We are to begin an examination of the terms of a customs union of a magnitude that will profoundly affect the economic activity and international trade of all countries in the GATT. The outcome of the Article XXIV:5(a) examination and the following XXIV:6 negotiations will test the viability of the GATT in establishing and maintaining the balance of benefits which the individual contracting parties consider they are entitled.

It is regrettable that after so long a period has elapsed since our first meeting that members of this Working Party still do not have the basic data essential to this examination. Nevertheless, member countries, like the United States I am sure, have long since been hard at work examining the treaty provisions and assessing the significance of the trade rules and policy which will be applied by this new major economic bloc.

Among the first striking impressions one gets from this examination is the application of customs charges and other regulations of commerce to a wide range of agricultural trade that is significantly more restrictive than are being applied by new members prior to the entry into force of this enlarged customs union. This situation is further aggravated by the extension, envisioned in the accession treaty, of preferential treatment and other special arrangements for both industrial and agricultural products to a greatly increased number of countries.

The quest for improved conditions for agricultural trade has been a primary concern in the GATT since its inception. We should also recall that the GATT specifies that the move of a customs union should not be to raise barriers to the trade of other contracting parties. Our work to influence trade conditions for agriculture is of critical importance in the examination of the Treaty of Enlargement of the EC. It will delineate a path that moves us either forward or backward. Either way, the ultimate significance to trade, not only agricultural but all trade, is enormous.

The scope of our task in this examination is reflected in the long list of agricultural products on which, according to the provisions of the instruments of accession, the levels of border protection and other regulations of commerce would be increased in the applicant countries. I propose at this time to set forth illustrative cases to demonstrate and emphasize the changes in terms of access which will adversely affect the trade of the United States and other exporting countries as well.
GRAINS

Enlargement of the European Community by the accession of the United Kingdom, Denmark, and Ireland, will have a major impact upon international grain trade and upon the legitimate interests of traditional grain exporting countries. The latter countries now export about 75 million tons of grain annually, and one third of this is accounted for by imports of the enlarged EC.

In measuring this impact, it is essential that we examine closely what will happen to grain policies in the three applicant countries after adoption of the common agricultural policy. For example, we must examine what will happen to the levels of protection against imports of third country grain into the acceding countries. Equally important is the effect that the high CAP grain price levels will have on production and consumption of grains in the area, for these developments will have a direct bearing on net imports of grain into the Enlarged Community. In this examination, we must take into account the likelihood of increases in consumption of grain substitutes as well as the impact of Enlargement on the level of world grain prices.

Grain price increases in the "Three".

Adoption of the CAP will have a dramatic effect on the grain price structure in the acceding countries. Grain price increases will be sharpest in the United Kingdom. For example, United Kingdom protection, including producer payments, at the end of the transition period compared with 1971-72 levels would rise as follows:

- Wheat up 48 per cent;
- Barley up 52 per cent;
- Rye up 107 per cent;
- Corn, sorghum and oat, producer returns would show similar sharp increases but since the EC does not have a meaningful intervention price for corn and has no intervention price for sorghum and oats, a precise figure for these grains cannot be calculated.

Prices paid by United Kingdom consumers would show even more drastic increases. While the United Kingdom has supported producer prices with deficiency payments at levels somewhat above world market prices, prices to consumers have traditionally been near world levels. At the end of the CAP transition in 1978, costs of imported grain in the United Kingdom will have risen approximately as follows (imported grain prices calculated in 1971-72 c.i.f. values plus bound duties):

- Wheat up 116 per cent;
- Feedgrains up by more than 100 per cent. These enormous increases in costs of imported grains will also be reflected in market prices of domestic grains. These cost increases would be even greater if they were reckoned from the price levels prevailing in the 1960's.

Grain price increases in Denmark and Ireland will also be very substantial, both at the producer return level and the cost to the end-user. The relatively low pre-CAP grain prices prevailing in these countries are detailed in statistics being submitted to the secretariat.
Impact of higher grain prices

Those who have studied the problem agree that extension of the present high price CAP to the "Three" will result in the same pattern already evidenced in the "Six", i.e. sharply expanded grain production; restraint in grain consumption (due to substitution of non-grains and tailing off in demand); a consequent shift in the "Three" from a position of net importer to net exporter of grain; and downward pressure on world grain prices. There can hardly be disagreement on these directions; all that is left to do is measure the extent to which world trade and world grain prices will be damaged by the CAP in the Enlarged Community.

Increased production in "Three".

