Attached is the draft of the section of the GATT annual report on international trade, dealing with export promotion. (The draft of the other sections will be distributed in the near future.)

Any comments on the attached draft should reach the secretariat not later than 15 June 1959.
Export Promotion

Recent years have witnessed a return to world marketing conditions in which buyers' choice is a more active force, with the result that there has been intensified competition among sellers. Hence export promotion techniques have assumed an increasing significance in international trading relations. Although there are a variety of special facilities provided by governments, financial and otherwise, which have the effect of promoting exports, it is convenient to classify them in this section under the broad headings of subsidies, export incentives and programs for the disposal of surplus stocks.

The use of subsidies is widespread in the field of agriculture; these subsidies are granted mostly to domestic production either in the form of direct payments to producers or in the form of price support schemes and are usually intended to stabilize income and output, to meet import competition or to stimulate the production of items in short supply. In the main, they are not aimed at increasing exports, although the more profitable conditions of production tend to build up surpluses which it is then found necessary to export. While such subsidy arrangements are not originally designed to increase exports and may result in such increase only after a certain time, the principal aim of governments, which is one of protection, is achieved by giving the domestic industry a larger share of the home market than it would have in the absence of government support. Moreover, price support usually results in a domestic selling price for the product which is well above the world market price. In order that their assistance to producers should not be nullified by cheap imports, governments are obliged to apply restrictions on importation. If the assistance to producers takes the form of "deficiency payments" which allow the domestic producer to sell at competitive prices despite his higher costs of production, the reduction of imports is normally only the result of increased domestic production. Outright export subsidies have usually been avoided in the past, but there is some evidence that the tendency for increased resort to such measures, which was noted in the 1957 report, is growing stronger as surpluses are built up by subsidy arrangements.

The subsidization of manufactured goods by payments to producers or exporters is much less frequent than in the agricultural field — though, as for agricultural goods, the same tendency for increased resort to outright export subsidies is apparent. For several years governments have been stimulating exports of manufactured goods by devices variously called "export incentives", "export promotion", etc. These devices can take many forms and aim either at stimulating producers to seek foreign markets for their products (currency retention, import entitlement schemes) or at increasing competitiveness of the national product in foreign markets (export credit guarantees, tax refunds, easier terms of payment, etc.). With the exception of some countries in the Far East there was no general extension of currency retention or import entitlement schemes in the period under review, but the stress that was being placed in 1957 on trade financing facilities was increased.
in 1958, through the provision of longer-term deferred-payment credits for exports, particularly of capital goods to under-developed countries and through an increased flexibility in the administration of export credit guarantee schemes covering risks involved for exporters. These increased trade financing facilities have been applied in the main to manufactured goods, though some agricultural goods have also been affected.

In Latin America, many countries still maintain multiple currency arrangements which are designed to assist exports of certain products (mainly agricultural), and during 1958 there were some modifications to the systems in force. In Asia, intensified efforts were continued in the indirect field of export promotion such as training of trade promotion personnel, the exchange of trade information and the organization of trade conferences and fairs.

The existence of large surplus stocks of agricultural commodities, built up as a consequence of the continued maintenance of price support and guarantee schemes in both exporting and former net-importing countries, continued to influence the terms of competition in markets for these goods and 1958 programmes for disposal of these goods, aggregate world stocks of which showed little change at mid-1958 from mid-1957, continued to influence the terms of competition in world markets and have resulted in the development of trading techniques which continue to assume considerable importance in view of the magnitude of the trade involved.

Some countries entered into bilateral trade arrangements, such as barter agreements and long-term sales contracts, with the aim of promoting their export trade. Some of these arrangements have been described in the section dealing with bilateral trade arrangements.

The OMC continues to give its attention to the problems which arise from direct and indirect subsidization of production and exports. As stated in previous GATT annual reports on international trade, Member Countries of the OMC agreed to discontinue certain legislative measures and administrative actions designed to afford artificial aids to exporters. It should be recalled that these artificial aids covered by a Decision adopted by the Council of the OMC on 14 January 1955, include currency retention schemes or any similar practices which involve a bonus on exports or re-exports, the provision by governments of direct subsidies to exporters, the remission, calculated in relation to exports, of direct taxes or social welfare charges on industrial or commercial enterprises, the charging of insurance premiums under government export credit guarantee schemes at rates lower than those appropriate to the risk and costs involved, deliveries by governments or their agencies of imported raw materials for export business below world prices, and the remission or repayment, in respect of exported goods, of indirect taxes, whether levied at one or several stages, or of charges in connexion with importation, to an amount exceeding the amounts paid on the same products when sold for domestic consumption. During 1958 the following two measures were added to the "List of artificial aids to exporters which shall be discontinued", firstly, the grant by governments, or special institutions controlled by governments, of export credits at rates below those which they have to pay in order to obtain the funds so employed and secondly, the bearing by governments of all or part of the costs incurred by exporters in obtaining credits. During 1958 the Council
of OEEC also adopted a Decision establishing a consultation procedure between governments. The provisions of all these decisions were embodied in a single Decision, valid until 30 June 1959, and adopted by the Council of OEEC in January 1959.

