Committee II - Expansion of Trade

DRAFT

RICE

1. In introducing the common rice policy, the representative of the Community noted that since the role of the Community in world trade in rice was minimal the rice regulation was of less interest to exporters to the Community than was the case for other regulations. He pointed out that the rice regulation took its inspiration from the cereals regulation. However, several considerations, in particular the fact that rice production within the Community was limited to two countries (Italy and France), necessitated divergencies from the cereals regulation. Other considerations, for example, were that, contrary to the case of cereals, the greater part of the rice imported was made up of husked rice, instead of paddy, and that shipment of rice to the Community was made in bags instead of in bulk; consequently prices were based on husked rice in bags.

2. The representative of the Community went on to explain that while the Community was not a major rice producer, it did produce annually about 750,000 tons of paddy rice and was one of the world's most efficient producers. Italy in particular had relatively important exports to third countries as well as to other EEC countries.

3. The representative of the Community concluded by briefly explaining the system. The fact that only two countries of the Community produced rice necessitated different arrangements concerning prices from that of cereals. Target prices could initially be determined for only the two producing countries. Therefore, it was not possible to have a common threshold price during the transitional period. Rather, it was necessary to have a threshold price for each of the producer member States and a common threshold price for non-producer member States. The levy is fixed so as to be equal to the difference between, on the one hand, the threshold price and, on the other hand, the world market price. A refund system made it possible for producer member States to export at world market prices.

4. A member of the Committee felt that it would have been preferable if the Community had used deficiency payments rather than a variable levy system. Since the Community was not a major rice producer, a deficiency payments system for rice would not have been too costly, and it could have avoided a number of difficulties which arose for third countries from the levy system. Another representative expressed the fear that the interests of rice-exporting less-developed countries would not sufficiently be taken into account by the Community.
5. In reply to a question, the representative of the Community said that wild rice, which he understood was a delicacy and of no importance in world trade, did not fall under the rice regulation. If this type of rice, however, fell within the customs classification for rice, a levy would be imposed on importation and this type would have to be taken into account in the scale of quality differentials.

Threshold price

6. A member of the Committee noted that the determination of the threshold price for non-producer member States had been based on world market prices of a round-grain type of rice over a certain base period. He pointed out that during the short period selected, prices of the type of rice concerned had been high and if a more representative period had been chosen the threshold price would have been set at a lower level. The representative of the Community replied that it was necessary to select a base period as close as possible to the date of entering into effect of the regulation; this was the period from October 1963 to February 1964. The average price of the type of rice selected, Pearl Brown, over that period was 13.27 units of account, which amount had been increased by the "montant forfaitaire" and by 5 per cent in order to avoid the necessity of adapting the threshold price too quickly to fluctuating world prices.

7. Some members of the Committee noted an appreciable difference between the threshold prices in the producer member States and the common threshold price in the non-producer member States. They also recalled that in the process of aligning the prices, eventually the common threshold price would be directly linked to the common target price, to be established for the producer areas. They expressed concern that this would mean an appreciable increase in the threshold price for the non-producer countries. The representative of the Community replied that one could not say with assurance what the Council would decide when aligning prices, but that its recent decisions in regard to cereals might be taken as an indication that the Community had a careful price policy.

C.i.f. price

8. In reply to a question regarding the calculation of the c.i.f. price, the representative of the Community said that the base period used for determining the scale of co-efficients of equivalence used to take account of quality differences was the period from 1 January 1962 to 30 April 1964. A member of the Committee observed that in this case a base period had been selected different from the period used for determining the common threshold price, to which he had referred earlier. He pointed out that the result of selecting different base periods was that in one case the threshold price was based on a non-representative high price on round-grain rice, and in the present case the quality premium for long-grain rice had been set at a comparatively high level. He felt that in this way the system discriminated against long-grain rice. The representative of
the Community explained that for the purpose of determining the quality
differentials between the various types of rice, a long base period was needed
in order to take account of sudden changes in price. The levy system, however,
did not discriminate between rice of different qualities.

9. In reply to another question concerning the c.i.f. price, the representative
of the Community said that the rice regulation provided that in cases where the
free quotations on the world market used in establishing the c.i.f. price were
not the determining factor in the offer price, the c.i.f. price could be replaced,
solely for the imports in question, by a price determined in ratio with the offer
price. This provision was intended precisely to take account of the interests
of traditional supplying third countries. It avoided that in case of offers at
exceptionally low prices, all supplying countries would have to pay a high levy.
This provision provided that all traditional suppliers would pay the normal levy
based on normal world market prices and only the exporter selling at an abnormally
low price would pay a higher levy.

