AGRICULTURAL POLICY

Draft Report of Committee II on the Consultation with Canada

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 had before it: (i) a synopsis, furnished by the Government of Canada, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers (document COM.II/2(m)/Rev.1) and (ii) documents (COM.II/58 and COM.II/58/Add.1) giving detailed information on the commodities entering importantly into world trade on which the CONTRACTING PARTIES had agreed the consultations should in the main be concentrated. In conducting the consultation, which was completed on 6 April 1960, the Committee followed the plan contained in Annex A to document COM.II/5 and adopted by the CONTRACTING PARTIES at the fourteenth session. The present report summarizes the main points discussed during the consultations.

A. General Agricultural Policy

2. In his opening statement, the representative of Canada stated that about 15 per cent of the total Canadian population of 17½ million lived on farms, while out of a total labour force of 6½ million, nearly 700,000 or 11 per cent, were engaged in farming. In common with other countries experiencing rapid industrialization, there had been a substantial decline in the number of people dependent on agriculture for a living; in the middle of the 1940's, 25 per cent of the population lived on farms and over 1 million people worked in agriculture. Notwithstanding this decrease in farm population, there had been a significant increase in agricultural production. Total farm area had been practically stable for the last twenty years at about 174 million acres, but there had been a modest increase (about 9 per cent between 1941 and 1956) in the area of improved land cultivated and also a continuing trend towards larger farms. Average capital invested per farm in 1958 was $20,000 compared with $13,000 in 1950. Trends in output were more difficult to discern because of seasonal conditions, but generally it was estimated that agricultural production was now about 30 to 40 per cent higher than in the 1935–1939 period.
3. In monetary terms, agriculture in 1957 had accounted for 9 per cent of the net value of production of the main industry groups compared with 20 per cent in 1948; this change in the relative importance of agriculture had been due to the increase in value of production of other sectors of the economy, notably manufactures, mining, forestry and construction. Although there had been very considerable year to year variations due to changes in the levels of output and prices, agricultural income had on the whole been relatively stable; farm net income was equivalent to about 5 per cent of the total national income.

4. The annual value of agricultural exports had averaged about $1,000 million over the past fifteen years and was now somewhat less than one quarter of Canada's total value of exports. On a value basis, approximately 28 per cent of agricultural production was exported. Canada's main markets for agricultural products were the United Kingdom and the United States. The value of agricultural imports had increased from less than $300 million in 1945 to $700 million in recent years and now represented about 12 per cent of the total value of imports; the main source of such imports was the United States. The range of Canadian agricultural production was wide, limited mainly by the severe winters experienced over almost the whole of Canada and the shortness of the growing season in many parts of the country. Grains were the most important product of the cropping system with wheat occupying over one third of the land sown to crops with cultivated hay, oats and barley the next most important in terms of acreage. Other grains, oilseeds, tobacco, sugar beet, fruit and vegetables were also produced. Livestock, mainly cattle, hogs and poultry were important in all agricultural areas, and sales of livestock, dairy products, poultry and eggs accounted for 60 per cent of total farm cash income. Canada's agricultural exports covered a wide variety of items; grains, particularly wheat, were the most important and accounted for over half the total value of agricultural exports. Cattle and beef, pork, flaxseed and tobacco were other exports of major importance. Among the principal agricultural imports were fresh and processed fruits and vegetables, coffee, tea, raw sugar, raw cotton and soya beans.

5. Canadian federal agricultural policies were determined primarily by Acts of Parliament. Producers and producer organizations did not have direct representation on the Agricultural Stabilization Board and other administrative bodies, but they had an opportunity to put forward their views on policy matters at annual federal-provincial agricultural conferences. The Agricultural Stabilization Act provided for a standing advisory committee of ten producer or farm organization representatives which the Board was required to call together for consultation on price support activities at least twice annually. The Canadian Wheat Board Act and the Farm Credit Act also provided for producer representation in an advisory capacity. Both federal and provincial governments could legislate on agriculture, although in the event of conflict, the federal legislation prevailed. Regulation or control of international and inter-provincial trade came within federal jurisdiction, while, in the main, trade within a province was a provincial matter. The Federal Government engaged primarily in research and in the administration of national agricultural legislation and policies. Provincial governments were concerned primarily with extension services, education and the administration of local legislation and policies. In the general field of conservation, programmes were frequently financed jointly by Federal and provincial governments. The new crop insurance act provided for federal financial assistance to schemes set up and administered by provincial agencies.
6. The Federal Government operated a wide range of measures relating to agriculture. In the field of farm credit, farmers could obtain loans at commercial rates of interest to acquire and improve property and to purchase farm machinery, livestock and other production necessities. In a number of provinces, separate provincial credit schemes were in effect. In the field of marketing, the Federal Parliament in 1935 passed the Canadian Wheat Board Act, which established the Canadian Wheat Board as a semi-autonomous agency. The functions of this Board had been widened from time to time so that it now had broad powers in the marketing of Western Canadian grain. Other marketing activities, apart from those of a promotional nature, included the guarantee under the Agricultural Products Co-operative Marketing Act of bank loans to marketing groups and the transactions incidental to the operation of Canada's price support programme.

7. Canada's price support programme was operated under the authority of the Agricultural Stabilization Act and flexibility was one of the main features of the Act and of the programmes operated under it. The Canadian Government was thus able to adapt its support programmes to changing conditions. Canadian support prices were linked to internal market prices and based on a ten year moving average. For major products only top grades were supported which served as a strong incentive to quality improvement and limited the size of the support operation. Except for cheddar cheese and butter, the levels of support were below 100 per cent of the ten year average base price for all important products. Where anything less than a 100 per cent ratio was maintained between the effective level and the ten year moving average, there should follow automatically a gradual reduction of the internal price which would bring it more closely into line with, or even below, international price levels.

