

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES  
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## REPORT OF COMMITTEE II ON THE CONSULTATION WITH THE UNITED KINGDOM

### Introduction

1. Under the Decision of the CONTRACTING PARTIES of 7 December 1961, contracting parties were invited to notify any substantial changes in their agricultural policies, and Committee II was authorized to carry out consultations with particular contracting parties. In accordance with this Decision, the United Kingdom notified the changes in its agricultural policy in relation to bacon and cereals.
2. The consultation was held on 9 February 1965. The Committee had before it document COM.II/138, containing a description of the policy changes notified.

### General

3. In his opening statement, the representative of the United Kingdom briefly described the agreements recently concluded between the United Kingdom and various other countries in regard to cereals and bacon. He pointed out that the measures reflected in these agreements took account of existing trade flows, and were designed to provide a degree of stability in current world supply conditions, and not to disturb world trade. They incorporated restraints on financial assistance to domestic production. The agreements had three basic features: firstly, they provided outside suppliers with access to the United Kingdom market; secondly, they assured these suppliers of an opportunity to share in the growth of the market; and thirdly, they were founded on voluntary agreement and contained built-in provisions for consultation.
4. In their comments most members of the Committee noted that the measures had introduced new elements of restriction, but recognized the problems that the United Kingdom had had to face and the reasons that had led it to adopt the measures. They welcomed that it had sought to work out the solution of its problems with the agreement of exporting countries. They appreciated that the measures aimed not at self-sufficiency but at a fair balance between domestic production and imports, and that this was to be achieved also through restraints on domestic production; the burden would thus not be placed on outside suppliers

alone, but shared. They expressed their appreciation that the concept of market sharing incorporated in the provisions would permit outside suppliers to share also in the growth of the market. They noted with satisfaction that frequent consultations on the working of the agreements were provided for, and also noted with great interest that if the stated objectives of the agreements were not attained, the appropriate measures would be taken. Members of the Committee observed that the agreements would in the end not be judged by the principles and policies that underlay them, but by whether they reached the desired objectives. A member of the Committee considered that it was easier for the United Kingdom than for some other contracting parties to resort to the measures announced, as it depended traditionally on continuing imports to meet domestic requirements. With regard to consultations, that member observed that one might wonder whether the procedure envisaged was sufficient since the consultations would be initiated unilaterally.

5. Some members of the Committee considered that some aspects of the arrangements and the administrative techniques developed by the United Kingdom Government in its new cereals policy, were capable of extension into more comprehensive arrangements internationally, with enhanced prospects of improved access to world markets and more stable and remunerative prices. A member of the Committee observed that the new British cereals policy was only, in accordance with the terms of the agreements, an interim solution pending the conclusion of international long-term arrangements on cereals.

### Cereals

6. In reply to a question the representative of the United Kingdom stated that the mechanisms proposed to all the co-operating countries were basically the same. The texts of the cereals agreements entered into with the four principal suppliers were practically identical.

7. A member of the Committee said that in his view the three essential elements in the United Kingdom's policy were the limits set on production; the establishment of minimum import prices; and the new internal marketing arrangements. He noted that there was no reference to the last of these in the paper before the Committee. He asked whether the marketing system had been enacted and, if so, why had it not been notified to the secretariat. The representative of the United Kingdom replied that the legislation necessary for the introduction of the new domestic marketing arrangements in his country was before Parliament, but the Bill had not yet been enacted; this was a reason why no reference had been included in the paper circulated to the Committee. Although in his view the arrangements which would apply to domestic marketings would have only a limited bearing on international trade and on the discussions in the Committee, nevertheless in view of the present consultation, he would be ready to notify to the secretariat in due course the provisions of the Bill if they were enacted and came into effect. This was noted by the Committee.

