GENERAL AGREEMENT ON
TARIFFS AND TRADE

Multilateral Trade Negotiations

WORK OF GROUP 3(e) WITH REGARD TO FATS AND OILS,
RICE, SUGAR AND TOBACCO

1. Group 3(f) agreed that it would examine particular aspects falling within its
competence of vegetable oilseeds, oils and oilcake, rice, sugar and sugar products,
and tobacco following the consideration of these products in Group 3(e) on a global
basis.

2. At its meetings in April and October 1974, Group 3(e) took up a number of
products or product groups including soya and oilcake thereof, fats and oils, rice,
sugar and tobacco under Task 4 of the Programme of Work, which provides for the

"Collection of the data for each of the last few years and carrying out an
analysis of recent changes in production, consumption and supply of and demand
for agricultural products; identification of the problems which result for
world agricultural markets and of their significance for an approach to the
negotiations in the agricultural sector."

3. Document MTN/3F/W/21 contains a list of relevant background documents prepared
for Groups 3(e) and (f) in respect of the above products. FAO documents made
available at meetings of Group 3(e) are included in the list shown in MTN/3E/W/25.

4. Reproduced below are extracts from the reports of Group 3(e) to the Trade
Negotiations Committee which record the main points made with regard to the products
referred to above.

7Discussions in Group 3(f) on vegetable oilseeds, oils and oilcake are recorded
in MTN/6, pages 2, 20, 21 and 25.
Soya and oilcake thereof - products taken up at the April 1974 meeting of Group 3(c) (extracts from MTN/5 - Annex III).

5. A member said that the changes in the soya bean market were directly due to changes in the beef and feed complex, and that developments in soya beans and cake should be seen against the broad complex of protein feeds. World soya bean production had been continuously expanding in recent years, but demand for them had grown relatively strongly because of production declines or supply difficulties in other components of the protein feed complex, such as fishmeal, sunflowerseed and groundnuts. The market was relatively free of restrictions and any efforts at introducing new restrictions should be firmly resisted, as proteins were needed for human consumption directly or indirectly.

6. A member pointed out that the production of vegetable oils could be influenced not only by factors of access and price, but also by possibilities of substitution, including substitution by synthetics for industrial use. It was thus difficult to assess or forecast the supply and demand situation correctly, and to treat soya beans and meal in isolation.

7. A member said it was well known that the tight situation in the soya market had been largely caused by reduced availabilities of anchovy meal, sunflowerseed and groundnuts. Future factors were the relatively limited areas suitable for soya bean production, the difficulties in raising yields, and the doubts as to whether future supplies of fishmeal could be increased sufficiently to offset the rising demand for protein meal. It would therefore be too optimistic to assume that the market would be free from interferences and shortages in the long term.

8. Some members saw similarities between the situation in meals and cakes and in grains. There had been increases in production in both sectors, that of soya beans in particular having doubled between 1960 and 1973. In both sectors, periods of boom seemed to be followed by stagnation and then by leaps ahead. In the case of soya beans, the recent increases had only served to offset production shortfalls elsewhere, especially those in fishmeal, linseed cake, copra and other oilseeds. The expansion in soya beans seemed to be hampered by inadequate efforts to improve yields or quality in some countries (with some notable exceptions in certain developing countries) and by the competition for land between soya and other crops. The higher prices had thus failed to act as an adequate stimulant to production, nor had access to markets ensured sufficiently high output levels to meet demand.

9. In comment, a member said that proposals in certain markets in 1968 to make imports of soya beans dearer had affected the outlook of producers in his country. Yields tended to be stable because soya beans responded little to additional inputs. Additional acreage was however available, in spite of competition for land from maize or cotton and provided they were not discouraged a second time, his country's producers could meet demand. Given certain conditions, production could in the next ten years rise by some 44 per cent above the 1973 crop, and an increase in exports was projected for 1974.
Oils and fats - (products taken up at the October 1974 meeting of Group 3(e))

10. A member suggested that in order to carry out a global review of this sector it would be useful if the Group had at its disposal summary tables showing, for instance, production and trade for each group of oils (e.g., oils from tree crops, oils from annual crops, animal body fats, milk fats and marine oils), and also giving an indication of principal suppliers and the principal uses of various oils. He provided the Group with such an illustrative summary table which was circulated as document MTN/3E/W/21/Add.1.

