NUMBER 42 - September 1969

COMMON MARKET FARM REPORT

BELGIUM, FRANCE, FEDERAL REPUBLIC OF GERMANY, ITALY, LUXEMBOURG, THE NETHERLANDS

Commission Proposals for International Fats and Oils Agreement

Last December great concern arose in the United States over the future of its exports of soybeans and soy oil to the European Community in reaction to a proposal by the European Communities Commission to introduce a tax on products processed from oilseed and oilfruit. The proposal was part of a broad program for "The Reform of Agriculture in the European Community," more commonly known as the Mansholt Plan (See Farm Report Numbers 39 and 40.). The tax was to be levied on processed products and affect both imported and Community products. It covered almost all vegetable fats and oil products; oilcakes; competitive products, such as fish meal; as well as marine oils and fats. Although the proposal covered a great variety of imports, U.S. exporters saw it primarily as a threat to their own large and rapidly growing soybean market. (In 1967, U.S. exports of soybeans, flour, and oilcakes to the Common Market were valued at more than $526 million.)

However, it was not an entirely new proposal; a similar tax had been proposed by the Commission in 1961 to assist producers, mainly in the 18 African countries associated with the Community. Furthermore, as the Mansholt plan reiterated, the Commission would prefer to see the world market in fats and oils stabilized by an international agreement.

On July 19, 1969, the Commission detailed new proposals for negotiating such a world agreement. In its communication to the Council of Ministers, "Guidelines for an International Agreement in the Oils and Fats Sector," the Commission proposed that the best method for stabilizing the world market would be a system of stabilization levies on imports into industrialized nations and redistribution of the revenues by compensatory payments to exporting developing countries. Initially, the Commission felt, a world price-setting or quota system would not be necessary. It suggested that negotiations for such an agreement could take place in UNCTAD (U.N. Conference on Trade and Development), in close cooperation with the FAO (the U.N.'s Food and Agriculture Organization) and the GATT (General Agreement on Tariffs and Trade).

The following is a summary of the Commission's memorandum.

Market Plagued by Surpluses and Low Prices

The Commission is concerned with the current situation in the world market in oils and fats. Since the war, exports of these products increased steadily as consumer demand increased, especially in industrial countries where there was an increased need for the by-products of extracted oils, particularly oilcake and meal. Despite the growth of consumption, the developing countries' share in trade has fallen in comparison with that of developed countries as oils, other than vegetable oils, produced by the developed countries were used in increasing quantities in manufacturing margarine.

Since 1965, new factors have aggravated the situation.

- Production of fats has increased at an accelerated rate. Animal fats (butter, tallow, lard) have received a sizeable boost as a result of the agricultural policies followed in the milk and meat sectors. Fish oil supplies have also increased, particularly in northern Europe, swelling substantially the amounts available for export.
- U.S. production of soya has increased in the last few years, from 700 million bushels in 1965 to 1.1 billion bushels in 1968. Technological improvements have boosted the production of sunflower oil: previously of secondary importance, it is now one of the five main vegetable oils in world trade due to the spectacular growth of sunflower oil production in the Soviet Union. Support prices of colza (rapeseed) have contributed to the growth of production in this oil, especially in Canada and in Europe.
- As a result of over supply, import demand has dropped in industrialized countries. Likewise, imports by developing countries have declined since 1966 largely due to a sharp drop in PL 480 exports of soy and cotton oils from the United States.

The increased supplies in both importing and exporting countries has resulted in a considerable drop in prices, especially under recent pressure from sunflower, palm, and fish oils on the world markets. Although international agreements exist for products whose total export values are far less than fats and oils (wheat, coffee, sugar, cocoa), no negotiations have ever taken place for an accord on fats and oils,

Sunflower fields, France. Courtesy French Embassy Press and Information Division.

which are of such great importance for developing countries.

Commission Sees International Accord as Best Solution

Since 1963, the European Community, supported by its 18 African Associates, has repeatedly offered to participate in a world market organization for fats and oils. First, at the GATT ministerial meeting of May 1963, the Community proposed that studies be undertaken in GATT on means of increasing the receipts of developing countries exporting tropical fats and oils and developing their exports. Also in 1963, during the Kennedy Round, the Commission submitted to the Council of Ministers a plan for an agreement to stabilize world prices in the oils sector to be negotiated under the GATT. However, certain countries, among them the United States, objected to negotiations along these lines. In the spring of 1968, the Community again expressed its interest in such an International Agreement at UNCTAD II (Second U.S. Conference on Trade and Development). These views were expressed anew in the Commission's Memorandum on the Reform of Agriculture.

Exporting Developing Countries Hardest Hit

The two most pressing groups of problems that must be dealt with in the fats and oils sector are: problems concerning export prices and problems related to the developing countries' competitive position.

Export prices are subject to both strong fluctuations, owing to changes in supplies available for export, and a regular deterioration over time of their expression in real value. For the last two years, current prices have dropped sharply. In addition, nearly all the countries in the world, developed or not, produce one or a number of oils and fats products. To protect their producers against price fluctuations and steady price decline, these countries have resorted to protectionism -- through price supports, quotas, tariffs, taxes which influence import demand, or pricing policies. This twofold tendency -- wide price fluctuations and deterioration of price, on the one hand, and the general tendency towards protectionist policies, on the other -- must be halted.

