AGRICULTURAL POLICY

Draft Report of Committee II on the Consultation with Sweden

1. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourteenth session, that consultations should be held with the individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with Sweden. The Committee had before it:

(i) documents COM.II/2(o), COM.II/2(c)/Add.1, and COM.II/2(c)/Add.1/Corr.1, dated 6 March 1959, 4 March 1960 and 24 March 1960 respectively. These documents contained a synopsis, prepared by the secretariat, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers.

(ii) documents COM.II/56, COM.II/56/Corr.1, and COM.II/56/Add.1, dated 14 March, 17 March and 30 March 1960 respectively. These documents contained detailed information on important agricultural commodities entering into international trade, furnished by the Government of Sweden in response to the questionnaire in Annex B to document COM.II/5.

(iii) document COM.II/56/Add.2, dated 31 March 1960, containing information furnished by the Government of Sweden in response to the request for information on grass and clover seeds (document COM.II/55).

In conducting the consultation the Committee followed the plan for consultation contained in Annex A to document COM.II/5 and adopted by the CONTRACTING PARTIES at their fourteenth session. The consultation was completed on 4 April 1960.

A. General Agricultural Policy

2. In his opening statement, the representative of Sweden described the various economic, climatic and other factors influencing the development of Swedish agriculture and the social and other considerations which determined his Government's agricultural policy and the measures chosen to implement this policy (see paragraphs 3-21). The full text of this statement will be distributed to members of the Committee in COM.II/62.

1 Corrections submitted to the secretariat after the consultations will be contained in COM.II/64.
3. The representative of Sweden explained that only about one-tenth of the total land area of his country consisted of arable land and permanent pasture, with the main agricultural areas located in the southern and central parts of the country, while the remainder was forest and mountainous country. In contrast to the northern parts of Sweden where agriculture was encountering great difficulties, farming conditions in the southern and south-western parts of the country were favourable and almost similar to those found in Denmark.

4. With the increase in industrialization, the relative importance of agriculture to the national economy had steadily declined and the share of agriculture in the gross national product had decreased from about 20 per cent at the turn of the century to about 6 per cent at present.

5. He explained that about 16 per cent of the Swedish population were at present engaged in agriculture. The percentage of the population engaged in agriculture, forestry and fisheries combined was 24 per cent at present which compared with more than 50 per cent at the turn of the century. The agricultural population had decreased during recent decades at a rate of about 2 per cent per year and during some recent years at an increased rate of about 4 per cent per year. One of the main reasons for this development had been the heavy demand for labour from the industrial sector of the economy and the generally higher level of wages prevailing in many non-agricultural occupations.

6. The representative of Sweden pointed out that the large-scale and accelerating influx of people into urban and suburban areas had contributed to the serious housing shortage in these areas and had been one of the dominating problems in Sweden during the whole post-war period. This migration process could hardly have taken place more rapidly than had actually been the case without further serious and undesirable repercussions on the economy as a whole. The drift from agriculture had in certain areas already reached a point where it was threatening the normal and balanced development within certain communities and in some cases it was creating difficulties for the maintenance of normal social facilities such as education, medical care and other services. Although the migration process was in harmony with the general objectives of Swedish agricultural policy, a further increase in the rate of this migration might make it necessary to take special action in the interest of a sound balance of the social and economic structure of society as a whole and in order to remedy transitional difficulties.

7. The representative of Sweden added that in spite of this migration process and in spite of a reduction by as much as 50 per cent, as compared to pre-war, in the average number of hours worked in agriculture, the volume of agricultural production had on the whole remained unchanged during the last decades. This fact had to be attributed to the increased mechanization and rationalization of Swedish agriculture. The number of tractors had, for example, increased by more than ten times since pre-war, from about 15,000 to more than 150,000. Rapid increase in mechanization in Swedish farming operations had partly been due to the economic necessity to substitute
machinery for labour because of the high cost of agricultural labour in Sweden. Agricultural wages in Sweden were higher than in any other European country and thus constituted a serious problem to Swedish agriculture.

8. Referring to his Government's agricultural policy, the representative of Sweden pointed out that unlike many other countries, Sweden did not aim at an increase in agricultural production. When the 1947 programme came into force, a production of 90 per cent of indigenous agricultural commodities was considered as a feasible target. The special needs arising from defence contributions would have hereby been taken into account. At the same time, the disposal of any occasional surpluses would be facilitated. The Swedish Government had repeatedly declared itself in favour of a gradual decreasing agricultural output particularly with respect to commodities characterized by surplus conditions. The target referred to had, however, never been regarded as an absolute or definite goal. So far, domestic production was roughly equal to domestic requirements.