There appears to be a fairly large scope for increasing United Kingdom grain production. Up to the present United Kingdom grain producers have not been completely assured of continued price guarantees. Each year they depend on an Annual Review and Determination of Price Guarantees. In a sense United Kingdom farmers have had to rely on a generosity of the United Kingdom Exchequer (Treasury Department) to "award" a guaranteed price. Now they can rest assured with an intervention price at which they can produce. This will be an important factor in United Kingdom farmers' future production planning.

Increased producer returns will also lead to higher grain production in Denmark and Ireland. The Common Agricultural Policy has already demonstrated its effectiveness as a stimulator of grain production in the "Six". The record levels of grain production achieved by the Six during the past two years average about 76 million tons. This is 36 per cent above the average production level, 56 million tons, in the Six during the seven years preceding the CAP's full implementation in mid-1967. Self-sufficiency in grain production in the Six rose from 85 per cent in the pre-CAP period to over 95 per cent in the past two years.

While the EC has had a policy that strongly encourages self-sufficiency in grains, there have been no provisions in that policy for restricting production surpluses when they arise, e.g., in soft wheat and barley. The EC has guaranteed purchase of grains at intervention prices far above world price levels, regardless of the grain production levels achieved. The EC policy has been open-ended as far as grain producers are concerned.

Restricted consumption in "Three".

The same high grain prices that encourage increased production in the "Three" will have a double-edged effect on trade by restricting grain consumption and encouraging the use of grain substitutes. The "Three" are important livestock and poultry producers and their animal industry is bound to be hit hard by increased costs due to higher grain prices. Retail prices of livestock and poultry products will rise in the "Three" and this will dampen demand considerably. Lower demand for animal products will, of course, be translated into restricted consumption of feeds to produce these finished products.
Perhaps equally damaging to grain consumption in the "Three" will be the large increases in use of grain substitutes for animal feeding. In the United Kingdom, the quasi-Government Home Grown Cereals Authority has studied the question of grain substitutes. They calculate that adoption of the CAP will lead to additional utilization of 3.2 to 3.7 million tons of grain substitutes in animal feeding stuffs by 1977/78. They conclude that the percentage of the grain component in animal feeding stuffs would decline from 73 per cent in 1969-70 to about 50 per cent in 1977-78. Such a shift to grain substitutes has already occurred in the Netherlands where the grain component of mixed feeds declined from 66 per cent in the early 1960's to only 35 per cent in 1969.

Similar trends to those predicted for the United Kingdom and already a matter of record in the Netherlands should also be anticipated for Denmark and Ireland in the important area of grain substitutes.

Net trade in the "Three"

The United Kingdom dominates the "Three" as a grain trading nation with net imports of grain averaging about 9 million tons during the past ten years.

The combination of increased United Kingdom grain production and restricted consumption indicated above and predicted in several respectable studies which assume adoption of the CAP lead us to the conclusion that the United Kingdom will move from a large net importer of grain to a net exporter position in the years ahead. It appears to us that barley and soft wheat production in the United Kingdom will be in surplus and may even have to be exported to third countries.

Denmark and Ireland together are net importers of nearly 1 million tons of grain. We expect that adoption of the CAP would also put these countries on a net export basis in the coming years.

If the United Kingdom returned to its GATT bindings - e.g. zero for wheat and corn - and Denmark and Ireland continued their present grain policies, we would expect the "Three" to increase their net imports over the current average of about 10 million tons to perhaps 15 million tons over the next few years.

In summary, the conclusion, based on studies we and others have made, is that the "Three" will become net exporters of grain under a CAP assumption rather than net importers of, say, 15 million tons had the United Kingdom returned to GATT bindings and Denmark and Ireland continued present policies.

Production response in the "Six"

EX grain producers look with great anticipation toward the new markets of the applicants which will be open to them on a preferential trading basis beginning 1 February 1973. Grain flowing from France to the United Kingdom for example, will be allowed a fixed export subsidy (compensatory amount) equal to the difference between determined prices in the two countries. To the extent that actual market prices in France fall toward intervention levels, they will be able to undercut the United Kingdom prices and become more competitive than third
country grains, which face levies changed daily to reflect world market price fluctuations and make sure that third countries do not undercut EC threshold prices. At the end of the transition period in 1973, there will be free flow of grains in the "Nine" while third country grains will face full EC levies. Aside from these facts there is also the principle behind the CAP that goods should move freely within the EC, and at an advantage compared with goods from outside. Without contesting the principle, one must nevertheless take into account its application and the restrictions of the measures that result.

