AGRICULTURAL POLICY

Draft Report of Committee II on the Consultation with the Federal Republic of Germany

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 the Federal Republic of Germany. The Committee had before it:

(i) documents COM.II/2(1)/Rev.1 and Corr.1, dated 26 February and 24 March 1960 respectively. These documents contained a synopsis of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers;

(ii) documents COM.II/57 and COM.II/57/Add.1, dated 24 March and 12 April 1960 respectively. These documents contained detailed information on important agricultural commodities entering into international trade, furnished by the Government of the Federal Republic of Germany, in response to the questionnaire in Annex B to document COM.II/5 and in response to the request for additional information made in 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 12 April 1960.

A. General Agricultural Policy

2. In his opening statement the representative of Germany outlined briefly the particular circumstances in which the German agricultural policy in the post-war period had been developed and the main objectives of this policy and the methods used for their implementation. The main points of the opening statement are summarized in paragraphs 3-9.

3. The representative of the Federal Republic of Germany referred to the general economic conditions in which the basic marketing laws for (i) cereals and feedstuffs; (ii) dairy products, fats and oils; (iii) livestock and meat; and
(iv) sugar, had been introduced in 1950 and 1951. These laws dealt with the marketing and trade of major agricultural products in Germany and were designed to assure to farmers production possibilities at stable prices and to consumers supplies at reasonable and stable prices. The magnitude of the task was indicated by the fact that after the war the Federal Republic had had to feed and provide for a population enlarged by the influx of ten million refugees, in a setting of generally low levels of total output and productivity in industry and agriculture. For example, in 1949/50, 43 per cent of total agricultural imports had still to be financed through foreign aid measures. The introduction of the marketing laws, despite the number of controls which it had been necessary to introduce for social and economic reasons, had signalled the change-over from the restrictions and rigid controls of a wartime economy to a peace-time economy.

4. The price guarantee measures introduced under the marketing laws had assisted German agriculture in increasing its productivity and aggregate farm output. They had not been sufficient, however, to arrest or reverse a widening income gap between the farm sector and industry which had its origin in the different rates of recovery and development of German industry and agriculture. The rapid and sufficient adjustment of a large part of German agriculture to rapidly changing economic conditions at home and abroad was impeded by structural deficiencies, namely the insufficient size of farm holdings and the fragmentation of farm land, which hampered the use of efficient agricultural methods. These difficulties had further been aggravated by the exodus of farm labour to more remunerative industrial occupations, the increasing cost of industrial farm inputs, lack of credit at reasonable terms, etc.

5. In these circumstances the Federal Government, in 1953, had launched an ambitious long-term programme to remedy these deficiencies. In 1955 when the Law on Agriculture was enacted the programme had gained additional momentum. The basic objective of this Law was to ensure that agricultural incomes and social conditions in agriculture would participate in the progressive development of the national economy through the use of appropriate governmental policies. While the Law did not require the Government to give an income guarantee to farmers or to operate some kind of parity mechanism, the Government was bound to report annually to Parliament on the current state of agriculture and to indicate the measures it had taken and those it intended to take in order to attain the objectives defined in the Law. Such reports had been submitted annually to Parliament and the so-called Green Reports and Green Plans had focused public attention on agricultural problems and Government action in support of agriculture.

6. The agricultural policy of the Government and the measures used to implement the policy fell into three categories: (i) long-term programmes with the objective of improving the structure of agriculture; (ii) short-term measures to reduce the cost of agricultural production; and (iii) price support measures under the Marketing Laws. The long-term programme was aimed at the promotion of farm units large enough and sufficiently consolidated
to permit the application of modern techniques of production. These measures were to make possible productivity increases with a minimum of labour input so as to achieve an income level for farm families comparable with that in other sectors of the economy. Under this programme the Government was sponsoring a long list of specific measures such as the consolidation of scattered farm land, measures to facilitate an enlargement of farms through the absorption into other larger farms of land released through the abandonment of uneconomically small farms, the improvement of rural roads, rural electrification, irrigation and drainage, improvement of farm buildings, etc. No immediate improvements in agricultural incomes were expected from the operation of this programme. The programme had, however, contributed to the disappearance since 1949-50 of 200,000 small farms out of a total of 1.9 million farms of more than one-half hectare in that year. Since 1950 the equivalent of about one million full-time agricultural workers, or about 25 per cent of the total agricultural labour force, had moved to occupations in other sectors of the economy. This exodus from agriculture had been particularly pronounced in the second half of the ten-year period and had been aided by the heavy demand for labour from industry during a time of generally high levels of employment.

7. The short-term measures pursued by the Federal Government in support of agriculture were primarily designed to reduce the costs of input factors such as fertilizers and diesel oil and to reduce interest charges on agricultural credit. Other grants and credits operated under this programme were designed to improve the quality and the efficiency of production and distribution, e.g. the eradication of bovine tuberculosis, etc., the provision of modern storage facilities for fruits and vegetables, the implementation of quality standards and other measures.