When the situation was reviewed by OEEC in 1958 it was noted that the provisions of the earlier Decisions were not always strictly observed in the sector of agricultural products. As a result, the combined Decision of January 1959 contains additional provisions specifying the conditions in which the Decision applies to the sector of food and agricultural products. At the time of the adoption of the combined Decision, the Council of OEEC decided that further study of the Decision as it applied to agriculture should be made and that the results of this further study should be made available to the Council by 1 June 1959.

The GATT also continues to give its attention to the problems arising from direct and indirect subsidization. At their thirteenth session in 1958 the CONTRACTING PARTIES to the GATT decided to review the measures of subsidization employed by governments and a Panel of Experts was set up. At its first meeting in April 1959 the Panel addressed itself principally to drawing up a more precise specification for the notification of all subsidies by contracting parties in order that it might be possible in the future to make a more complete analysis and assessment of all subsidy arrangements operated by contracting parties. A report has been made by the Panel to the CONTRACTING PARTIES and this will be examined at the fourteenth session. No comprehensive survey can be made at the present time because of the lack of authoritative statements from governments on all action taken in the various fields of export promotion but the notes under the various broad headings, which are based mainly on the annual notifications of contracting parties to the General Agreement, will serve to indicate the type of measures adopted and the kind of transactions that have taken place in the period under review.

**SUBSIDIES**

Article XVI of the General Agreement requires contracting parties to submit annual notifications describing the nature and extent of subsidies maintained by them which have the direct or indirect effect of reducing imports or increasing exports. The bulk of the information in this section concerning measures taken by contracting parties is derived from these notifications.

An examination of notifications received in 1958 suggests that no major changes have occurred in the past year in the policy of government subsidization, although some adjustments have been made in the products benefiting and in the amounts of subsidy granted and there is an increasing tendency for resort to outright export subsidies. Most of the subsidies on production or export described in last year's report are still being applied and the principal changes reported during the period under review are summarized below.
Production Subsidies

In order to assist major copper producers to remain in operation, Australia introduced in May subsidization measures in the form of a bounty on copper sold for use on the domestic market. The bounty, up to a maximum rate of £45 per ton, will operate until 30 June 1960. On 30 June 1958 the payment of a bounty on the production of cellulose acetate flake was extended to 30 June 1959. The grant of a bounty on wheel-type tractors of from 10 to 70 belt-pulley horse-power produced in Australia for use in Australia and its territories was extended until 30 June 1959. The bounty on the production of seed cotton, which was payable before the end of 1958, will continue to operate until the end of 1963. The payment of bounty on the production of flax fibre was extended up to 31 October 1960. In view of the mounting surplus, Canada reduced the domestic support price for skim milk powder in March; on the other hand, in May, the domestic support price for first grade creamery butter was raised from 58 cents a pound to 64 cents a pound. With effect from 31 March, Canada abolished the cow price support programme. On 2 April 1958, a Tea Subsidy Act was passed by the Ceylon Parliament. The Act provides for the establishment of a fund for subsidizing the replanting and rehabilitation of estates and small holdings; the marketing of green leaf and the manufacture of tea from such tea leaf; and the imposition of an additional export duty on all tea. Owners of the tea lands will be paid subsidies for replanting of uneconomic areas with approved high-yielding varieties of tea, and for rehabilitation of worn-out tea lands by the application of fertilizer, adoption of soil conservation measures, and increase in the number of tea bushes per acre. The scheme will be financed by an additional export duty of 0.04 rupees per pound.

Under the Grain Regulation Act, 1958, Denmark introduced support for the prices of home-produced grains by means of import levies on specified coarse grains. One purpose of this Act is to protect Danish growers of coarse grains; another aim is to impose a restraint on pig production by maintaining the cost of pig feeding. Under the Agricultural Income Act of 1958, which will remain in force for three crop years from 1958/59, Finland introduced subsidization measures on certain agricultural products. In order to maintain gross agricultural proceeds at the level defined by the Act, the Finnish Government guarantees a price to be paid to producers of cereals and stipulates target prices for milk, pork and eggs. For the 1958/59 crop year it was determined that gross agricultural income had to be raised by 2.100 million markkas.

