Committee II - Expansion of Trade

SUGGESTIONS FOR DRAFT PROGRESS REPORT OF COMMITTEE II

Effect of Protection on Trade

Members of the Committee will recall that the secretariat was requested to draft, in consultation with interested members of the Committee, suggestions for texts on coarse grains and fish, to be included in the draft Progress Report of Committee II which is to be submitted to the Committee in March 1961. A draft text on coarse grains has been incorporated in the following paper. The text on fish, however, will be distributed later after interested delegations have submitted proposals to the secretariat for this section of the paper. A statement made by the representative of Brazil on sugar is also included. For the sake of clarity these new texts have been combined with the paper previously distributed to the Committee as Spec(60)316 which outlined a proposed general introduction for the draft Report and the Committee's findings with regard to wheat, dairy products and meat. As emphasized in Spec(60)316, this draft is to serve as a first basis of discussion by the Committee and does not in any way bind the delegations which contributed to the text. Members of the Committee are requested to submit any comments on the text as soon as possible and in any event not later than 15 January 1961.

Outline

1. Introduction

2. Committee's Findings
   (a) General
   (b) Commodities


4. Future work.
1. **INTRODUCTION**

1. The terms of reference of Committee II have called for an examination of the various measures of agricultural protection and for a joint examination of the effects of such protection on international trade in agricultural products. In the light of the data and findings that may emerge from these examinations, the Committee has also been called upon to inquire into the extent to which the rules of GATT or their application have proved inadequate to promote the expansion of trade in agricultural products on a reciprocal and mutually advantageous basis, and to report on the steps that might appropriately be taken.

2. The assembly of the material relating to protection, as provided by the country examinations and by the material supplied by the secretariat, has brought out the typical aspects of agricultural support. The Committee has therefore taken up the second phase of its work, the examination of the effects of protection on trade. This has been done through a consideration, on a global basis of individual measures of agricultural support in each of six groups of commodities.

3. The discussion of the effects of protection upon trade has already shown the difficulty of the task with which the Committee has been entrusted. An illustration of this difficulty was the fact that one of the basic questions in discussing the effects of protection on trade was what the patterns of production, consumption, and trade by large areas of the world, as well as farm prices and incomes, would be if there were no protection in agriculture other than by moderate tariffs. Also, the effects of protection in agriculture would be influenced by the degree of protection that existed in industry. The fundamental quest was for a more economical use of resources throughout the world and it was under this aspect that the whole question of the effects of agricultural protection must be finally confronted.

4. The Committee wished to record its views on the difficulty of its task. This part of the Committee's work fell largely into the category of research which did not, as a rule, lend itself to the committee approach; it called for analysis by experts rather than for compromise by government representatives. Moreover, in view of the multiplicity of causation and the joint character of the causes that effect trade in agricultural products, some, but not all of which were in the category of agricultural protection, quantitative analysis and unequivocal identification of causes and effects would seem most difficult, if not impossible, even in an intensive study by experts. The Committee, therefore, had to seek a pragmatic approach.

5. While the Committee has made every attempt to carry out its mandate, it recognized that no useful purpose would be served by an effort to veil the basic difficulty with which the Committee was confronted.
It was also recognized that Government representatives could not be expected to produce a unanimous finding in regard to a subject on which most countries' policies were the result not only of basic economic insight and philosophy but also of political compromise. The Committee, accordingly, has faced this fact and has striven for a realistic way to go about its work, keeping in mind the fundamental aim in GATT to promote the expansion of international trade and thus to assist all countries in achieving better resource utilization.

6. In the following paragraphs the Committee has attempted to reach agreement on as many conclusions as possible. For the points which could not be unanimously agreed upon an attempt has been made to record the diverse views that have been expressed. The Committee believes that this approach is not without merits: it does show the extent, large or small, to which countries will be inclined to agree on a difficult subject, and it does draw attention to a variety of important points of view that play a role in any attempt to overcome impediments to an expansion of trade.

2. COMMITTEE FINDINGS

(a) General

7. The Committee wishes to reaffirm the findings reported in its second report, dated 18 May 1960 (document L/1192) and is desirous of re-emphasizing certain points that have a more direct bearing on trade.

