As requested in document Spec(60)316/Rev.1, members of the Committee have submitted amendments and additions to the suggested draft report of Committee II which was circulated in that document following the October meeting of the Committee. These amendments and additions have been incorporated in the following text which is intended to serve as a basis for the Third Progress Report which is to be drawn up during the March meeting of the Committee.

In order to facilitate comparisons with the original text, amendments and additions have been underlined. Where two or more amendments have been suggested for a paragraph or sentence and where it has been suggested that the original paragraph or sentence should be deleted, the relevant parts have been bracketed.

In addition to the suggested amendments and additions which have been incorporated, the Government of Australia has submitted a re-draft of the introduction and the Committee's general findings and have suggested that the sections on commodities etc., should be annexed. A section on general conclusions has also been proposed. The Australian re-draft is attached. Reference to this paper has been made in the appropriate sections of the draft report.

A section on fish, on which members of the Committee have not yet had an opportunity to comment, is also attached.

Outline

1. Introduction
2. Committee’s Findings
   General
   Commodities
4. Future Work (to be drafted)

Annex - Australian re-draft
Note by the secretariat

Paragraphs 1-14 of the Australian re-draft are intended to replace the first six paragraphs, i.e. the "Introduction" of the original text. Several of the paragraphs in this section of the Australian paper are based on paragraphs appearing in the "Committee's General Findings" section of the original paper. Paragraphs 4, 5 and 6 of the Australian text are based on paragraphs 7, 8 and 9 of the original text and paragraphs 7, 8, 9, and 10 of the Australian text are based on paragraphs 13, 14, 15 and 16 of the original.

1. INTRODUCTION

1. The terms of reference of Committee II call for an examination of the various measures of agricultural protection and for a joint examination of the effects of such protection on international trade in agricultural products. In the light of the data and findings that may emerge from these examinations, the Committee has also been called upon to inquire into the extent to which the rules of GATT or their application have proved inadequate to promote the expansion of trade in agricultural products on a reciprocal and mutually advantageous basis, and to report on the steps that might appropriately be taken.

2. The assembly of the material relating to protection (agricultural policy,) as provided by the country examinations and by the material supplied by the secretariat, has brought out the typical aspects of agricultural support. The Committee has therefore taken up the second phase of its work, the examination of the effects of protection on trade. This has been done through a consideration, on a global basis of individual measures of agricultural support in each of six groups of commodities.

3. The discussion of the effects of protection upon trade has already shown the difficulty of the task with which the Committee has been entrusted. An illustration of this difficulty is the fact that one of the basic questions in discussing the effects of protection on trade is what the patterns of production, consumption, and trade by large areas of the world, as well as farm prices and incomes, would be if there were no protection in agriculture, other than by moderate tariffs. Also, the effects of protection in agriculture would be influenced by the degree of protection that existed in industry. (The fundamental quest is for a more economical use of resources throughout the world and it is under this aspect that the whole question of the effects of agricultural protection must be finally confronted, without losing sight, however, of the various problems of a social, strategic and political nature which governments are compelled to take into consideration in determining their agricultural policies.) (One of the fundamental objectives of GATT is the attainment of a more economical use of resources throughout the world and it is under this aspect particularly that the whole question of agriculture must, in the last analysis, be dealt with. provided, however, that the pursuit of other no less essential objectives is not thereby impaired.)
(One of the fundamental quests is for a more economical use of resources in each country, and it is also under this aspect that the whole question of the effects of agricultural policies must be finally confronted.)

4. The Committee wishes to record its views on the difficulty of its task. (This part of the Committee's work falls largely into the category of research which does not, as a rule, lend itself to the committee approach; it calls for analysis by experts rather than for compromise by government representatives.) (The Committee's work falls largely into the category of research which calls for analysis by experts.) Moreover, in view of the multiplicity of causation and the joint character of the causes that effect trade in agricultural products, some, but not all of which are in the category of agricultural protection, quantitative and qualitative analysis and unequivocal identification of causes and effects would seem most difficult, if not impossible, even in an intensive study by experts. The Committee, therefore, has to seek a pragmatic approach.

5. While the Committee is making every attempt to carry out its mandate, it concludes that no useful purpose would be served by an effort to veil the basic difficulty with which the Committee is confronted. (It is also recognized that government representatives cannot be expected to produce a unanimous finding in regard to a subject on which most countries' policies are the result not only of basic economic insight and philosophy but also of political compromise.) (It is also recognized that government representatives cannot be expected to produce a unanimous finding in regard to a subject on which most countries' policies are the result, not only of basic economic insight and philosophy, but also of particular factors inherent in agricultural economies, and in the special situation of agriculture in the national economy, as well as of political compromise.) The Committee, accordingly, faces this fact and strives for a realistic way to go about its work, (keeping in mind the fundamental aim in GATT to promote the expansion of international trade and thus to assist all countries in achieving better resource utilization) (... keeping in mind that one of the fundamental aims in GATT is to promote the expansion of international trade and to assist all countries in achieving better utilization of their resources.)

6. In the following paragraphs the Committee has attempted to reach agreement on as many conclusions as possible. For the points which could not be unanimously agreed upon an attempt has been made to record the diverse views that have been expressed. The Committee believes that this approach is not without merits: it does show the extent, large or small, to which countries will be inclined to agree on a difficult subject, and it does draw attention to a variety of important points of view that play a role in any attempt to overcome impediments to an expansion of trade.

Note by the secretariat

Paragraphs 15-28 of the Australian re-draft have been suggested in place of the following paragraphs 7-17.
2. COMMITTEE FINDINGS

General

(7. The Committee wishes to reaffirm the findings reported in its second report, dated 18 May 1960 (L/1192) and is desirous of drawing attention again to certain points that have a more direct bearing on trade.)

(7(a) The Committee wishes to reaffirm the considerations set forth at the time when its second report was submitted on 18 May 1960.)

8. Effective agricultural protection and support is confined to countries in which other economic sectors provide a major share of the national income from which such support is financed. In countries where most of the national income is provided by agriculture, agriculture itself cannot get effective income support but is often taxed to subsidize the development of other economic segments. In both groups of countries there are effects of such policies on international trade.

(9. The Committee recognizes that agricultural protection mainly aims at raising farm income which in most countries is still lagging far behind the income obtained in other sectors of national economies. While most countries acknowledge the desirability of extracting such income support from increases in productivity, this aim remains a more long-term goal. In the view of some countries applying measures of price support these measures were not necessarily aimed at an expansion of output but rather:

(a) the maintenance of a certain production level, to safeguard the continued provision of the population with essential foodstuffs;
(b) the establishment of a fairly reasonable relationship between the general price level and agricultural prices;
(c) the development of a satisfactory crop rotation from the technical point of view;
(d) the compensation for unfavourable natural conditions; and
(e) the improvement of the balance-of-payments situation.

(Income support directly tied to immediate expansion of output, or to higher prices entailing expansion of output, is the prevalent content of support policy. It is this policy content that leads to expansion of uneconomic productions, to a reduction in consumption, to impairment of trade, and to a deterioration of resource utilization.)

(... this aim remains a more long-term goal; however, the protection of income or the raising of prices may already bring about, within a relatively short period, a rise in production.)
(Income support directly tied to immediate expansion of output, or to higher prices entailing expansion of output or maintenance of uneconomic output, is the prevalent content of support policy. It is this policy content that in many cases has led to expansion of uneconomic productions, to impairment of trade, and to a deterioration of resource utilization.)

(Income support directly tied to quantity of production by means of unlimited price support is, in most cases, the prevalent content of support policy. This policy content to some extent contributes to expansion of production. However the primary reason for increased output is the great technical progress that has taken place in agricultural production. The expansion of supply together with relatively minor increases in demand for food has led to the stagnation of international trade in agricultural products.)

(The Committee recognizes that agricultural protection mainly aims, for various reasons, at raising farm income. Despite the fact that most countries acknowledge the desirability of ensuring, as far as possible, the parity of farm income with that of the non-farm population by means of increases in productivity, it is nevertheless true that this remains a long-term, indeed a very long-term, goal. This is why the immediate protection of farm income is sought in a support policy through the maintenance or increase of output or through higher prices which prevent the contraction of output or involve an expansion of production. It is recourse to this form of support which, as a whole, leads to an expansion of production which is not in harmony with market conditions, which retards the development of international trade, even leads to the impairment of such trade, and to imperfect resource allocation.)

(9/1) Substitute paragraph 7 of L/1192, as follows:

(As recorded in the Committee's Second Report, in its examination of individual systems, the Committee found that in general the main broad objectives were: (i) to maintain or raise the general level of
farm incomes, usually with a view to some relationship being maintained with incomes in other sectors of the economy; and (ii) to reduce or eliminate fluctuations in domestic farm prices and incomes. A measure of stability in farm incomes was an aim common to most countries. In addition, at the present time, the objective of income support was stressed mainly by industrialized countries while price stabilization was stressed mainly by countries whose economies were mainly or largely dependent on exports of agricultural products.

The Committee recognizes that, depending upon how the measures to achieve (i) and (ii) above are applied, they could lead to expansion of uneconomic productions, to impairment of trade and to a deterioration of resource utilization.

9(A) The level of protection and resultant increased production in the traditional importing countries places a heavy burden of adjustment on exporting countries. It therefore renders the abolition of non-tariff measures in exporting countries more difficult, and could be an important factor causing these countries to make use of non-tariff measures.

10. The various measures of protection, such as tariffs, variable levies, quantitative restrictions, deficiency payments, export subsidies, etc., appear more as the means which make the policy, as determined in the above manner, effective. (Effects upon trade thus depend largely upon the spirit and the degree to which the various types of measures are applied, which in turn depend upon the basic policy or goal.) (However, in this respect, the type of measure is not altogether irrelevant.) (While the nature of the measures concerned could be appraised differently, it is nevertheless true that its effect upon trade depends essentially upon the degree to which the various types of measures are applied, which in turn depends upon the basic policy or goal.) (The type of measure used, however, could also have an effect on trade.)
11. (As also recorded in the Committee's Second Report, there is a difference in the types of measures in that some affect trade only by way of their effect on production, while others affect trade by way of their effect on consumption as well as production.)