As regards countries not contracting parties to GATT, the following change has been noted: Argentina increased official support prices of agricultural products for the 1958/59 crops.

Export Subsidies

Governments reporting the maintenance of export subsidies have stated that, while some quantities of the subsidized products would have been exported without the subsidy, it was not possible to estimate the volume of trade that would have taken place. In their report to the CONTRACTING PARTIES, which will be examined at the fourteenth session, the Panel of Experts referred to in the opening paragraphs of this section suggests that the effects of subsidies on imports and exports should be further studied by the CONTRACTING PARTIES.
In Canada, as from 1 April 1958, exports of British Columbia, Alberta and Nova Scotia coal were granted a subsidy payment of up to $4.00 (previously not more than $2.25) per net ton, if exported to any destination other than the United States. As from 23 August 1958 Ceylon altered its system of export subsidy payments for tea, designed to promote an export of high-quality tea, by reducing the scope of the products which would be entitled to receive subsidy payment. Cuba granted a subsidy on cigar exports in order to help cigar manufacturers pay increased wages. Manufacturers are given credit certificates equivalent to 4 per cent of the value of cigar exports, with a maximum annual limit of $336,000. Finland granted a subsidy for exports of surplus domestic production of butter, cheese and powdered milk. On 22 April 1958, the Netherlands announced a subsidy on cheese exports to help ease the surplus of dairy products; subsidy rates would not apply to cheese exported to Belgium, France, the United Kingdom, Canada, Venezuela, Puerto Rico and the United States. The Union of South Africa introduced subsidization measures on kaffir corn, designed to cover export losses. The United States announced that a payment of 6.50 cents per pound would be made for upland cotton exported on and after 1 August 1958. The rate would be effective until changed and would be subject to changes without prior notice. This export subsidy is designed to encourage exports of upland cotton from commercial stocks. The United States still maintain the system of granting equalization payments to exporters of certain primary products.

As regards countries not contracting parties to GATT, the following changes have been noted. In June 1958 Iceland introduced a new subsidization measure for all export goods, i.e. for the products of both the fishing and the agricultural industry. In the case of many of the fishing industry's products, this would mean the doubling of the previous subsidies. Mexico announced in October 1958 a new export subsidy policy in the form of drastic tax reduction - or in some cases even complete exemption from tax. The products affected by this policy are wheat, which was in surplus supply in 1958, wheat products, and spices. In Spain, a premium of 8 pesetas per US dollar has been authorized for export of woollen textiles. Vietnam introduced export subsidies on tea amounting to VND18 per 1 kg. for exports to the United States and dollar area and VND5 per 1 kg. for exports to the French franc and sterling areas. In Yugoslavia the Committee for Foreign Trade published a list of export premia, ranging from 5 per cent to 39 per cent on a number of products such as mineral oils, metallurgical products, timber, foodstuffs, textiles and agricultural products.

During the period under review the CONTRACTING PARTIES to the GATT have examined complaints by the Government of Australia against Italian assistance to exports of wheat flour on the grounds that wheat was supplied to Italian millers for export as flour at a price substantially lower than that prevailing on the domestic market. Discussions are being pursued between the two governments. French assistance to exports of wheat and flour was also the object of a complaint by the Australian Government which claimed that serious prejudice had been caused in traditional Australian markets, particularly in South-East Asia. The CONTRACTING PARTIES recommended that the French Government consider appropriate measures to avoid in the future that the system of payments to exporters of wheat and flour operated in such a manner as to create adverse effects on normal Australian exports of flour to South-East Asian markets and, more generally, on markets of wheat and wheat flour.
In addition to subsidy payments, there are many and varied governmental measures which have the effect of stimulating export trade without involving any direct payment by the government to exporters. Although their effect on trade may be similar to actual export subsidies it is more convenient to group these measures under the heading of export incentives. In view of the indirect nature of these export incentives, however, it is difficult to assess with any precision their effect in stimulating exports and the extent to which they may distort normal conditions of competition on world markets.