8. The price support measures for agricultural products under the Marketing Laws served to maintain the domestic price level through the application of quantitative import restrictions and through the market stabilization activities of special agencies which entered the market as buyers when the minimum price for supported products had been reached while releasing stocks into the market to prevent prices from exceeding a predetermined upper limit. The price for grains was given special consideration because it was thought that through the inter-dependence of agricultural prices the price level of other agricultural products would thus be determined leaving sufficient flexibility for economic forces to serve as a basis of alternative production decisions. The price of grains had originally been fixed in 1951 at the then prevailing world market level and, although reviewed annually, had been kept fairly constant as a result of divergent cost and price trends in the domestic economy and in international markets. But there had recently been a growing interest in Parliament in favour of lowering the guaranteed price for rye, a commodity which played a special role in German agriculture.

9. The Federal Government was fully aware of the necessity to pursue an agricultural policy which in its objective and in its method of operation did not run counte to general policy objectives and to the interests of other sectors of the economy. Similarly the Federal Government had tried to take into account the interests of foreign agricultural producers and it was
thought that, on the whole, a reasonable balance between the interests of German agriculture and the interests of the agricultural exporting countries had been achieved. The representative of the Federal Republic of Germany asked the Committee, in their appraisal of German agricultural policy and the particular methods used for its implementation, to bear in mind the actual overall effects of these policies on trade. He pointed out in this context that in the generally rising consumption of food the relative share of domestic agricultural production (net of imported feeding stuffs) had been diminishing during the past decade. The share of domestically produced food products in total food consumption had been 75 to 78 per cent during 1951-52 and 1952-53 (last pre-war years 78-79 per cent) as compared to an average of 68-70 per cent during the last three years. This clearly indicated that imports of food and feeds had shared in the general increase in consumption. In absolute terms, and on a volume basis, overall food consumption had increased during the period 1954-59 by about 16 per cent while total domestic agricultural output (net of imported foodstuffs) had increased by approximately 10 per cent. This compared with an increase in the volume of total agricultural imports of about 62 per cent.

10. In the following discussion several members of the Committee enquired about the rules of operation which the Federal Government had evolved for implementing the general objective of the Law on Agriculture, namely to assure agriculture a fair share in the progressive development of the German economy. They pointed out that as this relationship was expressed in general terms a great deal of discretion and flexibility was permitted in the implementation of that policy. It was not clear whether this objective was, for example, to be attained through an increase in aggregate agricultural output. Furthermore, given the great differences in farming efficiency in German agriculture, it was difficult to see in what circumstances the Federal Government would consider the income objective to have been attained.

11. The representative of the Federal Republic of Germany explained that the objective of his Government was to increase farm incomes through increases in farm efficiency. The objective of German agricultural policy was not to increase or maintain the share of agriculture in national income or to increase agricultural production although support measures could tend to have that effect. He explained that in the Law on Agriculture the income objective had deliberately not been defined more strictly but had been expressed as a general directive. Having had in mind the difficulties which the adherence to a rigid parity formula could cause, and the difficulties which had in fact been encountered in some countries using such formulae, Parliament had avoided introducing a strict legal obligation for the Government to finance the difference between a given level of income and actual farm incomes. The Government was bound, however, to report annually to Parliament on the state of agricultural incomes and it was required to pursue general economic, fiscal, price and social policies which furthered the policy objectives of the Law on Agriculture without prejudice to the interest of other sectors of the economy and also having in mind the interests of exporting countries for a share of the expanding market. Under the system employed by Germany in support of agricultural incomes different policy measures could be stressed depending on
the general economic situation. For example, an increase in prices paid to agricultural producers during recent years of rapid economic progress and increases in real disposable incomes had been permitted to the extent that these increases were considered equitable to producers as well as consumers. On the other hand, the price policy followed by the Federal Government in the present circumstances demanded an increased reliance on other measures in support of agriculture such as a stepping up of the farm improvement programme, rather than permitting increased prices for agricultural products to raise the general price level.

12. The Law on Agriculture did not spell out any particular method of comparing the development of agricultural incomes with the development of those in other sectors of the economy. The Law did, however, provide for an Advisory Council which assisted the Government in analysing income and production trends in industry and agriculture. In the annual reports submitted to Parliament as a guide to agricultural policy, the Government had based its comparison of industrial and agricultural wages on the incomes of a sample of 8,000 selected farms on the one hand, and incomes of non-agricultural wage earners in small and medium-sized towns with a social environment and cost-of-living index similar to that prevailing in agriculture itself, on the other hand. The level of wages of these non-agricultural wage earners was, on the average, below wages paid in heavy industry and large urban areas. The 8,000 farms which had been selected as reference units were well-managed holdings of a size of not less than 8 hectares (about 20 acres) and not characterized by structural difficulties. The income development, as shown in the official reports, showed that farm incomes (farm families and agricultural workers) had been lower than comparable non-farm incomes by about 34-35 per cent in 1954/55, by about 36 per cent in 1956/57, by about 26 per cent in 1957/58 and by about 24 per cent in 1958/59. The smaller income gap in these last two years, while reflecting to some extent the results of long-term agricultural improvement programmes, had largely to be attributed to the good harvests in these years, particularly of fruit and vegetables and wine.