8. Over the years Canada had adhered to a liberal trade policy and, with only minor exceptions, the Canadian market was open to the products of the world. The Canadian customs tariff was moderate. Approximately 40 per cent of agricultural products entered Canada duty-free and the average duty on the dutiable agricultural imports was about 10 per cent. For many years it had been Canadian Government policy to accord duty-free entry to machines and supplies used in the production of farm products. Farm machinery, farm tractors, a wide range of farm tools and equipment, fertilizers and many other farm supplies were admitted into Canada free of duty.

9. Controls on imports and exports were in effect on wheat, oats, barley and certain grain products. The import of margarine was prohibited under a provision dating from the beginning of the century. Import restrictions had been instituted for butter, cheddar cheese, dry skimmed milk and turkeys in order to protect price support operations on those products. The annual average import value of those products during the five years prior to price support and import control was approximately $7 million. Apart from those restrictions, the Federal Government had kept the Canadian market open to the world on a freely competitive basis.

10. During the past two years, the Canadian Government had removed or relaxed price supports and import controls on a number of products. Supports had been removed entirely from fowl and dry skimmed milk and support levels had been lowered on turkeys, hogs and soybean beans as well as on wheat, oats and barley...
in Ontario. Imports quotas had been removed on fowl and enlarged for turkeys. Changes had been made recently in the hog and egg programmes which were designed to bring production more into line with foreseeable demand while assuring reasonable returns to producers. Under the new arrangements, the Agricultural Stabilization Board no longer supported the hog and egg markets through an offer to purchase at the support price. Producers now sold their product to the best advantage and would receive a deficiency payment at the end of the marketing year if the average prices they realized were below the support price levels. In order to discourage excessive production deficiency payments to each producer would be limited to a specified quantity of top grade production; for example, only Grade A large eggs were eligible for a deficiency payment to a maximum for each producer of 4,000 dozen in the year. The wider nature of the problems involved was recognized particularly in relation to the one third of Canada's farmers whose output was so small that, under any conceivable price structure, they could not receive an adequate income from agriculture alone.

11. The representative of Canada concluded his statement by recalling that in a public address in October 1959, the Canadian Minister of Agriculture had said that with the rapid increase which had taken place in the world’s population ... an increase which last year for the first time since the Second World War was greater than the increase in the production of food ... he looked forward to the time in the future when support price programmes would not longer be necessary, and the emphasis once again would be on increased production rather than on marketing expedients and holding production down to the amount which could be marketed. The representative of Canada said that this statement gave some indication of the long range view of the Canadian Government with respect to the price support programme.

12. Finally, the representative of Canada recalled that at the fifteenth session of the CONTRACTING PARTIES the Solicitor General of Canada had said, in relation to the work of the Committee, that the picture emerging was one of widespread agricultural protectionism significantly interfering with the flow of trade. No one could realistically expect that national measures to support agriculture would be eliminated; for many reasons, social, political and economic, this was not possible. On the other hand, collectively we should be prepared to examine whether significant downward adjustments in the level of agricultural supports and the lowering of tariff and non-tariff barriers to trade in agricultural products was not possible and desirable from the trade and domestic points of view.

13. The Committee expressed appreciation for the statement of the representative of Canada and for the particularly detailed and comprehensive documentation which had been furnished by the Government of Canada. At the outset of the discussion on the opening statement and the documentation, members of the Committee recalled that, before the enactment of the Agricultural Stabilization Act of 1958, the Canadian agricultural system had attracted favourable comment internationally as being exceptional in the small degree of interference with free price formation involved in that system. They pointed out that, in 1958, there had been a major departure from the earlier system and that the Agricultural Stabilization Act of that year provided for wider Governmental intervention in agriculture, had introduced the new feature of mandatory price support involving nine commodities and had considerable extended the number
of commodities qualifying for non-mandatory price support. They noted that the objectives of the Canadian Government's agricultural policy were the stabilization of agricultural prices and the maintenance of a fair relationship between prices received by farmers and the costs of the goods and services they bought in order to provide farmers with a fair share of the national income. They pointed out that, unlike some price stabilization systems in force in certain other countries, where the stabilization funds employed were producers funds which were claimed to be self-balancing over a period of time. Government funds were employed in the Canadian price stabilization system. They pointed out also that the objective of securing for farmers a fair share of the national income introduced a parity concept which had not featured in earlier legislation. While they recognized that there had been a substantial decline in the agricultural population in Canada in post-war years, it nevertheless appeared to them that Canadian agricultural policy was now directed towards the support of low income farmers and that the new concept of income parity and the price stabilization policy might retard the migration of agricultural population to industry.

14. The representative of Canada stated that there had been a change of Government shortly before the enactment of the Agricultural Stabilization Act of 1958. The new Government had been publicly committed to an agricultural policy involving stability of prices. The Act of 1958 was designed to give effect to this policy. It had to be remembered, however, that under the price support system in operation since 1946 the Government had had wide discretionary powers and, while the 1958 Act contained some inflexible provisions, more regard had to be paid to the actual policy which was being pursued than to the wording of the legislation. Price supports had been abolished for some commodities and lowered for others which indicated that the 1958 Act allowed the Government sufficient latitude to make material adjustments if these proved necessary. As to the suggestion that the Government's price stabilization policies might slow down the transfer of agricultural population and maintain the uneconomic farmer in agriculture, it was no part of Canadian national policy to maintain any specific number of specific percentage of the population in agriculture. Because of lack of capital, the low income producer had not benefited to the same extent as others from improved production techniques. The real intention of Canadian Governmental agricultural policy was not to maintain uneconomic farmers in production but to create conditions in which such farmers could adjust themselves to present circumstances. Some provinces were trying to encourage an increase in size of farms by such means as technical guidance and provision of credit. In addition, small farmers had better opportunities for off-farm employment. It had been estimated that nearly 30 per cent of Canadian farmers' income came from non-farming activities. In the view of the Canadian Government, the solution of the problems of the low income farmer were not to be found in increased price supports since these would have to be raised to an extremely high level before an adequate standard of living could be assured for the small farmer, and would result in a heavy excess of production from larger farms.