Currency Retention Schemes

Currency retention schemes or similar practices, involving import entitlements, are still maintained by several countries, particularly in Asia. Since the adoption of currency convertibility the Governments of Denmark and France have reviewed their currency retention schemes. In Denmark the government is considering gradual abolition: the retention quota which has been reduced from 10 per cent to 6 per cent should be reduced by two percentage points at the beginning of each year and thus be abolished on 1 January 1962. In France the proportion of foreign exchange credited to exporters in EFAC accounts has been reduced from 15 per cent to 12 per cent (exports to United States and Canada) and from 10 per cent to 8 per cent (exports to other countries). In order to diversify its exports through encouraging shipments of processed goods, Pakistan has undertaken in August 1958 a promotion scheme for exports of cotton textiles. Exporters would be entitled to receive import licences of value equal to 25 per cent and 10 per cent respectively, of the f.o.b. value of cloth and yarn exported for the import of textiles machinery and spares, accessories, textile mill stores, auxiliary equipment, testing, weighing apparatus and parts, power plants, boilers, motors, transformers and switchgears, wires, cables, sprinklers, and chemicals and dyes. Furthermore, Pakistan announced a trade promotion scheme for exports of cotton. Under the scheme exporters would be entitled to receive import licences of a value corresponding to 10 per cent of the value of cotton exported during the period from 24 July through 31 October 1958. India adopted in early 1958 an export promotion scheme for rayon textiles. Under the scheme an exporter of rayon textiles would be entitled to receive an import licence, equal in value to 100 per cent of the value of rayon textiles exported, for the import of rayon yarn. An exporter of rayon saris would also be entitled to receive an import licence, equal to 66 2/3 per cent of the value of saris exported, for the import of rayon yarn. When rayon textiles made of domestically produced yarn are exported through the Silk and Rayon Textiles Export Promotion Council, a 20 per cent reduction would be granted with respect to excise taxes on such domestically produced yarn. In addition, India proposes to establish an export promotion scheme for silk textiles. In Spain, the proportion of foreign currency that may be retained on woollen exports is 80 per cent, of which 60 per cent must be used for the purchase abroad of wool and 20 per cent for other imports for the wooll
and textile industry. In August 1958, Israel announced that no further allocation of foreign currency would be made for import of wool tops, fine cotton yarns, combed woollen yarns, nylon yarns, raw material for production of perfumery, parts for sewing machines and ball fountain pens, unless such imports are to be used in production of goods for export.

Multiple Currency Practices

In Latin America a number of countries still maintain multiple currency arrangements which result in the promotion of certain exports by providing more favourable rates for conversion of the foreign currency proceeds of these exports than of others. These and other multiple exchange practices are described in the IMF Tenth Report on Exchange Restrictions 1959. Modifications made to the systems during 1958 are described in detail in that report. The important changes may be summarized as follows. As from 10 June 1958, Brazil increased the foreign exchange export bonus for all products except coffee and cocoa and abolished the differentials in bonuses for exports earning convertible currencies and those paid for through bilateral agreement account. In addition, Brazil abolished on 30 June 1958 an additional and variable bonus paid on coffee exports when the export value of a 60 kilogramme bag of coffee is higher than US $42. (Export bonuses for coffee and cocoa were increased in January 1959). In June 1958, Uruguay issued a decree to grant additional compensation to exporters of Group A commodities (agricultural products). In addition, Uruguay issued a decree on 11 September 1958 to change exchange rates for exports of wool, designed to stimulate the wool trade. The Uruguayan Government further revised its system of exchange rates applicable to many export commodities. With effect from 25 September 1958, Nicaragua established a new exchange rate for coffee exports. The proceeds of coffee exports would be negotiated at 7 cordobas per US dollar. From 30 December 1958 Argentina has abolished the official exchange rate of 18 pesos per dollar and all exchange transactions in future are to be channelled through one single exchange market. However, although Argentina will in future have only one peso market, she will continue to have several rates of exchange since the new system still involves import surcharges and export retentions (aforos). The number of categories of trade items qualifying for special exchange treatment is, however, somewhat smaller than it was before which means that Argentina is somewhat nearer a unified exchange system. Export trade has been grouped into three categories for the purpose of the new exchange system; one group comprises commodities to which a 20 per cent retention applies, the second group is governed by a 10 per cent retention and all other export items will be retention free. The 20 per cent retention applies mainly to grains and some meat exports; items to which the 10 per cent retention applies are chiefly the principal meat exports and raw wool while other pastoral products, e.g. wool tops, are retention free. In May 1958, Colombia altered its foreign exchange systems, the main aim of which was to promote coffee exports. As from 15 August 1958, Spain increased the exchange bonus for exports (chiefly metal and wooden goods, glass, ceramics, pharmaceutical and chemical items, and canned fish).
Credit Facilities

