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COMMON MARKET FARM REPORT

BELGIUM, FRANCE, GERMAN FEDERAL REPUBLIC, ITALY, LUXEMBOURG, THE NETHERLANDS

E.E.C. PROPOSES AGRICULTURAL NEGOTIATING PLAN FOR KENNEDY ROUND

The EEC has proposed that the Kennedy Round trade negotiations now in progress should deal with the amount or "margin" of support for farm products in establishing balanced world agricultural trade. (The margin of support for any commodity is defined by the Community as the difference between the world market price of the product and the payment actually received by the farmer.)

The single factor common to almost all GATT members in the field of agriculture is the support given to production, the EEC has found. Discussions on the amount of such support would go far beyond arrangement for market access or continued income support for inefficient farmers, under the EEC proposal.

GATT provisions are practically the same for agricultural and industrial products, since the GATT was established at a time when food shortages and balance-of-payments difficulties were the dominant problems. Thus, the EEC says, new measures are needed for the changed world agricultural situation.

Negotiations on the margin of support would aim at the binding of a maximum support margin. Binding would no longer be restricted to tariffs; it would freeze the over-all effect of all support measures for all farm products.

The value of such binding would depend on the level at which the maximum support margin were bound. Ideally, the EEC says, it would represent a fair compromise between domestic agricultural and political realities and the world trade situation. Bound supports would stabilize the conditions of access to import markets, since these could not be upset by unforeseen changes in supports.

The EEC Commission considers that the binding of the Community's support margin would be an important trade concession. It would curtail the scope of the EEC levy system in the future and would, as a result, curb the natural tendency of its output to expand.

Rapid output growth is now forecast because of the application of technical advances to the relatively backward European farm production.

SETTING THE SUPPORT MARGIN

Machinery would be established for setting the reference price used to determine the amount of support. The reference price could be either a price calculated on the basis of world market prices or prices at the frontier during a base period. The GATT parties could negotiate a reference price when automatic methods were deemed unsuitable. The actual payment received by the farmer on the home market would be the average annual price at the farm, plus any direct subsidies.

Binding of margins of support would not require harmonization of amounts of support by the GATT parties.

The Community proposal deals with the amount of support rather than the kinds of support given. It lays stress on the over-all effect of all measures and leaves the ultimate control over the measures with the governments.

SCOPE OF BINDING RULES

GATT parties would pledge not to exceed the support ceilings agreed upon in the Kennedy Round negotiations.

The EEC proposes that such commitments be made for three years. During this period, the support margin could be altered if the exchange rates between two parties were changed. In addition, the bound support margin could be increased if prices on the world market or free-at-frontier offer prices fell below the reference price. The reference price could serve as a price stabilizer in international trade, since it would discourage offers at a lower price level.

A price bracket would be set rather than a single reference price so that changes would not be caused by minor price fluctuation.

If a GATT party found it necessary to exceed the bound support level due to unusual circumstances, it could do so. The party would then be required to grant compensation to other parties, especially if the increase had led to a greater supply on the world market.

The EEC has emphasized that all bindings should be made on a reciprocal basis. This rule would not necessarily be applied, however, to developing countries.

WORLD COMMODITY AGREEMENTS PROPOSED

The Community has proposed that, in addition to bindings for support margins, the GATT parties should conclude world agreements for the most important farm products in international trade. The agreements would cover products for which a permanent imbalance between supply and demand exists.

World commodity agreements might be concluded for wheat and feed grains, beef, butter, sugar, and oil-bearing fruits and seeds.

Agreements would aim at the achievement of stable prices on the world market at a fair and profitable level, long-run equilibrium between production and demand, and the elimination of short-term fluctuations. Existing demand must be expanded, and the developing countries' food needs must be met. Since agreements would not merely provide for market sharing, but for new general rules for agricultural trade, they might curtail supply and production.