9. In order to deal with surplus questions related to individual commodities, the Swedish Government had taken special action, for instance during the international butter crisis in 1958. Furthermore, one of the main reasons for the introduction of the new pricing system in 1956 was to make the domestic market more dependent of the price movements abroad, and in that way to "guide" the production in an appropriate direction. The system also provided for special measures to influence the production, such as variable import levies on feeding stuffs and various production fees.

10. The objectives of Swedish agricultural policy were mainly of a social nature. The following three types of measures were used to implement Swedish agricultural policy: (i) price support measures designed to obtain income parity for operators of farms in the size group 10-20 hectares, (ii) a complementary programme for the support of small farms (i.e., those below ten hectares), and (iii) measures to promote rationalization of agriculture.

11. The representative of Sweden explained that income parity as defined in the 1956-59 agreement was sought for owners of well-located so-called "basic farms" of 10-20 hectares of arable land in the plain districts of southern and central Sweden, on the one hand, and industrial workers in the two lowest cost-of-living zones, comprising about 70 per cent of all industrial workers, on the other hand.

12. To achieve income parity, the system of guaranteed prices which had previously been in use was abandoned under the 1956 programme. Instead, import levies were introduced which remained fixed as long as domestic prices for agricultural commodities remained within certain predetermined upper and lower price limits. These price limits were calculated from so-called "middle prices" which were set in a way to give the farmers, for all products together, the income parity aimed at. Partly because of declining world market prices for agricultural products coinciding with rising production costs in Swedish agriculture, the parity objective was not obtained during the lifetime of the 1956 agreement. In September 1959 the income gap between agricultural producers on "basic farms" and industrial workers was about Sw.Kr.3,600.
13. A new agreement came into force on 1 September 1959 and was to be valid for a six-year period. The new system had retained the main features of the previous scheme but had also introduced some new ones, namely, the so-called "3 per cent rule" and the "income rule". These rules aimed at preventing the income gap from widening further. In order to eventually eliminate the income gap already existing, higher price limits and import levies had been fixed for certain products. However, the principal part of the actual income gap, or about two-thirds of it was left to be eliminated through further rationalization of farming operations during the lifetime of the agreement.

14. Another important decision taken in this context was to base income parity on a comparison, after the expiration of the present agreement, with so-called "norm farms" of 20-30 hectares. This change was bound to have far-reaching consequences because of the approximate 20 per cent higher average net income of operators of "norm farms" as compared to operators of "basic farms".

15. The Swedish representative stressed the importance of the special programme related to the small farm sector. At present, about one-third of total arable land was divided into holdings of less than 10 hectares. Farms in this size category accounted for about one-quarter of total agricultural production. Approximately half a million people were dependent mainly on income from these farms. About 60 per cent of the owners of these small farms were over fifty years of age which made it practically impossible for them to shift to other occupations. Without Government support, in addition to the general price support scheme, the income of the majority of these farmers would decline below a level considered tolerable from a social point of view. Although a number of small farms in the size group below 10 hectares was continuously decreasing the scope of the problem was bound to widen after 1965 when the category of small farms would include units up to 20 hectares.

16. For the reasons stated above, the Swedish Government had support measures for operators of small farms which were in addition to and complementary to the general price support scheme. The special measures on behalf of small farms were of three kinds: (i) acreage subsidies, (ii) delivery supplements for milk, and (iii) extra price supplements for the northern regions. Total cost for these programmes under the present arrangements were estimated at approximately Sw.Kr.100 million per year, which was equivalent to about 2 per cent of the gross income of the agricultural sector. In principle, these support measures were regarded as temporary as the Government was also taking measures to promote the rationalization of agriculture as a mean to a long-term solution for the social problems in agriculture.

17. The rationalization measures sponsored by his Government could be grouped under three headings: (i) external rationalization, (ii) internal rationalization and (iii) rationalization of farm management. The external rationalization programme was designed to increase the size of the farm units and to improve farm layout. Under this programme the formation of farms with about 25-45 hectares was being promoted through an active policy of purchase and resale of land. The magnitude of this task was indicated by the fact that according to latest available figures only about 14 per cent of all farms had a size of 20 hectares or more. Increased emphasis was also being laid on the
re-afforestation of uneconomic and less fertile farms. Under the internal rationalization programme improvements of agricultural land and buildings on individual farms were sponsored by the agricultural boards partly through State guaranteed credits and partly through State subsidies granted to farmers subject to certain income limits. Under the programme of rationalizing farm management, research and education funds had been placed at the disposal of local agricultural councils and advisory services were being maintained.

18. In concluding his opening statement, the representative of Sweden explained that the support measures operated by his Government on behalf of agriculture did not apply to fruits and vegetables. The import of these products was subject to regular customs duties. He stated that the import levies applied to agricultural products had the same purpose and were in their effect similar to tariff measures. He stated that in principle, no quantitative restrictions were applied except in emergency cases in order to protect the lower price limit.

