

Newsletter on the Common Agricultural Policy

Weekly

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The Kennedy round must lead to world-wide co-ordination of agricultural policies

On 4 May the Kennedy round opened officially in Geneva. This session of the GATT Trade Negotiations Committee was attended by forty-two contracting parties and twelve associated countries.

The six member countries of the European Economic Community are taking part as an entity, the Council of Ministers having instructed the Commission to negotiate on behalf of the Community.

The origins of the meeting in Geneva go back to July 1962, when the United States Congress passed the Trade Expansion Act at the instance of President Kennedy. This adoption by the USA of a programme empowering its Government to negotiate reciprocal tariff cuts or the elimination of duties with the European Economic Community is one of the most spectacular achievements of the Common Market. For in this way the United States recognizes the Common Market as a partner of such stature that it wishes to discuss mutual relations, and the tasks facing them both in the world, on an equal footing.

The EEC Commission welcomed the American initiative, particularly since it gives the Community further possibilities - following the breakdown of negotiations with the United Kingdom and its consequences on relations with non-member countries in Europe - for regulating trade relations with those countries in a more positive manner. It also provides the United States and the Community with a basis for joint responsibility towards the developing countries.

The partnership between the two big economic units of the West is therefore called upon not only to forge new trade links between the United States and an emerging Europe but also to make the greatest effort towards liberalization of world trade that has been attempted for a long time, in order to strengthen the economic structure of the free world. The Trade Expansion Act makes it possible to abandon the traditional GATT practice of item-by-item negotiation in favour of across-the-board reduction of tariffs on industrial and agricultural products by a maximum of 50% as a general rule. However, this general rule will not apply to agricultural products if the agreement reached favours American exports, nor to tropical products if the Community abolishes duties on them.

The Act is clearly based on the assumption that the European Community would be enlarged to include, in particular, the United Kingdom, and it also provides for the total abolition of duties on products for which the USA and the Community account for at least 80% of world exports. This clause is of no further significance since the only items to reach that figure are margarine and aircraft.

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At the meeting of GATT Ministers in May 1963, which examined the main provisions of the Act in order to ascertain whether they would promote free trade in the world, the EEC Commission took the opportunity to have the scope of the negotiations extended to cover the automatic reduction of tariff disparities as well as linear cuts.

The Ministers agreed "that the trade negotiations shall cover all kinds of products, industrial and non-industrial, including agricultural and primary products", and "that the Trade Negotiations Committee shall deal inter alia with ... the rules to govern, and the methods to be employed in, the creation of acceptable conditions of access to world markets for agricultural products in furtherance of a significant development and expansion of world trade in such products."

In May 1963 the EEC Council stated that none of the elements likely to affect the balance of world agricultural markets should be excluded from the negotiations without discussion.

The EEC approved the conclusions of the GATT ministerial resolution and in February 1964, on the basis of this resolution and of its own statement, submitted its negotiating plan for the agricultural part of the Kennedy round to the contracting parties.

This plan is based on the idea that the traditional tariff approach is now inadequate for negotiations concerned with farm products. In any case, agriculture had been practically excluded from tariff negotiations in the past. When the General Agreement was drawn up in 1948, practically identical provisions were made for agricultural and industrial products, since the situation at that time was characterized by shortage of food supplies and balance-of-payments difficulties.

While the text of the General Agreement provided for the elimination of all barriers to trade, especially quantitative restrictions, the latter were nevertheless permitted under certain circumstances, and the United States itself had frequent recourse to them when its own agriculture needed protection.

In present conditions, new solutions are needed to ensure that world trade in agricultural products can really be organized. The EEC considers that the national farm policies of the importing and exporting countries are decisive in organizing trade in farm products, and that the fundamental and typical element common to nearly all the contracting parties is the support given to agriculture.

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The Community therefore suggests that a level of support be negotiated and bound. The negotiations will consequently cover not only protection at the frontier but also agricultural and commercial policies. The level of support is equal to the difference between the reference price on the world market and the price obtained by the producer. This bound support level represents the overall effect of the various instruments of support - customs duties, quantitative restrictions, etc. - on the conditions of production and trade, and does not affect the instruments themselves. If for a given product the customs duty is the only instrument utilized, this duty affords a certain amount of support for the product in the importing country, and the level of support then corresponds to the incidence of the customs duty on the reference price. The support-level method does not automatically call in question any customs duty bound during previous negotiations. If there are other instruments of support, the bound customs duty is still applied as an element binding the level of support.