Each agreement would cover a certain percentage, fixed in advance, of world trade in a given commodity. All GATT parties participating significantly in this trade would be invited to take part in the agreement. The agreements would not, however, be tied to GATT, thus allowing the eventual accession of member countries of the U. N. and its specialized agencies who are not GATT parties.

In the world agreements, the reference price would serve as a balancing price in international trade and a long-term guide price. Reference prices for commodities covered by world agreements would be negotiated rather than automatically set.

Countries taking part in the agreements would have to undertake certain supplementary commitments. For example, producing countries would agree not to accumulate new surpluses. Other obligations might prescribe certain results to be obtained while leaving the means up to the countries concerned; some would deal with the means used themselves.

The Community has said that food aid to the developing countries should be further increased and diversified. The developing countries should not be considered as dumping grounds for surplus output and aid should not have the effect of restraining the development of farm production in these countries.

COMMON POLICY FOR SUGAR PLANNED

The six EEC member countries have decided to create a common organization for the sugar market, now that similar organizations have been set up for all other major farm products.

The situation in the world market has also stimulated planning for a common sugar policy. The International Sugar Agreement has not proved fully workable and the world market price has risen sharply. The EEC Commission views its proposal for a common policy as a contribution to the needed reorganization of the world sugar market.

Community producers would benefit from the proposed policy since sugar consumption -- unlike almost all other farm products -- is steadily increasing. In the period 1950/51 to 1960/61, sugar consumption in the EEC countries rose 36 per cent. It now stands at 5.7 million metric tons of raw sugar a year.

EEC sugar production fluctuates sharply from year to year. In 1959/60 EEC production totaled 4,662,000 metric tons. The following season, 6,342,000 tons were produced in the same area.

SITUATION IN THE SIX

The sugar industry in the six EEC countries varies considerably. All members are agreed that a stable and balanced market under the common policy is desirable.

The three Benelux countries pursue a more liberal sugar policy than do France and Germany, where government regulation is extensive. There are differences between

SUGAR SUPPLY AND DEMAND IN THE EEC 1961/62
(production as % of consumption)

Belgium-Luxembourg	129
France	101
Germany (FR)	78
Italy	78
Netherlands	108
EEC	91

current prices for refined sugar and between prices for the unrefined raw material -- sugar beet. However, differences between refinery prices for white sugar, excluding taxes but including other charges, are small enough to permit price harmonization among the Six.

In the Netherlands, a relatively large productive capacity is spread among a small number of efficient refineries. The Netherlands has traditionally both imported and exported sugar.

The German Federal Republic, also an importing country, had the highest beet prices in the Community until 1962/63. In order to limit acreage used for beet production, restrictions were imposed on cultivation. Germany had an agreement with Cuba requiring it to buy certain quantities, but this accord is no longer in force.

France is the only EEC country with large quantities of sugar available for export. Among the signatories of the International Sugar Agreement, only France and Belgium are exporters; the other EEC members are importers.

WHITE SUGAR PRODUCTION IN THE EEC

(in 1000 metric tons)	1963/64
Germany (FR)	2,050
France	1,980
Belgium-Luxembourg	348
Netherlands	383
Italy	322
	5,083

A LOOK AT THE WORLD MARKET

World sugar stocks have been steadily decreasing since 1960/61 when they totaled 17,235,623 metric tons. At the end of the 1963/64 season they are expected to be 8,421,566 tons. Compared with this is the monthly world consumption of about 4,647,000. The sharp drop in stocks is one of the main reasons for current high world market prices, since low stocks insure that future supplies will be strictly controlled.

Consumption has been increasing at the same time as stocks have fallen. In Western Europe (excluding Britain) consumption rose 15 per cent between 1958/59 and 1962/63. Adding increases in United States consumption, the increase for this period reaches 16.7 per cent. This amounts to an annual increase of 3.34 per cent. Sugar experts now predict an increase of 16.1 per cent for the period 1962/63 to 1967/68 -- 3.22 per cent a year. Thus the annual increase would be 6,655,000 metric tons.