8. Effective agricultural protection and support was confined to countries in which other economic sectors provided a major share of the national income from which such support was financed. In countries where most of the national income was provided by agriculture, agriculture itself could not get effective income support but was often taxed to subsidize the development of other economic segments. In both groups of countries there were effects of such policies on international trade.

9. The Committee recognized that agricultural protection mainly aimed at raising farm income. While most countries acknowledged the desirability of extracting such income support from increases in productivity, this aim remained a more long-term goal. Income support directly tied to immediate expansion of output, or to higher prices entailing expansion of output, was the prevalent content of support policy. It was this policy content that led to expansion of uneconomic productions, to impairment of trade, and to a deterioration of resource utilization.

10. The various measures of protection, such as tariffs, variable levies, quantitative restrictions, deficiency payments, etc., appear more as the means which make the policy effective. Effects upon trade thus
depended largely upon the degree to which the various types of measures were applied, which in turn depended upon the basic policy or goal. However, in this respect, the type of measure was not altogether irrelevant.

11. As recorded in the Committee's Second Report, there was a difference in the types of measures in that some affected trade only by way of their effect on production, while others affected trade by way of their effect upon production and consumption.

12. Measures also acquired importance from the point of view of international trade, if they were of a type which could not be covered by the procedures of GATT. Thus, while tariffs could be covered by these procedures, quantitative restrictions, variable levies and other devices were difficult to include. The Committee believed that an imbalance of benefits had resulted from such measures of protection which threatened to weaken the General Agreement.

13. The Committee believed that price policy should always be reasonably related to effective production policy, not only in exporting countries that applied artificial supports but also in importing countries where expansion of output would still find a domestic market. Where prices were raised artificially effective production control was necessary. This principle had been neglected and its neglect has resulted in a structural imbalance of production and in a reduction and distortion of international trade and of resource utilization.

14. The Committee has concluded, in support of the GATT report on Trends in International Trade, that a moderation of agricultural protection in both importing and exporting countries was desirable and was likely to improve resource utilization throughout the world. Moderation of protection in other economic segments was desirable as well.

15. In agreeing on this conclusion the Committee has not been unmindful of the many difficulties with which agriculture was faced in many countries. It was an industry which, on the whole, was affected by a situation in which the demand for its products becomes increasingly inelastic, while technological progress has made enormous strides and has almost become an independent influence for the expansion of production. At the same time, competition among agricultural producers was of a type which required governments to undertake measures which in other industries a limited number of producers could effectively undertake themselves, individually or acting in concert.

16. The Committee was also aware of the fact that a fundamental solution of the income problem in agriculture could only come through further improvement in the efficiency of resource utilization; such improvement was tantamount to a further reduction in the resources employed to bring about a given level of output. For all practical purposes this
meant a further reduction in the farm population. In some countries this movement out of agriculture had actually been of extraordinary proportions, yet not extensive enough to adjust supply to demand and to raise agricultural incomes to anything approaching the levels prevailing in other segments of the economy. The Committee could not but consider this fact as a significant indication of how difficult it was to deal fairly with the problem of agricultural protection.

17. The Committee also acknowledged the fact that not all measures of agricultural protection could in fairness be charged to agriculture. If society elected to maintain agriculture at uneconomic levels for reasons of national defense or social policy it was obvious that any effects on international trade emanating from such measures were not a responsibility exclusively of agricultural policy.

(b) Commodities

DAIRY PRODUCTS

1. General characteristics of market

A. A very large number of countries were involved in the production and international trade of dairy products, dairy farming being an important and traditional element in agriculture in virtually every country where climatic conditions were favourable.

B. A very large proportion of total milk production was consumed in the producing country either as liquid milk or in manufactured form as butter, cheese, milk powder etc. The quantities entering international trade accounted for only about 15 per cent of total milk production.

C. Only four countries traditionally exported dairy products in substantial volume and as an important part of the country's exports. (Denmark, New Zealand, Australia, the Netherlands.)

D. A number of countries traditionally exported minor quantities of dairy products, these exports being mainly small excesses over domestic demand especially in periods of peak production.