8. A member of the Committee observed that stocks of wheat and wheat flour in the United Kingdom had decreased between the latter halves of 1963 and 1964, and that the forward purchases of wheat notified by importers for 1965 were considerably below those recorded a year earlier. If this meant that the shortfall would be partly met by an increase in domestic production, this might, in his view, imply a flaw in the cereals agreements, under which the limitation of domestic production was a condition for attaining the objective of maintaining a fair and reasonable balance between home production and imports. He asked what influence the system had in the limitation of production, and whether any provisions had been made for additional measures to prevent a reduction in imports. The representative of the United Kingdom pointed out that forward purchases at the end of 1963 had been abnormally high as the USSR had just entered the market as an important buyer of wheat, and flour millers in the United Kingdom forward purchased heavily to assure themselves of supplies. This explained to a large degree why the level of these forward purchases was so much higher than for 1965. As regards the influence on production of the measures provided for in the agreements, they were too recent to have had an effect on the size of the 1964 harvest. The crops had in fact already been sown before the agreements had been signed, and before the disincentive measures announced in the White Paper on the Annual Review had come into effect. The disincentives inherent in the standard quantity concept could thus not have operated, and the attention of co-operating countries had been drawn to this at an early stage. The standard quantity had, however, become operative on the payments for the 1964 harvest, and it was estimated that it would result in a reduction by about 10 per cent in the unit rate of deficiency payments, or a  $2\frac{1}{2}$  per cent reduction in the total unit returns to farmers. The other disincentive, that of the target indicator price arrangement, was expected not to have any significant effect on payments for the 1964 harvest; farmers' returns, partly because of the high price of maize in the world market, would probably be above the level of the target indicator price, which would thus not become operative in reducing the returns.
9. A member of the Committee noted that between the years 1960/61 and 1962/63 wheat imports into the United Kingdom had declined while at the same time production and the degree of self-sufficiency had risen; production and the degree of self-sufficiency in barley had also risen. While some of the production increase might have been due to favourable weather conditions, he also noted that the areas under wheat and barley had gone up. In any case production had considerably exceeded the limits that had been set. For the 1964/1965 season cereals consumption in the United Kingdom might be in excess of 20.6 million tons, which might lead to a reduction in imports in view of the domestic production estimate. The United Kingdom representative agreed that increases in barley production had been marked, due to favourable weather conditions, to higher yields and to an expansion of barley acreage which had partly been the result of the secular decline in acreage sown to oats and other feed grains and did not therefore represent a net increase in the production of fodder grain. The estimate of cereals production in 1964, at  $12\frac{1}{2}$  million tons, was considerably higher than the production of the harvest in 1963, when wheat had reached a particularly low level. The increase in 1964 was partly due to good weather but also to a tendency for improvement in yields. It was too early to forecast with any precision what imports would be in 1964/65, but they were likely to be less than the average for the three years

preceding 1 July 1964 mentioned in the agreements. The consumption postulated for 1964/65 in the agreement, of 20.5 million tons, would probably be exceeded. He stated that the United Kingdom had made agreements concerning the level of imports and he wished to make it clear that they would be honoured. The consultation would take place between the Government of the United Kingdom and other co-operating governments, and, wherever necessary, corrective measures would be chosen and used within the framework of the Agriculture Acts. In reply to a question regarding forecasts of the 1965/66 winter crop, the area sown, and the total 1965/66 crop, the representative of the United Kingdom said that no reliable forecast could, as yet, be made. The only crop sown at present was winter wheat. The results of the census taken in December had not yet been published. While the acreage might be relatively high, this would probably be offset by a lower spring wheat crop, as an inverse relationship existed between the two.

10. A member of the Committee noted that certain commodities were not included among those to which the agreement applied. Thus, rye in particular had not been included; on the other hand, certain secondary products had. The representative of the United Kingdom explained that rye was unimportant in the United Kingdom, total production being about 20,000 tons, and imports were very small. Although it was one of the commodities the price of which had been guaranteed, it could not be considered as of any importance. As regards once or twice processed products, it was felt that they had to be included in certain cases, if it was intended to respect the minimum price for basic cereals. For example, imports of wheat flour were significant and could not be neglected in connexion with the minimum price for wheat. Similarly, feedstuffs, such as maize meal, meal generally and milling offals, had all to be covered on account of the size of imports. He agreed that it was difficult to decide where the dividing line had to be drawn. The main criterion was the volume of trade but the difficulties of the customs authorities in distinguishing between types within the same tariff heading had to be taken into account.

11. A member of the Committee expressed great interest concerning the determination by the United Kingdom of minimum prices for cereals and for once or twice processed products and secondary products. He observed that this approach was an inducement for the establishment of reference prices applicable in the general arrangements to be negotiated in the GATT Group on Cereals. Commenting, another member of the Committee observed that it was not stated anywhere in the text of the agreements concluded by the United Kingdom that reference prices had been calculated.