The future organization of the EEC sugar market will take the current world market system into account. The expansion of consumption, which will last for some time, indicates that the Community will continue to find outlets for its excess sugar production. On this basis, the Commission has proposed a relatively liberal system for organizing the Community sugar market.

WORLD SUGAR TRADE 1963/64 (in metric tons)

Production	54 315 790
Imports	18 678 050
Initial stocks	9 367 926
Total	82 361 766
Final stocks	8 421 566
Deliveries	73 940 200
Exports	18 175 500
Consumption	55 764 700

The current world market price of 100 kilograms (220 lbs.) of raw sugar is $21.25, while the EEC refinery price (excluding tax and charges) is $19.50. The proposed regulation would be the first under which a levy will be paid on exports; under earlier EEC farm regulations, exports have been subsidized.

The Commission proposal is not only linked to the world sugar situation, it is also tied to the grain picture and to the EEC common grain price. There is a natural relation between the two products, since wheat usually follows beets in crop rotation. The EEC is seeking to restore the balance between the two prices.

HOW SUGAR POLICY WOULD WORK

The organization of the EEC sugar market is based on the policy already established for grains.

Each year prior to November 15, the member states would set a target price for white sugar at the refinery using a single quality standard for the entire Community. A common target price for all six countries is the objective of the sugar policy. A price bracket would be used the first year permitting the Six some range of choice in setting the target price.

The members would also set annually a support price for white sugar. This price would be based on the target price but would be from five to ten per cent lower.

A minimum price for sugar beets -- the raw material for Community production -- would also be fixed by the Six. Sugar producers would be required to purchase beets at this price.

Each member would be compensated for its sugar storage expenses for the last nine months of the season. Sugar manufacturers, refiners and importers would contribute to the financing of these payments.

SUGAR TRADING SYSTEM

Prices would be maintained through the sugar trading system. Levies would make up the price difference between importing and exporting countries.

The sugar levy would be the difference between the threshold or minimum import price and the offer price. Levies would be used for both intra-Community trade and trade with non-members, but intra-Community levies would disappear when a single sugar price was established.

Threshold prices would be set each year for both raw and refined sugar. These prices should be set at a level permitting imported sugar to sell at the target price with a small additional preferential margin for Community producers. For raw sugar, the threshold price would also include a transformation coefficient applicable to the entire EEC.

The base price to which the levy is added for imports from non-members would be the offer price including insurance and freight charges. This price would be set each day by the EEC Commission on the basis of the lowest offer price on the world market.

The fluctuating world sugar market could create conditions in which the offer price was higher than the threshold price. The importing country could be given import supports calculated in the same way as the levy. Imported sugar would thus be sold at the internal market price.

Exporting countries would pay an exporting levy when the Community price was lower than the world market price. This levy would be equal to the difference between the offer price and the target price less transport costs.

All imports and exports would be controlled by the issuance of certificates for a fixed duration. Import certificates could be withheld when the internal market price falls below the reference price for a product. This price, set annually, would be between the target price and the support price and would be the same for all member countries.

Rebates would be payable as a means of stimulating sugar exports. The rebates would cover the difference between the world market price and the support price in the exporting country. A rebate system would also be applied in intra-Community trade.

The levy system proposed by the Commission would prohibit the use of other traditional means of protection: tariffs, taxes in lieu of tariffs, quantitative restrictions, minimum prices, and state aids which would upset the levy system.

The common sugar policy would be operated by a sugar management committee similar to those existing for other products. The Commission has proposed that Italy begin applying the Community price system on July 1, 1964 and that the other EEC countries begin applying it on October 1. The sugar trading system would begin on the same date.

Before the common policy for sugar can be applied, the EEC Council of Ministers, composed of representatives of the member countries, must approve the Commission proposals.

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INFORMATION SERVICE WASHINGTON OFFICE · THE FARRAGUT BUILDING, WASHINGTON 6, D.C.