19. The licence-free importation which so far had mainly been applied to imports from the OEEC countries and in most cases also to the dollar area, had on 1 April 1960 been extended to most other countries except in the case of twelve countries with which Sweden conducted trade under special bilateral arrangements.

20. The representative of Sweden also pointed out that although his country still had export surpluses in some of the main agricultural products, there was nevertheless a considerable import surplus in food and food products as a whole. The value of such imports was on the average about three times as much as the corresponding value of exports of food and food products or approximately Sw.Kr.1,500 million per year as compared to about Sw.Kr.500 million. In his view the free access for their products to the Swedish market was more important to many of his country's trade partners than the fact that some products of major concern to Swedish farmers were subject to special arrangements.

21. The representative of Sweden recalled that the OEEC had called the Swedish system "an interesting experiment". Although in his Government's view the present system of agricultural support had certain advantages, his Government was always prepared to reconsider the functioning of its agricultural policy measures in order to make improvements wherever necessary. In accordance with an earlier decision by Parliament, a special commission would be established in the near future to review both the objectives and the methods of Swedish agricultural policy. He pointed out, however, that under the present six-year agreement any changes in the general nature of the present agreement which might be proposed by the special commission, would have to be negotiated with Swedish farmers.
22. Members of the Committee noted with satisfaction the elimination of quantitative restrictions and State trading as methods of agricultural protection. To some members of the Committee it appeared however that the use by Sweden of protective import levies, particularly variable import levies, was a matter of serious concern. They expressed their misgivings about the apparently increasing reliance by many countries on such protective measures and considered this development in international trade relations as most disquieting and dangerous in its implications for the continued survival of the GATT unless the latter found means of controlling these measures.

23. Tariffs, if they were moderate, permitted some trade, their relative stability afforded some protection to traders and another important advantage of tariffs as a commercial policy measure was that governments had become accustomed to negotiating them downward. Import levies on the other hand, especially if they were subject to frequent and arbitrary alterations by governments, could have the effect of completely protecting domestic producers from import competition and of insulating them from movements in world markets while at the same time preventing consumers to benefit from lower prices. One had only to imagine what would happen to international trade if a system of variable import levies were to be applied to trade in industrial products.

24. Members of the Committee pointed out that the import levies imposed by Sweden although described as fixed were subject to so many provisions for the levies to be varied that the term "fixed levies" did not appear to fit the case. The Swedish system apparently contained many contradictory provisions regarding the operation of these import levies. For example, from the background documents it appeared that the levies were to remain unchanged as long as domestic prices stayed within certain predetermined limits. On the other hand, provision was made that the levies could be varied every three months on the basis of movements in the index of world prices and/or the domestic cost-price index. One of the stated objectives of Swedish agricultural policy was that domestic prices should follow trends in international markets although at a higher level due to the incidence of the import levy. On the other hand, the 3 per cent rule was designed to counteract such changes in world market prices for agricultural products. Similarly, the income rule contained in the same agreement apparently operated without regard to whether domestic prices had remained within the predetermined price limits or not.

25. In the light of what appeared to be a high degree of freedom in the Swedish import system for agricultural commodities, to move fees and levies both up and down, some members of the Committee expressed doubt about possibilities for Sweden to effectively contribute to an expansion of trade in agricultural products unless a means could be found to limit the variability of import charges and to reduce the combined incidence of import levies through negotiations under the GATT.

26. The representative of Sweden explained that the new system for the protection of agriculture had been adopted to bring the Swedish import regulation for agricultural products into conformity with the GATT. For this reason Sweden had abandoned State trading, and in principle also quantitative restrictions, and had instead based protection at the frontier on import levies. Sweden was aware of its obligations under the GATT and of the aim laid down in Article I of the General Agreement concerning the desirability
of reducing tariffs and charges and Sweden was a country with one of the lowest tariffs in the world. Sweden did not, however, have tariffs for the protection of its agriculture. Instead, the Government had preferred to use a system of import levies which, in their view, was not only in conformity with the GATT but, as operated by Sweden, had the same effect as tariffs. He agreed with the members of the Committee that an immoderate use of import levies could be harmful to international trade. On the other hand, any protective system which was applied without moderation should be regarded with misgivings. The representative of Sweden stressed that what really mattered in this context were not the general merits of such a system but that Sweden's agricultural policy to be appraised in the light of its actual method of operation and in its effects on trade. Sweden had always honestly tried to contribute to an increase in international trade, including trade in agricultural products, and it had been a feature of the Swedish system to permit imports as freely as possible. An examination of the Swedish import system for agricultural products would show that it did not unduly restrict imports and it appeared that Sweden's trade relations with other countries were satisfactory. He referred in this context to his country's substantial surplus for food and food products. He also pointed out that experience had shown, as was indicated by the general downward trend in Swedish agricultural protection, that the system allowed the Government to guide production into appropriate directions.