13. One member of the Committee observed that the 8,000 farms which served as a basis for comparison between farm and non-farm incomes, were not fully representative of the German agricultural industry since, among other reasons, the 8,000 farms were not representative of the size of holding in Germany and there was an absence of structural difficulties in these 8,000 farms. The representative of Germany explained that it had been the policy of his Government to pursue the income objective in agricultural policy with respect to structurally sound and well-managed farms of a minimum size. Furthermore, it had to be remembered that under another part of the Government programme special assistance was given to small and/or uneconomic farms in need of structural improvements. Although the practice of classifying as farms individual holdings of agricultural land of more than one half hectare had been adopted in German agricultural censuses, many of these very small holdings could not be considered farms in the usual sense and operators of such farms were normally dependent to a large extent on non-farm incomes.
14. In response to questions about the relationship of the agricultural population to the whole population, the representative of the Federal Republic of Germany outlined the trend of agricultural employment. According to the 1950 population census, 7 million people (heads of families plus dependents) or about 14.7 per cent of the total population had been engaged in agriculture. On the basis of available estimates, the corresponding figures in 1959 had been 5.7 million or 11.1 per cent respectively. In order to take into account part-time employment in agriculture, agricultural employment figures had been converted into man-year equivalents. Based on these calculations employment in agriculture had decreased from 3.8 million man years in 1950 to 2.6 million man years in 1959, or a decrease of more than 25 per cent. Even when allowance was made for some inflation in the 1950 figures, reflecting the influence of urban housing shortages and the disruption of the normal pattern of agricultural and industrial development (the number of people engaged in agriculture was approximately the same in 1950 as in 1939), there remained the fact of a considerable migration from agriculture into other occupations during the last decade.

15. In the discussion of the trend of agricultural production in Germany, one member of the Committee pointed out that despite the relatively high unit cost of agricultural production in Germany, production of meat had risen in the past five years by over 20 per cent, butter by 17 per cent, cheese by over 11 per cent, whole milk powder by 58 per cent, skimmed milk powder by 117 per cent, condensed milk by over 50 per cent, grains by more than 17 per cent, sugar by 40 per cent and vegetable fats and oils by over 10 per cent. The percentage of domestic production of certain agricultural commodities, as a percentage of consumption, was over 90 per cent and if the present protective system was continued it appeared possible that in 1960-61 Germany would be self-sufficient in beef, butter, and whole milk powder and self-sufficiency for certain coarse grains and sugar was also a possibility. There was a real danger that Germany would become a regular exporter of subsidised products. These developments had operated against the trade interest of efficient agricultural exporters and had at the same time burdened the German economy as a whole. It was clear that the cost to the German economy went well beyond the budget allocation as consumers were also obliged to contribute heavily to the support of agriculture through high prices.

16. The representative of the Federal Republic of Germany pointed out that although there had been increases in total food production, food production on a per capita basis had barely reached the pre-war level. The index of agricultural food production (pre-war = 100) had been 58 in 1947-48, 100 in 1950, 120 in 1953, 125-130 in the years 1955-57 and 1957-58. In 1958-59, the index of agricultural production, largely due to record crops of wine and fruit, had reached 129 and had been at 137 in 1959-60, due to exceptionally high grain yields. At the same time, the population had increased, on the basis of pre-war equalling 100, to 141 in 1959. The representative of Germany referred to the increase in total agricultural production which had been noted in this context, particularly in the animal products sector. The relatively larger increases in the animal products sector had been influenced by the large number of small farms found in German
agriculture. The scarcity of land had induced many small farmers to turn to the production of livestock which required more labour. In terms of value and volume about 70 per cent of total agricultural production was in the animal products sector. Increased production in this sector of agriculture was accompanied, however, by a shift in dietary habits and tastes of the population which increasingly tended to favour animal products and fruits and vegetables rather than more bulky types of food. In view of this development (although subject to the low income elasticity for foodstuffs in general) there appeared to be possibilities of finding a market for both increased domestic production and also increasing agricultural imports. Egg consumption for example had increased so rapidly that, despite a large increase in domestic production, German producers could at present supply only about one half of consumption requirements as compared to 98 per cent before the war. Similarly there appeared to be possibilities of sharing in the expanding German market for beef and veal. The German representative said that the German people were well aware of the cost of the system and as a result of the criticisms which had been made there had been some pressure for modification of the cost of milk and fertilisers.

17. Some members of the Committee pointed out that the programme operated by the Government for reducing the costs of certain agricultural inputs such as fertilizers might well have contributed to the rapid increase in German agricultural production. In view of the stated objective of the German Government not to stimulate production artificially members of the Committee enquired when the subsidies would be withdrawn. One member of the Committee enquired in this context when the transitional period for which the fertilizer subsidy had been granted would expire. The representative of the Federal Republic of Germany indicated that his Government was aware of the possible stimulus given to agricultural production through the granting of such subsidies. The fertilizer subsidy had been given in order to counteract increases in costs of production which had taken place and which, it was felt, should not be absorbed by price increases for agricultural products. There was, however, a growing awareness on the part of Parliament and the public concerning the possibility of undesirable side effects arising from the granting of certain subsidies. The fertilizer subsidy which had originally been intended to remain in force over a three-year period had recently been extended but it was hoped that the measure could be abandoned in the near future. The level of the price reduction given per unit of fertilizer used in agriculture had already been lowered from 20 per cent in previous years to 14 per cent in 1959.