11. The Group felt that this could be a useful way of summarizing the information available on fats and oils, which could be amended or supplemented as appropriate. Some members reserved their position concerning the use to be made of such an illustrative summary in future negotiations. It was suggested that oils could usefully be grouped so that clearly substitutable oils would appear in the same group. As regards the global discussion of the interrelationship between fats and oils, both tropical and temperate, it was also pointed out that the Tokyo Declaration required special and priority treatment for such oils as are beyond doubt tropical in nature. A member suggested that castor oil should be excluded from any global consideration of the oils and fats complex because of its particular end-uses.

Rice - (taken up at the October 1974 meeting of Group 3(e))

12. Several members noted that rice trade and prices had shown pronounced instability since the mid-1960's. Whereas the world market had been characterized during the period 1967-71 by surpluses and a fall in prices, since the middle of 1972 there had been strong import demand, a relative limitation of export availabilities and consequently a considerable increase in world prices. The fundamental problem in that sector, as in the cereals sector to which it was to some extent linked, was to find the means of avoiding such surpluses and shortages and of alleviating sharp price swings; wide fluctuations in supply and demand were not in the interest of either importers or exporters. The multilateral negotiations should be the occasion for seeking jointly measures that could assure sufficient availabilities of rice at reasonable prices for importing countries particularly those whose harvests were periodically afflicted by natural disasters, while trying to guarantee stable markets at reasonable prices for exporting countries. In that approach, account should be taken of the fact that the developing countries accounted for more than three quarters of world imports and 50 per cent of world exports of rice and that nearly 60 per cent of developed countries' exports were on special terms.
13. Several members pointed out that the tendency towards surpluses, which had dominated the rice supply and demand situation in the five years ending in 1972, had been mainly due to the remarkable development of high-yield varieties in South-East Asia and to favourable weather conditions. The decline in production in 1972 as a result of bad weather conditions had reversed that situation and traditional suppliers had only limited availabilities for export. Despite an improvement in the following year, attributable to the production incentive policies of many governments and also to favourable weather conditions, demand had remained strong, in particular because of the need to replenish stocks. Prices had remained high in 1973 and early 1974 and despite a decline since April they were still at a level more than twice as high as the level in early 1968. In examining market problems of rice, certain factors should be taken into consideration: the small volume of international trade in relation to production (3-4 per cent); the importance of rice in countries where it constituted the staple foodstuff; marked preferences for certain varieties that had led many countries to seek to attain a high level of self-sufficiency; the regional character of rice trade (production and consumption are concentrated in Asia); the principal partners in this trade were developing countries; the price-elasticity of demand was fairly low; production required particular conditions in respect of irrigation and drainage facilities, and consequently long-term planning and production policies. The solution to problems in the rice sector must be sought first within the context of production policies; the fundamental conditions for supply and price stability at present lay in improved and more stable production. The relevant measures to be taken, in particular by producing and consuming developing countries with the broadest possible co-operation of developed countries, should include development of better varieties, improvement of land facilities, such as irrigation and drainage systems, introduction and development of advanced production and storage techniques, and supply of the necessary inputs in sufficient quantities.

14. A member stated that on the basis of the data available in the document no reliable evaluation could be made of the long-term problems facing the rice market. Because of the relative scarcity of rice stocks and the small proportion of production entering into international trade, very slight variations in production by countries that did not usually participate in international trade could generate considerable variations in international prices. For example, production in 1972-73 had been 5 per cent below the level for the preceding crop-year whereas prices had increased severalfold between 1972 and 1974.