E. In the remaining producing countries, domestic production was usually insufficient to meet domestic demand, and additional supplies were imported. In many cases the quantities imported were determined by government action rather than by the free play of market forces.
F. The United Kingdom was by far the most important import market for dairy products importing approximately 74 per cent of total butter imports, approximately 26 per cent of total cheese imports and about 7 per cent of total milk imports

2. General characteristics of trade

A. The trade in dairy products was of a highly complicated character because of the direct inter-relationship between the various dairy products and the direct inter-relationship between dairy products and other agricultural products (meat, pork, coarse grains, vegetable oils, etc.).

B. In most countries, butter was the final product into which milk surpluses were converted. Butter showed relatively the lowest returns in comparison with other dairy products, and the international butter market, in particular in the United Kingdom, which was the greatest open market, was highly unstable.

3. Production, consumption etc.

A. There had been a considerable increase in total world milk production in recent years compared with the period before and immediately after the war. The indications were that this trend would continue.

B. During this period, cow numbers had increased in a number of countries and productivity per cow had increased in most countries.

C. The increase in milk production had been most marked in the European countries which had traditionally imported dairy products or which were minor exporters. The main exception was the United Kingdom, where production has increased to a relatively minor extent only.

D. Although consumption of dairy products had also increased, the increase in consumption has lagged behind the increase in production.

E. Exports of butter from the main exporting countries declined, especially in the last few years. Exports of cheese and other dairy products showed increases which, in terms of milk equivalent, somewhat offset the decline of butter exports.

F. Exports of dairy products from the minor exporting countries increased considerably and relatively many times more than the exports from the main exporting countries.
4. Non-tariff devices

In its examination the Committee found that there was a wide variety of non-tariff devices applied. The use of these devices was very widespread, and extended, in some form or another, to all but two of the twenty-four countries examined by the Committee. The two exceptions were countries of little importance as producers or consumers of dairy products, and therefore of little significance to world trade in such products.

For dairy products deficiency payments systems and price support systems were widely used. The Committee also found that for dairy products price support systems were considerably more widespread than systems of deficiency payments.

As a means of implementing price support, the use of quantitative import restrictions (including minimum price arrangements) was found to be particularly widespread; this method of protection for all or some dairy products was employed in the great majority of the countries examined. In very few cases could restrictions be justified on balance-of-payments grounds only. The statistical analysis prepared by the secretariat indicated that of the total butter and cheese production in the countries examined, 85 per cent and 62 per cent respectively was subject to protection by quantitative import restrictions. In some cases domestic prices were protected against import competition by variable import levies.

Only a few countries were found to have completely abolished quantitative import restrictions on dairy products, the main importing country being the United Kingdom, the main exporting countries being Australia and the Netherlands, while New Zealand had abolished all quantitative restrictions on dairy products of a type produced in New Zealand.

5. Effects of non-tariff devices

Although on the information available the Committee found it impossible to come to a concrete evaluation of any effects of the widespread non-tariff measures on the trade in the agricultural products, there was a general agreement that these measures did affect production, consumption, trade and prices and that in most cases these measures were especially designed to have some of these effects.

The Committee recalled that during the country consultations it had found that support policies which involved maintaining domestic prices of dairy products above international price levels required the regulation of the flow of supplies to and from the internal market. The Committee noted that in the case of dairy products, the level of domestic prices in
most countries, other than the traditional exporting countries, was generally substantially higher than the price ruling in the international market. It was evident to the Committee that the quantitative restrictions and other means of import regulations maintained by most of the important consuming countries were having a restrictive effect on trade in dairy products with those countries.

In discussing the increase in milk production it was recognized that technological advances played an important part. It was apparent, however, that the use of non-tariff devices to protect and support domestic producers also had contributed in some part to increased production even though the exact effect of these measures on production could not be isolated or measured accurately. In this connexion, the Committee noted a recent OEEC decision calling upon member countries to take steps to curb excessive milk production by, inter alia, lowering levels of support.

The Committee also agreed that the consumer price levels undoubtedly were a factor affecting consumption of milk products and that, although, here again, other factors were also important, and precise measurement was not possible, experience in several European countries in 1958 had provided convincing evidence, particularly in the case of butter, of the responsiveness of consumption to price changes.