18. One member of the Committee, noting the large extent of Government intervention in agricultural import trade, said that the protective system employed by the Federal Republic of Germany was in his opinion at least as damaging to trade in agricultural products as any system the Committee had so far studied. This arose from the fact that the German system in respect of certain key commodities was based on keeping out imports unless domestic producers were unable to supply the market. Furthermore, consumption thus tended to be below the level it might otherwise reach because, through the absence of imports, internal prices for these products were generally well above world prices.
19. Members of the Committee commented on the high cost of the agricultural regime to Germany as revealed in document COM.II/2(1)/Rev.1. Members of the Committee asked whether it was not fair to say that the cost of supporting agriculture and restricting imports, both as regards the cost to the State and the consumer, was only made possible by the development and strength of the German economy, the burden of the support of agriculture thus being absorbed in other sectors of the economy besides affecting trading opportunities of other countries. Members of the Committee expressed the view that a change in the structure of the system of agricultural protection and a reduction of the high level of protection should be given serious consideration by Germany. This would not only be in the interest of exporting countries which were efficient producers of agricultural products and dependent on exports of these commodities, but also in the interest of Germany in view of the favourable influence which a reduction in the price level of foodstuffs and the release of manpower from uneconomic farm occupations would have on the German economy. Reference was made in this context to a recent OECD report which had stated in reference to Germany's balance-of-payments situation: "It may be useful to consider whether tariff reductions and liberalization for agricultural and other commodities could not be extended so as to accelerate the fall in the trade surplus; such a measure would also help to prevent price increases."

20. One member of the Committee pointed to what he considered a strange dichotomy between the industrial and agricultural sectors of the German economy. In a country which might be regarded, industrially, as the outstanding example of a free-enterprise system in the post-war world the extent of detailed Government intervention, both financial and physical, in the regulation of agriculture seemed both contradictory and excessive. A system of protection involving less interference with international trade in agricultural products would seem to be more naturally suited to a country such as the Federal Republic which itself played such an important role, both as an exporter and importer, in world trade as a whole on a multilateral basis.

21. The representative of the Federal Republic stated that the general economic and social policy pursued by his Government was designed to take into account and to find solutions for the various problems which were equitable to domestic producers and consumers as well as to other exporting countries. Full attention was given by his Government to the danger of inflationary pressures which could result in the German economy from a rise in the price level for agricultural products. The interests of Germany's trade partners were also given full consideration in the determination of policy measures. He pointed out in this context that the imports of foodstuffs (including tropical foodstuffs) had risen from a value of about DM 6,500 million in 1955 to DM 9,800 million in 1959. The representative of the Federal Republic explained further that his Government's agricultural policy was increasingly concentrated on the long-term objective of farm rationalization, and that it was hoped that progress in this direction would eventually make it possible to eliminate certain restrictions which were at present still considered necessary. At the same time the Government was trying to decrease its use of support measures which could lead to an artificial stimulation of agricultural
production and an attempt was consequently being made to further reduce budget allocations for these measures. He went on to state that, while he could not of course predict with any precision the influence these trends would have on the future course of policy and practice, he could say that increases in support prices had been definitely rejected as a means for assisting agriculture.

22. In the discussion of State trading of agricultural products under the authority of the Marketing Laws, members of the Committee pointed out that the activities assigned by Germany to the State-trading agencies had the same effect on trade as quantitative restrictions. It was necessary in the view of these members to distinguish between the buying and selling operations of State-trading agencies and the quantitative regulation of imports which was a function of government. While quantitative restrictions were clearly undesirable the possibility of discriminatory import treatment, which was an inherent possibility in both quantitative restrictions and State trading, was equally objectionable. The use of tariff measures and subsidies in support of agricultural incomes, though also not without danger to international trade, was preferable to a system which required quantitative import restrictions, as was the case in Germany. The representative of the Federal Republic of Germany explained that State trading under the authority of the Marketing Laws was conducted in a non-discriminatory manner. Under the Decision of the CONTRACTING PARTIES of 30 May 1959 (Section 2(c)) the Federal Republic had agreed to consult with contracting parties having a substantial trade interest with respect to the allocation of shares in the import quota. Consultations with several contracting parties had already been held.

23. In reply to several questions concerning the extent to which German agricultural imports were effected under bilateral trade agreements and the operation and the effects on trade of these agreements, the representative of the Federal Republic outlined the conditions in the early post-war period which had made it necessary for Germany to rely on bilateral agreements. While Germany continued to conduct a part of its import trade, particularly grains and meat (about 40 per cent of total cereal imports and about 80 per cent of meat imports in 1958) under bilateral agreements, the German Government, in compliance with the principles of the General Agreement and in accordance with the Decision of the CONTRACTING PARTIES of 30 May 1959, was aiming at a further decrease in their reliance on bilateral trade agreements. In the meantime the Federal Government in their import licensing for agricultural products had to take into account, and give preference to, import obligations under bilateral agreements. He pointed out, however, that these specific import obligations were not a direct or necessary result of the operation of the Marketing Laws but were the results rather of special considerations relating to German trade policy.