27. The representative of Sweden stated that although it was not possible to commit his Government to negotiate import levies and production fees under the GATT and although no changes in import levies, or for that matter tariffs, could be negotiated without the approval of Parliament, such negotiations did in principle seem possible. It was true that Sweden had not in the past given many concessions on agricultural products subject to import levies, but this did not necessarily preclude the possibility of such concessions being made in the future in exchange for concessions in the industrial sector.

28. In clarification of the question asked by one member of the Committee whether the possibility of such concessions would not prevent the operation of the rules introduced into Swedish agricultural policy to safeguard income parity, the representative of Sweden explained that the income objective of the Swedish agricultural policy did not require to support the price level for any particular product, but that it was sufficient to achieve income parity through the support of the average price level for all of the products covered by the agreement. It was correct, however, that under the agreement adopted by Parliament, all levies and fees had been fixed, together with the rules determining the extent of any modifications, and it was therefore not possible to change these during the period of validity of the agreement without approval by Parliament and in certain circumstances without renegotiating the agreement with the farmers. On the other hand, there might be certain margins in the application of specific import levies and it might therefore be possible in certain instances to negotiate and bind targets for these levies analogous to the cases where tariffs had been bound under the GATT at a rate higher than the one applied at the time of the agreement.

29. Concerning the variability and the frequency of changes in import levies and compensation fees the representative of Sweden felt that there might have been some misunderstanding of the measures operated by his Government in support
of agriculture. In response to more specific questions concerning the operation of the agreement the Swedish representative explained that although import levies were varied in response to changes in a special world price index or a domestic cost-price index, possibly as frequently as every three months, it was not possible to change an import levy unless the conditions had changed sufficiently for the 3 per cent rule to come into operation, or unless domestic prices exceeded certain predetermined limits. It had also to be borne in mind that changes in the import levies would operate both against and in favour of increased imports, thus protecting the interest of producers as well as consumers. The main purpose of the middle price was to serve as a reference price for the determination of income parity. The middle prices were neither intended nor did they in fact serve the function of a guaranteed price. What really mattered were the lower and upper price limits and the general rule was that the middle price was equidistant from these limits. As a general rule, price limits were not changed and no change had so far been made. There was indeed no guarantee that domestic prices would not actually fall below the predetermined limits. Although the Government was required to protect the lower price limits through the increase in import levies and, if this should prove necessary, through the imposition of quantitative restrictions, domestic prices for butter, eggs, potatoes and pork had at various times fallen and remained for certain periods below their respective lower price limits. Redemption prices fixed by the Marketing Association for certain commodities, although intended to guarantee a certain minimum price to farmers for the crop year, were nevertheless subject to the influences of world market conditions because the limited means and their rules of operation prevented them from setting unrealistic prices.

30. Compensatory fees remained fixed under the new agreement while production fees were varied so as to adapt domestic production to economic uses. In response to another point raised in the Committee, the representative of Sweden pointed out that the degree of administrative discretion in the operation of the agreement was strictly defined. The products affected by the programme were those listed in a special law and no additions or deletions from this list were possible without approval by Parliament. Whenever it was found desirable in the interest of safeguarding the objectives of the agreement to make exceptions from the general rule the matter was taken before Parliament and although this was not strictly obligatory these were in general also negotiated with farm representatives.

31. Several members of the Committee expressed concern about the provisions in the agreement for reintroducing quantitative restrictions if this appeared to be necessary to support the domestic price given certain conditions and circumstances. The same apprehension applied to the possibility of reintroducing import monopolies for some products in certain circumstances.
32. The representative of Sweden assured the members of the Committee that
the re-introduction of quantitative import restrictions was reserved as an
emergency measure to deal with such situations, provided for in Articles XI
or XII of the General Agreement, as could not be solved by increases in
import levies alone. He pointed out that, of course, the introduction of
quantitative restrictions did not necessarily mean an import stop.

33. One member of the Committee enquired whether consideration was given
to the imposition of restrictions on domestic production in conformity with
Article XI:2(c) of the General Agreement in circumstances which, in the
view of the Government of Sweden, required the imposition of quantitative
import restrictions. The representative of Sweden explained that given
such emergencies his Government gave full consideration to measures reducing
domestic production. Since an actual cut-back in production could often
not quickly be accomplished, measures limiting domestic production were
reserved for cases where the market disturbance was judged to require some
long-range adjustment of production. His Government had for example taken
such action in the case of butter and pork production.