In recent years there has been intensified competition among manufacturing countries in marketing capital goods in less-developed countries, particularly in Asia, Africa and Latin America. The exporters were finding it necessary to extend credit facilities to customers in less-developed countries in order to enable them to purchase capital goods. In fact, many countries in Asia continue to experience a general insufficiency of export earnings and exchange resources in relation to their needs for economic development. In view of their balance-of-payments difficulties these countries expect credit to be extended as a condition for the transaction to take place. In Latin America, for instance, the restraints restraints imposed on imports in 1958 by countries whose exchange reserves had declined to dangerously low levels would have been more severe if these countries had not been able to draw on credits extended by international agencies and overseas suppliers. The adverse external payments position was reflected in a rapid depreciation of a number of currencies in foreign exchange markets. The provision of credit has become an important element of competition in sales to foreign markets. Independently of the promotional effect of loans for development purposes, conditions of credit have great importance in securing orders. An element of subsidization is, however, only present where the State provides, or assists in providing, better terms, both with respect to interest charged and to the time required for repayment, than could be obtained in the course of ordinary banking business. In some cases a specific condition of the loan — as with operations of the United States Export-Import Bank — is the purchase of certain products in the country granting the loan. Canada has indicated that it will continue to provide substantial sums to less-developed countries in the form of loans and grants for the purchase of Canadian wheat flour. Special credit facilities may also be granted to domestic exporters. In May 1958, the Austrian Export Fund Company lowered its interest rate from 6.5 to 5.5 per cent to encourage medium-size firms to step up their exports.

From 1954 to 1 February 1958, the USSR, the countries of Eastern Europe and Mainland China have concluded agreements with fourteen of the less-developed countries outside the area which provide for the extension of an estimated $1.9 billion in intermediate and long-term credits for the purchase of goods and services from the area. Of this total, $1.5 billion, including $464 million in credits to Yugoslavia, consisted of credits for economic purposes. Mainland China is the only bloc country providing grants of any consequence. During the period mentioned above it has granted $55 million to Cambodia, Ceylon, Nepal and Egypt. The USSR is providing about $1.3 billion of the total credits. As regards development credits, the USSR concentrated its activities in a relatively few major deals: $100 million credit agreements with Afghanistan and Indonesia; $132 million for a steel mill and another $126 million credit in India; a $110 million credit for Yugoslavia and $175 million (jointly with
East Germany) for an aluminium complex; agreements of $175 million for Egypt and an estimated $168 million for Syria. Yugoslavia, India, Afghanistan, Egypt, Syria and Indonesia have received more than 95 per cent of the credits, while the remainder is accounted for by Turkey, Yemen, Burma, Ceylon, Iceland, Argentina and Brazil. Virtually all Soviet assistance to less-developed countries is in the form of interest-bearing credits to finance specific development projects. The drawings under these credits will be spread over several years; in the case of the recent Syrian credit, for example, the programme will extend over seven years. One of the features of Soviet credits to less-developed countries has been the low interest rates, typically 2.5 per cent.

Export Credit Guarantees

During 1958 there was some evidence of a tendency of increased resort to export credit guarantee schemes covering risks involved for exporters. Sweden announced on 18 June 1958 that credit guarantee would be doubled in order to encourage exports. The increase means that a total of 600 million Swedish crowns will be devoted to export credit guarantees in the coming year. The Swiss Parliament adopted, in June 1958, an important revision of the law on export risk guarantees, which had remained unchanged since 1939. Contrary to legislation in most other countries, the former Swiss guarantees were based on costs and not on selling price. As the Swiss guarantee rate did not exceed 70 to 80 per cent of the cost, the effective cover was substantially lower than in many important trading countries, where it often reaches 80 or more per cent of the selling price, including profits. In order to establish a more competitive basis for Swiss guarantee rates and to facilitate refinancing, the new Bill relates the guarantee rates to selling prices and increases the maximum guarantee rates from 80 per cent of the cost to 85 per cent of the selling price. In June 1958, the Union of South Africa introduced an export credit insurance scheme in which the government would participate as a re-insurer. In November 1958, the United Kingdom made some modifications to its system of long-term export credit guarantee for aircraft and their engines and of the short-term export credit guarantee for certain types of machinery. For the year 1958 the total value of exports covered by credit guarantee increased by 7 per cent to £520 million; some 16 per cent of United Kingdom exports were thus covered by the scheme.