24. In reply to several questions concerning the establishment of import quotas for commodities subject to the Marketing Laws the representative of the Federal Republic explained that in the projection of import requirements account was taken of estimated domestic production and consumption at the level of prices, for the respective commodities, which had been determined in the market through supply and demand conditions and in an important way also
by the producer price of grain fixed by the Government. The price of grain was subject to annual reviews and although no cost/price index or a similar formula was used for the determination of this price, a great number of variables such as the general price and income developments were taken into consideration. On the basis of cost and income developments in the different sectors of the German economy, this price had been kept fairly constant over the last decade at a rate of about $100 per metric ton; this price had prevailed in international markets in 1951. Although no strict price relationship between the price of grain and that of other products, using grain as a raw material input, had been established it was thought that the relationship between grain prices and, for example, meat prices had remained fairly constant subject only to certain seasonal variations. Import programmes determined on the basis of projected consumption requirements were, however, under constant review and account was taken of any changes in price levels and supply conditions. In response to another question the representative of the Federal Republic explained that, although there was no direct consumer or producer representation in the drawing up of import programmes, these interests were, as well as those of exporting countries, definitely taken into account in the import programmes drawn up by the Government for approval by Parliament. Members of the Committee commented that, in this and his earlier explanations of pricing and supply policy, the German representative had made little or no mention of developments in international markets as a factor which was taken into account. In their opinion this pointed clearly to the high degree of insulation from world market forces which the German system as at present implemented provided, by design, for the domestic producer.

B. Commodities

25. The Committee discussed with the representative of the Federal Republic of Germany the information contained in the papers COM.II/57 and Addendum 1. This section summarizes the main points discussed.

Meat

26. A member of the Committee referred to the statement made by the representative of the Federal Republic concerning the general trend towards increased consumption of beef as compared with the fatter types of meat, and enquired whether this tendency would be reflected in increased opportunities for overseas countries to export this product to the German market. The German representative noted that the experience of many countries had shown that a rise in personal income was usually accompanied by a tendency towards higher consumption of the leaner types of meat; with increased expendable income, people were inclined to consume beef rather than pork. This tendency had already been seen in Germany and was expected to continue. Since adjustment in production was not likely fully to match the change in demand there was likely to be an increase in the demand for beef imports.

27. A member of the Committee suggested that in view of the present state of short-supply and high prices for beef, the Federal Republic probably would run
little risk if all import restrictions were removed from this product. The German representative noted that there was no certainty that the present situation would continue and that in any case the basic agricultural policy and laws of Germany did not at present permit such an experiment. The member of the Committee thought, however, that the fact that many products subject to the Marketing Laws had been liberalized on a de facto basis through administrative action showed that the kind of action which he suggested must be within the power of the executive branch of the German Government.

28. The member of the Committee further observed that having regard to the extremely low consumption of mutton and lamb, representing only 0.37 per cent of total meat consumption in the Federal Republic, there seemed to be no reason why the import of this product should require restriction. The representative of the Federal Republic of Germany replied that the control of mutton and lamb imports was necessary in view of the difficulties being faced by sheep farmers in Germany. The number of sheep in the present territory of the Federal Republic had been 2.4 million before the war. This for various reasons rose to 3 million by 1949, but had since been steadily declining until it was only 1.4 million by 1959. The domestic market had to be protected in order to secure an outlet for this declining supply. The German delegation would, however, not fail to convey to the attention of the German authorities the view that had been put forward by a member of the Committee that liberalization of this product would be beneficial and welcome to the exporting countries.

29. In answer to questions put by members of the Committee the representative of Germany confirmed that, apart from the customs duties mentioned in the information paper, the import of meat was subject to no "skimming charge" or levy through the operation of the Livestock and Meat Import and Storage Agency. At present, about 80 per cent of meat imports into Germany were covered by bilateral quotas, the other 20 per cent being admitted under global quotas which were open to all countries including partners to bilateral agreements. The German representative also expressed the view that one incidental advantage of using the bilateral quota method was the assurance that products from subsidized sources could be easily prevented from coming into the German market. For example, under the global quota system then in force, imports of meat from Argentina, which was heavily subsidized, increased substantially in 1955 at the cost of Danish exports. The bilateral quota system had served to protect the interests of the traditional trading partners. In the German customs tariff system no provision was made for the levy of countervailing duties though there was provision for anti-dumping duties.