With these measures at hand, Continental grain producers will be stimulated to expand grain production to fill the corn requirements and at least part of the milling wheat requirements of the new members. The same will be true at least temporarily for some of the market for feed wheat in the new members. The intra-Community grain trade of the "Six" expanded by 5.6 million tons between 1961-62 and 1971-72, and grain production of the "Six" increased by 27 per cent between 1967 and 1972. There is every reason to believe that, faced with a large sheltered market where grain can be sold at high prices, producers in the acceding countries will considerably increase their output of grains.

Broader trade impact of Enlargement on grain trade of "Six"

Apart from the production response, within the "Six", which will result from preferred access to markets of new member countries, there is also to be considered the broader impact of enlargement upon grain price levels within the "Six". There are clear signs that, left to a Community of "Six", the EC would soon find it necessary to move away from the primary use of price levels to achieve income objectives, and instead to adopt prices which lessen the incentive for expanded output and which facilitate rather than retard the conversion of feed to livestock products. Enlargement, however, will eliminate or postpone this necessity and relatively high levels of protection may well be continued for an indefinite but considerable time. The trade impact of this cannot be ignored. In fact, it alone could be as large as the sum of all of the other direct effects mentioned thus far.

World price impact

Finally, because of the enormous combined impact which the enlargement will have upon export volumes of traditional grain exporting countries, there will be major adverse impact upon the long-term equilibrium level of world grain prices. Surplus situations in international grain markets will be more frequent if not chronic and continuing. After enlargement, and with contraction rather than expansion of their markets, efficient producers in exporting countries lose what is probably their only hope of achieving more remunerative levels of return in the years ahead.
UNMANUFACTURED TOBACCO

A. Levels of protection

There is no tobacco production and no protective import duties in the applicants. The duty is bound free in Denmark. Although there are high specific fiscal changes in the United Kingdom and Ireland, there are no customs duties. Upon accession, the applicants will adopt not only the EC's protective import duties, but "other regulations of commerce" which include very high subsidy payments to buyers who purchase EC production, preferential treatment (duty-free entry) for tobacco from Greece, Turkey, the eighteen Yaoundé and three Arusha areas and a number of African British Commonwealth areas and the prospective excise tax system on manufactured tobacco products containing a percentage rather than a specific component.

Presently the United Kingdom and Irish fiscal or excise charges on unmanufactured tobacco are specific rates which are the same per pound of tobacco imported, regardless of quality or price. Under enlarged EC policies, the present United Kingdom and Irish specific import charges will be converted to a combination of protective import duties on unmanufactured tobacco and excise taxes on manufactured tobacco products. To the extent that the excise taxes have a percentage element in the charges, the effects will be more adverse on the higher quality tobacco such as that supplied by the United States and Canada.

The United Kingdom has a high fiscal charge of £5.041 ($12.60) per pound with imports from British Commonwealth suppliers subject to fiscal charges of £4.964 ($12.41) per pound. As we understand it, the United Kingdom has no customs duty and its move toward a protective customs duty on imports will start from a zero rate for all suppliers. Ireland also levies a high specific revenue or excise charge of £4.416 ($11.50) per pound on imports of unmanufactured tobacco, and we understand that any adjustment toward EC protective duties will also start from a zero rate.

The EC's duty on tobacco valued at less than 2.80 u.a. per kg. ($1.38) per pound is 23 per cent ad valorem with a minimum rate of .23 u.a. per kg. and a maximum rate of .33 u.a. per kg. For tobacco valued at $2.80 or more per kg. the duty is 15 per cent ad valorem with a maximum of 70 cents per kg.

The EC import duties on tobaccos valued at less than $2.80 (u.a.) per kg. - which account for most of the tobaccos imported into the EC - are equivalent to a margin of protection and preference of 15 to 110 per cent against competitive most-favoured-nation imports; the primary effect of the import duty is to implement a policy of discrimination in favour of preferred suppliers and against most-favoured-nation suppliers.

In addition, the EC has very high buyer's premiums, paid to all buyers of EC production, which assure the sale of all EC production at well above world prices. Buyer's premiums which ensure the purchase of EC production are equivalent to additional border protection of 30 to 300 per cent ad valorem against imports, depending on the quality and price of such competitive tobacco. The EC admits large quantities duty free from selected preferential suppliers and relies primarily on the buyers' premium to assure a remunerative market for its own production.
B. Consequences of accession

Although the market situation in an enlarged EC will be extremely complex, it is clear that: Denmark will adopt the protective import duties of the CXT; the United Kingdom and Ireland will convert specific revenue charges on unmanufactured tobacco to a combination of protective import duties on unmanufactured tobacco and excise taxes on manufactured tobacco products, and all applicants will grant preferential treatment to a long list of selected suppliers. These changes will worsen the competitive position of the United States and other most-favoured-nation suppliers in the applicants' markets.