(As recorded in the Committee's Second Report, there is a difference in the types of measures in that some affect trade only by way of their effect on production, while others could also affect trade by way of their effect upon consumption. However, it is agreed that a more reliable appraisal of this aspect is impossible so long as there is a lack of concrete data on the elasticity of demand which could vary greatly according to commodity and even more according to country.

The Committee faces special difficulties since important considerations of another kind have to be taken into account if results conforming to reality are to be achieved. Whilst preferring measures tending to favour multilateral or regional trade, the Committee is of the opinion that the same measures could lead to different results depending on whether an exporting or importing country is involved, or whether the share of agriculture in national output is high or low and related to weather conditions. In its subsequent work, the Committee would also analyse these factors since the effects on international trade of measures in the agricultural and economic fields are greatly influenced by them.

(12. Measures also acquire importance from the point of view of international trade, if they are of a type which cannot be effectively covered by the procedures of GATT. (Thus), while tariffs can be covered by these procedures, quantitative restrictions, variable levies and other devices, even if in conformity with Articles XI, XII, XVI, or other Articles of the General Agreement, are difficult to include in an equitable system of reciprocal benefits. (The Committee believes that an imbalance of benefits has resulted from such measures of protection which threaten to weaken the General Agreement (The resulting imbalance is, in the opinion of certain members, a threat to the General Agreement) especially by weakening the necessary political support for its Member countries.)
(12(1) As balance-of-payments problems diminish it becomes evident that there is a disinclination or at best a lag in withdrawing non-tariff measures which had been implemented for the protection of agriculture. The policies underlying the protection of agriculture are also of a permanent nature. It therefore appears that the rules of GATT are not likely to be implemented in all respects unless means or procedures are evolved whereby countries can be induced to decrease progressively over the course of time the degree of protection afforded to agriculture.)

(12(2) The importance in international commerce of the measures also depends on whether they are of a nature more or less subject to GATT procedures. The Committee considers that, where tariff concessions have been exchanged, the advantages appear unbalanced owing to the application of protective measures which are hardly consistent with GATT rules.

The Committee arrived at the conclusion that non-tariff measures in production and in the trade with agricultural products have been adopted to an extent which practically equals a non-enforcement of GATT rules in this section of the economy. Therefore, in its future activities the Committee will pay special attention to investigating this fact.)

13. (The Committee believes that price policy should always be reasonably related to effective production policy,) (The Committee believes that price policy should always be as closely as possible related to the price trends of the products concerned which prevail or would prevail on a free market,) not only in exporting countries that applied artificial supports but also in importing countries where expansion of output would still find a domestic market. (Where prices are raised, artificially effective production control was necessary. This principle is being neglected and its neglect, especially in the major importing countries, is resulting in a structural imbalance of (production) (supply and demand) and in a reduction and distortion of
international trade and of resource utilization. Some countries point out, however, that the existing imbalance between total world demand and supply of foodstuffs and the expanding world population must be borne in mind when considering limitations on world production of foodstuffs.)

(13/1) In some commodities the widespread resort to agricultural support measures throughout the world has resulted in a persistent excess of supplies over current effective demand that constantly depresses world market prices. Whereas real prices of many primary commodities have increased since the late 1920's, they have declined in the case of a number of staple foods and textile fibres. In these cases the agricultural exporting countries find both the volume and unit value of their export sales diminished in consequence.)

14. The Committee concludes, in support of the GATT report on Trends in International Trade, that a moderation of agricultural protection in both importing and exporting countries is desirable and is likely to improve resource utilization throughout the world. The Committee concludes that a moderation of agricultural production in the countries where resources tied in agriculture can be more effectively re-allocated in other sectors of the economy is desirable and is likely to improve resource utilization throughout the world. Moderation, as far as possible, of protection in other economic segments is desirable as well.

15. In agreeing on this conclusion the Committee is not unmindful of the many difficulties with which agriculture is faced in many countries. It is an industry which, with some important exceptions, e.g., butter, is affected by a situation in which the demand for its products becomes increasingly inelastic, while technological progress makes enormous strides and becomes an independent influence for the expansion of production. Government action to reduce production, e.g., by reducing the level of price supports, may indeed be nullified by high yields resulting from technological progress. At the same
time, competition among agricultural producers is of a type which requires governments to undertake measures which in other industries a limited number of producers can effectively undertake themselves, individually, or acting in concert.

16. The Committee is also aware of the fact that a fundamental solution of the income problem in agriculture can only come through further improvement in the efficiency of national resource utilization; such improvement is tantamount to a further reduction in the resources employed to bring about a given level of output. (For all practical purposes this means a further reduction in the farm population wherever possible and desirable. In this connexion it is useful to recall that there were still several restrictions on the free movement of farmers from one country to another. In some countries this movement out of agriculture has actually been of extraordinary proportions, yet not extensive enough to adjust supply to demand and to raise agricultural incomes to anything approaching the levels prevailing in other segments of the economy. It should not, however, be forgotten that an increase in productivity without an increase in output is only possible with a considerable re-adaptation of the structure of agriculture and that even the desertion of the land could raise income per capita only up to a certain level; that also applies to a reduction in the volume of production. The Committee could not but consider this fact as a useful indication of how difficult it was to find an equitable solution to the problem of agricultural production.) (The Committee is also aware of the fact that a fundamental solution of the income problem can come through further improvement in the efficiency of resource utilization only if productivity in agriculture increases at a higher rate than in other industries. (For all practical purposes this means a further reduction in the farm population.) (For all practical purposes this means, so far as is compatible with the solution of other problems involved, a further reduction in the active farm population.) In some countries this movement out of agriculture has actually been of extraordinary proportions, yet not extensive enough to adjust supply to demand and to raise agricultural incomes to
anything approaching the levels prevailing in other segments of the economy. The Committee can not but consider this fact as a significant indication of how difficult it is to deal fairly with the problem of agricultural protection and how important it is in this context to have or create the mobility and flexibility necessary for alternative employment. It goes without saying that, to improve resource utilization, such alternative employment must be more remunerative and less protected. Some countries however, pointed to the difficulties which must not be overlooked in this respect; reduction in the farm population can be effected only at a rate at which agricultural labour can be replaced by technical appliances which is a financial problem. Furthermore, the effects of this development on the demographic structure (depopulation of certain areas, congestion of cities, etc.) must be taken into consideration.

(17. The Committee also acknowledges the fact that not all measures of agricultural protection can in fairness be charged to agriculture. If society elects to maintain agriculture at (uneconomic) (specific) levels for reasons of national defence or social policy it is obvious that any effects on international trade emanating from such measures are not a responsibility exclusively of agricultural policy. At the same time it is possible to minimize the effects on international trade by a suitably devised agricultural policy.)

(17.1) The Committee also acknowledges the fact that not all measures of agricultural protection can in fairness be charged to agriculture. Neither can they be realistically evaluated in terms of the immediate effects on international trade in agricultural products only. If society elects to maintain a certain level of agricultural production and give income security to the farm population for reasons of national defence or social policy, it is obvious that any effects emanating from the necessary protective measures are not a responsibility exclusively of agricultural policy but an inherent part of the modern economic, social and political systems adopted by most countries.)
(17.(2) If society elects to maintain agriculture at levels above those obtained in the free market for reasons, among others, of national defence or social policy, it is obvious that any effects on international trade emanating from such measures are not a responsibility exclusively of agricultural policy.)

(17.(A) In seeking to calculate the repercussions of non-tariff devices, account should be taken of the sizes of national markets (determined primarily by population), the level of consumption already achieved, and that part of consumption requirements which is already covered by imports.)

**Commodities**

**Note by the secretariat**

Paragraphs 29-33 of the Australian draft "General Conclusions" would be inserted at this point and the commodity sections would be added as annexes.
I. General characteristics of market

A. A very large number of countries are involved in the production and international trade of dairy products, dairy farming being an important and traditional element in agriculture in virtually every country where climatic conditions were favourable.

A.1 The market in dairy products suffers from a further complication in as much as a representative world price quotation is non-existent. Also, the London butter market does not reflect true prices.

B. A very large proportion of total milk production is consumed in the producing country either as liquid milk or in manufactured form as butter, cheese, milk powder, etc. The quantities entering international trade account for only about 15 per cent of total milk production.

C. Only four countries traditionally export dairy products in substantial volume and as an important part of the country's exports. (Denmark, New Zealand, Australia, the Netherlands.) However, the United States is the most important exporter of dried milk.

D. A number of countries traditionally export (minor quantities of) cheese specialities and relatively small quantities of other dairy products, these exports being mainly small excesses over domestic demand especially in periods of peak production.

E. In the remaining producing countries, domestic production is usually insufficient to meet domestic demand, and additional supplies are imported. In many cases the quantities imported are determined by government action rather than by the free play of market forces.

(E. Exports of butter from two main exporting countries (New Zealand and Australia) have shown a marked increase during the last six years, although there are great variations from year to year. Increased exports of cheese and other dairy products from the other main exporting countries have, in terms of milk equivalent, offset the decline of butter exports from these countries.)

1 For background information and statistics see documents COM.II/86/Add.1 and COM.II/86/Add.6.

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F. The United Kingdom is by far the most important import market for dairy products importing approximately three-quarters of total butter imports, approximately one quarter of total cheese imports and about 7 per cent of total processed milk imports.

E(A) Exports of dairy products from the minor exporting countries have increased relatively more but in absolute terms less than the exports from the Oceanic main exporting countries.

II. General characteristics of trade

A. The trade in dairy products is of a highly complicated character because of the direct relationship between the various dairy products and also the relationship between dairy products and other agricultural products (meat, pork, coarse grains, vegetable oils, etc.).