15. Members of the Committee expressed the view that although as it was claimed the actual planning and programming of farm production in Canada was carried out by the producers themselves nevertheless this planning and
programming took place within a wide framework of Government price support measures for agriculture and in their view this widespread support must tend to influence the uneconomic producer to stay in agriculture in Canada. In this connexion they noted again the intention of the Canadian Government to stabilize agricultural prices in order to assist agriculture to realize fair returns for its labour and investment and enquired into the methods by which fair prices were being established and asked whether in their establishment the Government was influencing the pattern of production in Canada. They also enquired whether, in the establishment of fair prices, the Act provided for account to be taken of the possible effect of the prices established on Canada's trading partners. The representative of Canada stated that undoubtedly the price supports were a judgment factor that Canadian producers took into account in their planning and programming of farm production. There was no specific formula on which a fair price could be developed and, as in some other countries, the support prices established in Canada were compromise prices reached after discussion and a wide variety of factors were taken into account. One of the factors taken into account was market prices and this included markets outside Canada. World prices were therefore influential in price determination though this factor was not necessarily considered for every commodity. In the view of the Canadian Government any form of price support, assuming that the prices of other competitive goods were not supported, did provide a degree of incentive to switch production even if the price supports were set at a low level. Recognition of this fact had been influential in the Canadian Government's decision to change from offers to purchase supplies of hogs and eggs at the support price to an open market and deficiency payments scheme applicable only in respect of limited quantities of those products. Price support operations had not, however, materially affected the pattern of production in Canada. In the prairie regions, where the climate was dry with long cold winters, spring sown grain was the main crop. In the St. Lawrence and the Great Lakes regions of Quebec and Ontario, which were the areas of the major industrial development and where the climate was milder, the acreage devoted to grain and hay had declined, while that devoted to fruit and vegetables had increased. Milk production in these regions had also increased but those changes in levels of production had come about as a result of the need to serve the industrial areas. The Ontario farmer, for example, had for many years maintained animal production by the purchase of grain from the western province. In the dry interior of British Columbia apples were grown under irrigation. The representative of Canada added that in general there had been a change in the volume but not the pattern of production. Price supports would affect changes in the degree to which the pattern developed, but the whole pattern of production itself was determined by more enduring factors such as climate, soil, market possibilities, etc. The Government of Canada recognized that price supports did influence short-term shifts in, for example, poultry, eggs, and hog production and recently when production of these commodities had risen to levels deemed undesirable the Government had taken action to influence production by reducing the level of support.
16. Members of the Committee noted that both in the documentation supplied and in the opening statement of the representative of Canada, emphasis had been placed on the advantages of the considerable flexibility of the price support programme instituted under the Agricultural Stabilization Act of 1958. While they acknowledged that some measure of flexibility did exist in the price support programme they pointed out that the fact that, for example, the Act granted freedom to the Administration to set support levels for the nine key commodities for which price support was mandatory above the level of 80 per cent of the average market price for the preceding ten years was of no advantage to exporting countries and there was no virtue in flexibility itself unless it was used to expand trade to the fullest possible extent.

17. Members of the Committee requested information on the reasons why the mandatory price support of the nine key commodities had been based on the average market price of the preceding ten years and not three years as had originally been proposed for the Agricultural Stabilization Act of 1958. In reply, the representative of Canada stated that the Government had been committed to a programme for the stabilization of agricultural income and had concluded that a ten-year moving average would give more stability than a three-year average. The base price was linked directly to the ten-year moving average market price. For products under import control the present level of the ten-year moving average reflected to a considerable degree the influence of international price movements. With the exception of these goods (butter, cheese and turkeys) Canada was still trading freely and world market prices had an influence on domestic prices. Further, as support was based on less than 100 per cent, it was expected that internal prices would move down and come more closely into line with international prices.
18. Members of the Committee could not agree that the use of the ten-year moving average took levels of world market prices into account. They pointed out that, for example, in 1965 prices would be based on the average market price for 1955–65. For a number of years in that base period the Canadian market for dairy products would have been isolated from world prices and the average could therefore take no account of these prices. Members of the Committee concluded that the use of the ten-year moving average based on the Canadian market price could mean rising support prices in Canada when world market prices were decreasing. They enquired whether there was any provision in the system to take account of exceptional movements in world prices. One member of the Committee recalled that in an earlier consultation the representative of Canada had urged the desirability of determining price on actual market realizations. In the view of this member of the Committee, where support prices were determined solely on the basis of prices obtaining in the domestic market, and that was isolated to a large extent from the world market, there was little difference between this method of price determination and a method based on costs of production. The representative of Canada agreed that when there was a restriction or a virtual embargo on imports of goods world market prices were not influential but the whole Canadian system could not be judged by a single commodity. To the extent that goods moved freely both in imports and exports the domestic price was roughly equivalent to the world market price. Further, when a deficiency payments system was submitted for an offer to purchase at the support price, as had happened for hogs and eggs, the market operated freely in response to supply and demand and the price thus determined went into the calculation of the ten-year moving average.

