The measurement of agricultural protection has met in Geneva between 3 and 6 October 1961 to resume its examination of this subject. The group consists of the following, acting in their personal capacities:

Mr. J. Kirk (Chairman)
Dr. K. Häfner
Mr. L. Jeanrenaud
Mr. C. Johansen
Mr. D. McKay

Dr. J. Richter was unable to be present. The group heard an observer from Sweden, while the official from the Netherlands, who had also been invited, was not in a position to attend the meeting. The group was assisted by the secretariats of GATT, FAO, and ECE/FAO.

2. In October 1960 the group's first report contained proposals for the use of a "standard method" for measuring agricultural protection. In its main essentials this method consists of a comparison country by country, and commodity by commodity, of the local price with the ruling import or export price, as the case may be. This method should in principle automatically measure the combined effect of all protective devices - tariffs, quotas, b'sidies forming part of prices, etc. - but does not include an evaluation of the separate effects of any of these. The group reported in 1960 that any method of measuring agricultural protection must be imperfect, not only because of the variety of protective measures being used in various parts of the world, but even more so, because of serious statistical problems of identifying comparable types and grades of products and of assembling sufficient numerical information on these. The group considered, nevertheless, that this standard method appeared to have a good chance of success and to be the most promising of all methods.
3. This main conclusion reached by the group in 1960 was accepted, and authority was given (cf. Progress Report of Committee II, 14 November 1960, document L/1326) for the testing of the standard method on a trial basis by means of a number of pilot studies. Pilot studies have subsequently been carried out by Sweden, the Netherlands and, in respect of some principal commodities, by the Federal Republic of Germany. It is proposed to complete the last-mentioned study in the near future. A similar exercise started by the United States has not yet been completed. In addition the United Kingdom has undertaken a study of agricultural protection using a method suggested by the nature of its primary system of support, i.e. the deficiency payments system. It is considered that, although this method is intrinsically different from the standard method, it should yield results that are broadly comparable to those of countries using the standard method.

4. The main task for the group on this occasion has been to appraise the methodological results of these pilot studies. It has been necessary first to judge whether they have been successful in respect of those countries to which they have been applied, i.e., Sweden, the Netherlands, Federal Republic of Germany and the United Kingdom. Still more important, it is necessary to judge whether the same method appears likely to yield sufficiently satisfactory results for other countries which have not yet been studied. The countries studied are among those which have good statistics.

Section II. Examination of the pilot studies

It is not the purpose of this report to discuss the results so far obtained, but only to comment on questions of method.

Sweden

5. The Swedish study has covered some 80 per cent of the agricultural output and this proportion in itself indicates that the standard method has in general been found applicable to Swedish conditions, including the statistical resources of the Swedish authorities. There are a certain number of matters, particularly connected with meat and milk, which require further examination, but these are well within the competence of the Swedish authorities.

The Netherlands

6. The agricultural system of the Netherlands is not greatly dissimilar from that of Sweden, and broadly similar conclusions on the acceptability of the method have been reached. The proportion of the Netherlands agricultural output included in the study has been of the order of 95 per cent. As in the case of Sweden, milk and meat have presented certain problems and others have arisen as a result of the Netherlands system of supporting the prices of coarse grains, which affect the net returns of livestock producers. This is not, however, a problem of assessing total protection, but only of assigning it appropriately as between the grain sector and the livestock sector.
Federal Republic of Germany

7. As indicated, this study is not yet complete. Liquid milk and meat have not yet been included in the calculation. It does, however, at present cover grains, dairy products, sugar, and eggs. There are various reasons why the standard method might be more difficult to apply in Germany than in Sweden or the Netherlands. These are chiefly concerned with the rather narrow range of types and grades of imports into Germany for some products, particularly in the meat sector. Other problems may arise when the German study extends to the evaluation of non-price support measures, particularly those of a capital nature which are directed to improving the structure of farms. In general, however, the group sees no reason to doubt that the standard method can be applied to Germany with a sufficient degree of completeness and accuracy.