The Committee noted that the widespread use of non-tariff devices also had indirect effects on international trade in dairy products. The restriction on imports into nearly all important consuming countries, amounting in some cases to almost complete prohibition of imports, meant that world trade was concentrated on the United Kingdom market which was the only open market available. This resulted in the United Kingdom market being characterized by chronic and sometimes acute instability. In general, the market tended to be over-supplied with prices repressed, to the detriment of traditional exporters. On the other hand, during occasional periods of acute shortage of butter in Europe, such as occurred in 1959, some supplies which normally go to the United Kingdom were diverted to other markets, leading to excessively high prices. While these prices were of short term benefit to traditional exporters, they had adverse longer term effects in the context of the competitive position of butter vis-à-vis margarine.

In addition, production in the protected markets often exceeded domestic demand at the prices maintained with the result that surpluses from these countries were disposed of on the United Kingdom market, usually with the assistance of some form of export subsidy.

The Committee noted that many of the countries which were maintaining quantitative restrictions or other non-tariff devices against imports of
dairy products had bound all or some dairy items of their customs tariffs. The Committee agreed that the use of non-tariff devices was in many cases, in particular in cases where imports were severely restricted by quantitative restrictions, impairing the usefulness of the tariff bindings.

A member of the Committee stated that the impairment of existing bindings was obviously of great significance for the participation of dairy exporting countries in the forthcoming tariff negotiations. The Committee noted that in the view of this member some positive assurance of access to the markets of countries with whom tariff concessions were negotiated, was essential if exporting countries were to be able to participate effectively in these negotiations, and that to be of practical value, these assurances would need to form part of the schedule of concessions.
1. General characteristics of the market

A. Although most countries produced meat for their own consumption, the international export trade was confined in the main to several major exporters; for beef, Argentina, Australia, New Zealand, Denmark and, to a lesser extent, Canada, France and the Netherlands were the main exporters; for mutton and lamb, New Zealand, Australia and Argentina were the only major suppliers; for pork and bacon, Denmark was by far the greatest exporter among western countries, followed by the Netherlands and Canada.

B. In most countries, domestic production provided a major part of total meat consumption, the balance being met from imports. The major importers of beef were the United Kingdom, the United States, the Federal Republic of Germany and Italy. For mutton and lamb, the United Kingdom was by far the greatest market, but the United States and France also imported significant quantities. The United Kingdom was the largest market for pork and bacon with the Federal Republic of Germany also an important market for pork.

C. Unlike dairy produce, where international trade depended so much on the operation of one large free market, there were for beef at least two large free markets (the United Kingdom and the United States) and a number of smaller markets.

D. The trade in live cattle was important especially in Western Europe.

E. In the long term there was the possibility of a reversion from dairy to cattle raising in some countries. This was to be borne in mind in assessing the long term prospects.

2. General characteristics of trade

A. The largest part of international trade in meat took place through the export of chilled or frozen meat from the southern hemisphere countries, Australia, New Zealand and Argentina. The Netherlands and Denmark were the largest exporters of fresh meat to Western Europe.

B. Whilst most countries which the Committee had examined were substantial consumers of beef and pork, consumption of mutton and lamb was high only in the major producing countries themselves and in the United Kingdom.

3. Production, consumption and trade

A. Total world meat production has increased by some 50 per cent since before the war, the highest increases being for pork and beef with a much lower rate of expansion for mutton and lamb (17 per cent).
B. Total world trade in meat has increased by only 27 per cent with the greatest increase taking place in beef and veal. There have been some increases in mutton and lamb trade but trade in bacon and pork did not appear to be much greater than pre-war. There had in fact been a considerable decline in imports of bacon with the main market, the United Kingdom.

C. Consumption of meat has also risen considerably. Whilst in some countries consumption had not yet reached the pre-war level, in certain countries the rate of consumption was much higher. Furthermore, the trend in recent years had been for steadily rising consumption levels for meat generally, although variations in price levels had affected demand for individual products. In recent years, the increased demand for beef had been particularly noticeable. Another factor has been the development of new markets, notably Japan. There could indeed be said to be a world shortage of beef at the present time.

D. Production of beef has also risen in most of the principal producing countries in recent years. Argentina, Brazil, Australia, Germany and the United Kingdom have all substantially increased their production of beef since 1954. In the United States, production reached a peak in 1956 and has since fallen off somewhat, although this fall was believed to be temporary. Other countries which had increased their production of beef in recent years were Belgium, Denmark, Italy and New Zealand. French production showed a slight decline in the last year for which figures were available but this decline might also be of a temporary nature.

