STATEMENT ON UNITED KINGDOM CEREALS POLICY

10 March 1964

1. I promised yesterday that I would make a statement to the Committee outlining what has happened as regards the development of my Government's policy on cereals, the broad lines of which were announced by Mr. Soames at the ministerial meeting last May.

2. It will be recalled that Mr. Soames referred to the problems being created by the agricultural surplus position of today, particularly in cereals, and the pressures which this was exerting on traditional importing markets, more especially in a free market such as that of the United Kingdom. Mr. Soames said that, in the view of the United Kingdom Government, it was necessary to bring this position under more control so as to create greater stability on the United Kingdom cereals market to the benefit of all who sell on it, and in consequence to place some limit on the extent of the Government's financial liability. In the United Kingdom Government's view two steps were necessary to achieve this objective: first, to introduce measures to discourage home cereals production from increasing beyond an appropriate level; and second, to prevent unduly low-priced imports from undermining the market.

3. In deciding that it was desirable to go ahead as quickly as possible with a policy of this kind, the United Kingdom Government had very much in mind their responsibilities as a major cereal importing country, their international obligations, and the necessity of considering carefully the relationship of any action taken to the discussions taking place here in Geneva. For these reasons, it was announced at the outset that we intended to consult our overseas suppliers on our new policy and to seek their co-operation. In August of last year we approached our four major suppliers of cereals, namely Canada, the United States, Australia and Argentina, together with a number of other minor suppliers. Since then discussions have been proceeding with many of these countries, in particular with the four major suppliers, and I am glad to say that we have been able to reach agreements in principle with them on our proposed new arrangements.
4. These agreements have not yet been completed. Certain details still remain to be settled. In addition our overseas suppliers naturally wished first to know exactly what action the United Kingdom Government proposed to take on the domestic front as their contribution to stability. This could not be decided until after our Annual Review of the Economic Circumstances of the Agricultural Industry which has only just been completed and about which Mr. Soames is making a statement in the British Parliament today.

5. I would now like to tell the Committee the objectives of the United Kingdom Government's policy and how in general terms it is proposed to achieve them assuming that the agreements in principle with our major suppliers are completed in the near future, and that it is therefore possible for us to go ahead also with our domestic measures. When bilateral agreements with our major suppliers have been signed, we would propose to notify them to the GATT secretariat. Similarly we shall notify agreements with our minor suppliers as and when they are concluded. We have now approached all our minor suppliers of cereals inviting their co-operation, and I am glad to say that already about half a dozen of them have said that they wish to co-operate with us.

6. Before I proceed to describe the United Kingdom Government's policy I should at the outset make clear that we regard the arrangements as interim measures pending the conclusion of any long-term international cereals arrangements here. If such arrangements are reached - as we hope they will be - and we and the other countries concerned are parties to them - as we hope we will be - then these bilateral agreements would be subsumed into the wider international cereals arrangements. We have also made clear that we regard the conclusion of these bilateral agreements as being completely without prejudice to the negotiations here, although we naturally think and believe that the main features of these arrangements will be helpful to our discussions in this Committee.

7. What then does my Government propose to do - provided that our agreements with our major suppliers and our domestic policy arrangements are both satisfactorily concluded? The objectives of our new policy are two-fold. First, to introduce a greater measure of stability into the United Kingdom cereals market. Second, to ensure that there is a fair and reasonable balance between domestic cereals production on the one hand and cereals imports on the other, broadly based on present levels of supplies and providing both domestic producers and overseas suppliers with the opportunity to share in any future growth in our market in a fair and reasonable way. This balance will be annually reviewed with our major overseas suppliers to take account of changing conditions.
8. To achieve these objectives we propose on the one hand to introduce a minimum import price system which we would operate in conjunction with those of our overseas suppliers who are willing to co-operate with us, and on the other hand to introduce measures at home which will place restrictions upon government financial support for domestic cereals growing if production exceeds certain predetermined levels which it is in the national interest to produce at home. These domestic measures will for the first time introduce in the United Kingdom the principle of a "quantum" for cereals. There will be separate quantums - or ranges of production - for wheat and for barley. If production exceeds the top end of the range - or as we call it the standard quantity level - the subsidy will be calculated only on the standard quantity figure - that is the subsidy per ton over all production will be reduced proportionately to the excess of production over the standard quantity. In addition, the subsidy will under certain circumstances be limited by a further mechanism. If production is above the standard quantity level and the average market price has fallen below a predetermined target indicator price level - as may happen if production is large - then the subsidy will be limited by using the target indicator price instead of the average market price for subsidy calculation purposes; in other words producers themselves will bear the "loss" between the average market price and the target indicator price. This mechanism will also start to operate when production is within the quantum range of production, being applied less severely when production is at the lower end of the range and progressively more severely as production rises towards the top end of the range.

