Report of the Working Party

1. The waiver from the provisions of Article XI, granted to Luxemburg in 1955, was reviewed in 1960 and was due for a further review by the end of 1965. At the request of the Government of Luxemburg, the Council, in December 1965, agreed to defer the review until the twenty-third session. At its March 1966 meeting, the Council appointed a Working Party to review the Waiver Decision of 3 December 1955 and to report to the CONTRACTING PARTIES at their twenty-third session.


3. Introducing this report, the representative of Luxemburg pointed out that since the granting of the waiver in 1955, macaroni, spaghetti and the like, and eggs, not in the shell, had been liberalized. His Government had liberalized a further product since 1960, namely apples. He expressed the regrets of his Government that it was not at present able to go further in liberalizing trade. Stressing the difficulties of a geographical and economic nature it had to face, he stated that Luxemburg agriculture was going through a vast process of economic and structural change. Two important laws, on agricultural orientation and on the consolidation of rural holdings had recently been enacted, but the Government of Luxemburg wished to await their effects before taking any further liberalizing measures. On the other hand, his Government was faced with a time-limit, set by the Treaty of Rome at 1970, when the European Economic Community Council would have to decide on the action to be taken with regard to the waiver granted to Luxemburg within the EEC. This waiver covered the same items as that granted under the GATT. Concluding, the representative of Luxemburg said that the report showed that his Government had made reasonable use of the waiver granted to it. The generally upward trend of imports was proof of his Government's desire to allow domestic products to be faced gradually with competition from imports, in order to pave the way for total liberalization. This was the final objective of the efforts aimed at improving the competitiveness of Luxemburg's agriculture. It should be borne in mind, however, that the cost involved in the reforms required for this was at the limit of the financial capacities of the national budget and of the agricultural sector.
4. The Working Party recognized the serious fundamental nature of the problems faced by Luxemburg's agriculture, which had led to the granting of the waiver in 1955. Recalling that under the circumstances then prevailing it had not been possible to set a time-limit to the waiver, it noted with satisfaction the recognition by Luxemburg that while it still needed an additional adjustment period, the period was not unlimited, and that within the EEC, the Rome Treaty set a date in 1970 for further review. The Working Party expressed the hope that the Luxemburg Government would by then have achieved its goal of total liberalization.

5. The Working Party agreed that the problems raised by the continued maintenance of the waiver were not so much those of material damage to international trade as those of principle, inasmuch as the maintenance of restrictions was undesirable in itself, and moreover, could be a precedent for more important markets. Noting that since the granting of the waiver in 1955, only three items covered by it had been liberalized, the Working Party expressed its regret at the slow rate at which the Luxemburg Government had removed items from the waiver.

6. In reply, the representative of Luxemburg stated that the slowness in the removal of restrictions was more apparent than real, and not due to the lack of goodwill. Desirous as it was of progress in the removal of restrictions, his Government had until recently been hampered by the absence of a legal basis for carrying out the needed agricultural reforms.

7. Members of the Working Party considered that the report before them gave little indication as to the progress registered by Luxemburg's efforts to reform its agriculture, and put a number of questions on this subject. Replying, the representative of Luxemburg explained that his Government's efforts at improving the structure of agriculture were guided by economic objectives that had been defined by the Common Agricultural Policy. The Common Agricultural Policy did not retard the required reforms, but had in fact been the stimulus that had led to the introduction of the relevant legislation. The fundamental objective of the law on agricultural orientation was to establish parity between agriculture and other economic activities. The financial aids provided therein were to be granted according to criteria fixed in February 1966. Among the criteria was the strengthening of the economic situation of agricultural enterprises through structural improvements in production and marketing; the encouragement of mobility of land tenure and of the creation of sufficiently large holdings; and, generally, an increase in competitiveness. The number of holdings of 2 hectares and above had decreased from 11,445 in 1950 to 9,148 in 1960 and 7,945 in 1964. This movement had been accompanied by a reduction in the agricultural labour force. A law passed in 1962 encouraging the creation of new industries in Luxemburg had met with good results by way of creating possibilities of alternative employment for those leaving agriculture. A member of the Working Party, referring to the parity objective, considered that productivity may not have been encouraged by the amalgamation of holdings if at the same time agricultural income was being adjusted to parity with other sectors. In reply, the representative of Luxemburg pointed out that between 1957 and 1964, total agricultural income had declined by 4.6 per cent, whereas national income as a whole had risen.
8. In reply to questions concerned with the operation of the waiver, in particular with respect to imports from countries outside the Community, the representative of Luxemburg stressed the non-discriminatory character of the waiver, which was being applied equally to member States of the Community and to third countries. He explained that although the waiver granted under the GATT in 1955 and that granted in connexion with the Rome Treaty covered the same products, no legal link existed between the two.

