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COMMISSION OF THE EUROPEAN COMMUNITIES

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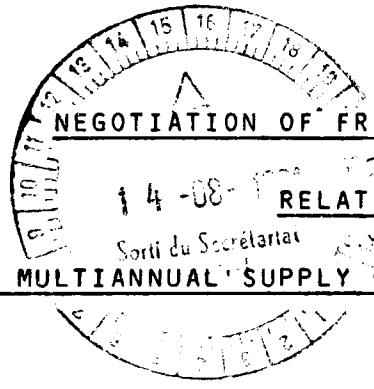
Brussels, 10 august 1981



NEGOTIATION OF FRAMEWORK AGREEMENTS RELATING TO THE MULTIANNUAL SUPPLY OF AGRICULTURAL PRODUCTS

(Commission Communication to the Council)

COM(81) 429 final

In view of the special interest shown both inside and outside the Community in the conclusion of framework agreements for the multi-annual supply of agricultural products, which would be negotiated between the Community and non-member countries, the Commission advocated, in its "Reflections on the common agricultural policy" (COM(80) 800) as well as in its "Report on the Mandate of 30 May 1980" (COM(81) 300 final), the setting-up of this new instrument as one of the new ideas put forward on agricultural policy.

The purpose of this paper is to deal with that suggestion in more detail.

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1. The desire for greater security of supply has led a number of non-member countries which buy from the Community to press for a better framework for the contracts which are concluded. The export policy currently pursued by the Community does not allow it to respond satisfactorily to one of the main points of concern of many importing countries (and the developing countries in particular), and their concern is growing as they find it increasingly difficult to feed their growing populations): whas these countries are aiming at is that they should be able to pursue their own supply policies on more predictable and more secure terms than those offered so far by the Community.

   It is only if this condition is fulfilled that Community supplies of food products can find their place in any real food security policy or strategy (either at world level or at the level of each country concerned) such as was recently advocated once more by the European Parliament and by the World Food Council when it met in Novi Sad.

2. Community policy on agricultural exports is currently based on the single marketing year, the refund being the main instrument used to regulate the quantities exported, destination and price.

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The quantities exported in a given year depend on a large number of factors, but chiefly on production, on imports of the same or substitute products, and on requirements, which are influenced by natural conditions and by the internal support measures adopted. The quantities exported do not therefore result from any single decision; they result from the overall supply/demand position in the Community in the year in question and are not backed by any systematic policy on stocks. It is largely for this reason that the volume of Community agricultural exports, particularly exports of basic products, varies appreciably from one year to another and that fluctuations occur even within a single marketing year.

The main disadvantages of such a policy, geared to the supply needs of the internal market, are clear: the continuity which is essential for a consistent export policy is missing; it is difficult to optimize the timing, volume and nature of export sales; because of the variability of Community supplies, private operators cannot make firm trade arrangements on certain markets; it is also not easy for them to compete on non-Community markets with other exporters strongly backed by their governments and having access to other instruments of export policy not available to Community exporters; lastly, expenditure on refunds is inflated.

3. Recognizing the importance of arrangements whereby the stability of world market prices and supplies can be ensured, the Community has already devised various mechanisms to remove some of the uncertainties inherent in world trade confronting exporters under the present export policy. Such action has mainly been taken at Management Committee level and has taken the form, for example, of the advance fixing of refunds and of monetary compensatory amounts, the differentiation of the refund according to intended destination or use and the use of the product balances to keep track of export trends throughout the marketing year.

However, the export refund (which is intended to bring the price of the Community product down to the world market price) and the related mechanisms cannot in themselves constitute the basis for a policy on agricultural exports such as that pursued by our trading partners.

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And whatever improvements may be made to the arrangements for its use, the refund cannot fulfil the role played by the other instruments and mechanisms used by other exporting countries.

4. The government-financed instruments available to operators in other exporting countries are many and varied: buffer stocks of goods for export; short-, medium- and long-term credit facilities; framework agreements relating to the multiannual supply of agricultural products; export promotion funds, etc.

   Some of these mechanisms already exist in the Community and its Member States, although no consistent use is made of them. The one instrument, however, which is most clearly lacking at the present time and which has, moreover, come into increasing use in recent years in all other countries is the agreement on the multiannual supply of agricultural products.

5. The Commission would like to make the following points clear in connection with the scope and content of multiannual supply agreements :

   (i) First of all it believes that in no case should the conclusion of such agreements by the Community have the effect of artificially inflating agricultural production in the Community or of justifying surplus agricultural production. In view of the quantities available for export in the Community, there is no risk of incentive to additional production; levels of production are influenced by other factors far more significantly than they would be by the moderate use of multiannual supply agreements.

