A. GENERAL AGRICULTURAL POLICY

1. Introduction

Before dealing in as great detail as possible with the different points in Annex A of document COM.II/5, it will be well to emphasize the most important aspects of agriculture in Portugal's mainland territory. In the absence of such a general picture, it would be much more difficult to understand the purpose and real significance or the more or less permanent necessity of the measures of agricultural policy already introduced or planned in Portugal.

The most general characteristics of Portugal's agricultural situation consist in the existence and persistence of certain defects of agricultural structure which hinder the development of this branch of production, permitting the accumulation of large surpluses of manpower (thereby leading to almost permanent unemployment of greater or less intensity), which has repercussions on the whole process of economic and social growth. It is true that such structural defects exist in most economies "in process of development" or "underdeveloped", and this applies even to certain parts of several highly industrialized countries. Nevertheless, several of these defects in the case of Portugal possess individual features of special intensity because they are in direct and close relation with the geo-climatic characteristics of the country.

In brief, the principal and most generalized defects in Portugal's agrarian structure are the following:

(a) the lack of protection against erosion, the predominance of dry crops as compared with watered crops, defective rotation of crops and maintenance of traditional methods of exploitation, as well as inadequacies in the application of fertilizers and insistence on crops not adapted to the nature of the arable land;
(b) inadequacies of agricultural mechanization and in the use of animal labour;

(c) imperfections in the system of rural land tenure with a large predominance of small holdings, especially in the north, and of large estates in the south, the latter resulting in the formation of relatively large masses of agricultural wage earners;

(d) generalization of defective lease-hold systems in rural undertakings, resulting in absenteeism on the part of landlords and a reduction in the rate of investment;

(e) imperfections in the system of agricultural credit and in the marketing of products.

In these circumstances the problem is not confined to the need for increasing agrarian investments: it is also necessary to adopt, either measures for the "reordinance" of crops, the revision of the credit system and the education of the rural masses, or measures tending to modify the land tenure system, and to improve leasehold systems and marketing methods. In other words, measures of structural policy are required, but these measures only produce slowly - more slowly than is desirable - their results from the point of view of levels of production and conditions of life of the rural population, owing particularly to the natural resistance to changes in habits ingrained by force of tradition if not by conditions of physical environment (nature of arable land, configuration of the soil and climate).

A series of efforts have been made with a view to the correction of these structural defects. These efforts have taken the form of various plans and programmes (rural lines of communication and electrification, reafforestation, agricultural hydraulics, technical instruction, etc.), and of more or less ambitious legislative provisions. In this connexion the following may be mentioned:

1. Act No. 1949 of 15 February 1937 regulating the basis of government intervention in the study and realization of hydro-agricultural development works.

2. Legislative Decree No. 3272 of 19 September 1942 concerning government assistance for the construction of silos, and Legislative Decree No. 3913 of 18 May 1953 with regard to governmental subsidies for the construction of nitre-works.

3. Act No. 2017 of 26 June 1946 concerning technical and financial assistance by the government to producers for the execution of comprehensive works.
4. Act No. 2069 of 24 April 1954 declaring the urgent public need to improve land considered as essential for the fixation and conservation of soil, and regulating government intervention and methods of assistance in carrying out such land improvement work.

5. Act No. 2070 of 8 June 1954 granting exemption from land tax for periods of ten to twenty-five years in cases of increased output resulting from afforestation and from works for the protection of soil against erosion, for the conversion of dry crops to watered crops and for the utilization of uncultivated land.

6. Act No. 2072 of 18 June 1954 laying down general plans for the settlement of zones improved by hydro-agricultural development works.

7. Legislative Decree No. 39809 of 9 September 1954 not only extending to agricultural guilds, agricultural cooperatives and producers the benefit of government financial assistance, but affording the a corresponding guarantee.

8. Act No. 2075 of 21 May 1955 fixing the basis of execution of works for the small scale distribution of electric power.

9. Legislative Decree No. 40603 of 18 May 1956 creating the legal obligation to register landed property.

10. Legislative Decree No. 41473 of 23 September 1957 setting up a system for the intensification of technical assistance to agriculture.

11. Legislative Decree No. 42665 of 20 November 1959 setting up a new legal system for hydro-agricultural development works.