9. We have said that we intend to operate our new policy in such a way as to secure the objectives I have already outlined and we have agreed with our major overseas suppliers - whose interests are primarily concerned - that we would review with them annually how our policy is working out. We are also prepared to undertake that if the introduction of these new measures fails to permit the total volume of cereals imports (including wheat flour) to be maintained at a level not appreciably less than the average level in a recent representative base period, we will, after consultation, take promptly such corrective action as is necessary to secure this objective.

10. These objectives of policy, together with the assurances which we would give to our major suppliers relate to total cereals imports and so would of course also be of benefit to our minor suppliers. We believe that these objectives of policy are not only fair and equitable as between a major cereals importing country such as ourselves, and our major suppliers, but also represent a significant contribution towards the crucial problem of acceptable conditions of access in furtherance of a significant development and expansion of world trade which we are discussing here as an essential feature of any long-term cereals arrangements.
11. Now let me turn briefly to how we propose to operate the minimum import price system. We intend to prescribe minimum import prices for the main kinds of cereals, cereal products and by-products. The purpose of these prices, which will be on a c.i.f. duty paid basis, will be to put a "floor" in the market and prevent unduly low-priced imports coming into our market and upsetting its stability. They are not intended to raise the level of prices generally and in normal circumstances we would expect world prices to be above their level. We would expect those countries co-operating with us to observe, so far as practicable, these minimum import prices on products exported to our market. If, however, for one reason or another, a country co-operating with us fails to observe the price for a particular product, then we would apply a levy to imports of that product so as to raise the general level of offering prices from the country concerned to the minimum import price level. It will also be necessary for us to apply levies to imports of the products from countries not co-operating with us if the lowest representative offering price for the product in question on the world market is below the relevant minimum import price level.

12. We are willing to make agreements of co-operation in our minimum import price system with any country supplying us with any of the products to be covered. We have invited them to do so and we naturally hope that as many as possible will be ready to make such agreements with us. We intend to work the system in close consultation with those countries who have agreed to co-operate with us, seeking their agreement to any necessary changes in the coverage of products or in the minimum import prices, and we are prepared to give an assurance that we will make any necessary adjustments if it should be found that the levels of the minimum import prices are leading to an unexpected appreciable distortion in the established pattern of trade affecting the interests of one of our co-operating suppliers. We also propose to review the operation of the system annually in consultation with co-operating countries.

13. This system is building on certain of the provisions of the International Wheat Agreement, with which it will be fully consistent. It will specify more precisely minimum prices for the main qualities of wheat and kinds of coarse grains, and provide better means of enforcement. In the United Kingdom view these are improvements which need to be introduced into any international cereals arrangements providing for greater stability of international prices. We believe that the detailed arrangements, when they are communicated to the GATT secretariat may well provide valuable assistance in the discussions on this aspect of any international cereals agreement.

14. This, in general terms, gives the Committee the essential elements comprised in the proposed new United Kingdom cereals policy. I regret that at this stage I cannot give the Committee full details of all the arrangements, but we will give the GATT secretariat copies of the bilateral agreements as soon as possible after they are signed, and fuller details of the minimum import price arrangements when they have been presented to the British Parliament for approval.