B. (In most countries, butter is the final product into which milk surpluses are converted.) (In most countries, butter marketing is the residual outlet for milk surpluses after supplying other uses.) Butter shows relatively the lowest returns in comparison with other dairy products, and the international butter market, in particular in the United Kingdom which is the greatest open market, is highly unstable.

III. Production, consumption etc.

A. There has been a considerable increase in total world milk production in recent years compared with the period before the war. The indications are that this trend will continue.

B. During this period, cow numbers have increased in many countries and productivity per cow has increased in most.

C. The increase in milk production has been most marked in the European countries which have traditionally imported dairy products or which are minor exporters. (The main exception was the United Kingdom, where production has increased to a relatively minor extent only.) (In the United Kingdom milk production has also increased.)

D. Although consumption of dairy products has increased, the increase in consumption has lagged behind the increase in production.

E. Exports of butter from the main European exporting countries have declined, especially between 1955 and 1957. Exports of cheese and other dairy products have shown increases which, in terms of milk equivalent, have somewhat offset the decline of butter exports. Exports of butter have been increasing since 1958 but have not yet reached the 1938 level.

1 For background information and statistics see documents COM.II/86/Add.1 and COM.II/86/Add.6.
F. Exports of dairy products from the minor exporting countries have increased considerably and relatively many times more than the exports from the main exporting countries.

IV. Non-tariff devices

In its examination the Committee has found that there is a wide variety of non-tariff devices applied. The use of these devices is very widespread, and extended, in some form or another, to all but two of the twenty-four countries examined by the Committee. The two exceptions are countries of little importance as producers or consumers of dairy products, and therefore of little significance to world trade in such products.

For dairy products deficiency payments systems and price support systems are widely used. The Committee also has found that for dairy products price support systems are considerably more widespread than systems of deficiency payments.

As a means of implementing price support, the use of quantitative import restrictions (including minimum price arrangements and variable import levies) has been found to be particularly widespread; this method of protection for all or some dairy products is employed in the great majority of the countries examined. In very few cases can restrictions be justified on balance-of-payments grounds only. The statistical analysis prepared by the secretariat indicates that of the total butter and cheese production in the countries examined, 85 per cent and 62 per cent respectively is subject to protection by quantitative import restrictions. (In some cases domestic prices were protected against import competition by variable import levies which also stabilized domestic prices.)

Only a few countries have been found to have completely abolished quantitative import restrictions on dairy products, the main importing country being the United Kingdom (except for processed milk), the main exporting countries being Australia and the Netherlands, while New Zealand has abolished all quantitative restrictions on dairy products of a type produced in New Zealand; however, to some of these exporting countries no significant exports have been made.

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1 See synopsis of non-tariff measures contained in documents COM.II/85/Add.1 and COM.II/107, and area of trade covered by non-tariff measures in document COM.II/86/Add.7.
V. Effects of non-tariff devices

Although on the information available the Committee has found it impossible to come to a concrete evaluation of any effects of the widespread non-tariff measures on the trade in the agricultural products, there is general agreement that these measures do affect production, consumption, trade and prices (and that in most cases these measures are specifically designed to have some of these effects).

The Committee recalls that during the country consultations it had found that support policies which involved maintaining domestic prices of dairy products above international price levels require the regulation of (the flow of supplies to and from the internal market) (the trade of the country in question). The Committee notes that in the case of dairy products, the level of domestic prices in most countries, other than the traditional exporting countries, is generally substantially higher than the price ruling in the international market. It is evident to the Committee that the quantitative restrictions and other non-tariff devices operated by most of the important consuming countries are having a restrictive effect on imports of dairy products into those countries.

In discussing the increase in milk production it is recognized that technological advances play an important part. It is apparent, however, that the use of non-tariff devices to protect and support domestic producers also has contributed in some part to increased production even though the exact effect of these measures on production cannot be isolated or measured accurately. In this connexion, the Committee notes a recent OECD recommendation calling upon member countries, to the extent that an increase in consumption of milk and dairy products would not be possible, to consider limiting milk production or at least limiting price guarantees to milk producers so as to bring about a better balance between production and outlets.

The Committee also agrees that the consumer price levels undoubtedly are a factor affecting consumption of milk products and that, although, here again, other factors are also important, and precise measurement is not possible, experience in several European countries in 1958 has provided convincing evidence, particularly in the case of butter, of the responsiveness, to a certain extent, of consumption to price changes.

The Committee notes that the widespread use of non-tariff devices also has indirect effects on international trade in dairy products. The restriction on imports into nearly all important consuming countries, amounting in some cases to almost complete prohibition of imports, means that world trade is concentrated on the United Kingdom market which is the only open market available. This results in the United Kingdom market being characterized by chronic and sometimes acute instability. In general, the market tends to be over-supplied with
prices depressed, to the detriment of traditional exporters. On the other hand, during occasional periods of acute shortage of butter in Europe, such as occurred in 1959, some supplies which normally go to the United Kingdom were diverted to other markets, leading to excessively high prices. While these high prices were of short-term benefit to traditional exporters, they had adverse longer term effects in the context of the competitive position of butter vis-à-vis margarine.

In addition, production in the protected markets often exceeds domestic demand at the prices maintained with the result that surpluses from these countries are disposed of on the United Kingdom market, usually with the assistance of some form of export subsidy.

The Committee notes that many of the countries which are maintaining quantitative restrictions or other non-tariff devices against imports of dairy products have bound in GATT all or some dairy items of their customs tariffs. (The Committee agrees that) (Certain members of the Committee observed that) the use of non-tariff devices is in many cases, in particular in cases where imports are severely restricted by quantitative restrictions, seriously impairing the usefulness of the tariff bindings.

A member of the Committee stated that the impairment of existing bindings was obviously of great significance to the dairy exporting countries in connexion with the forthcoming tariff negotiations. The Committee notes that in the view of this member some positive assurance of access to the markets of countries with whom tariff concessions were negotiated, is essential if exporting countries are to be able to participate effectively in these negotiations, and that to be of practical value, these assurances would need to form part of the schedule of concessions.

Note by the secretariat: It has been suggested that the order of paragraphs should be adapted to the logical sequence of ideas: production, consumption and trade. It has therefore been proposed that the paragraphs appear in the following order: A, D, E, F, C and B.

MEAT

I. General characteristics of the market

A. Although most countries produce meat for their own consumption, the international export trade is confined in the main to a few major exporters. For beef, Argentina, Australia, New Zealand, Denmark and, to a lesser extent, Canada, France,

1For background information and statistics see documents COM.II/86/Add.2, and COM.II/86/Add.6.
the Netherlands, Ireland, Uruguay and Brazil are the main exporters; for mutton and lamb, New Zealand, Australia and Argentina are the only major suppliers; for pork and bacon, Denmark is by far the greatest exporter among western countries, followed by the Netherlands and Canada.

B. In most countries, domestic production provides a major part of total meat consumption, the balance being met from imports. The major importers of beef are the United Kingdom, the United States, Canada, Japan, the Federal Republic of Germany and Italy. For mutton and lamb, the United Kingdom is by far the greatest market, but the United States and France also import significant quantities. Canada and Greece were also importers. The United Kingdom is the largest market for pork and bacon with the Federal Republic of Germany also an important market for pork.

C. (Unlike) (As in the case of) dairy produce, where international trade depends so much on the operation of one large free market, there are for beef at least two large free markets (the United Kingdom and the United States) and a number of smaller markets. The price situation thus mainly depended upon two import markets which were not subject to any particular form of organization.

D. The trade in live cattle is important between the Republic of Ireland and the United Kingdom and in North America and Western Europe.

E. In the long term there is the possibility of a reversion from dairy farming and even cereal growing to beef cattle raising in some countries. This is to be borne in mind in assessing the long-term prospects.

II. General characteristics of trade

A. The largest part of international trade in meat takes place through the export of chilled or frozen meat from the southern hemisphere countries, Australia, New Zealand and Argentina. The Netherlands and Denmark are the largest exporters of fresh meat and live cattle to Western Europe.

B. Whilst most countries which the Committee examined are substantial consumers of beef and pork, consumption of mutton and lamb is high only in the major producing countries themselves and in the United Kingdom.

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1 For background information and statistics see documents COM.II/86/Add.2, and COM.II/86/Add.6.
III. Production, consumption and trade

A. Total world meat production has increased by some 50 per cent since before the war, the highest increases being for pork and beef with a much lower rate of expansion for mutton and lamb (17 per cent).

B. Total world trade in meat has increased by only 27 per cent with the greatest increase taking place in beef and veal. There have been some increases in mutton and lamb trade but trade in bacon and pork did not appear to be much greater than pre-war. There had in fact been a considerable decline in imports of bacon with the main market, the United Kingdom.

C. Consumption of meat has also risen considerably whilst in some countries consumption has not yet regained the pre-war level, in certain countries the rate of consumption is much higher. Furthermore, the trend in recent years has been for steadily rising consumption levels for meat generally, although variations in price levels have affected demand for individual products. In recent years, the increased demand for beef has been particularly noticeable. Another factor has been the development of new markets, notably Japan. There could indeed be said to be a world shortage of beef at the present time.

D. Production of beef has also risen in most of the principal producing countries in recent years. Argentina, Brazil, Australia, the Federal Republic of Germany and the United Kingdom have all substantially increased their production of beef since 1954. In the United States, production reached a peak in 1956 and has since fallen off somewhat, although this fall is believed to be temporary. Other countries which have increased their production of beef in recent years were Belgium, Denmark, Italy and New Zealand. French production showed a slight decline in the last year for which figures are available but this decline may also be of a temporary nature.

E. The production of pig meat has risen substantially since 1954 in the United Kingdom, Italy, Japan, the Netherlands, the Federal Republic of Germany, France, Canada, Belgium and Sweden.

F. The production of mutton and lamb has increased significantly only in Australia, France and New Zealand and has declined in most other countries.

IV. Non-tariff devices

A. Of the twenty-four countries examined by the Committee, all but four maintain some form or forms of non-tariff device affecting world trade in meat.