United Kingdom

8. The method used in the United Kingdom was not the standard method, but consisted essentially of the proper classification of the subsidies paid to farmers from Exchequer funds, partly in the form of guaranteed prices and partly in the form of "production grants". This is, of course, an easier task than applying the standard method. The only substantial question which the group has had to raise on the United Kingdom results was whether they adequately reflect the protective effect of such tariffs as the United Kingdom imposes in addition to its main system of support by deficiency payments. The percentage coverage was 78 per cent, this being the proportion of the output covered by the system of annual reviews of guaranteed prices. Of this 78 per cent, 22 per cent consists of milk. One of the major problems arising in the evaluation of agricultural protection in the United Kingdom therefore concerns the method which the group has recommended for milk. This subject is examined in more detail below.

United States

9. As has already been noted, the United States study is incomplete. It is understood from the United States Department of Agriculture that the work will proceed but the Department have drawn to the attention of the group a considerable number of practical difficulties which have impeded progress so far. The group has not found it easy, in the absence of Dr. Richter, to form an exact appreciation of the seriousness of these difficulties but they have been taken into account in what follows.

Section III. Modifications of and comments on the standard method

10. In the light of the findings during its examination of the pilot studies, the group considers it necessary to modify in some respects the method originally proposed.
(a) One problem which has arisen in applying the standard method has been the limited nature in some cases of the statistical information available on import prices. In a number of cases a country's imports do not consist of a full range of types or grades of a particular commodity, but only of one or two grades imported for the purpose of supplementing domestic production. In such cases, the estimate of agricultural protection may depend altogether too much on a particular price quotation which is not fully representative. It is true that the standard method provides that the import prices taken for comparison may be the prices of either actual or potential imports, but it is seldom easy to obtain prices for potential imports. Nevertheless, the group feels that it may be necessary to make more use of the prices of potential imports even to the extent of using the price of imports entering into other nearby countries where that can be done without excessive reliance on subjective judgment.

(b) As was mentioned, there is a particular problem in assessing the protection accorded to liquid milk. A variant of the standard method proposed last year to deal with the particular problem of milk consists in the first place in establishing as a reference price the average price of a group of countries which are exporters of dairy products or low-cost importers. At the next stage the actual price paid in any country is compared with the reference price and at the final stage the difference is apportioned as between natural and artificial protection. Calculations made in this way can be made to relate to all milk as a single commodity, or to each use of milk taken separately. As the only reference price at present available for liquid milk appears to be artificially high, the group considered that the calculation should be made on an all-milk basis and should be supported by separate calculations for butter, cheese, etc., using the ordinary standard method.

The method of determining natural versus artificial protection of milk developed in the pilot studies of Sweden, the Netherlands, and the United Kingdom takes the natural protection as equal to the cost of moving hypothetical consignments of milk from the nearest low-cost producing country. As these are hypothetical consignments, the estimate of natural protection must be as much a matter of judgement as a matter of calculation. In the case of the United Kingdom and Sweden, the availability of Denmark as a potential source from which milk could be imported has reduced the element of judgement up to a point as it has been possible to obtain specimen quotations for moving Danish milk. It is likely, however, that this difficulty of measuring the natural protection will increase when studies are undertaken of countries more distant from an alternative source of supply. It is possible that in some countries natural protection could be taken as equal to the cost of inter-regional movements within the country.
(c) This report discusses below the possible exclusion from these studies of a number of commodities, mainly for the purpose of reducing the scope of the exercise to more manageable proportions. It happens, however, that the experience of these pilot studies shows that, on purely statistical grounds, it would be advisable to exclude horticultural products, owing inter alia to their large number, the frequently small volume of trade in any individual product, and the frequent seasonal variation in tariff protection.

(d) The pilot study on the Federal Republic of Germany has shown a need to clarify and extend last year's recommendation to exclude from the calculation certain kinds of grants and subsidies of a long-term capital nature. The group now considers that all non-price support intended to improve the capital position of farms, as distinct from support to current income, should be omitted, though, at the same time, these capital subsidies should be separately recorded. There is a strong argument for regarding these capital payments as a form of protection not less valuable than income support, but the group considers as almost insoluble the problem of allocating correctly capital payments among commodities and years.

(e) The pilot studies have comprised only the typical products of temperate agriculture, but such study as the group has been able to give to semi-tropical products suggests that the measurement of agricultural protection should not extend to tobacco and oilseeds. Notwithstanding their importance in the agriculture of some countries, the group considers that the statistical difficulties arising on these commodities are likely to be disproportionate to the value of including them. Similarly, in respect of temperate products, the group recommends the exclusion of potatoes and poultry meat.