15. While not disputing the concept of reasonable price, one member noted that it was difficult to define. At a given moment, for example, exports at a relatively low price had been subject to considerable levies, whereas later no levy had been charged on exports whose price had doubled. It might be appropriate, furthermore, to differentiate between certain rice varieties of special quality and taste and to take account thereof in customs tariffs. The principal market for a certain rice quality exported by his country was one whose accession to a trading area had deprived his country of the privileged position it had formerly enjoyed. Lastly, because of one country's tariff structure, the type of rice that his own country exported to it was dutiable at rates eight times higher than those applicable to other varieties.
16. The representative of a traditionally rice-exporting country said that the long-term problem for his country's exports was that of the domestic support prices and export subsidies granted by certain developed countries. In his view it would be useful to identify those measures and their effects and he requested the secretariat to do so on the basis of information supplied by interested governments.

Sugar - (products taken up at the April 1974 meeting of Group 3(3)) (extracts from MTN/5 - Annex III)

17. A member noted that the present sugar situation was one of tight supply and shortages, with prices at record high levels. World consumption had in recent years grown at above 3 per cent per annum, reflecting increasing standards of living and increasing demand. Production had failed to keep pace, even after quotas under the International Sugar Agreement had been suspended. Stocks had been continuously reduced. He believed that in the current year production and consumption would balance, and that no significant increase of stocks was expected. In the event of major crop failures the present shortage might be maintained or worsen. Although present prices were several times higher than those producers and consumers had been ready to discuss in earlier negotiations, they had not led to higher production levels as they had in 1963. This was significant, because it showed that producers, and especially those who relied on export markets for cane sugar, remembered that in the 1960's when high prices and hopes for markets had led them to increase output, their plans had been thwarted by an increase in sugar production in certain key markets. Although this country, and many developing countries, had the capacity and could produce more if trading arrangements were adequate, his country was not prepared to take such a decision and run the same risks as in the past. New cane mills and new land were expensive, and could not be financed without some assurance as to prices and markets. His government believed that conditions existed for sensible international action on sugar marketing and it would continue to work towards an effective international agreement. While the present time of high prices might not be right for reaching agreement acceptable to producers and consumers, it must be recognized that the industry's vulnerability to price and monetary fluctuations would inhibit further expansion of output unless firm marketing arrangements are made in the context of either the International Sugar Agreement or of secure bilateral arrangements. His government would continue to supply importing nations on the basis of reasonable bilateral agreements, which should be capable of being incorporated into a multilateral agreement with full economic provisions.

18. A member, in broad agreement, said that prices depended on supply and demand but only if market forces were given free play, which they were not, especially as regards international trade in sugar. In the absence of assured market access, he could not foresee an expansion in production which involved long-term expensive decisions. He, too, would like to see the present International Sugar Agreement strengthened and made meaningful for producers as well as consumers.
19. A member said that his country, as one of the largest importers, attached great importance to the sugar trade. The situation had been tight since 1971, after production falls in a major Latin American and a major centrally planned country had been followed by only slow increases in major producing countries. The price response had been amplified not only by speculation but because about one half of international trade was undertaken through special channels and arrangements. Future market conditions for sugar depended among other things on how production could be expanded in response to growing demand.

20. A member said that the facts of the market were known, and that a major point of concern was the present low level of stocks. There were three ways of increasing production: improving productivity of existing mills; expanding or restructuring of existing industries; and the creation of new units in producing countries or in those where there was no production at present. An increase was linked to returns on and security of investments. During the last ten years investments by international bodies had been below optimum, and had led to the creation of only three new installations in the world. Investment was therefore the fundamental problem, and the international trade negotiations should result in a mechanism that would promote security of investments.

Tobacco - (taken up at the October 1974 meeting of Group 3(e))

21. Many members noted that tobacco was produced in the temperate as well as the tropical zone and exported by both developed and developing countries, and that many of the latter drew a considerable part of their export earnings from this commodity. Up to 1968, world production had exceeded current consumption, but in the following year the situation had become reversed. The supply situation had become particularly tight since 1971. According to some forecasts, world production would have to reach 6.4 million tons at the end of the decade in order to meet consumption, as compared to a production of some 4.6 million tons in 1972.