Tax Refunds

Effective 22 February 1958, Iraq authorized a refund of the excise tax on cement exported, which was intended to make Iraqi cement competitive in world markets.
Trade Promotion Measures in Asia and the Far East

Member countries of the Economic Commission for Asia and the Far East have devoted particular attention to stabilizing prices of raw material exports and exploring every possible avenue for regional co-operation. ECAFE meetings held during 1958 gave most of their attention to a discussion of the progress and problems of industrialization in the region, mineral resources development, small-scale industry and handicraft marketing, iron and steel production, electric power resources, and the economic application of atomic energy. Attention has also been given to the possible intra-regional trade promotion talks, export promotion techniques and practices and training of trade promotion personnel. Several countries in the region are finding it necessary to offer added inducement to encourage private capital investment - both domestic and foreign - in domestic export industries. ECAFE countries have also agreed to encourage trade fairs and missions to exchange trade information. Intra-regional trade promotion talks under the auspices of ECAFE are to be held in Japan in 1959 and in India in 1960. In October 1958, Japan established a new export trade promotion agency, with a capital fund of approximately $5.6 million. The organization, to be known as the Japan Export Trade Promotion Agency, has approved an operating programme which includes establishment of new oversea trade centres, a strengthened market research programme, and participation in international trade fairs.

Other Trade Promotion Measures

In order to encourage an expansion of tobacco exports, Haiti has granted to Standard Commercial Tobacco Haiti, Inc., the exclusive right to export tobacco. This measure was designed to encourage farmers to plant tobacco, to establish a central market where producers may sell their products, and to establish a permanent cash market for Haitian tobacco. On 10 February 1958, Egypt announced the establishment of a new system which aims at saving foreign exchange resources and at the same time providing an effective instrument for promotion of cotton exports.
Disposal of Surpluses

Stocks of surplus products, accumulated as a result of government support of agricultural prices and income, remain at a high level. The tide is being resisted by action tending to reduce production and by the disposal of accumulated surpluses by exports at prices below the world market level or on other favourable terms. The existence of these stocks tends to depress world prices; massive disposals, of course, could create chaotic conditions. In 1955, the FAO and CONTRACTING PARTIES to the GATT laid down rules for the orderly disposal designed to avoid undue pressure on markets and harmful interference with normal patterns of trade; governments disposing of surpluses have in consequence endeavoured to consult with other exporters and to find new markets for their products.

In spite of measures to restrain production and vigorous campaigns of surplus disposal, aggregate world stocks of agricultural products at mid-1958 showed little change from a year earlier. According to calculations of the FAO, they were estimated to be equivalent to about 10 per cent of world agricultural production. About three-quarters were located in North America. Wheat stocks fell some 5 million tons (10 per cent) during 1957/58, mainly because of smaller crops in North America, but are likely to rise sharply in 1958/59. Stocks of coarse grains in North America rose by nearly a quarter to the record level of over 60 million tons and are likely to rise further in 1958/59. Stocks of cotton in the United States, however, have been reduced by some 40 per cent from peak levels in mid-1956. There was a renewed rise in world stocks of butter in 1957/58 and a further rise in stocks of coffee, after a temporary decline in 1956/57.

A review of surplus disposal operations in recent years indicates that some 30 - 40 per cent of United States agricultural exports are currently shipped under special programmes, while payments under government subsidies amount to some 6 - 8 per cent of the total value of United States agricultural exports outside the special programmes. Directly or indirectly subsidized exports of agricultural products from Western Europe are also increasing, but because of the complexities of the various systems no estimate can be made of their extent. Other countries also use various methods of expanding agricultural exports, including special credits and multiple exchange rates; again, no estimate of their total extent is possible, but they appear to be on a smaller scale than those in the United States and Western Europe.

The critical situation of the world butter market in the winter and spring of 1958 illustrates how rapidly surpluses can be created by domestic policies designed merely to provide relief to agricultural producers. As a result mainly of price support measures, butter stocks in OECD countries were, on 1 May 1958, about 45 per cent higher than on the same date one
year earlier. Several countries had resorted to export subsidies in order to relieve their growing domestic surplus. Established trade patterns were upset and low cost producers were out-priced in their traditional markets. Faced with this situation some countries took restrictive measures; the United Kingdom entered into consultations with exporters. As a consequence Finland and Sweden agreed to limit their exports of butter to the United Kingdom to 75 per cent of their average exports in 1936/38 or 1955/57 whichever was the higher.