Montant forfaitaire

10. A member of the Committee observed that in the industrial field intra-
Community preference was being granted by gradually reducing the customs duties.
In the agricultural sector, however, a preference was created by adding to the
threshold price a standard amount. This had adverse effects on third country
suppliers and constituted an amount of additional protection. The representative
of the Community said that the montant forfaitaire was intended to give a
certain preference to exporting producer member States. He recalled, however,
that the montant forfaitaire would disappear at the end of the transitional
period. The level of the montant forfaitaire was fixed for each year and took
into account the state of intra-Community trade at that time.

Import and export certificates

11. A member of the Committee expressed satisfaction that under the rice
regulation the validity of import certificates was prolonged in the case of
imports from distant suppliers; this was not the case in other regulations.
He asked whether the Community would be prepared to reconsider the other
regulations in this regard and bring them into conformity with the rice regulation.
The representative of the Community took note of this request.

12. In reply to a question concerning import certificates, the representative of
the Community said that they were issued on simple request and prolonged in case of
force majeure. If the safeguard clause was invoked it was expected that imports
under certificates, issued earlier, would be accepted; only in exceptional
circumstances could such certificates be annulled.
13. A member of the Committee noted that the period of validity of import certificates was less than for export certificates. The representative of the Community explained that in order for the Community to be able to export milled rice, for which transportation time was longer than for other rice, an extended period of validity of export certificates was required.

14. In reply to a question the representative of the Community confirmed that import certificates were endorsable in some member States. This question was still being examined.

Refunds on production

15. In reply to a question as to the extent of support to the starch industry, the representative of the Community said that production refunds were granted for all broken rice used by starch mills, whether it was imported or from rice produced in the Community.

Refunds

16. Several members of the Committee commented on the refund system. They noted that as a general rule the maximum amount of the refund was limited to the amount of the import levy. There were, however, exceptions to this general rule such as the refund in cases of future delivery, the refund in the form of an authorization to import free from levies on the basis of previous exports, the tender system, and the possibility of granting an additional amount. They observed that thus the amount of the levy was not an effective limitation to the refund. They expressed concern that the regulation would provide Community exporters an opportunity effectively to compete on third countries' markets at low prices. They enquired whether the Community was prepared in the application of the refund system to abide by the provisions of Article XVI of the General Agreement.

17. The representative of the Community replied that the refund, in principle, intended to compensate for the difference between internal prices and prices on the world market. It was in its concept the converse of the import levy and consequently, in the view of the Community, not a subsidy under Article XVI of the General Agreement. In certain conditions the maximum amount of the refund would not suffice to bridge the gap between internal prices and fluctuating world prices, so that special provisions were necessary to enable Community exporters to export. Moreover, world prices were greatly affected by subsidization measures of other countries.

18. Various members of the Committee expressed their disagreement with the Community concept of refunds. The system allowed high cost producers in the Community to compete with efficient low-cost producers in financially weaker countries. In their view the refund system did not differ from any other system of export subsidization.
19. The Committee agreed that the question whether the provisions of Article XVI were applicable to refunds as applied by the Community was outside its terms of reference.

20. The representative of the Community, in reply to a question, confirmed that non-producer member States were entitled to grant a refund on rice milled from rice originating from a producer member State. The provisions, however, under which in certain conditions the refund could be increased by an additional amount, related only to products harvested or processed from products harvested in the exporting member State; consequently, these provisions were only applicable in producer member States. He also confirmed that refunds could be granted on exports of rice starch, even though a production refund had already been paid on the broken rice used for its processing.

Refunds in intra-Community trade

21. A member of the Committee noted that it was specifically provided that if a refund was being granted to exports of milled rice or of husked rice, a refund must equally be granted to the basic products (husked rice and/or paddy), but that this provision did not apply to exports towards third countries. Thus, milled rice was in a favoured position in regard to exports to third countries.

