prices and wages in the economy.

6. Some delegations reiterated that domestic prices above the world level would produce surpluses unless measures were taken to regulate either supply on the one hand, or demand on the other. Some delegations outlined the experience of their countries in controlling production, for instance, by making payments for taking land out of production. Another delegation pointed out that marketing quotas could be used to achieve a similar effect. The question was raised of the extent to which methods based purely on price could control production. Some delegates noted that the price policy remains an essential instrument, in spite of the fact that under certain circumstances it may be necessary to make use of other measures.

7. Some delegations said that references to the limitation of production in some countries related especially to cereals. Their own authorities had taken action on other products. The measures each country or groups of countries took

resulted from their own situation. Moreover, the limitation of production was only one factor to be taken into consideration. This and other factors should be examined to see if there was a common denominator which could form the basis of an acceptable agreement which was equitable for all parties.

8. Special mention was made by some delegations of measures for structural improvement, notably measures aiming at facilitating retirement and transfer of labour from agriculture to other occupations.

9. The Working Group noted that it was also possible to bring supply and demand more into line by action on the demand side and noted some measures which had been taken to this end. It was the opinion of some delegations, however, that this was not an appropriate time to pursue this question.

10. Some delegations said that measures adopted to supplement farm income should be production neutral; they should not artificially induce production of farm commodities as a whole nor of one commodity rather than others. Care should also be taken that shifts out of production of one commodity to another had regard to the economic use of resources. Some delegations considered that care should also be exercised to ensure that support, whether production oriented, or production neutral, should not inhibit the movement of resources out of agriculture when such movement is economic.

11. Some delegations suggested that a catalogue be drawn up of income supplements to producers in descending order of production neutrality and that a line be drawn between supplements that might be regarded as production incentives and those that might be regarded as production neutral. There was a wide measure of agreement that very few measures were likely to be completely production neutral. It was also noted that there was unlikely to be full agreement on the effects of some measures.

12. Many delegations emphasized that all countries, both importers and exporters, should share in any adjustment process required to bring world supply and demand into balance. Under certain circumstances particularly if a country is not a producer of the commodity concerned, the scope for importer participation in the adjustment process may be limited. The representative of one major importing country described the action taken to deal with the problem of a surplus of rice in his country, as an example of not exporting its domestic problems. Other delegations noted that in this case rice had not been dumped on the international commercial market, nor had the imports of other cereals been adversely affected. These delegations felt that the action taken was broadly in line with the principles which they had been suggesting. In this connexion, however, some delegations expressed reservations about the direction production policies had taken in certain other major import markets. Representatives of these countries said, inter alia, that import measures had been adopted to stabilize the market and to prevent the import of agricultural commodities at abnormally low prices.

13. There did, however, arise from the discussion a consensus that there was need for increased international co-operation and a greater degree of co-ordination of action where appropriate especially in cases where urgent problems existed. Some delegations pointed out that it was the job of the Working Group to suggest the specific form that such international co-operation might take.

14. Several delegations expressed the view that commodity arrangements might in certain cases provide an appropriate solution to some of the problems facing agricultural trade. They pointed out however that existing commodity agreements tended to concentrate on the price element and did not as a rule bear directly on agricultural policies; in order to be effective such agreements should contain provisions on domestic production policies and on adjustment of supply. Some delegations saw certain disadvantages in attempts to control the world market and said that some of the other suggestions put forward might be more fruitful. Representatives of some developing countries said that their main interest lay in tropical products which were very important for their trade and development. In their view the most feasible way of dealing with production problems in this area was through international commodity agreements. In this connexion they pointed out that they did not possess the resources to subsidize their production or exports.

15. Moreover, the representatives of these developing countries pointed out that in many instances their producers received prices that were below world levels and that did not represent an incentive to production.

16. Several delegations said that the margin of support approach put forward during the Kennedy Round merited further consideration. Some delegations, while agreeing with this, recalled that the freezing of existing support margins as suggested in the Kennedy Round created a disparity problem in that it would permit countries with high levels of support to maintain them while withholding from countries with low levels of support the possibility of increasing them. Representatives of developing countries pointed out that generally they were not in a position to offer support to agricultural production and that they should therefore not be required to conform to the principle of the freezing of the margin of support that had been referred to during the Group's discussions.

17. Several members referred to the concept of the self-sufficiency ratio. The question was raised whether the self-sufficiency ratio was merely a measuring device or whether it could also usefully serve as a policy tool and an element of negotiation. The question was also raised that it might be useful to take into consideration the percentage of population engaged in agriculture as well as the general rôle of agriculture in a given country's economy. Some members considered that the ratio measured the effects of a country's agricultural policies and warranted a further examination as a possible element of negotiation. Other members felt that the ratio taken in isolation was not a useful concept as it did not take account of factors such as relative costs of

production and efficient resource allocation. The point was made by some delegations that the level of the self-sufficiency ratio should not be used as a criterion to give a country with a ratio below 100 per cent the freedom to pursue policies in disregard of international considerations. In general, the concept should be used with all due care and prudence.

18. Some delegations considered that it would be useful to pursue further a suggestion for a combination of the concepts of the margin of support and the self-sufficiency ratio. It had been suggested that it would be useful to have comparable figures for supports granted to agriculture (through domestic support, restraints on imports and subsidies benefiting their exports) and their effects on trade when considering the relative efficiency of exporting and importing countries and the adjustments which they might make. A ratio of self-sufficiency of over 100 per cent did not give a country an absolute right to export, nor did a ratio of less than 100 per cent give a country an absolute right to increase production up to or beyond full self-sufficiency. Some delegations, however, expressed reservations about a combined margin-of-support/self-sufficiency ratio approach because it implied that absolute advantage, rather than comparative advantage, would be used to determine the adjustments to be made.

19. Some delegations said that agricultural policies varied from country to country, in particular because conditions of production differed among countries because of differences in natural endowments or structural patterns. Any solutions that might be applied to the problems must take these various factors into account and might therefore also differ country by country and product by product. These delegations also stressed political, social and security considerations underlying their agricultural policies. In this context, the point was raised that demographic considerations might limit the use of what had been referred to as production neutral measures. Many delegations expressed the view that there are general principles which should be applied to the solution of trade problems arising from agricultural production policies.

20. The Group noted that a certain number of suggestions had been made by different delegations which among others could be considered in the further work directed towards finding mutually acceptable solutions, taking into account the views expressed during the course of the Group's work. These suggestions are annexed to this report.

ANNEX

- (i) There was need for increased international co-operation and greater co-ordination of actions where appropriate; periodic consultation on, and review of various matters affecting international trade in agricultural products might be appropriate in this respect.
- (ii) There was need for acceptance of the basic principle of international price mechanism as a market clearing instrument.
- (iii) Any farm income maintenance measures which governments consider necessary should be separated from production and price policies in order to insure that such measures are production neutral.
- (iv) Exporting countries, and major exporting countries in particular had a common and equitable responsibility for the level of supplies and their management. Countries which are both importers and producers of a product, in particular developed countries, also had some responsibility in this respect.
- (v) There was need for governments to have regard to economic relationships between different products or sectors.
- (vi) Appropriate solutions in certain cases might be approached through commodity arrangements and these arrangements might well contain provisions on domestic production policies and on adjustment of supply, as was hardly the case in certain existing arrangements.
- (vii) The margin of support approach, possibly supplemented by provisions on self-sufficiency ratios, merit further consideration.