At all events, if a contracting party wishes to revert to an earlier tariff binding, it may unbind the support level provided GATT's normal compensation rules are complied with.

The value of binding will depend in the first place on whether the country doing it has fixed its maximum level at a figure representing a fair compromise between the real interests of the countries benefiting from the binding. Furthermore, for these countries the binding of a maximum amount enables the conditions of access to their import markets to be defined more clearly. This will permit exporters to frame export policy and production policy without risk that their efforts might be invalidated by importing countries suddenly changing their measures of support. In binding its own level of support, the EEC loses some of its freedom of action and restricts its scope for increasing levies at will in the future. The EEC is aware of the need to increase production within reasonable limits only. As the biggest world importer, the Community is thus showing its sense of responsibility towards exporting countries. Moreover, no negotiations relating solely to tariff protection could produce anything but short-term solutions as regards trade in farm products. So the very heart of farm policy - all the measures of protection utilized - will have to be taken into consideration to produce the essential solution by a first major measure: the binding of support at a certain level.

As for definition of the agricultural sector, the Community believes it essential to take account of the connection between agricultural products and those of the agricultural food industry, in order to prevent distortion of competition that might be detrimental to production of and trade in processed products. There is, then, a need to agree as rapidly as possible on what constitutes the agricultural sector. During the preparatory negotiations it was agreed that the products in the

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first twenty-four chapters of the Brussels Nomenclature should form the working basis for the current stage. However, the matter will have to be studied in greater detail before we have a list of the products comprised in the agricultural sector. For practical determination of the level of support, the contracting parties must themselves submit the figures relating to their various products. This implies that the method of determination must be applied in the same way for all concerned, and must enable the contracting parties to justify the results submitted. An arbitration procedure should be set up in case of dispute.

Since the level of support is the difference between the reference price and the producers' price in a given country, these two terms must be defined.

The reference price may be either a price derived from the average selling price on the world market or free-at-frontier during a reference period, or a price negotiated between the contracting parties concerned where the derived prices prove inadequate. The price obtained by producers on the home market is the annual price received at the farm for all qualities sold, plus, where appropriate, direct subsidies to the product in question. Both these elements will have to be adjusted, however, to take into account differences in quality or to bring products to comparable stages in marketing. In the case of items processed from basic products, agreement will have to be reached on sufficiently representative conversion factors. It may sometimes seem difficult to ascertain the reference price and the producer price exactly; in this case it would be possible to settle for an approximate assessment from the most suitable data available.

For a few residual farm products, the EEC might agree to go back to traditional methods of tariff negotiation - chiefly for products playing a negligible part in international trade, but also where technical difficulties in applying the method of support-level binding prove insurmountable.

This, in broad outline, is the standpoint of the European Economic Community at the current stage of preparatory work for the agricultural part of the Kennedy round.

The general attitude of the United States at present is that agricultural products should be accorded treatment similar to that of industrial products by utilizing wherever possible the formula of general across-the-board cuts proposed by the American Government. Where there are measures other than fixed customs duties affecting trade, the aim should be to negotiate reductions comparable with the across-the-board cuts applied to other products.

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Given these two general positions, several delegations suggested that the way to carry on these negotiations should emerge if what they call a "pragmatic" approach to the problems were adopted. They propose that an examination should be made of flows of trade, of the nature of the products and of the types of protection employed, so as to provide the elements needed for working out methods for negotiating reductions in obstacles to trade that will accord with needs and with the circumstances of each group of products. They consider that customs duties are the sole major restriction on most trade in farm products. The objectives in view may be attained through negotiations for cutting and binding these duties. The countries concerned should therefore offer to lower their duties, leaving open the possibility of 50% cuts in appropriate cases. Countries applying other types of restriction, together with or instead of fixed customs duties, should agree to equivalent reductions and bindings on their restrictions on trade. Lastly, in cases where customs duties are generally accompanied by other controls at the frontier, where customs duties are not the main obstacles to trade, and where domestic policies also play an important part in determining access to the market, the negotiations should also cover such measures.