19. One member of the Committee requested an estimate of the amount by which the price support levels for the nine key commodities raised prices above world market levels. The representative of Canada stated that it was difficult to estimate this in precise terms, but the Canadian price structure generally for agricultural products could not be much above world market prices since Canada was able to export large quantities of agricultural products without the aid of subsidies. For example, the prices of Canada's exports of wheat, oats and barley were among the lowest in the world. Prices for exports of meat and meat products and livestock were not among the lowest in the world but were not the highest. Canada was also able to export concentrated milk products and skimmed milk powder without the aid of subsidies other than the subsidy paid on manufacturing milk.

20. Members of the Committee noted with concern that the total cost of Government support programmes for agriculture had shown a steeply rising trend and pointed to Canada as another example of a highly competitive agricultural country becoming increasingly protective in its agricultural policies. They also noted with concern the continued growth of surpluses of agricultural commodities and while they acknowledged the usefulness of consultation procedures with Canada on surplus disposals, expressed their fears that if surpluses continued to be built up their disposal could cause serious damage to world markets.

21. Members of the Committee noted that any marketing group could apply to the Federal Government under the Agricultural Products Co-operative Marketing Act for a guarantee of an initial payment to producers delivering their
product for marketing under a co-operative plan. They enquired to what extent the Government was called on to make good these guarantees and what provision was made to recover the amount of any losses. The representative of Canada stated that the legislation guaranteeing these advances had been in effect for twenty years. Advances were held at a level which seldom incurred losses since prices realized were in most cases above the level of the advances. The maximum advance permitted by the law was 80 per cent of the average market price in the preceding three years but the usual level of advances was between 30 and 60 per cent. In a small number of cases there had been substantial losses to the Government; for example, advances of 40 per cent of the three-year average price had been advanced for ranch-bred fox pelts but the 40 per cent had not been realized and considerable losses had been incurred by the Government. Heavy losses had also been incurred on advances for potatoes. The representative of Canada stressed that these measures were not intended as price support operations but as an aid to the financing of orderly marketing of, in the main, locally-produced and marketed agricultural commodities.

22. One member of the Committee noted that the Federal Government paid compensation to farmers in local areas affected by crop failure and asked the extent to which payments had exceeded the amounts raised from a 1 per cent levy on sales of Western wheat, barley, oats, rye, flaxseed and rapeseed. He also expressed the view that these arrangements tended to maintain uneconomic production in some parts of the country, particularly in Saskatchewan and South East Alberta. The representative of Canada stated that over the last twenty years payments from Government funds had approximately equalled the amounts raised from the levy. As to the maintenance of uneconomic production any type of assistance tended to keep some producers in production. Irrigation, movements of population, consolidation of small farms and switches to the livestock and semi-ranching sectors of agriculture had tended to ameliorate the effects which crop failure assistance measures might have had in maintaining uneconomic production in less-favoured areas.

23. In reply to questions about the main products dealt with by the producers marketing boards and the types of compulsory marketing schemes administered by the boards, the representative of Canada stated that the products dealt with varied from province to province and included fresh and canned fruit and vegetables, honey, sugar beets, soya beans, tobacco, cheese, hogs, concentrated milk, potatoes, fresh milk and wood pulp. The majority of the boards were essentially bodies for negotiating prices between producers and distributors and/or processors. In reply to further questions, the representative of Canada stated with respect to a product under price support a board could sell to the Agricultural Stabilization Board in the same way as a private trader. Provincial marketing boards were not financed by public funds.

24. In reply to questions about the commodities, other than the nine key commodities at present subject to price support operations, the representative of Canada informed the Committee that for 1959/60 the commodities for which price supports were in effect included soya beans (Ontario), sunflower seed (Manitoba) wool, honey and sugar beets. All these items were supported by a deficiency payments system. The other non-mandatory price supported
items were live turkeys under an offer to purchase programme and milk for manufacturing where a flat rate payment of 25 cents per 100 lbs. was being made for deliveries up to 30 April 1960. The number of non-mandatory items at present subject to price support was smaller than last year and only one of the items concerned, i.e. turkeys, was subject to quantitative restrictions. In reply to questions about the factors taken into consideration in determining the price support levels for the nine key commodities, the representative of Canada stated that costs of production had not played an important role in the determination. Among the criteria used by the Agricultural Stabilization Board in price determination were supply and demand, the perishability of the product, the possibility of switching to production of some other product, the relative price of similar or related goods and the cost of the support operation. In 1958 the nine key commodities had accounted for 47 per cent of farmers' total cash income.

25. In reply to questions about financing of the operations of the Agricultural Stabilization Board in implementing the Agricultural Stabilization Act, the representative of Canada stated that the Act set a limit of $250 million for a year's activities. The Board had never yet used the whole of this amount. Regarding exports of goods held as stocks by the Board, the representative of Canada stated that exports were almost invariably made through ordinary commercial channels.

26. One member of the Committee noted that relatively large sums were involved in the payment of quality premiums for cheese and hogs. He expressed his view that so far as hogs were concerned the open market might normally be expected to pay a premium which would encourage producers to concentrate on higher quality and he questioned the necessity for premiums at such high levels from Government funds. The representative of Canada stated that there was a long tradition impelling the Government to pay farmers to carry on activities which it might normally be expected they would do for themselves. Quality premiums for cheese had been in effect since 1939 and for hogs since 1941.