The OEEC and the FAO gave their attention to this situation and made recommendations to producing countries. A number of producing countries have taken steps to remedy the situation. The domestic price of butter or milk was reduced by Belgium, Denmark, Finland, the Netherlands, Sweden and Switzerland. In several countries an increase of the fat content of butter and of milk has been decided upon or is under consideration. Efforts were and are being made to extend the use of subsidized milk and butter in schools, hospitals, etc. Facilities for the importation of animal feeds are being withdrawn or reduced. The situation by the end of 1958 had somewhat improved and Sweden—a traditional and important exporter—was even obliged in December to purchase substantial quantities of butter from Denmark and Finland. During the period Australia and New Zealand continued their subsidy arrangements on butter.

In the United States, surpluses of agricultural commodities remain at high levels, despite brisk disposal activities. On 31 December 1958 the Commodity Credit Corporation held stocks of various agricultural products acquired under the price support programme, valued at 5.4 billion dollars, as compared with 5.4 billion dollars at the end of 1957 and 5.9 billion dollars at the end of 1956. The two principal items held by the Corporation were wheat and corn, each of which constituted roughly 40 per cent and 37 per cent respectively of total stocks. Other major items were grain, sorghum, upland cotton, barley, rice, butter, soy beans, dried milk, rosin and oats. Not all the Corporation's holdings are true surpluses, since a part represents normal carry-over and reserves against unforeseen emergencies. On the other hand, some of the commodities not held in Corporation inventories, principally tobacco, lard and vegetable oils, are also in surplus supply.

1 The values quoted above are in terms of "CCC cost" which represents the cost of commodities to the Corporation, including investment, processing, handling and other costs.
The United States Government has several programmes for disposing of surpluses abroad as well as domestically. Major special export programmes have been developed under the Agricultural Trade Development and Assistance Act (Public Law 480), the Mutual Security Act, the Soil Bank Programme and the competitive bid system such as for cotton. The most important instrument is Public Law 480, enacted in July 1954, the exports under which have accounted for approximately 26 per cent of total agricultural exports for the four-year period (1954/55 - 1957/58) it has been in operation. Public Law 480 which expired on 30 June 1958 was extended to December 1959.

Title I of Public Law 480 provides for the disposal of surpluses abroad against payment in foreign currencies; Title II provides for donations of surplus commodities abroad for emergency and relief purposes; and Title III covers donations of surplus goods for domestic use and for distribution abroad by non-private voluntary agencies and inter-governmental organizations as well as the Commodity Corporation's barter activities.

Section 402 of the Mutual Security Act provides that a certain minimum amount of funds for economic aid should be in the form of surplus agricultural commodities.

As a means of reducing agricultural surpluses, the Soil Bank programme was set up in 1956, with the aim of restricting total acreage through the establishment of an acreage reserve and conservation reserve.

During 1958, programming of surplus agricultural commodities under the three Titles of the Act totalled 1,850.6 million dollars at CCC cost, bringing to 7,584.1 million dollars the total value of the programme since the beginning of operations under the Act in July 1954; of this amount almost 60 per cent or 4,647.4 million dollars at CCC cost (3,328.7 million dollars at export market value) had been disbursed under Title I of the Act. Transactions under Title I are carried out through private channels to the maximum extent, the proceeds in currencies of the foreign countries being utilized locally under the Act and the terms of the agreements. During 1958 about 42 per cent of the proceeds had been ear-marked for loans to the purchasing countries for economic development and 30 per cent ear-marked for the payment of the United States expenses in these countries.

Title I of Public Law 480 was amended in 1958; its validity was extended to 31 December 1959, the authority was increased from 4 billion dollars to 6.5 billion dollars and it was explicitly provided that in negotiating agreements reasonable precautions should be taken that sales would not unduly disturb normal patterns of commercial trade with friendly countries. It was further provided that extra long staple cotton should be made available for sale in the same manner as upland cotton or any other surplus agricultural commodity; and that cotton products should be made available for sale but that financing should be limited to the estimated portion of the sales price
attributed to the raw cotton content. Agreements concluded under Title I in 1958 amounted to 1,398.6 million dollars at CCC cost (1,041.7 million dollars at export value). The value of the surplus actually entering world markets in 1958 was slightly lower than the record peak in 1957, but was higher than in any other preceding year. Shipments under Title I since the beginning of the programme totalled more than 2,400 million dollars (export value) of which approximately 735 million dollars were shipped during 1958 as compared with about 750 million dollars in 1957 and about 640 million dollars in 1956. The authority under Title I which was initially for a total expenditure of 700 million dollars at CCC cost has, after successive renewals, reached 6,250 million dollars and has been extended to December 1959.

Cumulative authorizations for emergency relief and other assistance abroad under Title II of the Act since the programme began and through 31 December 1958 total nearly 500 million dollars at CCC cost.