These delegations suggest that each country make offers consistent with the measures of protection and support it applies for particular products or groups of products and that these offers be put forward on 10 September 1964 at the same time as the lists of exceptions. The products on these last-named lists would not be the subject of offers.

The Community believes that the net result of such a pragmatic approach would be to give the contracting parties advocating it substantial concessions from importing countries (particularly the EEC and Great Britain) without ensuring the reciprocity of commitments and the balance of advantages which are, after all, of basic importance in these negotiations.

It should be pointed out that the suggestions put forward by these delegations do not relate to products coming under international commodity arrangements, such as cereals, meats and dairy products.

The May 1963 resolution of GATT Ministers specified that the rules laid down for the negotiation of agricultural products in general should be extended for certain products so as to produce world-wide agreements. In its negotiating plan, the EEC suggested that these agreements should cover products occupying an important place in international trade and for which permanent imbalance between supply and demand is discernible or may be expected in the short term. The EEC mentioned wheat and coarse grains, beef and veal, certain dairy products, sugar, and perhaps oil seeds and oleaginous

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fruits, though this list is in no way restrictive. These agreements would constitute a kind of superstructure in relation to the general rules for the negotiations on agricultural products and should lead to very extensive multilateral co-operation with a view to stabilizing world market prices at a fair and remunerative level, striking a long-term balance between production and demand, and eliminating short-term fluctuations. These agreements would be distinguished from those now in force - particularly the wheat agreement - by making the reference price the key to the system, whereas at present the concept of quotas is more central than that of prices.

In future world agreements the reference price would be both a balancing element in trade and a long-term guide. In most cases it will be a negotiated price.

Further obligations might be specified - especially something to make producing countries take steps to prevent further surpluses from building up. If more food, and a greater variety of food, are to be sent to help the developing countries in future, these countries should not be considered dumping grounds for surplus production - particularly as this would put a brake on the development of their domestic agricultural production.

In conclusion, let us outline how work on the Kennedy round is at present organized in GATT.

The Trade Negotiations Committee is in charge of the overall preparation of the negotiations. As regards agricultural negotiations, the Committee on Agriculture reports to the Trade Negotiations Committee on progress made and, where appropriate, submits the recommendations on which agreement has been reached. The Committee on Agriculture has a technical sub-committee; and a number of Special Groups - in particular on cereals, meat, and dairy products - are contributing to the preparation of negotiations concerning those sectors. +

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+ The progress of negotiations for agreements on these products will be reported in a future issue of this Bulletin.

Tables on EEC farm imports

The following tables show the development of EEC imports of agricultural products (including basic products) between 1958 and September 1963.

a) Total farm imports

Source	1958	1959	1960	1961	1962	% change 1958-62	1963 Jan.- Sept.
	(\$ million)						
Community countries	1 272	1 589	1 848	2 041	2 318	+ 82.6	1 893
Non-member countries	7 440	7 380	8 319	8 404	9 048	+ 21.6	6 970
Non-industrial countries (1)	4 411	4 513	4 652	4 493	4 973	+ 12.6	
Non-European state- trading countries	383	474	554	567	606	+ 63.0	
USA	959	977	1 312	1 371	1 382	+ 44.1	993
Latin America	1 175	1 243	1 349	1 278	1 535	+ 30.6	

b) Imports of products subject to Community regulations (cereals, pigment, poultry, eggs, fruit, vegetables, wine)

Source	1958	1959	1960	1961	1962	% change 1958-62	1963 Jan.- Sept.
	(\$ million)						
Community countries	472	558	644	728	794	+ 68	747
Non-member countries	1 684	1 589	1 670	1 838	2 083	+ 24	1 429
State-trading countries	98	137	130	174	142	+ 45	
USA	228	319	308	454	509	+123	356
Latin America	139	170	247	158	290	+ 53.7	

(1) Non-Communist countries outside Europe whose exports are still more than 50% agricultural, i.e. other than USA, Canada and Japan.