27. Members of the Committee observed that in a statement made in August 1958 the Prime Minister of Canada had announced the Government's intention to introduce a long range programme to increase farm productivity, reduce uncertainty and raise the income per farm family. They enquired whether this programme was now in effect and whether it was expected to produce results quickly. The representative of Canada stated that no definite measures had yet been undertaken in regard to low income farms but that the whole question was under study by a Committee of the Senate and by the Economics Division of the Department of Agriculture. Other aspects of the Government's plan had been implemented. For example, a crop insurance scheme under which the Federal Government paid part of the cost of premiums and administration was now in operation in one province and two other provinces were negotiating with the Federal Government about similar schemes. The Farm Credit Act had been re-written and extended in scope and a dam on the South Saskatchewan River was now under construction with the Federal Government paying 75 per cent of the expenses.
28. Members of the Committee expressed their concern that there were no limitations on the commodities which could be brought under price support nor on the commodities to which quantitative restrictions could be extended to protect support prices. While it could be considered that the import restrictions in force on some commodities, for example wheat, did not have a harmful effect on world trade, quantitative restrictions in force on other commodities did have adverse effects. They noted that before restrictions were imposed the average annual value of imports of the items now subject to import restrictions was only $7 million and stressed their view that it should be possible to administer the agricultural system in such a way as to allow this small amount of trade to continue to the benefit of consumers who were now compelled to pay domestic prices which were considerably higher than world market prices. They stressed particularly that for those products, for example skimmed milk powder, which Canada claimed she was able to export on a competitive basis, quantitative restrictions should be removed immediately since it appeared that the home market was granted unnecessary protection. They pointed out that, unlike other countries, Canada could not justify the imposition of quantitative restrictions on grounds of balance-of-payments difficulties and enquired which provisions of the General Agreement had been invoked as justification for the restrictions. Members of the Committee regretted that the trend in Canada in recent years had been towards increased agricultural protectionism and urged their view that Canada as a major agricultural exporting country should give serious consideration to the possibility of rapid removal of the quantitative restrictions she maintained on items of substantial importance to individual exporting countries.

29. The representative of Canada confirmed that no limitations on the commodities which could be brought under the price support were contained in the Agricultural Stabilization Act, but a limit existed in fact in the wisdom of the Government and this was naturally greatly influenced by the voters. It was clear that, if the Government established a support price which was much above the level of world prices quantitative restrictions would have to be imposed if the commodity concerned could be delivered in large quantities to the Canadian market. For this reason, quantitative restrictions had had to be imposed on turkeys because of the substantial quantity of supplies which could be delivered from the United States. When the Government of Canada was faced with this type of situation, it had in some cases reduced the support price. For example, price support and quantitative restrictions had been in force for fowl. Price support was removed, the stockpile was liquidated and quantitative restrictions abolished. The Government had taken the initial step for skimmed milk powder by removing this item from price support and a move in this direction was possible for turkeys. The imposition of quantitative restrictions was not an inevitable corollary to price support operations; this was evidenced by the fact that only four of the many items subject to price support arrangements were subject to quantitative restrictions. There was, however, little or no prospect that imports of butter could be permitted in the present conditions of production and the level of the stockpile in Canada. While it was true that the Canadian consumer paid more for butter than he would pay if there were no import restrictions, the level of butter prices in Canada did not represent undue hardship to the consumer since there had been far greater increases in earnings in the industrial sector than in the farming industry.
It could in fact be proved that an hour's wages could buy more of any of the commodities which were price supported than they could buy fifteen to twenty years ago. Imports of all varieties of cheese except cheddar were permitted and had amounted in 1959 to 12 million lbs. which was a substantial amount in relation to total consumption of cheese in Canada. The stockpile of skimmed milk powder owned by the Agricultural Stabilization Board was being diminished and a change of policy in regard to imports might be possible. Canada was, however, able to export this product at a low competitive price and it was therefore unlikely that she would provide a substantial market for other exporters of this product. So far as the import restrictions on wheat and coarse grain were concerned, the Canadian Wheat Board, which had been established long before the General Agreement, was a State monopoly within the meaning of Article XVII of the Agreement. Because of restrictive marketing quotas on wheat, oats and barley the restrictions on imports might be justified under Article XI of the Agreement. In addition, so far as wheat was concerned, the Canadian representative drew the Committee's attention to Article XX(h) of the Agreement, which might apply in view of Canada's commitments under the International Wheat Agreement.

30. The representative of Canada informed the Committee that during the years 1945-1955 there had been in Canada a trend in favour of less protection for the farm industry. Rising costs had been felt severely in the years 1955-1958 and farm opinion had swung in favour of more protection so that when the present agricultural policy decisions had been made in 1958 farm opinion, public opinion and Governmental opinion had been in favour of increased protection. There were now indications that opinion was again veering towards less protection for the farming industry.

31. At the conclusion of the discussion of the general objectives, one member of the Committee stated that in his view there might not be any considerable difference in certain major respects between variable import levies and deficiency payments schemes so far as the effects on world trade were concerned. Deficiency payments schemes could in his view restrict imports just as effectively as variable import levies and might carry the additional disadvantage that there could be an inbuilt export subsidy involved.
B. Commodities

32. The Committee conducted a detailed examination of the information submitted by Canada on those commodities on which it had been agreed the consultations should be concentrated. This section of the present report summarizes the main points discussed during the examination.