12. A member of the Committee stated that in his view, "the fact that the level of minimum prices was established below that of normal offering prices to the United Kingdom" would lead to a decline in world prices incompatible with the objective of placing the world market on a sound basis and revaluing prices

in that market. If the minimum prices were set below the range established by the International Wheat Agreement, the downward pressure on world prices would be strong. He wondered whether, if world market prices were too low, this would not justify the use of export subsidies. The representative of the United Kingdom replied that most careful consideration had been given at the consultation stage to the relation which prices to be stipulated in the agreements were to have to those stipulated by the International Wheat Agreement. In no case had minimum prices been set below the corresponding level of the Wheat Agreement, and in most cases they had been set a little higher. The level at which minimum prices had been set was not intended to interfere with the free flow of trade in world markets, but to stabilize the market by preventing imports at unrealistically low prices. Such imports - sometimes at prices at which even the most efficient producers could not afford to sell - had on occasions undermined the situation in the United Kingdom and had led to rising deficiency payments. As regards the argument that low minimum import price levels justified the use of export subsidies, he did not wish to comment on it.

13. Another member of the Committee, wishing to comment on the view expressed earlier that the minimum import price arrangement established by the United Kingdom might depress world prices and foster export subsidies, stressed that the basic feature underlying the agreements or co-operative arrangements of the kind under discussion was the need for stability in terms of maximum and minimum prices. The two reasons that in his view had prompted the United Kingdom to conclude the agreements were to reduce exchequer costs and to achieve stability in what was the largest import market. It was difficult to establish beforehand prices at which trade would actually take place, but one could establish price limits below which exporters would be seriously affected. The United Kingdom had established such limits and established them above the International Wheat Agreement minimum price (converted to the same basis) and had thus buttressed it. He failed to see why the establishment of minimum price limits should justify the introduction of export subsidies, although he could see that export subsidization was a means that enabled countries with the largest financial resources to penetrate markets where prices were low. A member of the Committee considered that the concept of a minimum price, as proposed by the United Kingdom, was essentially aimed at stabilization of the domestic market, whereas in fact it was desirable to stabilize conditions in the world market itself and place it on a sound basis. Other members of the Committee pointed out that by virtue of its provisions this United Kingdom cereals arrangement did contribute, in some measure, to the stabilization of world trade in cereals.

14. Referring to the technical aspect, a member of the Committee asked how the c.i.f. prices defined by the United Kingdom could offset variations in freight costs over time and between the various trade flows, and how account

would be taken of the interests of certain distant producing countries with very high freight costs. The United Kingdom representative confirmed that minimum import prices were calculated on the c.i.f. basis, including customs duties where payable. In his view, the variability of freight rates was obviously a factor which affected overseas producers' returns, but it was essential that the minimum import prices be established on a c.i.f. basis since the objective was primarily to achieve stability in a given market, i.e. that of the United Kingdom, and variations in freight rates could not be taken into account. That was a problem which might have to be dealt with when setting up an international arrangement in so far as freight rate variations affected exporters' incomes. He added that in the International Wheat Agreement prices were fixed on an f.o.b. Canada basis.

15. A member of the Committee, noting that the relative efficiency of suppliers, and changes therein, would be taken into account when reconsidering the balance between domestic production and imports, asked whether the efficiency of other than principal suppliers would be taken into account also. The representative of the United Kingdom said that while in studying the changes over time of the relative efficiencies of domestic producers vis-à-vis overseas suppliers, the position of the four principal suppliers would be taken into account, changes in efficiency elsewhere would not be overlooked.

16. A member of the Committee pointed out that the consultation procedure envisaged seemed to introduce differential treatment as between the principal suppliers and the secondary suppliers. Such differential treatment would be all the less logical with respect to certain cereals or secondary products since exports by the so-called less-important suppliers to the United Kingdom market were in fact larger than those of the so-called principal suppliers. The representative of the United Kingdom explained in regard to the term "principal suppliers" that the criterion for this classification was the total quantity of cereals supplied to the United Kingdom market, not the quantity of any one cereal supplied. The criterion was objective and could not give rise to charges of discrimination. The term "principal co-operating governments" used in the agreements referred to those of Argentina, Australia, Canada and the United States. The agreements were dynamic, not static; any changes in the coverage of the phrase "the principal co-operating governments" could, however, only be brought about in consultation with these governments. The fact that participation in consultations on certain subjects was confined to principal co-operating governments could not be regarded as a discrimination against other suppliers; it was not possible to hold detailed consultations with a large number of suppliers. Nevertheless it was in consultation with all co-operating governments that the minimum import price arrangements would be reviewed annually.