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c) Imports of products for which EEC is main US export market,
compared with imports from other suppliers

Source	1958	1960	1962	% change 1958-62	1963 Jan.-Sept.
	(thousands of \$)				
<u>Wheat</u>					
Total non-member countries	244 300	239 768	365 530	+ 49.6	162 549
USA	52 465	45 231	76 332	+ 45.3	32 004
Canada	109 991	113 199	123 317	+ 12.1	
Argentina	27 713	28 588	81 277	+ 193	
Australia	-	7 967	28 528		
USSR	1 579	22 260	16 120	+ 921	
<u>Feed grains</u>					
Total non-member countries	425 763	541 020	727 817	+ 71	509 200
USA	144 840	221 088	351 523	+ 143	262 000
Argentina	117 045	163 451	165 993	+ 42	
Australia	13 981	34 040	29 099	+ 108.1	
Canada	3 387	9 992	8 380	+ 147.4	
South Africa	35 813	3 859	41 671	+ 16.3	
<u>Poultry</u>					
Total non-member countries	29 773	60 859	96 519	+ 224	36 732
USA	2 796	22 207	52 379	+1773	14 177
Denmark	8 562	20 342	27 035	+ 316	
Poland	6 551	7 467	6 685	+ 2	
Hungary	5 597	5 408	5 907	+ 5.5	
Yugoslavia	2 257	1 949	1 360	- 30	

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Source	1958	1960	1962	% change 1958-62	1963 Jan.-Sept.
(thousands of \$)					
<u>Citrus fruits</u>					
Total non-member countries	241 715	234 466	287 939	+ 19.1	184 690
USA	14 558	10 160	14 737	+ 1.2	9 278
Spain	97 089	94 155	119 612	+ 23.1	
Algeria, Morocco, Tunisia	92 117	86 691	107 239	+ 16.4	
Israel	14 263	17 337	17 474	+ 22.5	
South Africa	9 686	15 226	17 200	+ 77.5	
Brazil	6 705	6 894	7 887	+ 17.6	
<u>Fruit juice and vegetables</u>					
Total non-member countries	15 601	16 745	24 203	+ 55.1	22 300
USA	7 376	6 948	9 620	+ 30.4	6 000
Algeria, Morocco, Tunisia	3 590	3 227	4 761	+ 32.6	
Israel	898	2 293	2 606	+190.2	
Spain	730	751	1 515	+107.5	
Yugoslavia	317	407	877	+176.6	
South Africa	181	100	641	+254.1	
<u>Tobacco</u>					
Total non-member countries	207 327	207 447	283 486	+ 36.7	207 829
USA	74 170	83 627	106 599	+ 43.7	78 550
Greece	35 235	29 454	38 668	+ 9.7	
Turkey	15 756	10 812	23 161	+ 46.9	
Rhodesia and Nyasaland	6 814	13 212	22 946	+236.7	
Indonesia	22 746	17 754	20 040	- 11.8	
Brazil	10 000	9 333	16 196	+ 38.2	

Source	1958	1960	1962	% change 1958-62	1963 Jan.-Sept.
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(thousands of \$)

Cotton

Total non-member countries	649 538	739 599	622 197	- 4.2	
USA	264 780	334 590	139 543	- 47.2	
Mexico	57 810	52 008	77 606	+ 34.2	
Brazil	9 631	24 622	56 959	+ 491.4	
Turkey	15 400	51 071	48 087	+ 212.2	
Peru	38 632	33 121	39 420	+ 2.7	
Sudan	20 599	25 033	38 304	+ 85.9	
Egypt	34 126	52 361	33 893	- 0.6	
Syria	22 998	26 231	23 269	+ 1.1	
Greece	9 286	9 394	14 175	+ 52.6	

Oil seeds and oleaginous fruits

Total non-member countries	471	547	560	+ 18.8	439
USA	88.8	149.7	198.8	+ 123	
Associated African countries	140	101	105	- 25	
Other developing countries	178	225	212	+ 19.1	
State-trading countries	21	50	17	- 19	

Vegetable oils

Total non-member countries	229	300	258	+ 12.6	243
USA	36.8	49.1	13.7	- 62.7	
Associated African countries	86	83	81	- 5.1	
Latin America	33	43	52	+ 57.5	
State-trading countries	8	17	15	+ 87.5	

Rice

Total non-member countries	33	36	45	+ 36.3	
USA	2.5	7.5	14.8	+ 492	
Far East	18.5	18.6	17.6	- 4.8	
Latin America	0.6	0.2	4.8	+ 700	
Egypt	-	1.1	0.3	-	