I. What should be our objective?

1. Our objectives are clear. The GATT Ministers at their 1961 meeting asked that procedures be developed "to establish the basis for the negotiation of practical measures for the creation of acceptable conditions of access to world markets for agricultural commodities".

This year our Ministers agreed that the purpose of the Group on Cereals should be "to negotiate appropriate arrangements ... for access to world markets for agricultural products in furtherance of a significant development and expansion of world trade".

2. The result of these negotiations should be a durable and binding GATT agreement, set in the context of the general trade settlement, covering wheat, flour and coarse grains - an arrangement which would set in motion the transformation of national policies toward a more rational and mutually beneficial pattern of world grain production and trade.

3. It is the view of the United States Government that we should seek to accomplish this objective bearing in mind the desirability of promoting eventual global supply-demand balance through equilibrium prices or effective supply control, or both as appropriate. Furthermore, we believe that if a more rational pattern of world cereals production and trade is to be achieved, due attention must be paid to the principle of comparative advantage and to the desirability for the world as a whole that grain production be gradually concentrated in the areas of more efficient production.

II. How shall we go about our work?

4. Naturally we must take the world as we find it. My Government is not prepared to recommend to others more drastic measures than it is willing to adopt itself. Certainly we are not prepared to recommend the dismantling of all agricultural price and income support measures. We believe we can and must make a start in reconciling these programmes with the objectives of trade liberalization and improved market opportunities for low cost efficient producers.

5. A significant beginning would be made if we set as an immediate objective preventing further deterioration in trade resulting from the artificial stimulation of production behind protective walls.
In practical terms this would be accomplished by each major importer committing itself to maintenance of the share that grain imports represent of total consumption in a recent base period. We would even suggest that this commitment be undertaken as a provisional arrangement, pending the negotiations of more permanent long-term arrangements that achieve a significant reduction in barriers.

III. Methods

6. The achievement of our objectives, as Dr. Mansholt and others have pointed out, involves us directly in national agricultural policies.

7. Internal prices are a key element in fulfilling our objectives. We do not say that it is the only element, but certainly internal prices and income supports for grain products are crucial. Given the world grain situation as we find it we believe that internal price levels would need to be supplemented by other obligations such as supply or marketing limitations, non-commercial sales, and surplus disposal. This is true for both importers and exporters.

8. If prices are set at levels that call forth excessive and unmanageable production, then our problem may be insuperable. We would face the prospect of a worsening of the supply-demand imbalance that has characterized the world grain situation in recent years.

9. I say this in spite of the new demands that have recently been revealed to exist in the communist bloc countries. Even though this demand may prove to be a significant factor in the world grains situation for several years, it would be a mistake to assume that it will be persistent and durable enough to solve the problems which were responsible for the establishment of this Group.

10. It is our view that recent developments have not significantly altered the context in which our Group must perform its work. For the foreseeable future we believe that there will be a strong tendency for grain production in the developed countries of the world to exceed possible outlets including both commercial and non-commercial needs.

11. As an exporter, therefore, we attach great importance to the level of prices and income supports maintained in importing countries. They must be established at moderate levels that give reasonable protection to commercial producers without providing undue encouragement to expand production.

12. The particular level of prices that accomplishes this objective would, we think, have to be determined in the context of the social and economic conditions prevailing in each consuming area. One factor that should be kept in mind is the structure of agriculture that exists. In this connexion, there
is a basic pattern more or less common to all developed countries at least. This is a sharp variation in the size and efficiency of farms. In nearly every country there is a large segment of the farm population who contribute little to commercial supplies. Theirs is largely a subsistence operation. The situation in the United States is perhaps more dramatic but not unusual. We estimate that less than one half of our farmers account for 90 per cent of cash farm marketings. The proportion may vary, but in every country there exists a large segment whose income cannot be significantly helped by price and income supports on the products they sell.

13. To set prices with the goal in mind of helping these farmers means that larger and more efficient farmers are given unnecessary profits and a strong incentive to expand production.

14. As an exporter of grains we would therefore propose that the level of producer returns in major grain importing countries such as the European Community and the United Kingdom be subject to negotiation and bound at moderate levels in the Arrangement.

15. As a point of departure, as already indicated, we should seek no change upward from present levels. For the Community this would mean the adoption of prices at existing French levels. Various investigations that have been conducted clearly indicate that even prices at recent French levels would only maintain trade - not expand it. A higher Community price level would further stimulate production at the expense of imports. We doubt that prices at the French level alone would be sufficient to assure that grain exporters would maintain their present share of the Community market.

16. The Community itself has prepared a study which makes possible an appraisal of increased grain prices on EEC grain production and therefore EEC grain import needs. The study to which I refer is "Perspectives 1970" (Etude $10, EEC, 1962). This study concentrated on the effects of grain price increases on French production. French grain production in 1970 was projected at 32.3 million tons, if producer prices were increased 20 per cent or more from pre-CAP levels. Production of 26.6 million tons was projected if prices were left unchanged.

17. In terms of net imports these projections suggest that EEC net imports by 1970 would be approximately equal to pre-CAP levels at 8 to 10 million tons with pre-CAP French prices. Exporter shares would be reduced. But the EEC net imports of grain would drop to 3 to 4 million tons by 1970 if the higher prices were employed.

18. In the United Kingdom there has been a long-time erosion of the importers' share of domestic consumption. In the pre-war period grain imports supplied 70 per cent of consumption. In recent years, however, it has been approximately 50 per cent.
19. It should be clear that with regard to importer price levels and especially EEC price levels, the United States would not expect other parties to an Agreement to embark on any specific course of action that did not involve reciprocal obligations. We cannot expect uniform national policies throughout the world. However, as indicated in paragraph 16 of TN.64/Ce/1 it would not be necessary for all countries to undertake the same commitments or techniques. But if a WGA is to achieve the objective of expanded trade, the overall national policies of all countries must be geared to that end.

20. There may be interest on the part of other delegates in internal price policies of the United States. The United States has undertaken substantial changes in its internal wheat price arrangements in the past year. For example, under the programme proposed to farmers but rejected by them in May 1963, producers would have received wheat price support above world market levels on only 80 per cent of normal production, instead of on total production. It is now expected that United States wheat producers for 1964-65 will be guaranteed a price nearly 10 per cent below world levels - about $1.25 per bushel at the farm gate. Barring legislative changes, the same alternatives will be made available to producers in future years.

21. United States prices of coarse grains are competitive in world markets without subsidies. Thus United States producers' returns are competitive with world prices. For 1963 through 1965, producers are eligible for payments over and above market prices, but only on the condition that they reduce acreage by 20 per cent.

22. The United States expects to continue to balance demand and supply in cereals by programmes which limit grain production for the immediate future. Authority for this is now available. Continuation of this authority cannot be assured, however, particularly in view of the world-wide tendency to unlimited production. Reciprocal actions by importers and exporting countries may become a condition for long-range production control by the United States.

23. In an agreement incorporating reciprocal commitments, the United States is prepared to enter into discussions leading to commitments for the carrying of stocks, and to world-wide co-operation in providing assistance to developing countries. Further, we invite the views of others with regard to the nature of reciprocal commitments which might be suggested.