17. In reply to various questions on the operation of the price mechanisms designed to restrain financial assistance and described in the United Kingdom White Paper on the Annual Review, 1964, the representative of the United Kingdom explained that the latest estimate of 1964/1965 wheat production was 3.6 million tons. The effect of the standard quantity arrangement was that deficiency payments were related to a standard quantity of 3.3 million tons. The payments were disbursed for all wheat produced, but the unit rate of subsidy was reduced pro rata with the ratio between the actual quantity produced and the standard quantity. All producers were penalized by the reduction in deficiency payments if the standard quantity was exceeded, not only those who were responsible for the actual over-production.

18. The basis of the deficiency payments was the difference between the average price realized by producers collectively on the market, and the guaranteed price established by the Government. If the standard quantity were exceeded, the amount of the deficiency payments might in certain circumstances be related, not to market returns, but to the target indicator price. If production exceeded the standard quantity, and the average market price were to fall below the target indicator price, it is on the latter that deficiency payments would be based, the assumption being that if producers had not exceeded the production quantity set by the Government, market prices would have been at or above the level of the target indicator price. If the quantity produced were less than the standard quantity, and if the average market price were above the target indicator price, producers would receive a slight bonus, amounting to one quarter of the difference between the average market price and the target indicator price. According to present estimates it would seem that the market price for the 1964/1965 cereal year would be above, or at, the target indicator price. The target indicator price for barley and wheat was derived from the minimum import price adjusted for transport and handling charges, so as to place prices on a comparative basis. In the case of barley, account was taken of the fact that the plants of feed manufacturers were generally located at the port so that to put domestic barley in a comparable position to imported barley, the transport costs for domestic barley to the port, and handling charges, had been taken into the calculation. At the same time, about one fifth of barley went into malting at a higher price than feed barley, and this was also taken into account in establishing the target indicator price. The target indicator price for wheat was derived in a similar way from the minimum import price for continental milling wheat. The difference between these two prices was greater for wheat than for barley; one reason for this was that only about one half of the domestic wheat crop went to flour mills, the other half to compound feed manufacturers at a lower price.

19. A member of the Committee observed that the minimum price mechanism involved different levies depending on the supplying country, and that seemed to introduce an element of discrimination. The representative of the United Kingdom explained that the levies were not discriminatory. In the case of the levies placed on individual parcels originating in and consigned from the exporting country when the offering price fell below the minimum price, there was no discrimination as these levies could be applied to both co-operating countries and others. The general levies which applied to non-co-operating countries only were not discriminatory in that they were applied to all non-co-operating countries. In the case of a co-operating country which failed to observe the minimum price, a country levy might be imposed. A member of the Committee said that the fact that there was prior consultation with co-operating governments in the determination of the minimum import prices was an important point; this was not decided upon unilaterally.
20. A member of the Committee noted that if it was found as a result of a review of the minimum import price arrangements that they had resulted in an appreciable distortion of the pattern of trade, the United Kingdom had undertaken to take effective corrective action in consultation with the other governments involved. Several members of the Committee enquired concerning the nature of the corrective measures envisaged by the United Kingdom Government. The representative of the United Kingdom replied that there were built-in restraints to financial assistance to domestic producers and provisions for consultations. Periodic reviews would indicate the action required, and it was the intention of his Government that changes in its domestic guarantee arrangements should be made as necessary.
21. A member of the Committee said that it was recognized by the United Kingdom that its cereals agreements were only a step towards an international cereals agreement. The United Kingdom agreements attempted only to maintain a fair and reasonable balance (including an opportunity to share in future growth) while the international agreement envisaged would attempt to bring world supply and demand into line with each other.
22. In reply to a question, the representative of the United Kingdom said that the same minimum import prices applied to all countries. However, for certain commodities there was a Commonwealth preference, and there was a special arrangement for wheat flour imported from Canada and Australia which established an understanding that certain prices would be observed in the United Kingdom flour market.
23. A member of the Committee observed that the grouping together in the same minimum price category, of products which, in fact, sold at different prices in the world market could give rise to argument. The representative of the United Kingdom replied that it had been necessary to simplify the classification



as far as possible. In cases in which more than one type of grain were grouped together, the minimum price would, in effect, apply to only one of them and the market would work in such a way that the others would find their own levels above the minimum level. In the case of coarse grains, various factors, such as the proportion used for feeding purposes, quality and type differences, had to be taken into account in fixing the minimum import price level. In the case of various cereal meals, it had been found necessary to establish a uniform minimum import price level for most meals since it was not possible to differentiate between some types of meal at customs.