Dairy Products

33. The Committee noted that the present support prices for butter and cheese were at 107 per cent and 103 per cent respectively of the ten year moving average price while all but one of the other key commodities for which mandatory price supports were in operation were supported at 80 per cent of the base price. Members of the Committee enquired as to the reasons which had prompted the Canadian Government to set the support prices for butter and cheese at higher levels than for the other key commodities, and asked whether there was any coiling to the levels at which support prices for butter and cheese could be set. They noted also that for some commodities a limit had been set on the quantity which could qualify for support and enquired whether it would not be possible to adopt the same system for dairy products. Members of the Committee pointed out that, while it might be claimed that some of the Governmental schemes affecting other products did not have adverse effects on world markets, this was certainly not so in the case of dairy products. Consumption of butter in Canada had shown a marked decline in relation to the substantial rise in population and in 1958 had been below the average consumption of 1934-1938. They stressed their view that there was scope for increased consumption of butter in Canada but that this could not come about until the internal price for butter reflected the world price. A gradual relaxation in the extremely severe quantitative restrictions on this commodity could bring about an increase in consumption and would have a significant effect on international trade in this product. One member of the Committee pointed out that the guaranteed price of 64 cents per lb. for butter was 240s. per cwt. above the price of his country's butter on the London market. Thus the price guaranteed to the Canadian producer, which formed the basis for the price to the Canadian consumer, was 75 per cent above world market prices. In his view, this high support price must act as a strong incentive to Canadian producers to move to dairy production. Furthermore, the fact that there had been considerable wage increases in other sectors of the Canadian economy so that it could be claimed that the internal butter price did not represent undue hardship to the Canadian consumer, was not sufficient justification for such an expensive support to an individual sector of the economy. If other sectors of the economy were able to pay high wages, Canada should devote her energies to these sectors. While recognizing that certain social problems existed in the migration of labour from the land, nevertheless in his view high support prices were not the most efficient means of protection for the small producer. Members of the Committee pointed out that the dairy industry in Canada was yet another example of uneconomic production being maintained at the expense of international trade and stressed their view that there would be significant beneficial effects on both internal and international trade in dairy products if Canada created price conditions in her dairy industry reflecting world market price levels and gave opportunities to exporting countries to supply to the Canadian market.
34. The representative of Canada stated that the levels at which support prices for butter and cheese had been set had not been based on any set formula or calculation or derived from a basic set of data; they were a matter of judgment and opinion and the main element in which the judgment had been based was the need of the producer for income. No limit to the levels at which support prices for butter and cheese could be set was prescribed in the law. It would be very difficult to set a limit on the quantity which could qualify for support by a deficiency payment (as was being operated for hogs and eggs) since cream for butter-making was delivered by about 200,000 farmers to some 1,200 factories and it would be necessary to refer to factory records to ascertain for each producer the quantity qualifying for deficiency payment. The representative of Canada added that the whole trend of the Committee's discussion on dairy products appeared to indicate that it was the view of many members that Canada should in fact cease production of butter. He added that butter was produced in Canada in areas which were not highly favoured by nature and on which only a very limited range of commodities could be produced. Dairy farming was the most suitable form of agriculture for these regions and the whole structure of the society and economy of the province of Quebec, a large part of Ontario and the Maritime provinces was built on dairy farming. Dairy farmers, Government economists and members of Parliament were in general agreement that if price support was removed, even gradually, the butter industry would be destroyed and with it the whole economy of those regions. While it could be argued that the price supports were higher than was necessary and while there was little or no doubt that there would be an increase in consumption of butter if imports were allowed to determine the internal price of the commodity, the Government of Canada could not contemplate the destruction of the economic structure of a whole region and therefore no sizeable reduction in the support price would be possible or acceptable. One member of the Committee stated that it was not expected that Canada should give up butter production but that the Canadian authorities should have in mind the conclusion of the four experts recorded in "Trends in International Trade" that a small reduction in the level of protection for a commodity could have a significant effect in terms of increased consumption and increased opportunities for import.

35. In reply to questions from members of the Committee, the representative of Canada confirmed that a payment of 25 cents per 100 lbs. of milk was made to producers delivering milk for manufacture. This payment was separate from the actual price for the milk which was negotiated in some provinces between the producer and the manufacturer. It was estimated that approximately $11 million would be paid to producers under this programme in the current year. No payment was made in respect of deliveries to the bottled fluid milk market because this trade already provided the highest prices of any milk outlet, nor any payment made in respect of cream delivered for butter manufacture. Members of the Committee noted that one of the justifications claimed for the maintenance of quantitative restrictions contained in the Export and Import Permits Act, under which quantitative restrictions were maintained on imports of skimmed milk powder, was that the commodity was under price support operations. They enquired whether it could be expected that quantitative restrictions would be abandoned now that this product was no longer subject to price support operations. The representative of Canada confirmed that a price support system was one of the criteria for the maintenance of quantitative restrictions and stated that technically, in terms of the Act, skimmed milk powder was still under price support operations while stocks were still held by the Agricultural Stabilization Board even though the Board was no longer purchasing supplies.
36. In reply to questions from members of the Committee, the representative of Canada informed the Committee that butter stocks in Canada at the end of April 1960 would be 60-65 million lbs. (compared with a normal carry-over of 25 million lbs.), cheese stocks would be about normal at 35-45 million lbs., of which only 1 million lbs. would be held by the Price Stabilization Board and skimmed milk powder stocks would be low, with 5 million lbs. held by the Board and 10 million lbs. by the trade. The normal carry-over of skimmed milk powder was about 20 million lbs.

37. Members of the Committee noted that there had been substantial increases in the level of exports of cheese, dry skimmed milk and dry whole milk in 1958 and stressed their concern that not only was access to the Canadian market denied to other exporters of these products but at the same time Canada was increasing her exports of these commodities with the aid of subsidies. One member of the Committee estimated that the payment of 25 cents per 100 lbs. to producers delivering milk for manufacturing represented a built-in subsidy of approximately 25 per cent of current prices at which his country exported skimmed milk powder. He stressed that this was a heavy subsidy with which other exporters of the product had to compete and enquired whether any other support was granted to exporters of skimmed milk powder or whether exports were now made on purely commercial terms apart from the subsidy of 25 cents per 100 lbs. This same member of the Committee noted also that Canadian exports of cheese in 1958 had represented 15 per cent of Canadian production in that year and that these exports had been subsidized to the extent of 7 cents a lb. He pointed out that there were many varieties of cheddar cheese and urged the Canadian authorities to give consideration to the possibility of opportunity to exporters of cheddar cheese of varieties different from that produced in Canada to enter the Canadian market.