22. They further noted that present stocks were at low levels, and that, with demand continuing strong, prices remained at higher levels than in earlier years. It was expected that demand would continue to rise especially for the higher quality types, in particular those with low nicotine and tar content. Some members said that it was therefore in the interests of certain producers to adapt the quality of their production accordingly so as to enable them to benefit from expansion possibilities offered by this demand.

23. Several members considered that one of the main obstacles to trade consisted in non-tariff barriers, including various taxes and other charges. Many members felt that many of these had a particular incidence on the processing stages, so that cigarettes and other finished products were unduly affected by them.
24. Attention was drawn to the suggestions in document MTN/3E/W/24, concerning a possible study of non-tariff barriers and connected aspects. Several members expressed their support for these suggestions. Some members, however, doubted the need for such a study, given the present and forecast supply/demand situation.

25. A member described the types of tobacco exported by his country and the problems which they had to face in various markets. He referred to problems caused by changes in access conditions resulting from the enlargement of the European Communities, and from arrangements between the Communities and other suppliers. He also referred to import practices in another major market where his country's tobacco, although in his view comparable in quality in certain grades to those being imported from another supplier, seemed to have less opportunity of access. He expressed the hope that during the multilateral trade negotiations a satisfactory solution to these problems would be found. In order to enable his government to carry out detailed negotiations he requested the secretariat to provide certain data. The full text of his statement will be issued as document MTN/3E/W/27.

26. A member said that the European Communities were not only the largest importer, but also a producer of tobacco. Although tobacco was not a large item in agricultural production as a whole, it tended to be grown in under-privileged areas where it accounted for a major part of producers' incomes. There were therefore valid social reasons why the agricultural policy aimed at maintaining this production, although at the same time it was employing measures to ensure that production would not grow unduly. This was done, for instance, by acting on the prices of those varieties for which there was relatively little demand. This action was also taken in the interests of outside suppliers. Measures at the frontiers consisted only in customs duties. The tariff structure places relatively lower duties on high quality tobacco, and relatively higher duties on the less popular lower-priced qualities. It was thus in the interests of producing countries to take steps at the production and processing stage in order to raise the quality of their exports. He further pointed to the reduction in duties resulting from the negotiations under GATT Article XXIV:6; to the reduced or zero rates resulting from a number of trading arrangements with developing countries; and to the extension to tobacco, including some processed tobaccos, of the GSP to be applied by his group of countries.

27. Another member commented that the corporation responsible for tobacco imports into his country planned imports on the basis of production and manufacturing plans and actual requirements. Tobacco from certain countries is imported for its aroma and taste, and from other countries because of its mildness. He felt that price considerations were secondary to considerations of consumer preference. The demand for milder tobacco was thus reflected in a marked increase over the last few years. Imports from the country of an earlier speaker had risen from 2,520 tons in 1970 to 4,494 tons in 1973.
28. A member recognized the proposed increase in tobacco quotas in the GSP of a certain trading area as a step in the right direction, but said that the air-cured tobacco exported by his country was not covered. He asked that this problem be taken into account. Furthermore, although the revised GSP provided for reductions in duties, the reduced duties for cigars and pipe tobacco were still very high. He also made reference to the high duties imposed on specific high quality type of tobacco produced only by his country and which had to compete in the European Communities.

29. A member said that as much as 70 per cent of his country's tobacco was grown for export. Tobacco was not only a source of foreign income, but also of employment. However, while demand for Virginia tobaccos was growing, this was at the relative expense of black tobacco produced by his country. While this phenomenon was obviously linked to consumer preferences, and while production and marketing were being improved, the remaining problems were high duties and other charges and non-tariff barriers such as in particular support measures in other countries and certain commercial arrangements.

30. A member, whose association agreement with the European Communities had been referred to, pointed out that in spite of this agreement, which was in conformity with GATT Article XXIV, his country's foreign trade in tobacco was faced with serious structural difficulties similar to those faced by other tobacco-producing developing countries.