34. Members of the Committee expressed their satisfaction about the
measures which had been taken in 1959 and again on 1 April 1960 to extend
the list of products exempted from import-licensing requirements and the
decrease in discrimination which had resulted by applying the free list to
more countries. They expressed concern, however, about the retention of
discriminatory import restrictions for a number of products. For example,
dairy products, eggs, meat and poultry continued to be subject to licensing
requirements when imported from other than OEEC countries. The application
of discriminatory restrictions appeared no longer justified on balance-of-
payments grounds since Sweden had adopted external convertibility.

35. The representative of Sweden explained that his Government was striving
to further liberalize imports with a view to the eventual elimination of
quantitative restrictions. The continued application of import restrictions
for dairy products, eggs, meat and poultry, for example from the dollar
area and other countries, was due to certain special difficulties, arising
from the fact that import levies for these products had been calculated and
fixed on the basis of export prices and price fluctuations for the products
in a number of Western European countries having licence-free access to the
Swedish market under the OEEC liberalization programme rather than on price
quotations in all markets. It was hoped, however, that difficulties in
this sector would also be overcome. Certain progress in this direction had
already been made as licence-free import had now been introduced for
potatoes and pigs. One way out of the dilemma of discrimination would have
been to deliberalize importation in this sector. His Government did not,
however, consider this a desirable method and had preferred to try to
extend the liberalization further, step by step. He pointed out that in the
meantime the licence control for such products was fortunately more formal
than real and that to his recollection there had been no case in which an
application for an import licence for these products had been denied. All
imports of dried milk during the last year had in fact been supplied by
countries which were subject to formal licensing requirements.
36. In response to questions concerning the method of calculating the world price index which was used for the determination of import levies the representative of Sweden explained that different weights were applied to certain key markets depending on the commodity being studied. In view of the circumstances affecting Swedish imports until very recently, price indices had largely been based on market prices prevailing in Denmark and the Netherlands. Price quotations in other important international markets had, however, been taken into consideration especially in the case of grains and sugar. The representative of Sweden also explained to the Committee that in calculating the index the relative importance of different goods included in the world price index was reflected in the weight given to the different commodities. In response to another question the representative of Sweden explained that for the determination of the 3 per cent rule the same weight was given to changes in the world price index and the domestic cost of production index.

37. In response to several questions concerning the percentage of total agricultural imports subject to import levies and about the average level of protection afforded to Swedish agriculture, the representative of Sweden explained that in 1958 total agricultural imports, including coffee, tea and plantation products, amounted to approximately Sw.Kr.1,530 million. After making allowance for imports under bilateral agreements, about Sw.Kr.500 million or about 30 per cent of total agricultural imports had been subject to import levies. The combined incidence of import levies and compensation fees which became effective on 1 September 1959, when import levies were increased by about 8 per cent in order to reduce the income gap, was on the average between 30 and 35 per cent. In December 1959 import levies were decreased, however, by about 19 per cent as a consequence of adjustments made under the 3 per cent rule. The average level of protection for agricultural products affected by import levies and compensation fees was then between 25 and 30 per cent.

38. In response to a question about the expected development of parity prices for agricultural products the representative of Sweden stated that if wages of industrial workers in coming years would continue to increase in the same proportion and at the same rate as during the past ten years industrial wages would by 1965 be about 20 per cent higher than at present. Experience had shown that for income parity to be maintained the level of farm prices would have to be increased by about 5 per cent. This would involve an increase in import levies by about one fourth of their previous level, (the average level of agricultural protection would have to be increased from 30 per cent to about 36 per cent). It was expected, however, that the shift to larger, so-called norm farms, as reference units, for the determination of parity income, would largely offset the need of an increase in the level of protection (because of the approximately 20 per cent higher net annual income of operators of norm farms as compared to operators of basic farms).
39. One member of the Committee commented on what appeared to be a very real threat of a wage-price spiral which could result from the use of the income rule. The representative of Sweden said that the introduction of the income rule had been necessary to counteract a possible widening of the income gap. On the other hand, the spiral effect should not be over-emphasized; a marginal increase in wages by Sw.Kr.1 resulted in an increased outlay for food of only 3 øre.

40. Some members of the Committee commented on what appeared to be a particularly objectionable feature of the protective system employed by Sweden, namely, the practice of transferring the means derived from import levies to the funds of the Special Marketing Associations which might subsequently use these funds to finance losses on exports of Swedish agricultural commodities. Also, there appeared to be a subsidy element in the practice followed by the Marketing Associations to re-distribute to producers the residual amounts in the funds derived from levies, production and compensation fees, after operating expenditures had been met. Furthermore, it had to be remembered that the activities of the Marketing Association thus financed were normally to the direct benefit of agricultural producers. Some members of the Committee observed that although these Marketing Associations appeared to have a quasi-independent status their functioning was dependent on Government policies and budgetary practices which permitted import levies to be transferred to the funds and which delegated to the Associations what in practice amounted to an authority to impose certain special taxes. The operation of these measures was in its effects, not unlike the granting of subsidies by the State.