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1 For background information and statistics see documents COM.II/86/Add.2, and COM.II/86/Add.6.

B. In eighteen of the countries concerned, imports of all or some types of meat are subject to quantitative restrictions. In some cases these affect only a small area of meat imports; in others they apply to all types of meat. In some cases they are operated in a discriminatory manner, for example, five OPEC countries still maintain discriminatory import treatment against non-OPEC meat exports. In very few instances can these restrictions be justified on balance-of-payments grounds. On the contrary, the restrictions are often severest and most comprehensive in countries enjoying substantial balance-of-payments surpluses.

C. In addition to the quantitative restrictions, the examination shows that four countries employ import levies and ten provide government subsidies or some other form of government financial support.

D. Many of the countries examined maintain various forms of income or price support involving direct or indirect subsidies to domestic meat producers.

E. Approximately one third of the countries examined have GATT tariff bindings on all or some categories of meat imports. All but one of the countries concerned, the exception being the United States, maintain some form of non-tariff device which reduces the benefits of the bindings and, in some cases, largely nullifies them. (These countries are important meat consumers and a higher level of imports could be expected in the absence of the non-tariff devices employed in restricting imports either directly or indirectly by stimulating output.) (It should be remembered that these countries are important meat consumers.)

F. A member of the Committee stated that the impairment of existing bindings was obviously of great significance to the meat exporting countries in connexion with the forthcoming tariff negotiations. The Committee takes note of the opinion of this member that some positive assurance of access to the markets of countries with whom tariff concessions were negotiated is essential if exporting countries are to be able to participate effectively in these negotiations, and that to be of practical value, these assurances would need to form part of the schedule of concessions.

G. It has been noted that in some countries meat production is assisted through subsidies on feedingstuffs, especially coarse grains. Indeed, indirect aids through coarse grains arrangements can have effects fully equivalent to those of direct support of fat stock and meat.
H. As regards bacon, it is noted that the principal export market, the United Kingdom, is affected by large imports of subsidized bacon and subsidized pork. As the United Kingdom is the only major market, this has serious consequences for economic producers, particularly Denmark, which do not resort to subsidies. In the absence of measures for stabilizing import prices these consequences have been illustrated by the wide price fluctuations which have taken place in recent years.

I. It has also been pointed out that non-tariff measures (e.g., quarantining) are applied in many countries to imports of poultry meat and variety meats.

J. There are a large number of sanitary and veterinary regulations instituted by various countries to prevent the introduction of products which might transmit diseases of animals. It is possible that some of the regulations are not well designed for their stated purpose and, therefore, act as unnecessary trade barriers. Perhaps some of the other regulations are more stringent than they should be. Other veterinary and sanitary controls may exist merely for the sake of agricultural protection.

K. A number of countries have bilateral trade agreements which alter the usual movement of meat products in international trade and prevent imports from the lowest cost exporting countries. A large proportion of the trade in livestock and meat products between Eastern and Western Europe is carried out under bilateral agreements. Bilateral agreements probably do not substantially affect the volume of total trade in these products, but they interfere with normal trade and with the efficient allocation of resources.

V. Effect of non-tariff measures on trade

(A. Quantitative restrictions and import levies constitute a direct barrier to trade for the types of meat and for the trade of the countries against which they are maintained.)

(B. Use of subsidies or other forms of income or price support also have adverse consequences for international trade by insulating the producer against the full effect of market trends; they inhibit structural changes in encouraging a higher level of production than would otherwise be the case.)

(E.A) Use of subsidies or other forms of income or price support to protect producers from the full effect of market trends also has adverse consequences for international trade; they delay structural changes by encouraging a higher level of production than would otherwise be the case.)
To replace A and B:

Measures taken at the frontier, i.e., at the time of importation, constitute, generally speaking, a direct barrier to trade for the types of meat and for the trade of the countries against which they are maintained. Moreover, measures on behalf of the producer have, indirectly, adverse consequences for international trade, since they can insulate the producer against the full effect of market trends and delay structural changes in encouraging a higher level of production than would otherwise be the case. Clearly, the incidence of these influences can be appraised more concretely only after wider and deeper study.

C. Measures which restricted imports and/or kept consumption prices at a higher level than they would be on a free market could have an (adverse) (restrictive) effect on consumption.

D. In Europe, the ECE has reported that production within Europe and shipments from other continents appear unlikely to bridge the gap between the supply of and demand for beef in the next year or two except at a higher level of prices to consumers.

E. Reference has been made earlier to the increasing world demand for beef. ECE projections for Europe suggest that between 1956 and 1965 per capita consumption of beef might rise from 16 to 23 per cent depending on the income assumption made. The total demand of the region might increase by 23 per cent under the lower income assumption and 32 per cent under the higher one.

F. It is anticipated that demand for beef and other meats would have risen in other areas of the world also unless there is in the meantime a most unexpected reversal of the strong trend which has developed in recent years.

G. There are two major markets open for beef exporters, one of them, the United States, restricting beef imports from Argentina on quantitative grounds. It was pointed out that there would be greater stability in trade if other markets were also freely open. (A narrowly based world market is dangerous both to exporters and to importing countries.) (A narrowly based world market constitutes an element of instability which it is in the interest of both exporting and importing countries to avoid.)

H. (As regards mutton and lamb, immediate prospects for building major markets in countries other than the United Kingdom are not good. Because of social habits, it may take some time to develop consumption taste in consumer countries for these products.)
H.(c) (The consumer taste for mutton and lamb is undeveloped except in the United Kingdom and in the major mutton and lamb producing countries. A change in dietary patterns could probably be effected only over a long period of time even if trade were unrestricted.)

(I. In most countries where imports of mutton and lamb have been attempted without restriction there has been no great increase in imports.)

(J. The foregoing analysis indicates that world meat trade conditions are extremely favourable for the immediate removal of barriers to trade.)

(J.(c) The foregoing analysis indicates that current world meat trade conditions are favourable for the relaxation, indeed for the removal of barriers to trade.)

K. However, it should be realized that meat production at prices covering production costs is a major factor in farm income in many countries and, in accordance with their particular situation, some of these countries will have to consider the repercussions involved in the removal of trade barriers.

CEREALS

Wheat

I. General characteristics of international trade on wheat

A. In the last five years the United States, Canada, Argentina, and Australia have accounted for approximately 80 per cent of total exports of wheat and wheat flour; the share of exports in domestic production has varied from 37 per cent in the United States to 66 per cent in Canada. France also exported large quantities of these commodities. The Federal Republic of Germany also has been important as an exporter of wheat flour. Other minor wheat exporters are Uruguay and Sweden and, in some years, Turkey. In addition, the USSR has lately become increasingly important as an exporter; when taking into account exports to other State-trading countries, the USSR was in 1958/59, the third largest exporter in the world.

B. Against these comparatively few exporters, accounting for the bulk of the supply to world markets, there is a large number of importers. The largest importing area is Western Europe, where imports approximate 13 million tons. The largest

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1 For background information and statistics see documents COM.II/86/Add.3 and COM.II/86/Add.6.
individual importers in the area are the United Kingdom, the Federal Republic of Germany and the Netherlands. In Asia and Africa, imports have expanded over the last five years. Although a large number of countries and territories in these areas import wheat, by far the biggest importers are India, Japan, and Egypt. In Latin America the main importer is Brazil although most of the other countries in the area also import some wheat.

C. Owing to the continuous fluctuation in production both in exporting and importing countries, the level of world trade in wheat and wheat flour may change considerably from one year to another. The total volume exported in 1958/59 reached about 30.8 million tons, i.e. 1.5 million tons more than in 1957/58, but 1.8 million tons less than in 1956/57. In the period 1954/55-1958/59, the lowest export volume was 25.7 million tons and the highest 31.7 million tons.

D. Stocks have been high in relation to trade and in relation to effective demand of traditional importing countries. End-of-season stocks in 1959/60 in the four major exporting countries were estimated at some 53 million tons (about the same quantity as a year earlier), far exceeding the average annual trade volume.

E. Trade in wheat flour, about 5.7 million tons in 1958/59, accounted for almost one fifth of total wheat trade, and it has its own special features. In 1958/59 the United States accounted for about 33 per cent of total exports, Canada for 17½ per cent, and the Federal Republic of Germany (a large wheat importer) for 11 per cent. Australia, France and Spain each had 8 to 10 per cent of the total, and Italy about 4 per cent. The main importers are the United Kingdom, the Netherlands, and Yugoslavia in Europe; Ceylon, the Philippines, Malaya and Indonesia in Asia; Egypt in Africa, and Venezuela and Cuba in Latin America. In addition to surplus disposal schemes, an important incentive to the increase in flour trade had been the assistance to exports in the form of government subsidies of various kinds, e.g. in the United States, the Federal Republic of Germany, France (and Italy). In several less-developed countries there is lately to be noted an increase in milling capacity which has resulted in a switch of imports from flour to wheat, notwithstanding the fact that frequently imported flour is relatively cheaper than imported wheat.

II. Production, consumption and related factors

A. The Committee recognizes that trends in production need to be studied with a knowledge that particular circumstances might have operated in alternative base periods. For example, production in the period 1934/38 was affected by widespread

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1For background information and statistics see documents COM.II/86/Add.3 and COM.II/86/Add.6.
drought in North America while agriculture in many countries in the period 1948/52 was still influenced by the effects of wartime conditions, notably serious grain shortages. Nevertheless, total world production has shown a clear upward trend over the past twenty-four years. This trend has been common to both wheat-importing and wheat-exporting countries.

Comparing average production in the periods 1934/38 and 1954/58, United States production has increased by 48 per cent. Production in the four other principal exporting countries has increased by 23 per cent. Production in the six principal importing countries has increased by 33 per cent over the same period. The Committee agreed that advances in agricultural science and technology have promoted greatly increased production in some countries. There are other factors such as changes in patterns of land use for non-price reasons, which may also affect production trends. With regard to consumption, the evidence suggested that the volume of consumption was influenced in both directions by changes in dietary habits arising from changing income per capita. In some wheat-importing countries, the level and direction of imports have been affected by balance-of-payments difficulties and/or low purchasing power. (THIS TEXT IS A REVISED VERSION OF PARAGRAPH A OF "EFFECT OF NON-PRICE MEASURES ON TRADE").