E. The production of pig meat has risen substantially since 1954 in the United Kingdom, Italy, Japan, the Netherlands, the Federal Republic of Germany, France, Canada, Belgium and Sweden.

F. The production of mutton and lamb has increased significantly only in France and New Zealand and has declined in most other countries.

4. Non-tariff devices

A. Of the twenty-four countries examined by the Committee, all but four maintained some form or forms of non-tariff device affecting world trade in meat.

B. In eighteen of the countries concerned, imports of all or some types of meat were subject to quantitative restrictions. In some cases these affected only a small area of meat imports; in others they applied to all types of meat. In some cases they were operated in a discriminatory manner, for example, five OEEC countries still maintained discriminatory import treatment against non-OEEC meat exports. In very few instances could these restrictions be justified on balance-of-payments grounds. On the contrary, the restrictions were often severest and most comprehensive in countries enjoying substantial balance-of-payments surpluses.
C. In addition to the quantitative restrictions, the examination showed that four countries employed import levies and ten provided government subsidies or some other form of government financial support.

D. Many of the countries examined maintained various forms of income or price support involving direct or indirect subsidies to domestic meat producers.

E. Approximately one-third of the countries examined have GATT tariff bindings on all or some categories of meat imports. All but one of the countries concerned, the exception being the United States, maintain some form of non-tariff device which reduces the benefits of the bindings and, in some cases, largely nullifies them. These countries are important meat consumers and a higher level of imports could be expected in the absence of the restrictive non-tariff devices employed.

F. A member of the Committee stated that the impairment of existing bindings was obviously of great significance for the participation of meat exporting countries in the forthcoming tariff negotiations. The Committee noted that in view of this member some positive assurance of access to the markets of countries with whom tariff concessions were negotiated, was essential if exporting countries were to be able to participate effectively in these negotiations, and that to be of practical value, these assurances would need to form part of the schedule of concessions.

G. It has been noted that in some countries meat production is assisted through subsidies on feedingstuffs especially coarse grains. Indeed, indirect aids through coarse grains arrangements can have effects fully equivalent to those of direct support of fat stock and meat.

H. As regards bacon, it was noted that the principal export market, the United Kingdom, was affected by large exports of subsidized bacon and subsidized pork. As the United Kingdom was the only major market, this had serious consequences for economic producers. These consequences had been illustrated by the wide price fluctuations which had taken place in recent years.

I. It had also been pointed out that non-tariff measures applied in many countries to imports of poultry, meat and variety meats.

5. Effect of non-tariff measures on trade

A. Quantitative restrictions and import levies constituted a direct barrier to trade for the types of meat and for the trade of the countries against which they were maintained.
B. Use of subsidies or other forms of income or price support also had adverse consequences for international trade by insulating the producer against the full effect of market trends; they inhibited structural changes in encouraging a higher level of production than would otherwise be the case.

C. Measures which restricted imports and/or kept consumption prices at a higher level than they would be on a free market could have an adverse effect on consumption.

D. In Europe, the ECE had reported that production within Europe and shipments from other continents appeared unlikely to bridge the gap between the supply of and demand for beef in the next year or two except at a higher level of prices to consumers.

E. Reference has been made earlier to the increasing world demand for beef. ECE projections for Europe suggested that between 1956 and 1965 per capita consumption of beef might rise from 16 to 23 per cent depending on the income assumption made. The total demand of the region might increase by 23 per cent under the lower income assumption and 32 per cent under the higher one.

F. It is anticipated that demand for beef and other meats would have risen in other areas of the world also unless there was a most unexpected reversal of the strong trend which has developed in recent years.

G. Although there were two major markets open for beef exporters, it had been pointed out that there would be greater stability in trade if other markets were also freely open. A narrowly based world market was dangerous both to exporters and to importing countries.

H. As regards mutton and lamb, immediate prospects for building major markets in countries other than the United Kingdom were not good. Because of social habits, it might take some time to develop consumption taste in consumer countries for these products.

I. In most countries where imports of mutton and lamb had been attempted without restriction there had been no great increase in imports.