12. Act No. 2103 of 23 March 1960 laying down rules concerning water supply to rural populations.


In addition to these provisions already in force, the following texts were submitted to the Cooperative Chamber at the end of 1959 as a result of the provisions contained in the Second Development Plan for 1959/64:

(a) bill on rural property leases;
(b) draft legislative decree on the regrouping of small holdings; and
(c) bill on the revision of the legal system applying to inland settlement.

Further it is proposed to revise the agricultural credit regulations and the conditions of operation of the principal agricultural credit institutions. In the Second Plan for 1959/64, considerable investments by the public authorities were provided under the following heads:
agricultural hydraulics;
reafforestation;
agricultural re-organization (regrouping of small holdings and break-up of large estates);
health protection of animals and plants;
sundry agricultural developments (installation of pilot farms, centres of agricultural material, installation and equipment of cooperatives for the processing of agricultural products, etc.);
storage of agricultural products and development of rural communications;
research applied to agricultural and forestry development.

It is clear, however, that this action must be pursued and extended, although it already applies to such various fields and although it represents a considerable financial effort on the part of the State. Agricultural policy based on the trade cycle will logically take its place within the framework of these various problems and measures, and will naturally be influenced in many respects by the structural circumstances already mentioned.

2. General characteristics and objectives of the national agricultural policy

The general characteristics and objectives of Portugal's agricultural policy are already described in various publications of an international character, particularly in reports prepared by FAO and the OEEC. As regards the latter organization, special mention should be made of the "Fifth Report on the Confrontation and Coordination of Agricultural Policies" contained in document CSA(61)2 (second part).

Summarizing what is described at greater length in those publications, it may be said that one of the principal objectives of a policy based on existing economic conditions is to ensure the stability of agricultural prices within the framework of the general policy of internal financial stability. Another of these objectives, in relation to market organization, is to correct the imbalances which might be caused by irregular crops.

For the longer term, as we have said, efforts are being made to improve the economic situation of agriculture either by the permanent action of the research and technical assistance services or through the Development Plans aimed at accelerating economic expansion.

In its broad outlines the Second Development Plan for 1959/64 aims inter alia at increasing and improving agricultural production so as not only to satisfy the requirements of domestic consumption but also to create possibilities of export. In addition, the Plan provides for a better distribution of agricultural income in the sector concerned.

The improvement in the economic situation of agriculture makes it necessary to establish a specific policy as regards animal production. It is believed that this objective can be attained in particular by resorting to technical assistance and to appropriate investment programmes, rather than by the application of a price policy.
3. Special techniques for protection and assistance to agriculture

In conformity with 1(a) of document COM.II/5, Committee II of GATT intends by means of consultations on agricultural policies, to assemble data regarding the use by contracting parties of "non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers".

Apart from customs protection, it may be stated that Portugal does not apply, by preference or in general, a special technique for the protection or guarantee of agricultural income, as will be seen from an examination of the nature of the measures in force.

4. Repercussions on the national economy and on the trade of other countries

(a) Measures for the protection of agriculture having a repercussion on prices are aimed at striking a just balance between the interests of producers and consumers. Although the cost of this protection is shared by the other branches of economic activity, the opposite occurs when in the case of certain products prices to the consumer are maintained at the producer's expense.

Lastly, it should be pointed out that the said protective measures find their principal justification in the role played by agriculture in Portugal's economy. It should be remembered that agriculture employs about 45 per cent of the population, that agricultural production is the source of a large proportion of Portuguese exports, and that despite all the efforts made to improve our agriculture, it still possesses the structural defects which characterize countries with an ancient agrarian tradition.

(b) Despite the existing protection, imports of agricultural products remain at quite a high level. In the case of products intended for export (cork, resinous products, wines, etc.) imports are naturally very small. It may be concluded that the protective measures at present in force have very little influence on trade with other countries.
5. Important changes of policy introduced recently or contemplated

Portugal's agricultural policy has not recently undergone any changes which may be considered as important. As regards measures contemplated in this connexion, mention should be made, in addition to what has already been said in regard to the Second Development Plan, of the legislative measures which are being introduced regarding the modification of the system of rural property leases and regarding internal settlement and the regrouping of small holdings. Another measure of agrarian reorganization is that providing for the break up of large rural estates into smaller agricultural holdings. This break up will be accompanied by development work in the zones affected or in the adjacent zones, particularly irrigation work.