Problems relating more specifically to developing countries are as follows:

- Fats are, along with rice and sugar, one of the agricultural product sectors where competition between developed and developing nations has hit the international market hardest; and the developing countries' share in the volume of world exports has steadily dropped, from 56 per cent in the 50's to around 40 per cent in 1967.
- Price instability is another characteristic of the fats market, to which the developing countries that are exporters are particularly susceptible as most of these countries only export one or at most two types of oil, while developed countries handle a variety of oil products -- vegetable and animal.
- The continuing deterioration of prices, and consequently the terms of trade and purchasing power of export earnings, is even more important to them as grains and vegetable oils are a vital part of the developing countries' economies and the principal source of export revenue for many of them or an important source of foreign exchange.

Given the nature of these problems, the principal aims of the proposed International Agreement should be to: stabilize prices on the world market, increase the revenues of the developing countries, encourage consumption where it is weak, and contribute to a balance between world supply and demand.

To attain these objectives, the Commission proposes:

1) The establishment of a stabilization tax placed on developed countries' imports of fats and oils, the proceeds of which would be used to:
   - diminish price fluctuations in certain oils by means of regulatory or buffer stocks
   - promote trade and increased consumption in the developing countries through a food aid program.
2) Further, conditions for easier access to world markets would be created by measures to liberalize trade.

Coverage of the International Agreement

In its 1966 proposal, the Commission had considered that it was economically possible to limit the agreement to four major types of products: beans and soy oil, grains and peanut oil, copra, cocoanut oil and palm oil. Recent developments on the world market, notably the advent of rapeseed and sunflower, now makes it necessary for the measures to cover the majority of principal types of oilseeds and the vegetable, marine, and animal fats which play a significant role in international commerce.

Butter and olive oil would not be covered by the proposed agreement. Talks for ordering butter prices

World Market Price Trends of Selected Oils[1]

(Yearly average in dollars per metric ton)

Year	Soya	Peanut	Rapeseed	Sunflower	Cotton	Palm	Copra	Cabbage Palm	Fish
1953	325	382			328	199	341	315	
1954	335	367	348		315	215		284	
1955	294	283	318		297	226	259	260	
1956	339	369	339		319	248	265	260	
1957	306	360	280		315	247	274	257	
1958	256	276	260	277	297	223	318	286	
1959	231	300	238	273	264	237	378	343	
1960	224	327	227	236	235	224	313	305	
1961	287	330	276	311	311	226	256	236	134
1962	227	274	219	244	268	215	250	233	82
1963	223	270	217	236	241	227	284	265	164
1964	234	306	250	256	249	242	300	279	196
1965	279	323	262	292	277	275	357	327	200
1966	261	296	244	261	325	245	308	271	177
1967	216	282	211	212	279	238	310	286	115
1968	179	271	166	170	310	175	388	347	86

Trends of World Market Prices of Selected Oilcakes[1]

(Yearly average in dollars per metric ton)

Year	Peanut	Rapeseed	Cotton	Cabbage Palm	Copra	Linseed	Fish Flour
1954	108		88	66	77	108	
1955	107		90	65	81	111	
1956	100		84	77	84	103	
1957	86		76	71	74	89	
1958	78		62	67	73	74	
1959	94	77	81	89	92	96	
1960	89	69	77	77	79	88	155
1961	86	68	74	70	68	83	131
1962	97	80	82	88	89	94	149
1963	100	89	97	94	88	97	145
1964	104	85	88	76	79	93	161
1965	106	73	90	94	93	97	203
1966	103	72	93	96	94	112	182
1967	103	72	90	80	82	102	145
1968	98	80	85	85	85	101	129

1. For origin and c.i.f. prices of products, see "Lignes directrices pour un accord international dans le secteur des matiere grasses." Commission of the European Communities, Brussels, July 16, 1969, Annex I.

Wheat Convention –

EEC Responds to U.S. and Canadian Price Cutting

The European Communities Council of Ministers at their July 28-29 meeting discussed the recent lowering of the selling price for wheat exports by the United States and Canada below the minimum prices fixed by the Wheat Trade Convention -- part of the 1967 International Grains Arrangement that was included in the Kennedy Round.

Following an examination of the situation created on the international wheat market and the possible repercussions on Community exports, the Council issued the following Communiqué:

"1. The European Economic Community has been informed that on July 18 and 21, 1969, respectively, the United States and Canada unilaterally made downward adjustments in their selling prices for wheat.

"The Community notes that the resulting selling prices do not correspond to the minimum prices of the 1967 International Grains Arrangements, included in the Kennedy Round.

"2. Since the Community had made a substantial concrete offer on Thursday, July 17, 1969, as a response to the conclusions arrived at during the informal meeting of the five principal wheat exporters held on July 10 and 11, 1969, at Washington, it had assumed that the United States and Canada would refrain from taking unilateral measures conflicting with the terms of the Arrangement.

"3. The situation which results from the decisions taken by the United States and Canadian authorities leads the Community, as a temporary measure and as long as the selling prices practiced by the principal wheat exporting members do not reflect the minimum prices of the Wheat Trade Convention, to apply, for all destinations, the provisions of its Community regulation on the fixing of export refunds, taking this situation into account.

"4. The Community is still prepared to cooperate in the smooth operation of the International Grains Arrangement in the framework of, and in accordance with, the provisions of the Wheat Trade Convention."

On the following day, July 30, the Commission of the European Communities decided to increase the restitutions applicable on July 31 for wheat exports to its traditional markets and Latin America, although restitutions to the Far East were not increased.

Prior to the Ministerial meeting of July 10 and 11, Canada and the United States had complained that the Common Market had been able to export wheat to Taiwan at abnormally low prices. The Community admitted that officials had made a mistake in calculating export subsidies. Taiwan had erroneously been assumed to be in the "China Zone" established to set export subsidy rates which are particularly high because of the high risk of shipping to Communist China. Placing Taiwan in the same zone was a mistake enabling the low prices, and measures were taken by the Commission to correct the situation.

european community

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