41. The representative of Sweden explained that although import levies and production fees were transferred to the funds of the Special Marketing Associations, only the finance derived from production fees was earmarked for covering export losses. The import levies on feedingstuffs were an exception to this rule. But the allocation of such import losses for lower export losses - if any - were not considered a subsidy but a restitution of production costs. On the other hand, Sweden had never concealed that the allocation of other import levies to the Marketing Associations was deemed to be a kind of general subsidy to agriculture.

42. The proportion of the revenue derived from levies, production and compensation fees, differed from fund to fund. Revenues from import levies in the Grain Fund, for example, varied considerably from year to year depending on whether a larger or smaller portion of domestic requirements had to be imported. In normal harvest years the revenue derived from milling fees, approximately Sw.Kr.34 million per year, was considerably larger than the revenue from import levies. The relatively large fund of the Dairy Marketing Association was overwhelmingly derived from equalization fees imposed in varying amounts on different dairy products. The amount of finance thus collected had in a recent year amounted to about Sw.Kr.275 million. To this were added certain import levies on feedingstuffs. Out payments from the Fund went largely to the support of butter production; about Sw.Kr.7 million had been used to cover export losses while the remainder of about Sw.Kr.150 million had been distributed to dairy farmers after other expenditures of the Marketing Association had been met. Means for the finance of the Egg Fund was wholly derived through transfers of import levies on certain feedingstuffs (mainly maize). There were no production fees on eggs because of the administrative difficulties to collect these fees from a multitude of
The Meat Fund at present derived about Sw.Kr.80 million from slaughter fees. Transfers of import levies on feedingstuffs accounted for Sw.Kr.10 million, while import levies on meat contributed Sw.Kr.15 million. The allocation, between various funds, of means derived from import levies on feedingstuffs was decided in negotiations with the farmers.

43. In response to a question concerning the operation of the Marketing Associations it was explained that the Associations themselves decided the size of the aids given to exports and also the expenditure for other activities. Import levies and production fees were, however, decided by the Government in consultation with the Associations. The Government had a representative in each of the Marketing Associations, except for the Dairy Fund, and the Government audited the accounts of the Associations.

44. The Committee welcomed the intention of the Swedish Government to reduce agricultural production through the promotion of structural changes in the industry, aimed at the disappearance of uneconomic farms. On the other hand, it appeared to members of the Committee that the measures adopted by Sweden to achieve this objective were at times contradictory and did not allow enough flexibility for production to reflect changes in patterns of demand. Also it seemed doubtful that the withdrawal from production of less fertile land in connexion with the move to fewer and larger farm units would lead to a reduction in agricultural output. Experience in several countries had shown that acreage reduction, when accompanied by the move to more modern farming methods, would often lead to increases in aggregate output.

45. The representative of Sweden explained that the aim to support parity and the objective of reducing uneconomic agricultural production were pursued under two different programmes directed at different sectors of agriculture. The parity programme was designed to protect the income of owners of so-called basic farms. The programme for the reduction of uneconomic production was mainly concerned with the small farm sector. Although small farms produced only about 25 per cent of marketable agricultural commodities, their great number represented a serious problem. At present about 65 per cent of all farm units were holdings of less than 10 hectares; only 20 per cent of all farms fell into the size group 10-20 hectares. The number of farms in the size group above 2 hectares was expected to decrease to about 200,000 by 1970, from an approximate number of 270,000 such farms in 1956.

46. The Swedish Government realized that a decrease in acreage under cultivation did not necessarily involve a decrease in agricultural production. On the other hand it was not expected that the promotion of larger farm units would involve an increase in aggregate agricultural output. It was rather thought that larger farm units would favour extensive farming methods and would increase the income of farm operators. The expectation that there would be no, or only small, increases appeared to be justified by past experience with production trends in Sweden. According to OECD statistics, production of agricultural commodities on a per capita basis and measured in constant prices, had decreased in Sweden as compared to pre-war by 5 per cent. On the other hand, agricultural production measured on the same basis, had increased by 10 per cent for Western Europe as a whole, by 20 per cent in France and Denmark respectively and by 60 per cent in the United Kingdom. It was of course not possible to say how much of this decrease in Sweden could be attributed to migration from farming although this movement had favoured such a decrease.
47. One member of the Committee enquired whether the decline in per capita food consumption observed in Sweden could not largely be attributed to the high level of agricultural support. The representative of Sweden explained that although there had been a reduction in food consumption this development was not likely to be caused by the level of food prices. Prices of agricultural products, measured in constant terms, had remained fairly constant during the last few decades. The decrease in caloric food intake (about 8 per cent) reflected changed dietary habits and food requirements. The decrease in food consumption had, however, been accompanied by a shift to more expensive foods and the outlay for food, measured in constant prices, had increased by about 5 per cent.