Nevertheless, in speaking of important changes contemplated in Portugal's agricultural policy, we cannot omit to mention an undertaking, or group of undertakings, of great importance which has been at work for a number of years and aims at the creation of a sound basis for the preparation of an agrarian policy or of plans of agricultural development.

On the basis of aerial photography, by means of direct studies and sampling methods, an agricultural survey of Portugal has been and is being carried out (the process is a dynamic one).

In addition to an agricultural map, a map of soils and a map of the capacity of utilization of the land have been drawn up. It is also planned to draw up a map of ecological seasons.

Once this information is available, as well as data concerning environmental conditions (climate, soil, gradients, etc.) not to speak of economic and social conditions, and once a certain experience has been acquired, it will become possible for each region to choose the most suitable crops or rotations of crops. The standards thus created are not rigid; they can be modified if one of the conditions indicated changes.

We thus come to the keystone of this great edifice, what is known as agricultural reorganization. With the help of the numerous data obtained, a better idea can be gained of the agricultural realities and potentialities of the country, and of the more reliable instruments of technical assistance which become available.

Although the principles resulting from agrarian planning are by no means mandatory in character, they will lead sooner or later to profound modifications in Portugal's agricultural policy and aspects. These modifications will consist in particular of the assignment to afforestation of certain land
of marginal agricultural profitability, the replacement of certain traditional crops by others offering greater productivity and profitability, the rational distribution of watering land, etc. These modifications will no doubt affect the present measures for the protection and guarantee of agricultural prices and income.

Nevertheless, it does not seem that the political measures recently defined or contemplated will result in artificial competition for the agricultural products of other countries, but will simply lead to an improvement of domestic production and consumption and the natural widening of certain basic conditions with a view to readier access to external markets.

6. Possibility of Reducing the Need for Agricultural Protection

As regards the measures in force capable of reducing the need for agricultural protection, mention may be made of a certain number, whether included or not in the development plans, which can indirectly produce such an effect: technical assistance, improvement in infrastructures, agricultural credit and the movement for the formation of producers' co-operatives.

As regards the prospects of lowering the general level and the adoption of other measures, we refer to what was said in the last part of No. 5.

Moreover, as we remarked at the beginning of this synopsis, one of the principal objectives of Portugal's agricultural policy is to maintain and safeguard the stability of prices. Indeed the stability of the price level must be one of the principal objectives of economic policy, particularly if it is desired to accelerate the expansion of the economy and to attain a high level of employment, since the rise in prices and the risk of open inflation which it involves have been in the last eight or nine years, and will be again in the years to come, a constant danger to the economy of a large number of countries. This is recalled in particular in a report recently drawn up on the initiative of the Council of the OEEC ("Report of the group of independent experts appointed to study the problem of rising prices" March 1961).

Thanks to its policy and despite the dependent situation of its economy in relation to international trade, Portugal is among the countries with the smallest fluctuation in consumer prices. The relevant index (1953 base) in the above-mentioned report shows the very small increase of 8 per cent in 1960. Nevertheless the Administration is continually studying how far this price stability, resulting to a great extent from an interventionist policy and characterized by almost complete immutability, is compatible with the normal process of economic growth.

This does not mean that the advantages of a policy of stability are called in question, but only their possible lack of flexibility i.e. the rigidity of prices. Steps must be taken to prevent this rigidity from leading to economic distortions reducing certain sectors, ever-developing others and bringing about not only the disturbance of the harmonious process of general economic growth but the aggravation of traditional structural problems.
The cyclical variations observed in external markets and international price fluctuations are often reflected in the domestic economy, laying a heavy burden on the organ responsible for price adjustment. Thus in periods of rising prices, certain imported goods receive a subsidy from the Supply Fund in order to keep their prices at a level accessible to consumers. Another characteristic of the policy of price stability is that it can lead to an insufficient utilization of domestic capacity owing to the fact that the prolonged immobility of certain prices paid to the national producer do not stimulate production. Inadequacies of supply are then made good by resort to importation at prices above those paid to domestic producers and thus requiring a subsidy from the Supply Fund. In such a case it is foreign production which is helped, although the subsidy paid abroad might have contributed decisively to an increase in domestic production.