J. The foregoing analysis indicates that world meat trade conditions are extremely favourable for the immediate removal of barriers to trade.
1. General characteristics of international trade on wheat

A. In the last five years the United States, Canada, Argentina, and Australia accounted for approximately 80 per cent of total exports of wheat and wheat flour; the share of exports in domestic production varied from 37 1/2 per cent in the United States to 66 per cent in Canada. The Federal Republic of Germany also was important as an exporter of wheat flour. Other minor wheat exporters were Uruguay and Sweden and, in some years, Turkey. In addition, the USSR had lately become increasingly important as an exporter.

B. Against these comparatively few exporters, accounting for the bulk of the supply to world markets, there was a large number of importers. The largest importing area was Western Europe, where imports approximated 13 million tons. The largest individual importers in the area were the United Kingdom, the Federal Republic of Germany and the Netherlands. In Asia and Africa, imports had expanded over the last five years. Although a large number of countries and territories in these areas imported wheat, by far the biggest importers were India, Japan, and Egypt. In Latin America the main importer was Brazil although most of the other countries in the area also imported some wheat.

C. Owing to the continuous fluctuation in production both in exporting and importing countries, the level of world trade in wheat and wheat flour may change considerably from one year to another. The total volume exported in 1958/59 reached about 30.8 million tons, i.e. 1.5 million tons more than in 1957/58, but 1.8 million tons less than in 1956/57. In the period 1954/55-1958/59, the lowest export volume was 25.7 million tons and the highest 31.7 million tons.

D. Stocks have been high in relation to trade. End-of-season stocks in 1959/60 in the four major exporting countries were estimated at some 53 million tons (about the same quantity as a year earlier), far exceeding the average annual trade volume.

E. Trade in wheat flour, about 5.7 million tons in 1958/59, accounted for almost one-fifth of total wheat trade, and it has its own special features. In 1958/59 the United States accounted for about 38 per cent of total exports, Canada for 17 1/2 per cent, and the Federal Republic of Germany for 11 per cent. Australia, France and Spain each had 8 to 10 per cent of the total, and Italy about 4 per cent. The main importers are the United Kingdom, the Netherlands, and Yugoslavia in Europe; Ceylon, the Philippines, Malaya, and Indonesia in Asia; Egypt in Africa, and Venezuela and Cuba in Latin America. In addition to surplus disposal schemes, an important incentive to the increase in flour trade had been the assistance to exports in the form of government subsidies of various kinds, e.g. in the United States, the Federal Republic of Germany, France and Italy. In several
less developed countries there was lately to be noted an increase in milling capacity which has resulted in a switch of imports from flour to wheat, notwithstanding the fact that imported flour was frequently, relatively speaking, cheaper than imported wheat

2. Production, consumption and related factors

F. The Committee recognized that trends in production need to be studied with a knowledge that particular circumstances might have operated in alternative base periods. For example, production in the period 1934/38 was affected by widespread drought in North America whilst agriculture in many countries in the period 1948/52 was still influenced by the effects of wartime conditions. Nevertheless, total world production has shown a clear upward trend over the past twenty-four years. This trend has been common to both wheat-importing and wheat-exporting countries. Comparing average production in the periods 1934/38 and 1954/58, United States production has increased by 48 per cent. Production in the four other principal exporting countries has increased by 23 per cent. Production in the six principal importing countries has increased by 33 per cent over the same period.

G. Consumption, on the other hand, shows a less uniform pattern. In the United States, apparent consumption has fallen by 12 per cent between 1934/38 and 1954/58. An increase of 18 per cent is recorded by the other four principal exporters. Although apparent consumption in the major importing countries has, in total, shown a substantial rise (42 per cent in the case of the six major importers) the increase was largely a reflection of considerably increased wheat consumption in India, Japan and Brazil. Apparent consumption in the four largest European wheat importing countries has risen by 16 per cent.

H. These changes were reflected in developments in the pattern of international trade in wheat. In the case of the United States, exports in 1954/58 represented 33 per cent of production, compared with 6 per cent in 1934/38. Comparable figures for the other four principal exporters, combined were 45 per cent in each period. The share of total world trade in wheat in the hands of the four principal exporters, other than the United States, had fallen from 67 per cent to 48 per cent, whilst the United States share had risen from 7 per cent to 31 per cent. For the four major European importers, the proportion of apparent consumption represented by imports had declined from 42 per cent to 39 per cent, and their proportion of total world imports has fallen from 49 per cent to 30 per cent.