30. A member of the Committee observed that the rules of GATT did not provide for the use of import restrictions or discrimination for anti-dumping or countervailing purposes; for dealing with problems of this nature, Article VI set out rules and procedures which were carefully drawn up to provide the necessary safeguards against abuse and excess. He was glad to note that the German Government recognized that import restrictions and bilateral agreements in principle should not be used for the purpose of dealing with foreign dumping or export subsidies.
31. In response to a request, the German delegation supplied the following information on the price of livestock in Germany:

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<td>Cattle, all classes, per 50 kg., national average, price in DM.</td>
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32. One member of the Committee noted that while the import of chickens into the Federal Republic had been liberalized for the OECD countries and imports from Eastern European countries were admitted liberally, imports from the dollar area were still subject to quota restriction. Under the waiver on German import restrictions this restriction might remain in force until 1 July 1962. Further, within the framework of the quota system imports from the dollar area were being hampered by various conditions and administrative limitations, e.g. the requirement, now discontinued, that frozen chickens to be importable into Germany must be kept throughout below -18°C; the limitation, imposed on the last open tender, that each individual licence must not exceed DM. 10,000 (this quota had been DM. 50,000 until last May and DM. 20,000 since that time until the issue of the last open tender); and the requirement of a forty-five day lapse between the receipt of one import licence and the application for another. In the view of this member of the Committee, these conditions constituted unnecessary impediments which served to nullify the apparent increases in total quotas. The representative of the Federal Republic assured the Committee that, although the waiver on German restrictions did not require the removal of the restriction on this product until 1 July 1962, his Government would not fail to take advantage of any earlier possibility of liberalization. The temperature requirement had been imposed on technical advice but had been discontinued when it was found to be unnecessary. The German representative stated that the DM. 10,000 limitation of individual licences had been introduced in order to spread the licences among all importers interested and to give them an equal share as required by the German Grundgesetz (Constitution). The same reasons applied to the requirement of a forty-five day lapse. By this it had been intended to secure a constant flow of imports and to avoid the possibility that some importers might block up imports by not using licences granted to them. All these requirements, though apparently onerous, had had no restrictive effects on imports or in any way diminished the value of the global quotas, and this might be seen from the continuous increase in imports of chickens from the United States; these had increased from 3,000 tons in 1957, to 3,200 in 1958 and to as much as 17,000 tons in 1959.

33. As for total poultry imports in the last year, these had increased from 72,000 tons in 1958-59 to 115,000 tons in 1959-60.

34. In the discussion of the promotion supplement on milk it was pointed out by members of the Committee that the measure appeared to stimulate milk production as such, although the stated purpose of the subsidy had been to...
improve the quality of milk. For a quality support scheme to be successful it appeared necessary to discourage the production and delivery of inferior qualities through the selective application of the subsidy payment to quality products. However, almost all farm milk deliveries were at present eligible under this scheme. Furthermore, the subsidy appeared to exceed the costs involved in quality improvements. It was therefore felt that the payment of the supplement acted as an incentive to increased milk production. In this connexion reference was made to the marked development in German butter production since the introduction of the scheme. It appeared likely that there would be a further increase in the production of milk and dairy products to the detriment of the trade interests of exporters of dairy products. The representative of the Federal Republic of Germany explained that the subsidy had been granted to compensate farmers, at a time of rising production costs in agriculture, for the additional cost they would incur in the elimination of tuberculous dairy cattle. Mainly because of social considerations it had not been thought desirable to absorb the increase in production costs through an increase in the retail price of fluid milk. On the other hand, in view of the large share of farm cash incomes derived from milk production, about 27 per cent of total farm receipts, and the relatively small margin of profits on milk production at the fixed delivery price, the full absorption of increased costs of production by farmers themselves would also have led to undesirable social consequences. The Government was aware, however, that these supplementary payments could lead to an unwanted stimulation of milk production. The level of the supplementary payment which had been set in 1958 at 4 pfennig per litre had been reduced to 3 pfennig per litre at present and total budgetary allocations for this programme had been reduced by 6 per cent from DM. 400 million in 1958 to DM. 376 million at present. The budget allocation for 1960 had been reduced further to DM. 350 million and conditions for eligibility under the programme had been made more severe in order to eliminate the stimulus to production.

35. In discussing the statistics supplied by the German Government on the production, consumption and imports of butter (COM.II/57, pág 15), a member of the Committee drew attention to certain discrepancies between those and certain figures available from other sources. The representative of the Federal Republic explained that the figures given in the document before the Committee related to the territory of the Federal Republic, including or excluding West Berlin as indicated in the footnotes to the table. Since there were no separate statistics for West Germany for pre-war years, the figure for butter imports in 1935-38 was derived from estimates of total production and consumption in that area. Berlin was excluded in the calculation of pre-war figures also because of lack of regional statistics.

36. A member of the Committee thought that the post-war substantial increase in the population of the territory of the Federal Republic must be taken into account in comparing the post-war and pre-war consumption figures. The German representative informed the Committee that the pre-war population of the Federal Republic was estimated at 38.5 million and that the present (1959) population (including that of Berlin) stood at 53.7 million. Per capita
consumption of butter was 8.1 kg. per annum in the pre-war years and this had fallen to 7 kg. in 1954-55 and stood at 7.8 kg. in 1958-59. The decline in per capita consumption was principally due to the substitution of cheaper fats and oils, notably margarine.

37. A member of the Committee expressed the hope that the German Government would explore the possibility of liberalizing the import of dairy products; this, in his view, should not be difficult having regard to the present high rates of customs duty on butter and cheese and the internal subsidy on milk. The representative of Germany stated that the dairy industry was at present faced with problems of adjustment and adaptation which could not be solved easily or immediately. Nevertheless, steps had been taken to liberalize certain imports. The Federal Republic was the first country to liberalize cheese imports from OEEC countries and this liberalization had been extended, to a varying degree, to other GATT countries. As provided for in Section C of Annex A to the waiver on German import restrictions, liberalization of imports of blue-mold cheese, soft cheese, cheese of curdled milk and fresh cheese had been undertaken for 1 January 1961. Whereas the restrictions on other cheese imports were authorized under the waiver every effort would be made to find practical ways of opening up import possibilities in the interest of exporting countries.