24. In reply to a question, the representative of the United Kingdom said that his Government had agreed to review the minimum import price arrangements before the beginning of each crop year, or on request during a crop year, in consultation with co-operating governments.

#### Bacon

25. In introducing the consultations on bacon, the representative of the United Kingdom said that bacon was an important item in his country's total food consumption and represented a considerable percentage of their total meat imports. Others might find surprising the importance attached to bacon by his Government, but it should be remembered that the United Kingdom was the only important world market for bacon.

26. In reply to a question, the representative of the United Kingdom said that the bacon understanding did not affect the right of access of non-participants. This understanding had been reached with certain countries exporting bacon to the United Kingdom market. Non-participating countries could continue and had continued to export to the United Kingdom, but in practice supplies from non-participating countries had been very small.

27. In reply to a question, the representative of the United Kingdom said that for 1965/66 the minimum total quantity would be increased by 5,600 tons to 620,600 tons and the reserve quantity would be increased by 10,000 tons to 35,000 tons. These two figures determined a bracket in which it was estimated that the market would return prices reasonable to producers and consumers. A member of the Committee enquired whether it was intended for the second year of operation of the understanding, and for future years, to leave unchanged the market shares in the first year of operation. The United Kingdom representative replied that it had been decided in November 1964 not to alter the present rules for calculating the participants' shares for the second year. In accordance with paragraph 12 of the understanding, any revision would be subject to four months' notice.

28. A member of the Committee expressed surprise that the allocation of the "first reserve" as between various countries did not seem to take account of the relative ranking of countries which were prepared to participate in the "minimum total quantity". The representative of the United Kingdom replied that the United Kingdom had endeavoured to arrive at an agreement under which both the minimum total quantity and reserve quantity were allocated on a percentage basis but that the provisions now incorporated in the understanding had been arrived at in the course of negotiations with the countries now participating. In the first year, a "first reserve" had been established as a result of the negotiations to give certain countries, which had agreed to reduce their desired shares, a prior claim in any allocation above the minimum total quantity. At the end of the first year, this provision would disappear in consequence of the increase in the minimum total quantity already mentioned and the reserve quantity would be allocated on the basis of the agreed percentage shares.

29. In reply to another question the representative of the United Kingdom replied that it was too early to know whether the market sharing understanding had led to stabilization of bacon production in the United Kingdom, but it should be pointed out that the United Kingdom itself was unlikely to fulfil its share for the first year. When demand had been strong additional supplies had so far come mainly from overseas suppliers. However, price stability rather than production stability was the goal of the arrangement.

30. A member of the Committee asked whether the United Kingdom Government intended to introduce similar arrangements for other meat products. The representative of the United Kingdom replied that it had already stated in the GATT Meat Group that it favoured a general arrangement on meat. The United Kingdom meat market had been much affected by conditions of access and demand in other markets and for this reason the United Kingdom attached importance to the deliberations of the Meat Group. The representative of the United Kingdom did not feel that the details of the bacon understanding could be made applicable to other forms of meat since the bacon market had some unique features. However, the general concept might have an application to other forms of meat.

31. The representative of the United Kingdom said, in reply to a question, that the basic guaranteed price for pigs grown in the United Kingdom was related to a forecast of annual production. If the forecast exceeded the "middle band", i.e. desired production, which was currently set at 11 1/4 to 11 3/4 million pigs, the basic guaranteed price was reduced. If the forecast fell below the "middle band", the basic guaranteed price was increased. Thus, action was taken in the present to remedy the problem associated with the pig cycle by dampening down or increasing future production as required. The "middle band" was fixed each year, having regard to the United Kingdom share of the bacon market and to the demand for other pigmeat.