B. Consumption, on the other hand, shows a less uniform pattern. In the United States, apparent consumption fell by 12 per cent between 1934/38 and 1954/58. An increase of 16 per cent is recorded by the other four principal exporters. Although apparent consumption in the major importing countries has, in total, shown a substantial rise, being 42 per cent in the case of the six major importers, the increase is largely a reflection of considerably increased wheat consumption in India, Japan, and Brazil. Apparent consumption in the four largest European wheat importing countries rose only by 16 per cent.

C. These changes were reflected in developments in the pattern of international trade in wheat. In the case of the United States, exports in 1954/58 represented 33 per cent of production, compared with 6 per cent in 1934/38. Comparable figures for the other four principal exporters combined were 45 per cent in each period. The share of total world trade in wheat in the hands of the four principal exporters, other than the United States, had fallen from 67 per cent to 43 per cent, whilst the United States' share had risen from 7 per cent to 31 per cent. For the four major European importers, the proportion of apparent consumption represented by imports had declined.
from 42 per cent to 39 per cent, and their proportion of total world imports has fallen from 49 per cent to 30 per cent.

D. The increased importance in the international wheat trade, implicit in these developments, of non-European importers on the one hand and the United States on the other, is a major factor in the current wheat situation. Many of the countries in which the greatest consumption increases occurred have suffered from balance-of-payments problems and other limitations on their capacity to buy wheat on normal commercial terms. Concurrently, the United States has developed international aid programmes which included measures designed to move into consumption the excessively high wheat stocks held in that country. (The United States has developed disposal programmes enabling it to move into consumption a portion of the high wheat stocks held by that country, through sales for local currencies. As a result, large consumption increases have occurred in many cases in countries which have suffered balance-of-payments problems and other limitations on their capacity to buy wheat on normal commercial terms.) These circumstances are reflected in the fact that over recent years, a large proportion of the wheat entering international trade has been shipped under special programmes. The volume of wheat shipped under special programmes rose from 3.0 million tons in 1953/54 to a peak of 10.5 million tons in 1956/57. The proportions of total world exports represented by these figures were 13.0 per cent and 32.3 per cent respectively. In 1957/58 and 1958/59, wheat moved under special programmes amounted to 7.8 and 8.9 million tons, or 26.6 per cent and 28.9 per cent respectively of total world exports.

E. The Committee notes that in some countries (notably the United States) systems of price or income support are coupled with more or less effective limitations on the acreage to which the support measures applied. On the other hand, support systems in some other countries are "open-ended" so that the stimulation of production (to the extent to which it existed) is not subject to quantitative control. Where acreage controls have existed, large, and in some cases record, production has been attained.
III. Extent of non-tariff protective measures

A. The Committee notes that measures or systems designed to protect (the domestic prices of wheat or) the incomes of wheat producers are applied in practically all wheat producing countries. (Prices obtained by producers or paid by consumers in most cases bear little relationship to prices at which international transactions take place.) As a rule, this protection proves ineffective if the domestic prices are brought into line with those at which international transactions take place. Statistics before the Committee, although necessarily imprecise, indicate that countries accounting for about three-quarters of the total world wheat imports apply quantitative restrictions; more than one quarter of imports are into countries which assist domestic producers by way of deficiency payments; and more than one quarter of imports are into countries applying import levies. In some countries more than one non-tariff measure operates. On the export side, a very high proportion of total world exports are made with direct export assistance.

B. The non-tariff measures which are used by countries to support prices or incomes embrace almost the whole range of techniques noted and discussed in the Committee's Second Report (document L/1192, paragraphs 11-15). It is generally held that the essential feature of support measures is the level of support, and the degree to which production is thereby stimulated, with consequent effects on trade, rather than the particular techniques used in implementing the scheme. This is not to say, however, that some devices might not be found, on examination, to possess characteristics which result in harmful distortions which might be avoided by the use of other techniques.

C. On the information currently available, the Committee is unable to assess the intensity of protection, accorded by the measures of support which are applied. However, some delegations have referred to the prices received by producers in different countries as representing a necessarily rough but significant guidepost to the range and, in some cases, the extent of protection. Figures published by the International Wheat Council ("Review of the World Wheat Situation", April 1960) indicate that governments declared producer prices for wheat for 1959/60 which, in terms of United States dollars, ranged from $0.99 to $4.34 per bushel. Importing countries, with few exceptions, have wheat prices to the producer of $2.00 or more per bushel.

1See synopsis of non-tariff measures contained in documents COM.II/85/Add.3 and COM.II/104 and area of trade covered by non-tariff measures in document COM.II/86/Add.7.
Support prices in the four major exporting countries are less than $2.00 per bushel, those in Argentina, Australia and Canada being well below this level. (It is acknowledged that) other factors (such as differences in quality, methods of farmer assistance through fertilizer subsidies, etc.) may also be important in obtaining an accurate comparison of producer prices. In this connexion, however, the Committee took note of the views of the International Wheat Council ("Review of the World Wheat Situation", April 1960) that despite the many difficulties involved, international price comparisons (could be a useful aid in indicating the degree of protection offered to producers) (could provide useful indications). Such comparisons also reveal the directions in which protection develops.

IV. Effect of non-tariff measures on trade

(A). The Committee, in considering the impact of non-tariff barriers on trade, finds it necessary to employ, primarily, a qualitative assessment. It is agreed that advances in agricultural science and technology have promoted increased production in some countries. There are other factors, such as changes in patterns of land use for non-price reasons, which might also affect production trends. With regard to consumption, the evidence suggests that the volume of consumption is mainly influenced by changes in dietary habits arising from changing income per capita. In some wheat importing countries, the level and direction of imports has been affected by balance-of-payments difficulties, and/or low purchasing power.) See CEREALS, paragraph II A.

B. Although no precise quantitative measurement of trade effects is possible, it is nevertheless reasonable to conclude from the nature and extent of non-tariff measures employed that the policies of price and income support which are in operation significantly stimulate the production of wheat to the detriment of other agricultural products. In one way or another, non-tariff measures afford priority to the absorption of home production, rather than imports, regardless of (comparative price considerations) (the result of price comparisons). (Thus exporting countries are placed in the position of residual suppliers, whose commercial trade prospects depend almost entirely upon the difference between domestic production, which is stimulated by supports, and domestic consumption in importing countries. (In these circumstances, the volume of commercial exports tends to be subject (to greater uncertainty and instability than would otherwise occur) (to a degree of uncertainty and instability which raised obvious problems).)

(In these circumstances and in the absence of appropriate measures, the tonnage of commercial exports tended to be subject to persistent uncertainty and instability although prices remained stable.)
(C. With production stimulated by supports, and the growth of consumption retarded by high consumer prices, the level of imports taken by importing countries has been diminished. Similarly, to the extent to which high supports stimulate output in exporting countries, there have been additions to exportable supplies and greater pressures for disposal of surpluses on concessional terms, with adverse implications for the trade, and trade prospects, of other exporting countries.)

(C.a) To the extent that production is stimulated by supports, and the growth of consumption retarded by high consumer prices, the level of imports taken by importing countries has diminished. Similarly, to the extent to which high supports stimulated output in exporting countries, there are additions to exportable supplies and greater pressures for disposal of surpluses on concessional terms in many cases, with adverse implications for the trade, and trade prospects, of other exporting countries. At the same time, it has to be recognized, that owing to their balance-of-payments difficulties, a number of less-developed countries would not find it possible to substitute imports of cereals on concessional terms which do not involve expenditure of foreign exchange, by commercial purchases. The availability of foodgrains under surplus disposal programmes has allowed consumption and stocks in these countries to be maintained at considerably higher levels than may have been possible otherwise. Further, these arrangements are considered also to stimulate economic development in less-developed countries, which are not otherwise in a position to provide a strong agricultural base needed for development, at least for the transitional period.)

(C.b) Traditional exporting countries are placed in the position of residual suppliers whose commercial trade opportunities depend almost entirely upon the difference between domestic production which is stimulated by supports, and domestic consumption in importing countries. Moreover, massive assistance to exports
or surplus dispositions by some exporters tends to have a restrictive effect even on these commercial opportunities. In these circumstances, the volume of commercial exports tends to be subject to greater uncertainty and instability than would otherwise occur.

(c) Where production is stimulated by supports and where the growth of consumption would be retarded by high consumer prices, the level of imports taken by importing countries is diminished. Similarly, to the extent to which high supports stimulated output in exporting countries, there are additions to exportable supplies and these countries deem it necessary to dispose of the surpluses on concessional terms, with adverse implications for the trade and trade prospects of other exporting countries, unless appropriate measures are taken.

(A) In its Review of the World Wheat Situation of April 1960 (page 52) the International Wheat Council found that total wheat and flour exports covered by special governmentally-assisted export programmes made up nearly 28 per cent of world wheat and flour exports. Indeed, since about 1953, a quite important increase in world trade in wheat and flour has been almost entirely due to non-commercial transactions.

(B) With some exceptions, the most notable being the United Kingdom which maintains a deficiency payments system for wheat, wheat shipped internationally is sold in the country of import at a price higher, frequently considerably higher, than the international price. This applies also to most surplus dispositions where the wheat is paid for by consumers at the prevailing price in the recipient country. This indicates that in many importing countries there is a capacity to consume wheat at prices generally above those at which wheat is traded internationally. In some cases the levy on imported wheat to raise its price to the domestic level is used as a source of funds for buttressing the income of domestic wheat producers.
D. The pattern of trade and prices has been (distorted) (influenced) by the non-tariff measures, whether or not discriminatory, applied by importing and exporting countries. Quantitative restrictions (including mixing regulations) of a kind which normally have not been negotiated, are in many cases employed (arbitrarily) to limit imports so as to shelter internal production and prices, or the same result is achieved by other non-tariff measures (such as State trading or import levies). Exporters thus do not know to what extent they have access to these important markets.

