NOTES ON THE MEASUREMENT OF THE DEGREE
OF AGRICULTURAL PROTECTIONISM

N.B. The present paper is intended to serve as a basis for discussion. It will be understood that it offers in no way an exhaustive treatment of the problem at hand. The text has been prepared jointly by the FAO and the GATT secretariat.

1. The concept of the degree of agricultural protectionism is highly complex. Ideally, it ought to rest, for each given country, on a comparison between the situation, as regards supply (domestic output plus net imports or minus net exports), demand and price, actually existing under its given agricultural policies and that which would eventually result from the complete abolition of all protectionist devices - or possibly that which would exist if no such devices had ever been applied.

2. While it would be relatively easy to describe the actual situation in a given country, the hypothetical situations just referred to are clearly beyond the reach of exact measurement. Even if such measurement were possible, the result would be different according as only one, or several, countries were examined at a time. Moreover, if more than one country were to be analysed, the result would depend on which particular other countries would be included in the calculation.

3. The concept of the degree of agricultural protectionism therefore is not one which lends itself directly or easily to measurement and international comparison. In practice, the concept itself will have to be left for definition by the methods employed for its measurement. Such methods would therefore have to be agreed upon. To reach such agreement on one or several such methods is the purpose of the present working group.

4. Three methods have been suggested or applied to the problem at hand:

A. Comparisons between the price received by farmers and some external price (import price or export price for the given country, world average import or export price,
or some "representative" international price). This approach, based on national import or export prices, seems to have been envisaged by the Panel of Experts commissioned by the CONTRACTING PARTIES to study trends in international trade (see their Report, para. 240).

B. Comparisons between the national net income of agriculture with total cost of support. This approach has actually been applied to the United Kingdom by E. F. Nash in a celebrated paper on "The Competitive Position of British Agriculture".

C. Comparison of wholesale prices for individual commodities with landed import unit costs plus duty, the difference being taken as a measure of non-tariff protection, while the difference between domestic wholesale price and import unit cost would include both tariff and non-tariff protection. This approach has been proposed and applied to selected commodities in a paper submitted by the Canadian Delegation.

5. Each of these methods has its special features:

Method A is essentially designed to measure the degree of protection commodity by commodity, though it can by some sort of weighting be made to yield a single measure. It cannot, however, take into account non-price support (e.g. fertiliser subsidies). Its main problem arises in relation to the external prices which are to be used as a standard of comparison. World average import or export unit values, or "representative" international prices will necessarily differ more or less from actual import or export unit values of the country under study; actual import or export unit values, on the other hand, are apt to relate to widely different qualities as between countries, and to contain a variable proportion of transport costs. If "world" or "international" prices are taken, exchange rates have to be used - and these may, for reasons wholly unrelated to agriculture, reflect overvaluation or undervaluation of the national currency.

Method B can readily be applied only to countries, such as the United Kingdom, which pay direct subsidies to farmers. In such cases, the amount of deficiency payments can serve as a measure of direct price support. Where no such subsidy system exists, Method A has to be applied first, cost of support being then calculated product for product by taking into account the quantities involved, a procedure that raises problems in respect of quantities that go into government stockpiles. On the other
hand, Nash has shown for the United Kingdom that account can be taken of non-price support. If the problems involved in this approach can be solved as regards total cost of support, there still remains the question of standardised definitions of agricultural net income. In the form in which it was applied by Nash, this method does not yield degrees of protectionism commoditywise.

Method C has only been applied to selected commodities of given provenance supplied to certain markets: butter from New Zealand in Belgium, Canada, France, Germany, F.R., the United States; wheat from Canada in Belgium, Germany, F.R., The Netherlands, the United Kingdom, etc. Since these calculations are largely hypothetical, they rely on the use of official exchange rates. Nevertheless, this method may, upon closer examination, well turn out to be more generally applicable. It is, however, necessary to use domestic producer prices (adjusted to include trading margins up to the wholesale level) instead of actual wholesale prices, whenever subsidies are paid directly to producers. Non-price support would be difficult to include, but this might be attempted along the lines described under Method B, provided a sufficiently large number of commodities can be covered in the calculations.

6. Certain problems arise with all these methods: -

(i) The problem of quality (as between imported and domestic products in importing countries, as between exported and domestically consumed products in exporting countries, and also within each country, region, or even farm).

(ii) As a significant extension of this quality problem, there is the fact that many agricultural products are traded in manufactured form.

(iii) The problem of averaging, i.e. using average prices received by farmers, in the face of wide dispersion as between farms and regions. This becomes particularly obvious where support applies to only a limited quantity for each farm (wheat in France), where it is at a different level in different uses of the same commodity (milk for manufacture and for liquid consumption, e.g. in the United Kingdom, or dairy products may be supported if home consumed but not if exported, e.g. Australia), or where seasonal import restrictions are applied (e.g. seasonal fruit import quotas formerly in use in the United Kingdom, or seasonally varying import duties on fruit and vegetables in the Federal Republic of Germany).
(iv) The problem of time-coverage. As regards prices, and the size, quality, and composition of output, an average for several years would be more appropriate than data for a single year. It may be questioned whether an average degree of protectionism taken over such a period would have much significance.

7. Some special problems arise in connexion with the evaluation of non-price support measures, especially under Method B.

(i) What non-price measures are to be considered as protective? Such measures as tax remissions or exemptions, extension service, educational facilities, etc., may have to be examined from this angle.

(ii) What part of total outlay on production grants and subsidies is either of a capital nature or directed to landowners rather than to farmers?

(iii) The share of agriculture in subsidies benefitting other sectors as well (subsidies to railroads).

8. Method C raises the question of how to treat preferential import duties.

9. Although the foregoing list is intended to illustrate, rather than give an exhaustive list of questions, it suffices to indicate that any actual measurements will inevitably contain a substantial arbitrary element. In order to arrive nevertheless at some acceptable results, it will be necessary to formulate agreed assumptions or compromises on the points raised above, as well as any others that may emerge in the course of discussion, by which to settle in advance all those questions to which more than one answer is possible.

10. If agreement can be reached on the various assumptions which are necessary to arrive at a single result, this would not only make international comparison possible, if on a compromise basis, but would also lay the ground for measurements for each country over time. It may even be contemplated that such measurements should not only be made for various years or averages of years in the past, but also that these measurements be continued on a current basis, so as to follow fluctuations in "the degree of protectionism".