   The sole aim of proposing arrangements for concluding such agreements is to establish greater order in a part of the Community's agricultural exports for which supplies seem assured, so that the needs of certain countries which buy from the Community can be accommodated more effectively.

   With reference to its remarks in the "Report on the Mandate of 30 May 1980", the Commission would draw attention once more, in connection with the above considerations, to the advantage which would be derived from basing price policy "on a narrowing of the

gap between Community prices and prices applied by its main competitors in the interests of competitiveness", in order to implement successfully an export policy for agricultural products without placing additional burdens on the Community taxpayer - and possibly making savings instead.

(ii) The implementation in the Community of framework agreements for the multiannual supply of agricultural goods should be governed by :

- existing or foreseeable requests by importing countries which are the Community's customers whose level of agricultural production traditionally falls short of requirements ;

- Community agricultural production and the quantities available for export. The Commission would like to stress in this connection that multiannual supply agreements cannot, of course, cover more than a certain part of the Community's exports. The Commission would also like to stress that in its view there is no question of turning such framework agreements into a favoured export instrument by using them on a wide scale and at the expense of all the other adjustments needed within existing instruments ;

- existing marketing channels in the importing countries, as the Community must not enter into multiannual supply agreements with private purchasing companies or marketing boards outside the public sector.

(iii) Nor, of course, can the conclusion by the Community of such agreements signify that it would be taking the place of the operators themselves for the purposes of the execution of commercial contracts or that it would be penetrating further into commercial channels. By deliberately choosing the term "framework agreement", the Commission intends to maintain everyone's present responsibilities, with the commercial operators retaining the role they now play and the Community its present competence.

(iv) The experience and practices of other trading countries (United States, Australia, Canada, etc.) have shown that long-term agreements must be as simple and flexible as possible. The provisions should relate to the nature of the product or products concerned, the total

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quantities committed on either side (sales and purchases), the duration of the agreement, the measures taken by the parties to ensure fulfilment of their commitments, conditions governing prices and any safeguard clauses required.

- With regard to price conditions, two comments must be made. Most agreements concluded by other trading countries refer only to current world market prices, because the aim is for the goods to be supplied on conditions as near as possible to normal trading conditions [1]; in addition, certain arrangements are generally laid down for payment (credit). The Community should be able to adopt the same general approach.

  On the specific question of credit payment, market studies show that this type of sale has mushroomed in recent years and that where certain countries are concerned the conclusion of supply agreements depends on the inclusion of this facility. It would be desirable to seek a proper Community solution, but this is a question that extends beyond the matter of framework supply agreements. In the meantime, some form of cooperation should be encouraged between the agencies accustomed to this kind of operation in the Member States.

- With regard to quantities committed, the formula to be considered could cover a period ranging from three to five years and would involve specifying a bracket (i.e. minimum and maximum amounts), with the quantity to be supplied over twelve months within that bracket being laid down at a certain time each year.

  Accordingly, these considerations would require that the framework agreements include a safeguard clause releasing the Community from its supply obligations should the quantities available fall to a point which could endanger supplies to the Community internal market.

- With regard to products eligible for export under such agreements, decisions would have to be taken in each case in the light of the quantities available for export in the Community and the needs and desires of the non-member countries concerned.

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1 Article 1 § 3 of the USA-China agreement signed on 20 October 1980 reads as follows: "Purchases/sales of wheat and corn under this agreement will be made at market prices prevailing at the time of purchase and in accordance with normal commercial terms".

(v) Long-term agreements for the supply of agricultural products should form part of a policy to ensure greater security of food supplies and in the case of certain developing country beneficiaries they could be implemented in tandem with multiannual food aid agreements.

(vi) Where framework agreements for the supply of Community agricultural products are concluded with countries with which the Community has negotiated cooperation agreements, they could take their place alongside other development cooperation instruments.

6. The Commission believes that framework agreements of this type will not create any radical disturbance in present trade arrangements or procedures or in the workings of the common market organizations. Some adjustments may be necessary in the light of specific requests by applicant countries. Any changes would be the subject of specific proposals by the Commission, to be adopted before the long-term agreements are concluded.

7. The Commission considers that the implementation of framework multiannual supply agreements of the type outlined above should not result in any increase in the budgetary expenditure of the EEC and might even reduce it. In this context it proposes to study each year the budgetary consequences of the costs incurred under such contracts and to report on the matter to the Council.

8. The Commission considers that this matter of agreements for the multiannual supply of agricultural products could now be fruitfully discussed.

In the light of the discussions in the Council, the Commission will continue its study of the mechanisms and procedures for the implementation of such agreements and will present formal proposals where appropriate.

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