9. The Working Party noted with concern that in addition to the fact that, since the last review, only one item, namely apples, had been removed from the list, imports of a number of those remaining on the list had even declined.

10. Recalling that in 1960 the Government of Luxemburg had stated that it was prepared to consider removing restrictions on eggs in the shell, members of the Working Party expressed particular disappointment that not only had the restriction on this item not been lifted, but imports had moreover dropped sharply. The representative of Luxemburg explained that licences were granted freely on request, and the decline in imports was merely the result of reduced purchases by the trade. By contrast, he pointed to the rising imports of soft wheat. Moreover, the figures for eggs did not fully reflect total imports, as they did not cover frontier traffic. The choice of supplier was left to the importer. Although it was empowered to do so in case of necessity, his Government had never had to suspend the granting of licences. It was, however, not in a position to liberalize eggs in the shell, as these came under the structural reforms foreseen in the legislation. Members of the Working Party expressed the view that the restrictions seemed merely to divert trade towards sources in bordering areas, and therefore afforded no protection to Luxemburg.

11. The Working Party noted that Luxemburg imports of seed potatoes had dropped from 3,000 tons in 1962 to 800 tons in 1964. The representative of Luxemburg pointed out in reply that licences for imports of seed potatoes were being freely granted on a non-discriminatory basis, provided the varieties to be imported corresponded to those needed in Luxemburg. Furthermore, overall imports of potatoes had increased markedly between 1957 and 1965. As regards seed potatoes, however, there was an important domestic production at competitive prices. A member of the Group commented that if seed potatoes were competitive, this was a good reason to liberalize them. The representative of Luxemburg replied that because of the structural reforms under way and the large investments involved, for example for storage facilities, his Government could not liberalize seed potatoes.

12. Replying to a question regarding the decline of bovine meat imports between 1962 and 1964, the representative of Luxemburg confirmed that this was the result of market forces: prices, in particular of veal, had risen sharply and consumption had dropped. All licences for veal imports were in fact being granted freely upon request.
13. Asked about the existence of any governmental policies aimed at directing agricultural production into one sector or another, and, in particular, whether any such policy applied to dairy production as opposed to meat production, the representative of Luxemburg stated that efforts were being made to diversify the former. The subsidies in the dairy sector were not aimed at stimulating production but at lowering the price to the consumer. They were, however, to be abolished under the Common Agricultural Policy.

14. Members of the Working Party asked whether, in view of the lack of progress registered by Luxemburg in the removal of restrictions to date, on the one hand, and of its request for a further review in 1970 on the other, the representative of Luxemburg could indicate what other items might be removed from the list before the next review. The representative of Luxemburg replied that much as his Government would like to liberalize the items on the list, such action was for the time being unfortunately not possible as the items concerned held an important place in Luxemburg's agriculture. Furthermore, his Government desired to await the results of the efforts it was presently deploying in the agricultural sector, and of the laws it had recently enacted.

15. The Working Party noted that, while the decision granting the waiver required the Government of Luxemburg to communicate at least once a year all information relevant to the trade in the products listed, no such communication had been made in any of the years 1962, 1963 and 1964. The representative of Luxemburg expressed his Government's regrets at this omission, which it would remedy in future.

16. The Working Party recommended that the waiver granted to Luxemburg be reviewed again in 1970. Meanwhile, the CONTRACTING PARTIES would have before them the annual reports from the Government of Luxemburg on the implementation of the Decision granting the waiver. It wished to put on record the disappointment expressed by several members of the Working Party at the inability of the Government of Luxemburg to indicate at present which of the restrictions under the waiver it might be in a position to remove before the time of the next review. The Working Party nevertheless hoped that the Government of Luxemburg would be able to eliminate or at least to relax the remaining restrictions by that time.