I. The increased importance in the international wheat trade, implicit in these developments, of non-European importers on the one hand and the United States on the other, was a major factor in the current wheat situation. Many of the countries in which the greatest consumption increases had occurred have suffered from balance-of-payments problems.
and other limitations on their capacity to buy wheat on normal commercial terms. Concurrently, the United States has developed international aid programmes which included measures designed to move into consumption the excessively high wheat stocks held in that country. These circumstances are reflected in the fact that over recent years, a large proportion of the wheat entering international trade had been shipped under special programmes. The volume of wheat shipped under special programmes rose from 3.0 million tons in 1953/54 to a peak of 10.5 million tons in 1956/57. The proportion of total world exports represented by these figures were 13.0 per cent and 32.3 per cent respectively. In 1957/58 and 1958/59, wheat moved under special programmes amounted to 7.8 and 8.9 million tons, or 26.6 per cent and 28.9 per cent respectively of total world exports.

J. The Committee noted that in some countries (notably the United States) systems of price or income support were coupled with limitations on the level of production to which the support measures applied. On the other hand, support systems in some other countries were "open-ended" so that the stimulation of production (to the extent to which it existed) was not subject to quantitative control.

3. Extent of non-tariff protective measures

K. The Committee noted that measures or systems designed to protect the domestic prices of wheat or the incomes of wheat producers were applied in practically all wheat producing countries. Prices obtained by producers or paid by consumers in most cases bore little relationship to prices at which international transactions take place. Statistics before the Committee, although necessarily imprecise, indicated that countries accounting for about three-quarters of the total world wheat imports applied quantitative restrictions; more than one-quarter of imports were into countries which assisted domestic producers by way of deficiency payments; and more than one-quarter of imports are into countries applying import levies. In some countries, of course, more than one-non-tariff measure operated. On the export side, a very high proportion of total world exports were made with direct export assistance.

L. The non-tariff measures which are used by countries to support prices or incomes embraced almost the whole range of techniques noted and discussed in the Committee's Second Report (document L/1192, paragraphs 11-15). (It was agreed) The view was widely held that the essential feature of support measures was the level of support, and the degree to which production is thereby stimulated, with consequent effects on trade, rather than the particular techniques used in implementing the scheme. This is not to say, however, that some devices might not be found, on examination, to possess characteristics which resulted in harmful distortions which might be avoided by the use of other techniques.
M. On the information currently available, the Committee was unable to assess the intensity of protection, accorded by the measures of support which were applied. However, some delegations referred to the prices received by producers in different countries as representing a necessarily rough but significant guidepost to the range and, in some cases, the extent of protection. Figures published by the International Wheat Council ("Review of the World Wheat Situation", April 1960) indicated that Governments declared producer prices for wheat for 1959/60 which, in terms of US dollars, ranged from $0.99 to $4.34 per bushel. Importing countries with few exceptions, had wheat prices to the producer of $2.00 or more per bushel. Support prices in the four major exporting countries were less than $2.00 per bushel, those in Argentina, Australia and Canada being well below this level. It was acknowledged that other factors (such as differences in quality, methods of farmer assistance through fertilizer subsidies, etc.) may also be important in obtaining an accurate comparison of producer prices. In this connexion, however, the Committee noted the views of the International Wheat Council ("Review of the World Wheat Situation", April 1960) that despite the many difficulties involved, international price comparisons could be a useful aid in indicating the degree of protection offered to producers.

4. Effect of non-tariff measures on trade

N. The Committee, in considering the impact of non-tariff barriers on trade, found it necessary to employ, primarily, a qualitative assessment. It was agreed that advances in agricultural science and technology had promoted increased production in some countries. There were other factors, such as changes in patterns of land use for non-price reasons, which might also affect production trends. With regard to consumption, the evidence suggested that the volume of consumption was mainly influenced by changes in dietary habits arising from changing income per capita. In some wheat importing countries, the level and direction of imports had been affected by balance-of-payments difficulties, and/or low purchasing power.

O. Although no precise quantitative measurement of trade effects was possible, it was nevertheless reasonable to conclude from the nature and extent of non-tariff measures employed that the policies of price and income support which were in operation significantly stimulated the production of wheat. In one way or another, non-tariff measures afforded priority to the absorption of home production, rather than imports, regardless of comparative price considerations. Thus exporting countries were placed in the position of residual suppliers, whose commercial trade prospects depended almost entirely upon the difference between domestic production, which was stimulated by supports, and domestic consumption in importing countries. In these circumstances, the volume of commercial exports tended to be subject to greater uncertainty and instability than
would otherwise occur.