48. In response to comments by members of the Committee on the effectiveness of measures adopted by Sweden to guide production, the representative of Sweden pointed to the success of the measures adopted to decrease pork production. As a result of the increase in slaughtering fees from Sw.Kr.15 to Sw.Kr.25 per head which was imposed in 1959, but leaving the compensation fee unchanged, pork production had already decreased and it was hoped that the actual surplus would be largely reduced or eliminated in the near future. One member of the Committee observed in this connexion that it would appear preferable to reduce compensation levies rather than to increase production fees as a means of reducing excess domestic production. The effect of increased production fees as disincentives to production would also appear to be greater if the fees collected were to be passed into general revenue rather than having the residual funds from these levies redistributed to the industry.
49. One member of the Committee observed that it would be in the interest of an industrial country like Sweden to keep the cost of living down. However, the system chosen by Sweden for the support of agriculture had kept consumer prices high. The representative of Sweden referred to the special commission which was to be set up in the near future to review both the objectives and methods of Swedish agricultural policy. He added that his Government had examined other forms of agricultural support such as the deficiency payments system. This latter system for agricultural support would, however, in the circumstances prevailing not have been the most appropriate means to achieve the general policy objectives. However, the question was bound to be reconsidered by the special commission and although his Government had reason to believe that the present system had certain advantages they did not assume that it, nor any other system now in operation, was ideal.

50. Several members of the Committee observed that the system used by Sweden in support of agriculture was very complicated. One member of the Committee pointed out, however, in this context that although the Swedish system was technically complicated the main principles and operating rules were clearly defined, and thus compared favourably with the more general formulations used by a number of other countries to describe their objectives and methods in the agricultural field.

51. In conclusion of the discussion of the general aspects of Swedish agricultural policy members of the Committee stated that, although they did not share the view that the use of either import levies or tariffs had the same effect on trade, they welcomed that the Swedish Government, having taken this view, also had indicated that this would, in principle, imply the negotiability of such levies and charges. Members of the Committee also noted with satisfaction that the objective of the changes introduced into the Swedish system of import regulations for agricultural products had been to bring these regulations into closer conformity with the GATT. Members of the Committee also welcomed the recent move by Sweden towards further liberalization and a reduction in discriminatory restrictions. It was pointed out, however, that still further progress in this direction was necessary and desirable.

B. Commodities

52. This section of the report summarizes the main points of the discussion which related to specific commodities. With respect to vegetable oils and fats, grass seeds and clover, and to a certain extent also with respect to meat, there was no intensive discussion and members of the Committee complimented the representative of Sweden for the quality of the summary information provided by his Government which had obviated the need for a more intensive discussion of these particular commodities.

Meat

53. One member of the Committee pointed to the relatively much higher level of import levies on mutton than on other kinds of meats. In his opinion, a reduction of the import levy would also be in the interest of Swedish consumers without affecting Swedish agricultural producers. Sheep production in Sweden
was practically insignificant. The representative of Sweden explained that there was no intention to protect the domestic production of mutton more than other meats. In any case he assured the member of the Committee that he would refer the question to his Government for further examination and consideration.

**Fish and Fish Products**

54. One member of the Committee noted that although the greater number of varieties of fish and fish products had been freed from licensing controls the restrictions which were still being applied affected some of the more important kinds of fishery products such as cod, haddock and fresh herring, and others, some of which were of special importance to Sweden's neighbours. It appeared to this member of the Committee that the restrictions on fish imports were in many cases more restrictive than the restrictions which were still in force for agricultural imports proper. He expressed the hope that a satisfactory solution to these problems could be found in the near future.

55. The representative of Sweden explained that the measures for liberalization in respect of fishery products were subject to certain limitations imposed by the fisheries policy adopted by Parliament in 1948. His Government was prepared, however, to look further into this matter in order to find a gradual and mutually satisfactory solution for what in practice was a problem affecting mainly Nordic countries.

56. In response to another question, concerning the volume and value of Swedish exports, it was explained that although Sweden exported a larger volume of fish than it imported, the trend had been to increased exports, characterized by a downward movement in the export yields per unit of export as compared to outlays for imports. At present, outlays for fish imports of about 50,000 metric tons amounted to about Sw.Kr. 100 million while the export proceeds for a volume of 100,000 metric tons of fishery product amounted to only Sw.Kr. 70 million. Fishery exports from Sweden had in recent years largely gone to non-GATT member countries. In response to another question, the representative of Sweden stated that no subsidies were given to exports of fish to Western-European countries, and that exports to non-GATT member countries were subject to bilateral agreements.