38. The representative of Canada agreed that the observations made with regard to the lack of access to the Canadian market while Canadian exports of subsidized products were increasing were justified insofar as they related to 1958. The position for 1959 was, however, somewhat different. There had been considerable changes since 1958 and the present trend should be much more acceptable to other exporters of these products. Exports of cheese in 1959 had been considerably higher than in 1958, but the export prices realized in 1959 had been higher than the support price and these exports had therefore been made without the aid of export subsidies. The large exports of skimmed milk powder in 1958 had included a substantial quantity of gifts; there were little or no exports of skimmed milk powder in 1959 and price support was no longer given to this commodity, nor was there any direct, visible export subsidy on the product at the present time.

39. One member of the Committee noted that under the Cheese and Cheese Factory Improvement Act an amount up to $50,000 could be paid to a factory to assist in improvement of curing rooms or amalgamation of two or more small factories. He pointed out that in the last three years substantial sums of Government money had been involved in operations under this Act and put forward his view that this was finance of a kind that might more appropriately be raised privately on the open money market. He also pointed out that payments under this Act involved an indirect subsidy element on exports of cheese. He enquired whether the $60,000 limit was subject to any conditions about similar or proportionate expenditure on the part of the trade. He noted also that
grants were made to help in the construction and equipment of public refrigerated warehouses and stated that the observations and enquiries he had made in respect of payments under the Cheese and Cheese Factory Improvement Act applied also to those grants.

40. The representative of Canada stated that the Cheese and Cheese Factory Improvement Act had been enacted in the 1930's with the purpose of consolidating and improving factories in order to improve the quality of cheese for the United Kingdom market. The Act had thus out-dated the price support system. The Government was aware that there was no longer the same need for operations under the Act and had determined that a limitation was to be set on the overall amount of payments under the Act. Factorys were required to finance half of the expenditure themselves. The Government had also announced its intention of ending this assistance. The Cold Storage Act was enacted in 1907 and had continued in force since that time with the Government paying one third of the costs involved, until two years ago when a limitation had been set on the overall amount of payments made under the Act. The payments made under this Act were now a negligible factor in the total cost of Government expenditures on agriculture. The public refrigerated warehouses were used for a great variety of products and it was not possible to attribute the grants on a commodity basis.

Meat

41. Members of the Committee pointed out that there had been a considerable increase in the rate of pork production in 1958 and 1959 due to the incentive of the high support price of $25 per cwt. They noted that recently there had been a reduction in the support price to $23.65 per cwt., and that the hog market was no longer supported by an offer from the Agricultural Stabilization Board to purchase at the support price, but through a deficiency payments scheme. They enquired how the now guaranteed price of $23.65 had been arrived at and what assurance could be given that this price would not in the future become a stimulus to over production. The representative of Canada stated that the price of $23.65 dressed weight basis was the minimum price support of 80 percent prescribed by the Agricultural Stabilization Act of 1958. The new price and the switch to the deficiency payments system with limits on the number of hogs which could qualify for support, were leading to a decline in production and indications were that this decline would be substantial in 1960/61. It was difficult to forecast whether a price of $23.65 per cwt. would in the future act as an incentive to production, but this did not at the present time appear likely and measures would undoubtedly be taken to arrest increased production if this did develop.

42. Members of the Committee enquired as to the reasons for the limitation of support to 100 Grade A and B hog carcasses delivered in any year. One member of the Committee expressed the view that this limitation would involve a shift in production from large to small farmers, a large proportion of whom had not hitherto engaged in hog production. The representative of Canada stated that, in assessing the effects of the new measures, it had to be remembered that the deficiency payments method now adopted provided a lower guarantee to both large and small producers. The element of discrimination against the large producers was not significant because 90 percent of producers delivered fewer than the limit of 100 hogs and their return was smaller than before. The larger
producer might of course get an even lower return for his excess if the market went against him. The representative of Canada stressed that the present policy was not irrevocable. The main purpose of the limitation of support to a certain quantity was to give notice of the intention of the Government that production should decrease.

43. In reply to an observation made by a member of the Committee about exports of pork, the representative of Canada agreed that if at the end of any given period a deficiency payment was made on the product, part of which had been exported, the payment would constitute a delayed export subsidy. In reply to questions about exports of pork from Canada, the representative of Canada stated that the only market of any consequence at the present time was the United States. There were now export controls on pork exported from Canada to the United States to ensure that no export subsidy was involved.

44. One member of the Committee noted that large stocks of pork products had been accumulated by the Agricultural Stabilization Board under the "offer to purchase" programme and enquired whether there was a possibility that these stocks could be disposed of in 1960 as production was expected to be lower than in the preceding years. The representative of Canada stated that the Canadian Government was engaged in disposing of these stocks. Canned pork was being donated for relief purposes at home and overseas and stocks were being sold at reduced prices to the domestic consumer. The largest part was being disposed of in the Canadian market.

45. A member of the Committee pointed out that production of mutton and lamb in Canada was small and had been substantially reduced from pre-war levels. He asked why sheep were rated as one of the key commodities for which mandatory price support was provided and whether the support had the effect of maintaining an industry which would otherwise disappear. The representative of Canada stated that the consumption of mutton and lamb, which were high priced meats in Canada, had declined and that the price support measures which had been taken had not had an important effect on production, though it was possible that they had retarded the decline in production. There was unimpeded access to the Canadian market for exporters of mutton and lamb, but it was unlikely that exporters could look to Canada as a significant outlet in the future in view of increasing competition from other meats.