P. To the extent that production was stimulated by supports, and the growth of consumption retarded by high consumer prices, the level of imports taken by importing countries was diminished. Similarly, to the extent to which high supports stimulated output in exporting countries, there were additions to exportable supplies and greater pressures for disposal of surpluses on concessional terms, with adverse implications for the trade, and trade prospects, of other exporting countries.

Q. The pattern of trade and prices had been distorted by the non-tariff measures applied by importing and exporting countries. Quantitative restrictions (including mixing regulations) of a kind which normally have not been negotiated, were in many cases employed arbitrarily to limit imports so as to shelter internal production and prices, or the same result was achieved by other non-tariff measures such as State trading or import levies. Exporters thus did not know to what extent they had access to these important markets.

R. Such measures, and deficiency payments also, had inevitably affected price relationships and the volume of imports. Among practices followed by some exporting countries, subsidies affected the direction of trade, as well as international prices. Techniques of surplus disposal on concessional terms had been particularly significant among the methods of export assistance which carried important implications for the trade of other exporters. The use of bilateral agreements to export wheat at relatively high prices had implications not only for other wheat exporters, but also for the trade of countries which export products similar to those for which wheat may be exchanged under bilateral arrangements.

S. The Committee noted that, although virtually all trade in wheat was regulated by non-tariff measures, there existed a number of tariff concessions on wheat which were bound by important importing countries to major exporting countries. This was an effect on trade arrangements which was relevant to the work of the Tariff Conference.

T. In the light of the foregoing considerations, the Committee's view was that non-tariff measures had exerted a very substantial effect on trade and had been a factor of major importance in the difficult wheat situation of recent years.
The Committee noted that non-tariff measures were also widely applied to production and trade in cereals other than wheat. While such measures were not applied as extensively as in the case of wheat, they nevertheless constituted serious obstacles to trade.

World coarse grain production had been larger than consumption for each year since 1952, with the result that carry-over stocks had continued to increase. While in the major exporting countries there was little difference between the prices paid for coarse grains traded internally and for coarse grains entering international trade, in many important markets the large differences between domestic prices and the prices at which imports were available undoubtedly considerably discouraged consumption. Since the demand for coarse grains was relatively elastic, there appeared to be promising prospects for future consumption in developed as well as in less-developed countries where consumption of animal products was at present very low. It was felt that in order to make full use of these possibilities, increased demand for imports should not be adversely affected by Government price policies; costs should be kept low by permitting competition from imports.

The attention of the Committee was drawn to the fact that although the share of rice production entering international trade was relatively small, 86 per cent of imports were made by countries applying quantitative restrictions on rice.

Sugar (Note by the secretariat)

The Committee commenced the discussion on sugar but decided to postpone the bulk of the discussion until a future meeting. During the discussion the representative of Brazil made the following statement:

"The Government of Brazil, and undoubtedly other sugar-producing countries, are very concerned at the recent indications of an aggravation of protectionism in European countries producing beet sugar. The Government of Brazil hopes that in the formulation of the common agricultural policy of the European Economic Community, account will be taken of the desirability of preserving trade opportunities for sugar cane producing countries, many of which are important markets for capital goods for Europe and which depend heavily on foreign exchange derived from sales of cane sugar in order to carry out development programmes."

3. MEASURING OF AGRICULTURAL PROTECTIONISM

As indicated in paragraph 6 of the second report of the Committee, the Committee appointed a small group to study the possibilities of measuring agricultural protectionism. The group met and submitted an interim report during the October meeting of the Committee. As indicated in the final paragraph of the last progress report of Committee II (L/1326 of 26 October 1960), the Committee considered this report of the study group and agreed with the group that pilot studies should be undertaken to confirm the feasibility of procedures which, the group believed, gave the best promise of success in measuring agricultural protection. The United States, the Federal Republic of Germany, the United Kingdom, Sweden and the Netherlands, undertook to collaborate with the secretaries of GATT and the FAO to complete such studies early in 1961 for consideration at a further meeting of the group.