Accordingly the Administration is considering - as it has already stated publicly - a certain revision of the compensatory payments and subsidies at present in force. In order to understand the need for certain alterations in this direction, it should be borne in mind that the prices of certain products have undergone no change for over ten years, while during the same period, apart from other factors, there have been increases in the components of the price of production. Nevertheless every effort will be made not to ask sacrifices of consumers with a low purchasing power until all possible reductions have been made in the subsidies paid to producing enterprises, and to economize as much as possible by readjusting the marketing and distribution circuit.

B. POLICY ON INDIVIDUAL PRODUCTS

1. We outline below the measures in force for the protection of agriculture, at the same time explaining the reasons for their adoption and their relation to the principal agricultural products.

This statement does not correspond to the paragraphs contained in the second part of Annex A of document COM.II/5 but it has been endeavoured to give a reply to all the questions raised in those paragraphs. For this purpose account must be taken not only of what has already been stated above but also of the background information for each product supplied in accordance with Annex B of the same document.

2. The prices paid at production for a large number of agricultural products have been determined by the government services and by the organs of economic co-ordination. On the whole the prices of these products have not changed for several years, thus helping to ensure internal financial stability.

Thus the general level of cereal prices has remained stable, whereas animal products have shown a slight increase. The important exception is olive oil, the price of which remained at the 1947 level for many years and has only changed recently.
3. It seems desirable to repeat here the statement on agricultural policy given in document L/1411, in which the replies given to the Working Party on Accession of Portugal were reproduced:

"The measures in force in Portugal are listed below under the various categories, depending upon the method used.

In order to appreciate such measures better a brief summary of certain objective principles which determine their maintenance is submitted, as knowledge of these principles will make it easier to assess the degree of protection conferred upon agriculture. The measures are intended:

(i) to ensure that holdings should be operated on a sound financial basis and to avoid unfavourable repercussions on the agricultural labour market which until now has been characterized by a surplus of manpower which has been re-placed in employment in other branches of industry at a fairly slow rate;

(ii) to control prices to consumers and to ensure adequate domestic supplies within the framework of the general policy of economic growth within relative monetary equilibrium;

(iii) to control costs of processing and distribution, in particular as regards essentials with a view to a gradual whittling down of the difference between prices paid to the consumer and prices paid to the producer.

That is the reason why agricultural support measures which have an incidence on prices take account not only of producers' interests but also of consumers' interests and are aimed at achieving an equitable balance between the two.

(a) Guaranteed prices

Among the various systems of guaranteed prices, the methods most frequently used are as follows: (i) guaranteed disposal at a guaranteed minimum price; (ii) guaranteed price range; (iii) exceptionally, in one case (wheat), the fixed price system.

(i) The first method is applicable to the following products: rye, barley, maize, wine, milk for processing and wool. Prices for such products are liable to fluctuations but not below certain floor limits. Disposal of production at such minimum prices is guaranteed by adequate interventions in the domestic market.

(ii) As regards the second group of products, guaranteed minimum prices are also applied for disposal of production but the higher price variations are limited because maximum retail prices are fixed by means of regulations. This group includes the following products: rice, olive oil, beef, and in some cases, pork.
(iii) Prices for wheat are fixed by the Government one year before the harvest. This decision is taken on the basis of recommendations submitted by the regulating body which has responsibility for grains and in which the various branches of industry concerned are represented.

It should be noted that there are products for which, although they are entitled to other support measures, there is no guaranteed price, such as oats, potatoes for sowing, potatoes, chickpeas, beans, fruits, vegetables etc. Milk intended for consumption is usually marketed by producers' cooperatives. However, there are limitations for sales prices for milk to the consumer and retail prices for potatoes. This latter price varies depending upon the period of the year. Prices for other products are not limited.

(b) Import prohibitions

There are no import prohibitions in addition to those mentioned in the answer to question 24 (of document L/1411). There are only import restrictions as indicated hereunder.

Imports of agricultural products, like imports of all other goods, are subject to the general licensing and previous import registration systems. Import operations are usually effected at the initiative of private individuals or corporations, although as indicated in the answer to question 59 there are some exceptions to this rule.

