I. INTRODUCTION

1. The terms of reference of the Panel on Subsidies state that the Panel is to undertake preparatory work for the review which the CONTRACTING PARTIES will conduct on the operation of the provisions of Article XVI and in particular:

(a) to examine the range and extent of subsidies maintained by contracting parties, in the light of the notifications submitted by them to the contracting parties, and of any other relevant information;

(b) to discuss with the notifying contracting parties any point requiring clarification and any other comment or suggestion put forward by other contracting parties to the Panel concerning the documentation received;

(c) to make practical suggestions to the CONTRACTING PARTIES with a view to improving the procedure for notifications; and

(d) to assemble material for the draft report on the operation of the provisions of both sections of Article XVI.

At its previous meetings in 1959 and 1960 (see previous reports of the Panel, L/970 and L/1160) the Panel examined the range and extent of subsidies maintained by contracting parties, and has discussed with the notifying countries certain points concerning their replies. The Panel has also made recommendations to improve the procedure for notifications (see revised questionnaire L/1315) and has considered the sort of measures which are notifiable under Article XVI.

The Panel has held two further meetings in February and April 1961 during which it concentrated on the assembly of material for a draft report on the operation of the provisions of both sections of Article XVI, as provided for in point (d) of its terms of reference. The Panel has not regarded it as part of its function
to suggest amendments to Article XVI, nor has it attempted to lay down any interpretation of the Article since it felt that those matters were outside its terms of reference and could only be undertaken by representatives of governments and not by a panel of experts.

2. The Panel has had at its disposal a good deal of information in the form of notifications of contracting parties, but concluded at its February meeting that further analysis of this information was required if it was to be helpful in the preparation of a report to the CONTRACTING PARTIES. Following this meeting, the secretariat undertook considerable analytical and statistical work, the results of which were available to the Panel at its April meeting, and which form the basis for some of the conclusions and comments in this report.

II. THE ROLE AND EFFECTS OF SUBSIDIES IN INTERNATIONAL TRADE

3. In the early post-war years two factors tended to minimize the expected effect of subsidies on international trade and to minimize their actual effect. The first was the widespread use of quantitative restrictions, and, to a lesser extent, the use of tariffs; and the second was that it was assumed that subsidies had a built-in self-limitation because they involved a charge on a country's budget. There were good reasons for believing, at that time, that subsidies would be temporary or limited in their application. Now, however, with the substantial removal of quantitative restrictions, and the progressive reduction of tariffs, the effect of the first of these factors has been greatly reduced. The second has not proved such an inhibiting factor as was at one time assumed, at least in the field of primary products, and the use of subsidies now has a more permanent character. There is, therefore, an increasing realization of the importance of subsidies to the pattern of international trade, and of the fact that they often closely resemble quantitative restrictions and tariffs in their purpose and effect.

4. The Panel considered that under its terms of reference it should attempt to assess the effects of subsidies on international trade. In doing so, however, it recognized that, in some cases, subsidies are employed for social
and humanitarian reasons to make greater supplies of goods available or to make supplies available at lower prices to the ultimate consumer; and in other cases subsidies are employed for political reasons to safeguard the livelihood of producers of primary products. The Panel has not regarded these aspects as being within its terms of reference.

5. At the time of its April meeting, fifteen contracting parties had submitted answers to the revised questionnaire, and an examination of these notifications indicates that, insofar as these countries are concerned, no major changes have occurred in recent years in government subsidization policies, although some adjustments have been made in the products subject to these policies and in the amounts of subsidies granted. At the same time, some members of the Panel believed, although from the information available it was not possible to reach a firm judgment, that subsidies had increased in scope since the war mainly because governments were not prepared to eschew protection for their producers which, in some cases, had been given by quantitative restrictions.

6. From an analysis of the notifications it appears that, although some subsidies exist on non-primary products, the great bulk of the subsidization measures relate to primary products. Some forty groups of primary products are granted direct production subsidies or are affected by other forms of governmental financial support. The commodities which are most commonly subject to such measures are cereals (in approximately twenty out of thirty-four countries considered), dairy products (in approximately seventeen countries), meat (in some ten countries), and sugar and vegetable oilseeds and oils (in some nine countries). Other important primary products, including cotton, eggs, potatoes and tobacco, are subject to similar subsidies in several countries. Attached is a table [Table I in Spec(61)1147] showing, for these selected primary products, the number of countries which have notified subsidies and other forms of governmental financial support affecting production.
7. In contrast with the situation of primary products, an examination of the notifications indicates that non-primary products are subject to direct production subsidies or other forms of governmental financial support in a very limited number of products in a small number of countries. Some eleven non-primary products have been notified as benefiting from such measures in one or two countries in each case. In these cases, the share of these products in international trade would appear to be insignificant. The Panel noted, however, that, in only one case, was any reference made to a subsidy to a domestic shipbuilding industry, despite the fact that subsidization measures of this nature were common. Since so few subsidies had been notified on non-primary products, the Panel expresses the hope that a large number of contracting parties will be able to sign the Declaration which was drawn up at the seventeenth session putting paragraph 4 of Article XVI into full effect.

8. Some fourteen groups of primary products were notified as enjoying direct export subsidies or other forms of export aid. The commodities which receive such supports are most commonly dairy products (in approximately ten of the countries examined), cereals (in some seven countries), and meat (in some eight countries). Other important commodities which receive such support in a smaller number of countries include sugar, eggs and vegetable oilseeds. In one country export subsidies were paid on certain primary products when they were included in processed goods. No direct or indirect export subsidies have been notified by any contracting party on non-primary products.

9. In examining the replies to the questionnaire, the Panel continued to find difficulty in assessing the effect of subsidies since contracting parties had rarely notified the effects in quantitative terms. Nor did the Panel find any way of measuring precisely the effects of subsidies. The Panel asked the secretariat to summarize the types of subsidies notified and the reasons for granting them. In an effort to assist the CONTRACTING PARTIES to gauge the effects of subsidies, the Panel also asked the secretariat to prepare a statistical summary showing the total amount and level of subsidization measures.
At the request of the Panel, the secretariat also prepared a statistical analysis of the subsidies which had been notified, and from these notifications, where this was possible on the information given, to estimate the ad valorem incidence of subsidies in general terms. The Panel has asked the secretariat to revise and make as complete as possible those analytical and statistical surveys in the light of further notifications and of any further information which they may see fit to request from contracting parties.

10. While the results of the surveys in April did not enable the Panel to reach any final conclusions on the effect of subsidies, it emerged that the ad valorem incidence of subsidies varied considerably from product to product and from country to country, from less than 1 per cent in some cases to 210 per cent in the case of an export subsidy on butter.