Trade barriers

22. The representative of a State-trading country, noted that the trade régime applied to imports from State-trading countries was different from that applied to other contracting parties. He expressed dissatisfaction with this discriminatory treatment. The representative of the Community explained that the special trade régime vis-à-vis State-trading countries was a transitory measure, which would be revised in the course of 1965. The same régime applied to all products so far under common agricultural policy regulations. The régime was based on the bilateral trade relations which existed with member States before the entry into effect of the common agricultural policy. On the basis of the quotas laid down in the bilateral trade agreements, estimated amounts had been determined which amounted to 120 per cent of the quota existing previously. The normal trade régime was applicable to State-trading countries until imports reached the estimated amount; even then it would not be necessary to stop imports unless exceptional circumstances prevailed. In this connexion he pointed out that the special trade régime applied to State-trading countries and not to monopolies operating in non-State-trading countries.

23. A member of the Committee noted, that prior to the application of the rice regulation, quota restrictions existed in only the two Community rice-producing countries; in the case of the Benelux, there were no trade barriers, and in the case of Germany only a customs duty was applicable. He observed that
in the non-producer member countries the common external tariff already created higher trade barriers. At present, the protection provided by the levy system was much higher than that provided previously and a subsequent increase in production could be expected in the process of approximating the prices.

24. A representative enquired whether in the application of the safeguard clause the Community would abide by Article XIX of the General Agreement, and whether in that case the safeguard measures taken would be notified to the CONTRACTING PARTIES, in order to afford contracting parties having a substantial interest an opportunity to consult. The representative of the Community explained that the objective of the safeguard clause was principally to provide member States in the transitional period with the possibility of taking measures against other member States. While confirming that this clause would be applied in conformity with Article XIX of the General Agreement, he did not feel that all such internal measures needed to be notified to the CONTRACTING PARTIES.

General comments

25. A representative expressed concern about the preferential treatment granted to associated States, which could have adverse effects on traditional exports from his country. The representative of the Community replied that this preference was based on the Treaty of Rome, the Convention of Association and a special Council decision in respect of overseas territories. A special régime had been established for imports from Madagascar into France and from Surinam into the non-producer member States; this was of a transitory nature and the eventual preference would not, in his view, have adverse effects on imports of other countries.

26. A representative drew the attention of the Committee to the question of whether or not the system of import levies was in conformity with the General Agreement. The Committee agreed that such a question fell outside its terms of reference.

27. A representative stated that rice production was of considerable economic and social importance to his country since a large number of families were dependent upon the rice economy for their incomes and since, because of the nature of the land under rice cultivation, rice could not be replaced by other crops. The Community was his country's principal market in Europe. Thus, the rice regulation could greatly affect his country's rice exports if the unified threshold price was determined at or near the high producer country level. Increased levels of support would possibly result in increased rice production in the Community on land that could be put to other uses. Thus, surpluses might result which would have to be disposed of through the use of export refunds. He expressed the hope that the Community would apply the regulation so as not to damage third countries' conditions of access or traditional export patterns.
28. Some members of the Committee expressed the hope that the Community would not develop its agricultural policy in such a way as to insulate the Community from other countries. They expressed concern about various aspects of the mechanisms of the agricultural regulations which promoted agricultural production in the Community at high costs. This would inevitably have adverse effects on third country markets and on internal trade in the products concerned. They expressed the hope that the Community in the unification of the prices of various basic products would make a contribution towards reducing the differences with world prices. They recognized that the regulations referred to the objectives of both the common agricultural policy and the common commercial policy. In their view to raise the income of the farm population was not incompatible with a natural growth of international trade, and they expressed the hope that the common agricultural policy in its future application would permit reciprocal trade to develop.

29. The representative of the Community, in a final comment, emphasized that the Community would always provide a market for imports of quality rice, in particular of long-grain varieties. Moreover, if exports from producer member States to non-producer member States did increase - a trend which already existed before the entry into operation of the regulation - it would mean that exports from the Community to third country markets would fall accordingly; production in the Community was stable and the area under crop was decreasing. As regards the levy system he pointed out that the price policy of the Community aimed at stable internal prices, but the other determinant factor of the levy, the world market prices, could not be influenced by the Community. The levy was variable, to the extent that world market prices varied, so as to prevent fluctuations in world market prices from affecting the Community market. The levy could not be said to insulate the Community from the world market. In its application it was a neutral instrument. If prices within the Community and on the world market moved closer together the levy would decrease. He emphasized that the common agricultural policy of the Community would be applied so as to take account of the interests of Community producers and of third countries.

30. A member of the Committee pointed out that in his view the levy system could in practice not be considered a neutral instrument. It put third countries in the position of residual suppliers and protected high cost Community producers effectively against price competition from outside producers which were efficient in costs. The refund system likewise offered Community producers an opportunity to compete effectively on third country markets with such efficient producers.