Cumulative donations of surplus foods for foreign and domestic relief under Title III of the Act amounted to 1,445 million dollars at CCC cost, of which 183 million dollars was donated in 1956, 377 million dollars in 1957 and 253 million dollars in 1958. Barter contracts, by which the Corporation trades its stocks for strategic and other materials amounted to 90.1 million dollars (export value) in 1958 as compared with 128 million dollars in 1957. Since July 1954, through 31 December 1958, cumulative barter contracts entered into under Title III have amounted to 965.8 million dollars (export value). In November 1958 the United States Government announced, effective immediately, some changes in the barter programme through which surplus CCC-owned agricultural products are exchanged for strategic and other materials produced abroad.

The minimum amounts of funds for economic aid which are required under Section 402 of the Mutual Security Act to be in the form of surplus agricultural commodities were 300 million dollars in the fiscal year 1955-56, and 250 million dollars in 1956-57. As stated in previous annual reports, a system of triangular transactions is in operation in order to avoid decreasing the amount of aid to certain countries which would be unable to take agricultural commodities. Under this system surplus agricultural commodities were sold to third countries, mostly in Western Europe, which in turn exported industrial items to the under-developed countries for which the aid had been programmed. In the fiscal year 1957-58 about 205 million dollars were obligated for Section 402 sales, including 51 million dollars for triangular transactions.

During the 1958-59 marketing year, the United States Government is continuing disposal operations aimed at increasing outlets for wheat. These include donations for domestic relief under the Agricultural Act of 1949, and donations of wheat and flour for overseas relief under Titles II and III of Public Law 480. Wheat for export under the subsidy programme will continue
to be obtained generally from free market supplies instead of from sales of CCC-owned stocks, and payments on wheat export subsidies generally will be made in kind, pursuant to the basic change made in the wheat export programme effective 4 September 1956. This programme is aimed at returning more responsibility for wheat marketings to the private trade.

The United States Government continues to hold large stocks of cotton. To remedy the situation it has endeavoured to dispose of them in foreign markets, while at the same time, cutting back domestic production drastically, and encouraging maximum utilization of cotton and cotton textiles. Under this export policy the CCC offers to sell for export at "export market value", that is at less than the CCC cost, any upland cotton owned by CCC on a competitive bid basis, so as to keep United States cotton prices competitive in foreign markets. Actually, the Corporation sold 7,747,200 bales of upland cotton for export under the 1956-57 programme and about 5.8 million bales under the 1957-58 programme. As of 1 August 1958 about 690,264 bales had been sold for export between 1 August 1958 and 31 July 1959. In addition, as of 22 December 1958, CCC sold on competitive bids a total of 24,311 bales of upland cotton for export under the 1958-59 Cotton Export Programme.

In Canada, substantial surpluses of several dairy products accumulated, resulting from both the unusually favourable season and domestic price support policies. It has been officially stated that the surplus of dairy products held by the Agricultural Stabilization Board next spring will probably be about 60 million pounds. The cheese surplus was reduced by the sale of 10 million pounds to the United Kingdom. In view of the mounting surplus of skim milk powder, the support prices were cut from 17 cents and 14 cents to 15 cents and 12 cents respectively. The Agricultural Stabilization Board has disposed of 18 million pounds of skim milk powder either by gift to international charitable organizations, by sale in certain export markets at prices competitive with those at which the United States was offering its surplus, or by sale for feed. The programme of making substantial quantities of wheat available under the Colombo Plan has had an important share in Canadian exports.

In Western Europe schemes having the sole aim of supporting agricultural prices and incomes have, as elsewhere, lead to the building up of surpluses, for instance of wheat, even in countries which had not hitherto been able to satisfy their own requirements. From a position of net importers such countries have become exporters. In order to dispose of their surplus they have been obliged to enter the export market and to sell at prices well below the domestic price.
Examination of Complaints by the CONTRACTING PARTIES

The CONTRACTING PARTIES to the GATT have examined complaints by the Government of Australia against Italian assistance to exports of wheat flour on the grounds that wheat was supplied to Italian millers for export as flour at a price substantially lower than that prevailing on the domestic market. Discussions are being pursued between the two governments. French assistance to exports of wheat and flour was also the object of a complaint by the Australian Government which claimed that serious prejudice had been caused in traditional Australian markets particularly in South-East Asia. The CONTRACTING PARTIES recommended that the French Government consider appropriate measures to avoid in the future that the system of payments to exporters of wheat and flour operated in such a manner as to create adverse effects on normal Australian exports of flour to South-East Asian markets and, more generally, on markets of wheat and wheat flour.