E. Such measures, and deficiency payments also, have inevitably affected price relationships and the volume of imports. Among practices followed by some exporting countries, subsidies affected both international prices and the direction of trade. Techniques of surplus disposal on concessional terms have been particularly significant among the methods of export assistance which carried important implications for the trade of other exporters. The use of bilateral agreements to export wheat at relatively high prices has implications not only for other wheat exporters, but also for the trade of countries which export products similar to those for which wheat may be exchanged under bilateral arrangements. These measures of export assistance have had a particularly serious effect in limiting the export opportunities for the relatively low-cost producers who found themselves shut out of many markets, supplies to which have been pre-empted by contracts tied to assistance and bilateral agreements.

F. The Committee noted that, although (virtually all) trade in wheat was regulated by non-tariff measures, there existed a number of tariff concessions on wheat which were bound by important importing countries to major exporting countries. This was an effect on trade arrangements which was relevant to the work of the Tariff Conference.

G. In the light of the foregoing considerations, the Committee's view was that non-tariff measures had exerted a very substantial effect on trade and had been a factor of major importance in the difficult wheat situation of recent years.

Other cereals

A. (The Committee notes that non-tariff measures are also widely applied to production and trade in cereals other than wheat. There is a close relationship between wheat and feed grains. In many cases the same resources can be used to produce either bread grains or feed grains, apart from the fact that wheat is used extensively for feed. This close relationship is reflected in the similarity of non-tariff measures which are applied to wheat and feed grains. However, the world consumption level is markedly influenced by the inadequacy of
purchasing power in certain highly-populated countries in process of
development, as has been noted in FAO studies on the subject. While
such measures are not applied as extensively as in the case of wheat,
they nevertheless constitute serious obstacles to trade.)

(A(a) The Committee noted that non-tariff measures were also widely applied
to production and trade in cereals other than meal although not as
extensively as in the case of wheat.)

B. High prices for feed grains increase the costs of producers of animal
products, which results not only in adverse effects on consumption,
but also in pressures for non-tariff measures of protection for
domestic producers in those fields. By relating domestic grain prices
closely to the prices at which imports are available, it is felt that
governments could contribute to the easing of non-tariff barriers to
trade in more than one commodity sector.

C. World coarse grain production has been larger than consumption for
each year since 1952, with the result that carry-over stocks have
continued to increase. While in the major exporting countries there
is little difference between the prices paid for coarse grains traded
internally and for coarse grains entering international trade, in
many important markets (examples) the large differences between
domestic prices and the prices at which imports are available
undoubtedly considerably discourages consumption. Since the demand
for coarse grains is relatively elastic, there appears to be
promising prospects for future consumption in developed as well as in
less-developed countries where consumption of animal products is at
present very low. (It is felt) (Some members of the Committee feel)
that in order to make full use of these possibilities, increased
demand for imports should not be adversely affected by government
price policies; costs should be kept low by permitting competition
from imports wherever a fall in prices could lead to an increase in
consumption.

D. Though there are only a few importing countries that protect maize
production as such, cognizance should also be taken of the protective
measures in respect of feed grains in general, including the effect of
surplus wheat, in assessing the magnitude of maize protection. The
result is probably that world trade in maize is restrained as much as
in the case of wheat.

E. Stocks of maize are nearly as large as stocks of wheat, but relative
to world trade the position of maize is even more serious than that
of wheat for the countries concerned. Even though the large bulk of
these stocks are held by a single country who has thus far been
prepared and able to carry them and market them in an orderly manner, it nevertheless constitutes a serious problem especially in view of the fact that the downward adjustments in maize prices in recent years have not been permitted to result in an increased usage of maize against other feed grains in importing countries.

F. The attention of the Committee has been drawn to the fact that although the share of rice production entering international trade is relatively small, 86 per cent of imports were made by countries applying quantitative restrictions on rice. A very high proportion of world production of rice is concentrated in mainland China and a comparatively small change in the relation between production and demand in that country could have a considerable effect on world trade.
FISH

I. General characteristics of market

A. International trade in fish products is confined in the main to a few major exporting countries. Norway is the leading exporter in western Europe, accounting for almost one third of the aggregate export value in that area. The other principal exporters are Iceland, Denmark, Portugal and the Netherlands. Canada accounts for more than 80 per cent of North America's trade in fish, most of the exports going to the United States.

B. In most countries domestic production provides a part of the total fish consumption, the balance being met from imports. The largest importer of edible fish products is the United States. The largest European importers are the United Kingdom, with about 30 per cent of total import in western Europe, and Italy, France, the Federal Republic of Germany, and Belgium. Most other countries in the area also participate to some extent in the trade as importers.

II. General characteristics of trade

A. In 1957 the volume of international trade in fish amounted to about 5.7 million tons which represented an increase since 1953 of 1.3 million. The 1957 quantity represented exports from countries accounting for nearly 80 per cent of the total world catch. The share of exports in the total catch of these countries rose between 1948 and 1957 from 19 to 25 per cent. The international trade in fish and fish products was in 1957 composed of 27 per cent fresh, chilled or frozen fish, 19 per cent dried, salted or smoked, 15 per cent canned, 24 per cent fish oil and meal, and 5 per cent crustaceans.

B. Of the main geographical areas, Europe, North America and Australia were in 1957, in terms of value and counting all fish and fish products, net importers, while Latin America, Africa and Asia were net exporters. Oceania's trade was entirely intra-regional. If only edible fish products are considered, European countries together exported more fresh, frozen and cured fish than they imported. In the trade of fish meal there has been observed a tendency for European countries to rely to a greater extent on imports from South America and Africa where production has been rising sharply. As regards canned

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1See synopsis of non-tariff measures contained in documents COM.II/85/Add.5 and COM.II/105 and area of trade covered by non-tariff measures in document COM.II/86/Add.7.
fish, imports in western Europe exceeded exports substantially. North America had a deficit in the trade in all these varieties, except cured fish. Prices on fresh, frozen, cured and canned fish products have during later years remained firm or have shown a slight increase. Prices on fish meal, however, have fallen heavily.

III. Production, consumption and trade

A. While fish production is apt to fluctuate heavily from year to year, due to changes in natural conditions, aggregate landings have shown a long-term rising trend. Western European catches increased from 5.5 million tons in 1938 to 7.5 million tons as an average for 1954-1956. The corresponding figures for the United States and Canada were 3.1 and 3.8 million tons. The increase in some other parts of the world have been even heavier.

B. The increase in fish production in the post-war period has mainly been a result of expanded fishing efforts in the North Atlantic, and on the western coast of Africa and South America. The expansion in the North Atlantic has been achieved by the introduction of bigger and more efficient vessels and by improved fishing techniques. In western Europe particularly, the tonnage of the fishing fleet, and notably that of large trawlers, has increased substantially. As the fishing population in many countries has shown a decline, the catches per man have risen considerably. On the other hand, catches per ton of fishing fleet must be assumed to have shown a decline. This is at least the situation in the main countries fishing in the North Atlantic.

C. The increase in production is not reflected in a corresponding increase in human consumption. In many countries per capita consumption is roughly the same now as before the war. This indicates that the total quantity for human consumption has increased only in step with the growth in population. The surplus has been converted into fish meal and fish oils. The recent heavy increase in fish meal production in some countries has severely affected the fishing industry in other countries, and, in spite of a heavy fall in world market prices, it is difficult to find buyers for total world production. Total production of canned fish has shown a slow upward trend during the post-war period, but while the production of traditional fish products such as dried, salted and smoked fish has been fairly stable or has shown a decline, the production of frozen fish products has expanded significantly.
D. According to OEEC statistics the production in western Europe of frozen fish rose from 117,000 tons (net product weight) in 1948 to 307,000 tons in 1958. In the United States and Canada total production amounted to about 220,000 tons in 1957, having risen from about 170,000 tons in 1948. The United States, Iceland, Canada and Norway are the leading producers of frozen fish, while the United Kingdom, Denmark, the Federal Republic of Germany, and Belgium are also important producers.

E. An essential prerequisite for the distribution of deep-frozen fish is the existence of a "cold chain", with storage facilities in all stages of trade, transport equipment and retail cabinets capable of maintaining the product at the appropriate low temperature. As a sufficient development of "cold chains" has only taken place in the highly industrialized countries in the world, practically all frozen fish is consumed in these countries, while the traditional fish products to a large extent find their markets in other parts of the world.

F. Human consumption of edible fish products varies greatly from country to country. In western Europe, according to OEEC statistics, consumption varies from 1 to 100 kgs. per capita, based on whole weight, with an estimated average of 15.5 to 16 kgs. In the United States and Canada per capita consumption is 5 and 6 kgs. respectively (edible weight). In many countries there should be room for an increase in the consumption of fish products.

IV. Non-tariff measures

A. Of the twenty-four countries examined by the Committee, all but three maintain some form of non-tariff devices affecting trade in fish and fish products. There are wide differences from country to country in the use of non-tariff measures, and some of the measures examined are either not in use or of no practical importance, as for instance mixing regulations and State trading.

B. Consumer's subsidies and arrangements for the disposal of surpluses are in use in some countries. The predominant and important devices applied are various forms of income and price support including government subsidies, import levies and quantitative restrictions on imports. Of the twenty-four countries examined, fourteen practise income and price support systems of various kinds, and of these countries nine give direct governmental financial support to the fishing industry.
C. In most of these countries subsidies are given in connexion with the building of new fishing vessels and in order to improve generally the fishing gear and equipment. Governmental guaranteed minimum price system in many cases also involved subsidies. A few countries gave subsidies directly to the fishermen to improve their incomes.