As regards these exceptions it should be noted that rice, table potatoes, olive oil, butter and carcass meat imported from abroad must be sold at prices not exceeding the maximum prices fixed in respect of domestic products. As a result, the plus or minus differentials between the domestic and imported prices are levied or paid by an equalization fund. The same system is applicable to wheat and possibly other grains which are imported under the public tender procedure.

(c) Equalization levies on imports

See answer to paragraph (b).

(d) Direct subsidies

There are no direct subsidies in Portugal, but such a system is to be set up to permit the breeding of certain types of cattle and the production of high quality potatoes for sowing.

(e) Deficiency payments

This system is not applied in Portugal. However, a similar system is followed in respect of cattle intended for slaughter and destined for certain areas during certain periods of the year. This system makes it possible for producers to receive for slaughtered cattle prices which are higher than prices charged to the consumer.

(f) Minimum price schemes

This system is not applied in Portugal.
(g) **Dual pricing (mixing regulations)**

This system is not applied in Portugal.

(h) **Indirect subsidies**

In addition to measures indicated under "guaranteed prices" there are measures which are applicable to several products, but which do not have any direct influence on prices, such as credit facilities and bonuses.

Thus, certain types of fertilizers are subsidized in order to maintain their prices, when sold to agricultural producers at a price level below that which would otherwise rule. Selected wheat seeds are furnished to agricultural producers at a price below cost.

(i) **Export subsidies**

There is no such scheme in Portugal. Only in exceptional cases have some exports of agricultural products benefited from subsidies in order to encourage disposal of surpluses.

(j) **Supplementary taxes**

There are no such taxes in Portugal.

4. We explain below the system of marketing and distribution and the system of price formation for the principal agricultural products:

(a) **Cereals** - The market in cereals and rice is controlled at all stages. The National Federation of Wheat Producers, a private corporate body, is the only agency for the purchase of domestic wheat. The Federation distributes wheat to the two bakers' associations, which divide it among their members on the basis of the productive capacity of their establishments.

The flour produced by the mills is distributed to the Bakers' Guilds, which in their turn distribute it to the bakeries. Although the marketing of rye, maize and barley is theoretically free, the Federation guarantees the price fixed by the Government without limitation of quantity. The surpluses withdrawn from the market are stored by the Federation.

The price to producers of wheat and rice is fixed annually at the time of sowing, purchases being conducted by the NFWP and the Rice Marketing Control Commission.

(b) **Meat** - The National Animal Husbandry Board guarantees by means of purchases from producers the minimum prices fixed by the Government. The Board intervenes chiefly when market prices, which as a rule are freely established by producers and traders, tend to
descend to the level of the guaranteed price or below. The Board also intervenes to regulate the market, either in periods of abundance by storage and refrigeration, or in periods of shortage by selling stocks of meat of domestic origin or by adopting measures mentioned in chapter IX. The Board may also introduce slaughter restrictions in the case of bovine cattle.

When the market situation requires it, the Government fixes a minimum guaranteed price for cattle and a maximum retail price for meat.

Prices of milk and dairy products are fixed by the Government on the advice of the National Animal Husbandry Board. Maximum prices are fixed for the sale of milk for consumption in the large towns and of milk supplied to manufacturers of dairy products and butter.

(c) **Wine** - The National Wine Board intervenes in the market to ensure a certain price stability. This only happens when prices fall below a certain minimum considered as remunerative or when they rise too much; in these cases the Board buys or sells the quantities of wine from its stocks considered necessary to combat the rise in prices, or buys the wine direct from producers for storage or conversion into spirits.

(d) **Olive Oil** - The National Oil Board acts on the olive oil market, which requires frequent intervention owing to the irregularity of crops. At harvest time the Board intervenes by means of direct purchases from producers at specific prices, requiring wholesalers and exporters to constitute a minimum stock and financing voluntary storage by producers.

(e) **Other products** - Apart from occasional intervention, the marketing and distribution of other agricultural products are free, for example in the case of fruit and vegetables, potatoes, eggs and poultry.

In the case of fruit and vegetables, traders’ profits are limited to about 20 per cent of the wholesale price.