38. It was noted by a member of the Committee that imports of powdered milk had been liberalized for OEEC countries and that imports from other sources had been admitted whenever imports from OEEC sources were found inadequate to meet requirements, and that this liberalization of OEEC imports had subsequently been withdrawn. The member of the Committee expressed the hope that the import of powdered milk would be liberalized again in the not too distant future and from all sources without discrimination. The representative of the Federal Republic explained that this sector of the industry had been confronted with difficulties. Following the liberalization referred to above, the proportion of domestic production had fallen substantially in the face of foreign competition, although consumption was increasing and this had led to the re-imposition of restrictions on imports from OEEC countries in October 1959. Shortly thereafter, however, global quotas were established which were available not only to OEEC countries, but to all contracting parties to GATT. The possibility of total liberalization would be considered at the end of the one-year period during which the OEEC liberalization was suspended.

39. In answer to a question, the German representative explained that the subsidy on skim milk powder was not an export subsidy but was applied only to promote the use of this product in livestock feeding. Since 1957, the annual amount earmarked for this item had been DM. 1 million per annum on the average. Owing to the production and demand situation of last summer, this fund was not used in 1959. Therefore the allocation was not retained for the current fiscal year.
**Sugar**

40. In answer to a question the representative of the Federal Republic stated that the difference between the wholesale price of DM. 107.70 per 100 kg. and the landed import price of DM. 65 per 100 kg. represented principally the mark-up accruing to the funds of the Sugar Import and Storage Agency. A member of the Committee called attention to the highly protective nature of this operation which amounted to an indirect subsidization of domestic production. The representative of the Federal Republic agreed that the price support measures afforded protection to domestic sugar beet producers even though no direct subsidy was involved.

41. The representative of the Federal Republic stated that although there had been occasional exports of sugar the Government had no intention of encouraging the expansion of sugar exports. The fact that measures had been taken, which had the effect of restricting production in 1959 to a level equivalent to 85 per cent of 1958 production, was evidence of the Government's awareness of the problem of over-production.

42. A member of the Committee pointed out that the sugar control régime in Germany provided for German producers a guarantee similar in severity to that provided in the case of cereals. Another member of the Committee expressed the view that the impediments caused by these protective measures to the exports of the traditional agricultural producing countries, because of the adverse effects which they exerted on the latter's ability to import German industrial products, would in the end damage the interests of Germany itself.

**Vegetable Oils**

43. The Committee discussed with the representative of Germany the reasons for which the Federal Government found it necessary to prohibit the import of refined vegetable oils and fats, and enquired about the prospects of liberalization in the near future. The representative of Germany explained that the purpose of this restriction was principally to promote the rehabilitation of the German oil milling industry which had been disrupted during the war. Import possibilities would soon be provided and would most likely take the form of global quotas administered in accordance with the rules of GATT. The member of the Committee raising the question observed that inasmuch as a tariff concession had been granted by Germany under GATT this product should be regarded as one entitled to special consideration in any future programme of liberalization. Furthermore, the scale of the German oil processing industry had already surpassed that of the immediate pre-war years.

44. It was suggested by a member of the Committee that in view of the stated intention of the German Government to reduce the incidence of the import restriction on this product, the mixing regulations now in force could probably be dispensed with in due course. The representative of Germany stated that these regulations were the subject of regular discussion in Parliament, and had been retained only after careful consideration. The principal argument used in support of their retention was that rapeseed cultivation must be
protected in order to preserve the fertility of certain land. The domestic production in question was extremely small, and represented only about 3 per cent of total consumption.

Cereals

45. The document supplied by the German Government stated that the control of imports of grains was intended to safeguard the domestic market against fluctuations in the world market. The representative of Germany agreed with members of the Committee that it would be more accurate to say that the import controls used were one of the means of achieving the general objective of the grain policy as described in the document.

46. A member of the Committee wished to know whether the intention of the German Government was to level off the production of grains at its present level, having regard to the substantial increases in production in recent years. The representative of Germany stated that the German grain policy would not be changed in the near future. In fact, the level of support to be granted in the current fiscal year would be the same as in the preceding year.

47. In reply to a question, the German representative confirmed that the long-term contract entered into by the Federal Government was drawn up in accordance with the provisions of Article 45 of the Rome Treaty.

48. In reply to questions, the representative of Germany stated that the mixing regulations governing the use of wheat in milling were maintained pursuant to the provisions of paragraph 6 of Article III of the General Agreement, the base date being 1 July 1939. The present regulations were encompassed in the Grains Marketing Law. The proportion of locally-produced wheat required to be used in milling had been 95 per cent in 1939. Under the present regulations (for April-June 1960) the minimum proportion of domestic wheat was 75 per cent and the maximum proportion of imported quality wheat was 23 per cent. A member of the Committee, referring to the corresponding figures of 61 and 30 per cent for the last year, called attention to the substantial increase during the last year in the proportion of domestic wheat required to be used.