D. Grants and loans given to the fishing industry for improving the equipment, and the guaranteed minimum price systems are arrangements which usually will be in operation over a longer period of time, as a part of the fishing policy pursued by the country. Direct subsidy schemes will often be of a more limited character based on special circumstances such as sudden and heavy decreases in catches of certain products or sudden falls in market prices.

E. As a part of their fishery policies, some countries also impose import levies.

F. Quantitative restrictions are applied by eighteen of the twenty-four countries. In some countries quantitative restrictions are directed against imports from certain countries or areas. Other countries impose restrictions on all or most imports of fish and fish products. Only six of the eighteen countries stated that quantitative restrictions are imposed for balance-of-payment reasons. Quantitative restrictions appear to be an integral part of the protective systems in force in many countries and have no longer any connexion with the balance-of-payment position. Fourteen of the countries examined have GATT tariff bindings on all or some categories of fish imports; many of these countries maintain some form of non-tariff devices by which the benefit of the bindings are reduced or in some cases largely nullified. In addition, many of these countries aim at self-sufficiency or a high degree of self-sufficiency.

V. Effects of non-tariff devices on trade

A. There is a general feeling that the widespread non-tariff measures applied by the various countries effect production, consumption and prices in international trade in fish and fish products, especially such measures as public financial assistance, import levies and quantitative restrictions. The lack of expansion of trade must to a large extent be attributed to these measures, which in most cases seem to be especially designed, as part of the fishery policies pursued by countries, to have some of these effects.
B. In countries where import levies and quantitative restrictions are in use, these measures constitute a barrier to the development of the trade for fish products against which they are directed, in this way protecting the producers from import competition and insulating them from fluctuations in world market prices.

C. Income and price support, including governmental subsidies, will in the long run have adverse effects on the fishing industry, financial support encouraging a higher level of production than would otherwise be the case.

D. Non-tariff measures will, in one way or another, tend to restrain structural changes and natural development in production and international trade.

E. The increase in production is not reflected in a corresponding increase in human consumption. A removing of the existing barriers to trade would lead to an increase in the consumption of edible fish products, especially in the field of frozen products. The great inland areas in the world, where fish supplies until now have been scarce or non-existent should be potential markets for large quantities of fish, especially frozen fish, when cold chains are sufficiently established.

F. The national fishery policies pursued create great problems for the traditional exporting countries and, in particular, for those countries whose national economies depend heavily upon fisheries. Furthermore, the measures applied cannot be said to have solved adequately the economic problems confronting the fisheries of other countries.

G. The impairment of the existing GATT tariff bindings by the introducing of non-tariff measures is becoming a problem of great significance to international trade in fish products. This problem deserves the attention of the CONTRACTING PARTIES whenever measures are discussed to bring about an expansion of international trade.

SUGAR

(Note by the secretariat)

The Committee commenced the discussion on sugar but decided to postpone the bulk of the discussion until a future meeting. During the discussion the representative of Brazil made the following statement:
"The Government of Brazil, and undoubtedly other sugar-producing countries, is very concerned at the recent indication of an aggravation of protectionism in European countries producing beet sugar. The Government of Brazil hopes that in the formulation of the common agricultural policy of the European Economic Community, account will be taken of the desirability of preserving trade opportunities for sugar cane producing countries, many of which are important markets for capital goods for Europe and depend heavily on foreign exchange derived from sales of cane sugar to carry out development programmes."

3. MEASURING OF AGRICULTURAL PROTECTIONISM

As indicated in paragraph 6 of the Second Report of the Committee, the Committee appointed a small group to study the possibilities of measuring agricultural protectionism. The group met and submitted an interim report during the October meeting of the Committee. As indicated in the final paragraph of the last progress report of Committee II (L/1326 of 26 October 1960), the Committee considered this report of the study group and agreed with the group that pilot studies should be undertaken to confirm the feasibility of procedures which the group believed, gave the best promise of success in measuring agricultural protection. The United States, the Federal Republic of Germany, the United Kingdom, Sweden and the Netherlands undertook to collaborate with the secretariats of GATT and the FAO to complete such studies early in 1961 for consideration at a further meeting of the group.

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1 See COM.II/103.
INTRODUCTION

1. The Committee's terms of reference are:

(a) To assemble, in consultation with other competent international organizations, and in particular with the Food and Agriculture Organization, data regarding the use by contracting parties of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers, and the agricultural policies from which these measures derive. On the basis of such data and in consultation with the contracting parties concerned, to examine the effects of these measures adopted by individual contracting parties on international trade as a whole, and in particular on the trade in products entering importantly into international trade.

(b) To consider, in the light of such data, the extent to which the existing rules of GATT and their application have proved inadequate to promote the expansion of international trade on a reciprocal and mutually advantageous basis as contemplated in Article I (revised) and to report on the steps that might appropriately be taken in the circumstances.

(c) To suggest procedures for further consultations between all contracting parties on agricultural policies as they affect international trade.

2. In its first report the Committee set out the lines upon which it proposed to proceed and a second report was submitted to the CONTRACTING PARTIES in document L/1192 dated 19 May 1960. This second report advised that the Committee had carried out consultations on their agricultural policies with twenty-four countries. Since then consultations with certain other countries have been completed, but there are still a few consultations yet to take place.

3. When the first twenty-four consultations had been completed the Committee felt that it was in a position to make a number of general observations which were set out in its second report.

4. In that report the Committee made certain general observations regarding agricultural protection and price support which will be relevant in the next stage of the Committee's work. Hence some of those observations will be recalled to emphasize their importance.
5. In countries where most of the national income is provided by agriculture, agriculture itself cannot obtain effective income support. Indeed, it is often taxed to subsidize the development of other economic segments. It is the countries in which other economic sectors can provide a major share of the national income to finance agricultural support that the highest levels of agricultural protection occur.

6. Agricultural protection is mainly aimed at raising farm income. Whilst most countries consulted by the Committee acknowledged the desirability of raising farm income through increases in productivity, this aim remained a more long-term goal. Income support directly tied to immediate expansion of output, or to higher prices entailing expansion of output, was the prevalent content of support policy. It is this policy content that has led to expansion of uneconomic production, to impairment of trade, and to distortion of resource utilization.

7. The Committee believes that price policy should always be reasonably related to effective production policy, not only in exporting countries that applied artificial supports but also in importing countries where expansion of output would still find a domestic market. Where producer prices were raised artificially effective production control was necessary. However, this principle had been neglected and its neglect had resulted in a structural imbalance of production and in a reduction and distortion of international trade, with deleterious effects on resource utilization.

8. The Committee has concluded, in support of the GATT report on Trends in International Trade that a moderation of agricultural protection in both importing and exporting countries is desirable. It considers that a moderation of agricultural protection, through its effects on production and consumption, would have a substantial percentage effect on the volume of international trade; by imposing some restraint on uneconomic production it would improve resource utilization throughout the world; and thereby assist in bringing about a better balance of benefits received by all parties to the General Agreement.

9. In coming to this conclusion, the Committee has not been unmindful of the many difficulties with which agriculture is faced in many countries and of the special circumstances affecting agriculture as distinct from other economic sectors. Agriculture is an industry, which, on the whole, is affected by the fact that the demand for its products becomes increasingly inelastic as levels of real income rise, whereas technological progress has made enormous strides and has almost become an independent influence for the expansion of production. Farm income generally lags well behind the income of other economic sectors, and it has become an accepted policy of many governments to endeavour to more nearly equate rural incomes with other incomes. At the same time competition among agricultural producers is of a type which leads to marketing difficulties which governments have frequently felt it necessary to deal with by legislation - in the process adopting measures which not only are not usually judged necessary in the case of other industries but which can quite easily become effective barriers to trade, as is brought out in the Committee's findings which follow.
10. The Committee is also aware of the fact that a fundamental solution of the income problem in agriculture can only come about through further improvement in the efficiency of resource utilization. Such improvement is tantamount to a further reduction in the resources employed to bring about a given level of output. For all practical purposes this means a further reduction in the farm population. In some countries this movement out of agriculture has actually been of extraordinary proportions, yet not extensive enough to adjust supply to demand and to raise agricultural incomes to levels approaching those prevailing in other sectors of the economy.

11. In its second report the Committee also stated that no analysis of a general nature of the effects of non-tariff measures for protection on international trade or of the effects on trade in selected commodities had yet been undertaken. However, having largely completed the country consultations, the Committee now feels in a position, in the light of the analysis which it has been able to undertake so far, to make some comments for the information of the CONTRACTING PARTIES on the effects of policies and systems of agricultural protection on trade in certain basic commodities. These comments are based on analysis on a global basis.

12. In the country consultations the Committee concentrated on several groups of agricultural commodities which enter importantly into world trade. These groups are dairy products, meats, cereals, sugar, vegetable oils and fish. Some additional commodities were covered in some consultations, where requests had been received for these to be included.

13. In considering the effects of non-tariff protective measures on international trade the Committee has limited itself at this stage to butter and cheese, meats and wheat. Further work will be necessary before the Committee is in a position to express conclusions on the effect of protective measures on international trade in the other products. The Committee believes that its analysis of the situation revealed in respect of the four commodities mentioned is sufficiently important to merit the early attention of the CONTRACTING PARTIES.

14. The Committee has not reached the stage where it can attempt on any extensive basis to make quantitative assessments of the effect of non-tariff protective measures on international trade. Indeed as discussions in the Committee have shown, this is a difficult task. However, as the CONTRACTING PARTIES will be aware, an expert group has been set up to look into the question of measuring the degree of agricultural protection. It will be some time before that work will have been advanced to a stage where the Committee will be able to apply the results of it. Meanwhile, however, there is sufficient evidence of the impact of non-tariff protective measures upon international trade for valid comments to be made both in respect of individual commodities and also, at least to some extent, on international agricultural trade as a whole.
THE COMMITTEE'S FINDINGS

Use of non-tariff protective devices

15. The Committee's findings arising from its analysis of the products (i.e. butter, cheese, meats and wheat), studied so far are set out below. Detailed analyses for each product are set out in the Annex.