To some extent, increasing EC production is expected to displace most-favoured-nation suppliers but the main adverse effects on most-favoured-nation exporters will result from increasing production of Greece, Turkey and the present and future preferential suppliers of Africa. These countries are fully competitive even without the benefit of preferences, as increased sales to non-preferential markets indicate. Thus the problem of trade diversion from most favoured nation to preferred suppliers is immediate. It will increase, as can readily be seen by examining the trends in production and exports of the British Commonwealth in the 1932-1972 period after United Kingdom preferences were initiated.

The EC's policy for tobacco is expected to encourage further increases in production both within the EC and within the associated areas, especially of flue-cured and burley tobaccos. Also, the premium paid to buyers of EC tobacco increases the advantages of buying EC production compared to non-EC tobacco. Furthermore, the planned harmonization of excise taxes on manufactured tobacco - especially the effects of the conversion of the present United Kingdom and Irish specific excise duties on unmanufactured tobacco to excise taxes on manufactured tobacco products - is expected to adversely influence exports of high quality tobacco to the applicants. Excise taxes with any percentage component would give tobacco products made from lower-quality, lower-priced tobaccos increased advantages in markets of the applicants and disadvantage manufactured tobacco products containing high quality tobaccos supplied by traditional most-favoured-nation exporters, such as the United States and Canada.

Also, continued French and Italian monopoly controls, which limit the sale of manufactured products of the applicants in France and Italy at the same time that the monopolies have free access to markets in the applicants, will adversely affect trade of non-Nine suppliers as the French and Italian products contain much less imported tobacco than do the manufactured products now sold in the applicant countries.

CITRUS AND OTHER FRUITS

In the fruit and vegetable sector, we examined in particular the provisions relating to canned peaches, canned fruit cocktail, fresh citrus and citrus juices. In each instance, we find sharp increases in the import duties of the applicant countries. The EC duty on concentrated orange juice, for example, is 19 per cent, while the duty in Denmark is 9 per cent and there is no duty in the United Kingdom
and Ireland. The EC duty rates are 24 per cent and 22 per cent respectively for canned peaches and fruit cocktail compared with 6 per cent and free in the United Kingdom, 13.5 per cent in Denmark, and approximately 23 per cent in Ireland. Protection at the border is further fortified through the use of such devices as reference prices in the case of fresh oranges and lemons, and a supplemental charge for sugar added in the processing of canned fruit. These formidable deterrents to trade with most-favoured-nation supplier, coupled with special preferential duty-free treatment for many major suppliers, will stimulate further increased production and processing not only in the EC but also in those countries enjoying the preferential treatment. The consequences of these measures for most-favoured-nation suppliers are clear - historical trade in these products will be distorted and channelled through preferential devices to selected countries, while the United States and other traditional suppliers to the enlarged Community will suffer substantial erosion of their trade.

Mr. Chairman, in this statement my delegation has sought to draw attention to but one aspect of the Working Party's task. The Working Party must examine the accession instruments in the light of Article XXIV:5(a) of the GATT, and it is incumbent upon the Working Party to consider whether duties and other regulations of commerce of the enlarged Community are or are not "on the whole - higher or more restrictive than the general incidence" of those previously applicable in constituent territories. My delegation does not suggest that the Working Party come to a conclusion on this matter now. Nor does it suggest that the only evidence to be considered is that which relates to duties and other regulations of commerce applicable to agricultural trade. We are, of course, interested in industrial trade as well.

It does, however, wish to call the Working Party's attention to strong reasons for believing - even at this stage of the examination - that important areas of agricultural imports into the acceding countries will face duties and other regulations of commerce that are higher or more restrictive than those faced hitherto.

The examples given - grains, tobacco and certain fruits - are merely illustrative of the problem. They indicate its nature but give only a tentative idea of its magnitude. My delegation chose these examples, of course, because these are commodities of very considerable export interest to the United States. Even now, we feel it incumbent upon us to highlight our concern that this major trade interest of ours will apparently be adversely affected.

My delegation considers that the Working Party should promptly, in business-like fashion, make a quantitative and qualitative appraisal of the increases and decreases in agricultural protection that will occur as a result of the enlargement of the EEC. This is a task which each member of the Working Party cannot escape in any case - public opinion at home will demand it. It is a task which we may as well undertake co-operatively. In fact, it is one which is required by the Working Party's mandate. The Working Party can hardly assess what happens "on the whole" to the factors mentioned in Article XXIV:5(a) without making a thorough examination of what happens to a large sector of trade which should be of very great interest and concern to all members of the Working Party.