Cereals

46. One member of the Committee stated that the documentation furnished by the Government of Canada suggested that Canada had not employed subsidies or price differentials in her export trade in cereals. He pointed out that indirect export subsidies were in fact employed. For example, the financing by the Federal Government of storage and interest costs on stocks of wheat in excess of 178 million bushels held by the Canadian Wheat Board at the commencement of a crop year had the effect of returning a higher price to the producer (for both the home and export markets) than he would otherwise receive. The representative of Canada stated that it could not be disputed that Government funds for storage added to the income of wheat growers.
47. A member of the Committee doubted the necessity for freight assistance on feed grains grown in the western provinces of Canada had consumed in the eastern provinces and British Columbia and asked if it was related in some way to the import controls on these grains. The representative of Canada stated that the arrangements for feed freight assistance had come into operation in 1941. The policy had been devised to assist livestock producers in the eastern provinces and had helped to stimulate production of hogs and eggs during the war years. The freight assistance arrangements were now a well-established feature of the agricultural economy of these areas. The arrangements were not related in any way to import controls and were designed solely to enable livestock producers to secure grains at lower prices than would otherwise be possible. The representative of Canada agreed that the arrangements did in fact represent a subsidy to livestock producers in eastern Canada.

48. Members of the Committee suggested that if, as was claimed, the import controls on grains had no significant effect on trade there appeared to be no justification for their retention.

Sugar

49. Members of the Committee noted that production of Canadian sugar beet as a percentage of Canadian domestic requirements of sugar had been steadily increasing and enquired whether it was the intention of the Government of Canada that this trend should continue. They noted also that the guaranteed price to producers of sugar beet was higher than the domestic wholesale price of imported raw cane sugar and 100 per cent higher than the international price and that production had been increasing steadily since the introduction of price support in 1957. They pointed out that experience in many countries, for example, some European countries had shown that high internal prices for sugar had to be maintained as a result of high, rigid support prices for beet and that quantitative restrictions had to be imposed on imports of cane sugar. They expressed the hope that Canada's price support policies for sugar beet would not force her to follow this example.

50. The representative of Canada stated that imports of sugar into Canada were unrestricted and had shown a considerable increase over recent years. In his view, production of sugar beet in Canada was now at or near its maximum level because of the limited processing facilities. The only sugar refining capacity now being built in Canada was for the refining of imported raw cane sugar; no new capacity for handling sugar beet was being installed at the present time. The danger to world trade in sugar as a result of Canada's price support policies on sugar beet was in his view negligible.

51. In reply to questions, the representative of Canada confirmed that preferential tariff rates had been bound in bilateral agreements with Australia and South Africa. These rates had been in effect since the early 1930's and no new preferences had been granted since the General Agreement came into force.
Fish

52. Members of the Committee noted that a number of Government schemes to modernize and improve the Canadian fishing industry had been in operation for many years. They noted also that two-thirds of the total catch was exported and enquired whether any of these schemes involved hidden export subsidies or covered losses and grants to the fishing industry. The representative of Canada stated that assistance towards improvement of facilities in the fishing industry might be regarded as subsidy arrangements but the amount involved was small. The Government of Canada had found it necessary to grant assistance to the fishing industry, particularly to the Atlantic coast area. The overall output of Canadian fisheries was a very small part of the national income, but there were still sectors of the population, particularly on the east coast, for whom assistance was vital. No direct price support operations had been in force since 1955, but the Fisheries Prices Support Act of 1944 was still in effect so that provision for price support still existed for use if this should prove necessary. The provision of aid to the fishing industry was likely to continue so long as the general price of fish in world markets remained at or about its present level.

53. One member of the Committee noted that one of the principal objectives of the Canadian Government with regard to this commodity was to encourage consumption which was low, particularly in relation to the available supplies of 1 million tons annually. He enquired by what means, other than quality standards, the Canadian Government were implementing this objective. The representative of Canada stated that it was hoped that by improvements in processing methods and through grading and inspection services the better quality of products reaching the markets would result in some increased consumption. Further, the development of fresh frozen fish products and the improvement of transportation methods meant that fish could now be delivered in better condition over much greater distances.

54. A member of the Committee sought information on the arrangements for first-hand sales of fish in Canada. He noted that there were wide differences in profits from one fishing district to another and that the average first-hand price of some fish was extremely low; in general, only about half the prices for similar varieties of fish in his own country. He enquired whether these low prices were the consequence of arrangements that were made for first-hand sales. The representative of Canada stated that the low prices were in part due to the many small units in operation which required collection by first-hand purchasers. The cost of collection was therefore higher in eastern Canada than in some other countries. There was little or no inland transportation to the small, isolated fishing villages on part of Canada's east coast and the catch of those villages had to be picked up by collecting boats which added to the costs. Very few co-operatives were in operation. The representative of Canada confirmed that as a rule no advance price agreements were negotiated on first-hand prices between organizations or co-operatives on the east coast.

55. One member of the Committee noted that another objective of the Canadian Government with regard to this commodity was to facilitate exports of fishery products and enquired by what means the Government was implementing this
objective. He also enquired whether the Newfoundland Association of Fish Exporters still had the exclusive right of export of fish or whether this was now in the hands of private exporters. The representative of Canada stated that the Newfoundland Association of Fish Exporters had not had exclusive right of export since July 1959. The Association still exported fish on a voluntary basis but other exporters were now free to engage in the trade. The export trade was thus entirely in private hands and there was no Government intervention in the trade. There were no special measures to facilitate exports beyond improvement of the product itself through the efforts of the processors and exporters themselves by better grading and inspection.

C. Other Commodities

Wool

56. One member of the Committee noted that fairly substantial amounts were involved in the support programme for wool and pointed out that the observations he had made in respect of mutton and lamb applied to this commodity also.