16. In the case of each product a wide variety of non-tariff protective devices is in use. One device or another (and sometimes several) is used in practically every country consulted.

17. The application of quantitative import restrictions (frequently in discriminatory form and sometimes amounting to complete embargoes) was found to be particularly widespread. For example, of the total butter and cheese production in the countries examined, 85 per cent and 62 per cent respectively were subject to protection by quantitative import restrictions. Countries accounting for about 75 per cent of total world wheat imports applied quantitative import restrictions on wheat. Of twenty-four countries examined, eighteen applied quantitative restrictions to imports of all or some types of meat.

18. In each group tariff bindings on each product are being impaired by the use of non-tariff protective devices. In the case of meat, for example, one-third of the countries examined have tariff bindings on meat and, with only one exception (United States), all maintain some non-tariff device which reduces or even largely nullifies the benefit of the binding.

19. Import levies are a very widely used protective device against import competition. In the case of meat, four countries use this means, while more than one-quarter of the world imports of wheat are into countries applying import levies.

20. It was noted that systems of State trading are accompanied by restrictive measures particularly in the case of wheat. Arbitrary management of imports prevent exporters from knowing to what extent they have access to important markets.

21. Bilateral agreements in one form or another operate to influence the direction of trade and in many cases substantially dictate the source of imports. For example, bilateral agreements for wheat are quite extensive. Moreover, five OEEC countries still maintain discriminatory import treatment against non-OEEC meat exports.

22. Systems of price support frequently take the form of deficiency payments or domestic subsidies. For dairy products deficiency payments and other forms of price support are widely used. For meat products, many countries apply direct or indirect subsidies; it being noted that indirect aid to meat production through coarse grains arrangements can have effects fully equivalent to those of direct support of livestock and meat. In the case of wheat more than one-quarter of total world imports are into countries which assist their domestic producers by way of deficiency payments.
23. In exporting countries too, subsidies are an important device for raising farm incomes. For example, a very high proportion of total world exports of wheat are made with direct export assistance. The United Kingdom market, which is the only major market for pig meats, is affected by large imports of subsidized bacon and pork. Domestic protection of dairy industries has resulted in a level of output which often exceeds domestic demand with the result that surpluses are disposed of on the United Kingdom market, usually with the aid of some form of export subsidy.

Effects of non-tariff protective devices on international trade

24. Whilst the Committee has not attempted quantitatively to measure the effects on trade in agricultural products of the widespread resort to non-tariff measures of protection, it is clear from the data which the Committee has examined that these measures have had and indeed were intended to have the effect of reducing the volume of international trade in the products concerned. Thus, in both dairy products and wheat, support policies are designed to maintain domestic prices above international price levels, even where those price levels do not reflect the operation of export subsidies; and to give effect to these arrangements the regulation of the flow of supplies to and from the internal market is required.

25. Such price policies have usually resulted in increased production in the countries concerned. Traditional importing countries over the post-war period have increased their production of all of the products under review. Whilst not ignoring the effects of technological progress, this increase is largely the result of the use of non-tariff protective devices associated with or forming part of support price arrangements. For example, in Europe the OEEC has lately called upon member countries to curb excessive milk production by, inter alia, lowering levels of support. World meat production has increased by some 50 per cent since before the war but world trade in meat has increased by only 27 per cent. Again, the Committee has found that policies of price and income support (virtually all operated through non-tariff measures) have significantly stimulated production of wheat. Whilst there have been big increases in consumption of wheat in non-European countries the growth of wheat production in the European countries themselves has seriously affected the international trade in wheat. Between 1934/38 and 1954/58 the proportion of apparent consumption represented by the combined imports of the four major European importing countries declined from 42 per cent to 39 per cent, and their proportion of total world imports fell from 49 per cent to 30 per cent.

26. Wheat provides the best example of the effect on international trade of price support measures causing exportable surpluses leading to pressures for disposal on concessional terms. In its Review of the World Wheat Situation of April 1960 (page 52) the International Wheat Council found that total wheat and flour exports covered by special governmentally assisted export programmes made up nearly 28 per cent of world wheat and flour exports. Indeed, since about 1953 a quite important increase in the world trade in wheat and flour has been almost entirely due to non-commercial transactions.
27. With some exceptions (the most notable being the United Kingdom which maintains a deficiency payment system for wheat) wheat shipped internationally is sold in the country of import at a price higher and frequently considerably higher than the international price. (This applies also to most surplus disposal transactions where the wheat is paid for by consumers at the prevailing price in the recipient country.) This indicates that in many importing countries there is a capacity to consume wheat at prices generally above those at which wheat is traded internationally. In some cases the levy on imported wheat to raise its price to the domestic price level is used as a source of funds for buttressing the income of domestic wheat producers. Thus not only are exporting countries placed in the position of being residual suppliers by the operation of quantitative restrictions, State trading etc., but, through the operation of import levies, they are denied the opportunity of securing the full price which consumers are prepared to pay for their product.

28. Although in the case of wheat changes in the volume of consumption appear mainly to be influenced by changes in dietary habit rather than changes in price, the reverse applies in the case of butter, cheese and meat. Support price schemes backed by non-tariff measures of protection have raised butter and cheese prices in traditional importing countries. The increase in consumption of dairy products has lagged behind the increase in production.

GENERAL CONCLUSIONS

29. The foregoing summary indicates more precisely the extent to which non-tariff protective measures are applied and their effect on international trade than it was possible for the Committee to assess at the time it prepared its second report (L/1192). The results of this analysis give much more point to the observations of the Committee in paragraphs 13 to 18 of that report and show how widespread is the use of non-tariff protective devices for important agricultural products.

30. In selecting butter, cheese, meat and wheat for its initial study the Committee has chosen four products in which special factors affecting agricultural protection are present. All are subject to the extensive use of non-tariff protective devices. Wheat is a basic food produced in widely differing conditions and with varying degrees of efficiency. Butter and cheese resemble wheat in this respect and are particularly the products of an industry which for social reasons has claimed the attention of governments. The demand for meat, especially beef, appears to be rising and in practical terms there should be less difficulty in bringing about a substantial moderation of non-tariff barriers to trade.

31. So far as wheat, butter and cheese are concerned, the evidence available to the Committee shows an intensity of non-tariff protection which was probably not fully recognized earlier. It is clear from the Committee's studies already made that, whilst further work would produce refinements, the broad conclusion must be that these non-tariff devices have seriously hampered international trade in these products in a variety
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of ways. In particular, the Committee notes that the very extensive use of quantitative restrictions and the widespread impairment or nullification of tariff bindings on these products shows the extent to which obligations set out in the General Agreement are not being observed and the benefits which many countries expected to receive are being frustrated.

32. The Committee is aware of the many occasions on which international discussions on wheat and butter have taken place. It notes that both OEEC and the Committee on Commodity Problems of FAO have had extensive discussions about butter. It also recognizes that the International Wheat Council, the Wheat Utilization Committee and the Grains Group of the Food and Agriculture Organization have all considered the more general aspects of the international wheat trade. The Committee is satisfied that the network of protective measures which its enquiries have revealed cannot be adequately tackled without due regard to all the factors affecting production, consumption and trade in these products. But equally it emphasizes that many of the international commodity problems have their root in high agricultural protection made effective through these non-tariff devices.

33. In paragraph 12 of its second report the Committee said "whilst the effects on international trade of the level of support aimed at were important, the mechanics of the various systems were also of considerable interest since the degree of direct interference with the flow of trade could, for a given level of support, vary widely according to the system employed". At the same time (paragraph 16) the Committee felt it would be unwise to make any judgments about the relative merits or demerits of the various systems. In its present report it again avoids drawing any firm comparison between the relative merits of the various techniques used in implementing schemes of price support, although it will be noted that, in its comments on wheat in the Annex, the Committee does observe that harmful distortions flowing from some protective devices might be reduced if not avoided by the use of other techniques.

34. From the evidence received by the Committee from a wide variety of countries operating a great diversity of schemes, the choice of the devices used appears to have depended upon the characteristics of the commodity, the nature of its problems and the policy objectives of the country concerned. The Committee recognizes that the different types of measures, by their nature, affect international trade differently. (For example, some measures affect trade indirectly by way of their effect on production, while others affect trade directly by controlling the flow of supplies to and from the domestic market.) However, the Committee has found from its examination that the effects on trade of the measures reviewed depend largely on the intensity with which and the manner in which they have been applied. This in turn has depended upon policy objectives. For example, a country by operating a system of high deficiency payments, or a very restrictive variable import levy system, or even by refusing to negotiate a reduction in a high tariff could produce a result no less damaging to international trade than may be caused by the quantitative restriction of imports.
35. The Committee would certainly not at this juncture wish to regard as complete the work which is reported on herein. It may well be that the Committee's work may best be advanced by the early selection of a panel of experts from contracting parties to carry out further analysis for later examination by the Committee.

36. In its examination so far the Committee has recognized that the GATT rules and procedures are obligations undertaken by contracting parties on a mutual basis. Therefore, measures acquired special importance in the Committee's mind, from the point of view of international trade, if they were applied in a manner not provided for in the procedures of GATT. The cases where this has occurred are sufficiently numerous to lead the Committee to the view that the operation of the Agreement has been weakened as an instrument for the promotion of trade. Moreover, impairment of concessions by the use of non-tariff devices (whether or not in conformity with the GATT) is so widespread as to have upset the balance of the Agreement. Again the scope for increased tariff concessions in favour of industrial exporters has been greatly narrowed by the inability of agricultural exporting countries to see sufficient incentive to offer concessions when non-tariff devices prevent them from securing meaningful access to agricultural markets. Whilst the Committee notes, in passing, that little if any action has been taken by contracting parties to seek redress (under Article XXIII) for impairment or nullification resulting from the use of non-tariff measures, it is also aware that such action would result in a balancing downward of mutual obligations and benefits.

38. When it turns to its next term of reference the Committee will take the foregoing into account when considering inter alia the extent to which the balance and effectiveness of the General Agreement have been weakened.