In addition to the above modifications suggested by the group, it wishes to make the following comments which may be helpful in interpreting some of the consequences of the standard method:

(f) It should be recognized that the standard method requires exporters to compare their internal prices with their f.o.b. export prices, whereas importing countries are asked to use c.i.f. prices for imports. This has the effect of overstating the degree of protection accorded to exporting countries or understating the degree of protection accorded to importing countries.

(g) The group has noted that particularly for sugar and, to a less extent, for some other commodities, the standard method has the effect of measuring the combined protection accorded to agricultural production and to the processing of the resulting output. This is due to the difficulty in these cases of ascertaining prices before processing begins.
Section IV. Conclusions

11. The preceding sections have shown that the standard method seems broadly to have succeeded in the countries to which it has so far been applied. It does not necessarily follow from that, however, that it can be recommended for general adoption in all the temperate countries among GATT members, as was envisaged in last year's report. All the countries to which the standard method has so far been applied completely are in North West Europe. It might therefore be unsafe to assume that the same method will necessarily be as successful in countries in completely different parts of the world, such as Canada, Argentina, Japan, or New Zealand. The main question which the group has had to consider is whether, bearing in mind this obvious uncertainty, it could reasonably recommend that the standard method should be applied generally without the risk of its breaking down in some material respect or yielding misleading results.

12. It has been left to the group to consider whether or not its terms of reference oblige it to aim at producing for each country a comprehensive measure of agricultural protection related to the whole or the greater part of its output, or whether it would be sufficient to cover only selected commodities. Clearly the more limited the objective, the greater is the chance of attaining it. It has already been suggested in the paragraphs above that the objective should be limited to some extent by the omission of certain products in all countries.

13. There is, however, the further question whether it would seriously impair the original objective if any country were free to omit any product within reason which was the subject of unusual statistical difficulties. Both in its first report and in this one, the group has discussed these difficulties in detail and cannot too strongly stress that even in countries with good statistical resources some unwelcome exercise of subjective judgment cannot be avoided. The group, however, feels that the statistical resources of some countries or their methods of agricultural support are such that the choice must lie between limited results or no results at all. As was said last year, even limited results are likely to have some value, in that they would make some contribution to knowledge, even if not as much as might have been hoped for.

14. It follows, however, that if the proportion of any country's output which is covered by these calculations is materially below, say, three quarters or two thirds, that is tantamount to abandoning any hope of estimating an overall percentage of protection. If some 80 per cent were covered, it might in some circumstances be reasonable to make a rough estimate for the remaining 20 per cent and after a fashion achieve 100 per cent. In no circumstances, however, could it be reasonable to gross up 40 or 50 per cent so as to represent 100 per cent. The most that could be expected would be percentages of protection and supporting data for a number of commodities taken separately or taken by commodity groups, and each such commodity or group would have to be considered as an independent study in itself. Those countries which found it possible to achieve a greater coverage would, of course, be encouraged to do so. The low-coverage countries would be asked to make sure of including those commodities which are of importance in international trade.
15. A recommendation along those lines must, of course, be somewhat of a hybrid. Those countries capable of applying the standard method to the larger part of their output would be expected to do so. The others would not. Comparisons between two sets of countries would be possible only at the commodity level, but not overall. If these limitations can be accepted, any future approaches to other GATT members to make these calculations need not be inhibited by the probability that in some cases only a limited coverage will be achieved. If any country is unable to cover a large part of its output, it should at least cover as many commodities as possible making a selection as far as possible along the lines indicated above.

16. This report has dealt only with questions of method. It has not seemed necessary or appropriate to report on the results obtained in the pilot studies in terms of figures. That would belong properly to a later stage of appreciation of the results when they have become available for a wider range of countries. At that stage of appreciation questions of method would cease to be important and questions of policy would naturally enter. For example, in considering the degree of agricultural protection practised in any country, it might be necessary to consider also that country's general economic policies or its general economic structure. As was indicated in last year's report, it can be held that one of the factors relevant to the assessment of the protection given to a country's agriculture would be its estimate of the need for that protection.

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1Cf. document COM.II/103, 29 November 1960, paragraph 2, last sentence, and paragraph 19.