**Dairy Products**

57. One member of the Committee enquired whether the Swedish Government envisaged the re-introduction of a subsidy on butter similar to the one which had been given from 1958 to September 1959 to alleviate pressure in the butter market. The representative of Sweden explained that the subsidy given to domestic sales of butter had been reflected in a reduction of Sw.Kr. 2 per kg. of butter. Of this amount, Sw.Kr. 1.50 had been borne by the farmers' organization and the remainder had been contributed by the Government. However, in view of the measures which had been taken to decrease butter production, and in view of an increase in domestic consumption of butter, there was now a fairly close balance between production and consumption, and it was not thought that the necessity for such a subsidy would recur.
58. In response to another question, the representative of Sweden explained that the different price limits for butter operating during the autumn and winter months and during the spring and summer months had been adopted to reflect seasonal variations in the cost of production. He also explained that for butter the middle price had been set closer to the lower limit as a means of extra protection to butter producers. For example, the "middle prices" for the price limits of Sw.Kr. 535-650 and Sw.Kr. 485-600 had been set at Sw. Kr. 550 and 500 per 100 kg, respectively.

59. One member noted what appeared to be a special treatment in fixing price limits for fluid milk. The representative of Sweden explained that there was no lower price limit for milk because there existed practically no import trade for this commodity because of the technical difficulties of transporting milk over long distances. The upper price limit had been introduced as a means of protecting the consumer interest.

60. One member of the Committee enquired about the change which had been made in the subsidy scheme operated for operators of small farms. The representative of Sweden explained that under the old system, cash payments had been granted in proportion with milk actually produced by individual farms at a certain date. Under the new system, actual subsidies had been related to farm size. This change had been made to bring the subsidy into closer conformity with the actual needs of various size farm units while at the same time maintaining the previous objective not to stimulate milk production artificially. Subject to certain income limitations of farm operators the largest payments made under the new system went to farms in the size group four to seven hectares and the amount of subsidies given to individual farmers ranged from Sw.Kr. 200 to 400 per annum.

61. One member of the Committee enquired why the Swedish Government gave direct subsidies to milk producers when all other agricultural commodities were supported through protective measures applied at the frontier. The representative of Sweden explained that the use of direct subsidies for milk had originally been introduced and was being maintained under the new system to keep down the price of milk in accordance with certain social considerations.

Grains

Wheat and rye - Coarse Grains

62. One member of the Committee enquired whether the increase in exports of wheat and rye which could be observed from 1954 onwards could be attributed to the effects of Government policies and budgetary practices which, as had been observed, had the effect of subsidizing agriculture.

63. The representative of Sweden explained that the increase in production and exports of wheat and rye could partly be explained by the general orientation in Swedish farm policy during the early nineteen-fifties when it had been thought desirable to decrease the reliance of farmers on income from animal husbandry and to shift to an increased production of cereals. Production of
wheat, except for 1957 and 1958, had on the average been well above domestic consumption requirements. Sweden had on the other hand imported considerable quantities of this commodity.

64. In response to another question, the representative of Sweden explained that the Cereal Traders' Association did not have a monopoly in the cereal trade. The export and import trade was in the hand of private firms although grains taken over by the Association in connexion with the redemption price programme had at times been exported by the Association without intermediaries. No licences for cereal imports were required, except for imports originating in certain Eastern countries.

65. The representative of Sweden, in response to a question raised in the Committee, pointed out that the mixing regulations fixed by the Government for the support of the redemption price, were of long-standing and in full conformity with Article IV of the General Agreement. On one of the dates mentioned in that Article (1 July 1939) the mixing percentage applied to wheat had been 90 per cent and that for rye 98 per cent. No mixing regulation was at present enforced while the mixing regulation for wheat, for the time being, was 90 per cent.

66. In clarification of statistical information contained in the background papers, the representative of Sweden explained that although the combined production of barley and oats had remained almost constant compared with pre-war, the share of oats in total production had decreased while barley production had increased. The decrease in oat production was explained by lower consumption requirements following the decrease in the number of horses. In view of the present complementary use of these two commodities for general feeding purposes, statistics for barley and oats were usually based on combined figures for both commodities.

Sugar

67. One member of the Committee enquired whether Sweden was giving aids to exports of goods containing sugar in order to equalize cost of materials used by the domestic processing industry with world market prices for sugar and about the methods used to administer these aids, if any, in view of the use by Sweden of regulating sugar beet production through a private company. Sweden was giving drawbacks on import levies on sugar to the extent that the exporters could prove that they had imported corresponding quantities of sugar. The representative of Sweden explained further that this complex of questions was at present being studied in his country.

68. One member of the Committee observed that the operation of the support system for sugar might lead to a decline of the market share of foreign suppliers of sugar from the present level of about 20 per cent of the Swedish sugar market. The representative of Sweden explained that an increase in domestic production did not appear likely as the support price was operated in conjunction with an acreage restriction programme and that there was no scope for increased sugar beet cultivation under the existing limit of 53,000 hectares.