49. In answer to a question on the reasons for the continued resort to this measure, the representative of Germany explained that the mixing regulations were resorted to as a supplement to the import restrictions in order to assure an equitable distribution of imported wheat among mills in different regions. A member of the Committee expressed doubts as to whether this was the same reason for which the mixing regulations were instituted prior to 1939.

50. A member of the Committee noted that under the present system exporters of flour could claim a rebate equivalent to the difference between the price paid by the millers for the wheat used and the world market price, and enquired whether this rebate was calculated precisely on the basis of the extraction rate of the flour exported or whether there might not be an element
of export subsidization through the use of an unrealistic rate. The representative of Germany stated that, as was generally known, the "conversion factor" used in most countries was so calculated as to provide a certain element of export subsidization. As this practice was common among most countries exporting flour, the German Government had found it difficult to avoid agreeing to a conversion factor which was known to provide incentive to flour exports. In 1959 this element of subsidization was reduced through an adjustment in the conversion factor, but a permanent solution of this problem could in his view be found only through concerted action among the major exporting countries. The member concerned remarked that it should not by any means be assumed that all countries resorted to subsidies in order to export flour. Another member of the Committee said that for various reasons he could not accept the statement in document COM.II/57 (page 22) that there were 'nil' export subsidies in connexion with the export of cereals and cereal products by Germany.

51. A member of the Committee referred to barley as another example of products on which the refund of import levy on raw material used could have a subsidy effect on exports. In the case of pearled barley, the lowering of cost through the refund of import levy on raw barley provided undue incentive to exports because of the high proportion of the by-product (offal) which was salable on the domestic market at high prices. He enquired whether any stops had been taken by the Federal Government to limit this kind of export aid. The German representative acknowledged the existence of such elements of subsidization in its import levy refund system. As in the case of flour, such practice was prevalent among most industrial countries and it was difficult for the Federal Republic to desist from using it. It should be noted, however, that the desire to limit budgetary expenditure usually provided an effective safeguard against any excess in the provision of such hidden subsidies.

52. A member of the Committee called attention to the fact that whereas the German import duty on wheat had been bound under GATT at 20 per cent ad valorem the effective import levy charged through the operation of the Grain Import and Storage Agency was about 30 per cent of the import value. In reply the representative of Germany stated that his Government had intended to start renegotiations under Article XXVIII with a view to unbinding this item, but had decided to postpone this action until the next general round of tariff negotiations, when the Common Tariff of the European Economic Community would be negotiated.

53. A member of the Committee expressed the view that the high rate of import duty on feeding grains was incompatible with the Federal Republic's avowed policy of encouraging the expansion of meat production, especially poultry, and enquired whether, as a long-term policy, the Federal Government had considered the possibility of lowering the duty in the interest of livestock farming. The representative of Germany pointed out that the share of imported feed in the total feed used in the country was relatively small and that the lowering of the price of imported feed could therefore contribute but little to the lowering of the cost of livestock production. Further, any adjustment of the customs duty on coarse grains would have to be considered within the framework of the EEC.
Fish

54. In discussing the nature of the support payments for sea-fishing, the German representative stated that these payments were borne by the industry itself and were derived from contributions by the individual enterprises. No Government subsidy was therefore involved. The German representative agreed, however, that it would be incorrect to say that the fishing industry benefited from no measure of subsidization since the scheme by which interest rates were reduced to encourage food and agricultural production, as well as the diesel fuel subsidy granted to agricultural producers, both applied to the fishing industry.

Grass and Clover Seeds, Seed Peas

55. It was agreed that certain questions raised by a member of the Committee and transmitted in writing to the German delegation, together with the answers to be provided by the latter, should be circulated.

Fresh Apples and Pears

56. In clarification of the statement contained in the written document on the use of quantitative restrictions on imports of fresh apples and pears (COM.II/57/Add.1, page 7), the representative of Germany stated that under the present regulations imports of fresh apples and pears were subject to quota restriction irrespective of the source of supply. During the open seasons, imports from European countries were freely admitted without limitation. During the season when domestic products were available on the market, imports might be restricted whenever there was a substantial fall in average proceeds from sales made below agreed floor prices. The German representative agreed with the members of the Committee that the minimum price system had certain disadvantages for dealing with imports from overseas sources. In view of the need to protect the domestic market, however, imports had to be stopped at certain times of the year, and the Government was considering what other methods might be used to continue to achieve this in the case of overseas suppliers. As far as producers in the southern hemisphere were concerned, as the restrictions were only seasonal they should be of little concern to them, since their products were available at times outside the European picking season.

57. A member of the Committee observed that while German imports of fresh apples had doubled and those of pears had trebled since the pre-war years, imports of either product from North America had not regained the predominant position held by them before the war. His country was rather concerned at the unequal treatment accorded to European and North American exports. The representative of Germany stated that his Government was constantly studying ways and means of avoiding any harmful effects which its agricultural policy and measures might have on the exports of any foreign countries. No doubt these developments would be taken into account in the future.