DRAFT PROGRESS REPORT OF COMMITTEE II

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1. INTRODUCTION

1. The Committee's terms of reference are:

(a) To assemble, in consultation with other competent international organizations, and in particular with the Food and Agriculture Organization, data regarding the use by contracting parties of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers, and the agricultural policies from which these measures derive. On the basis of such data and in consultation with the contracting parties concerned, to examine the effects of these measures adopted by individual contracting parties on international trade as a whole, and in particular on the trade in products entering importantly into international trade.

(b) To consider, in the light of such data, the extent to which the existing rules of GATT and their application have proved inadequate to promote the expansion of international trade on a reciprocal and mutually advantageous basis as contemplated in Article I (revised) and to report on the steps that might appropriately be taken in the circumstances.

(c) To suggest procedures for further consultations between all contracting parties on agricultural policies as they affect international trade.
2. In its first report the Committee set out the lines upon which it proposed to proceed and a second report was submitted to the CONTRACTING PARTIES in document L/1192 dated 19 May 1960. This second report advised that the Committee had carried out consultations on their agricultural policies with twenty-four countries. Since then consultations with certain other countries have been completed, but there are still a few consultations yet to take place.

3. When the first twenty-four consultations had been completed the Committee felt that it was in a position to make a number of general observations which were set out in its second report.

4. In that report the Committee made certain general observations regarding agricultural protection and price support which will be relevant in the next stage of the Committee's work.

5. The assembly of the material relating to (protection) (agricultural policy) 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.
6. One of the basic questions in discussing the effects of protection on trade is 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. The degree of protection of agriculture is influenced by the national income disparity between agriculture and the other sectors of the economy. This important problem, however, has not been analyzed by the Committee. Neither has the Committee analyzed the possibilities of reducing income disparity if protection of agriculture were reduced. The fundamental quest is for a more economical use of resources throughout the world and it is under this aspect that the whole question of the effect of agricultural protection must be finally confronted. Reference to the difficulties which various countries have in conforming with this aim is set out in Section 2(A)(a) of this report.

7. The Committee wishes to stress the difficulty of its task. Some basically different opinions on agricultural policies cannot be easily reconciled; the Committee considers, however, that, while taking this fact into account, it must go about its work in a realistic way, keeping in mind that one of the fundamental aims in GATT is to promote the expansion of international trade and to assist all countries in achieving a better utilization of their resources.
2. Committee's Findings

A. General

(a) Reasons why countries use non-tariff measures.

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

[See also paragraph 5 of Australian text.]

9. In its examination of individual systems, the Committee found that in general the main broad objectives were: (i) to maintain or raise the general level of farm incomes, usually with a view to some relationship being maintained with incomes in other sectors of the economy; and (ii) to reduce or eliminate fluctuations in domestic farm prices and incomes. A measure of stability in farm incomes was an aim common to most countries. In addition, at the present time, the objective of income support was stressed mainly by industrialized countries while price stabilization was stressed mainly by countries whose economies were mainly or largely dependent on exports of agricultural products.
10. Apart from the aims of supporting or stabilizing agricultural income or prices the Committee found there were other aims, considered to be either of equal importance or simply as contributors to the main goals of income or price support or stabilization or arising for extraneous reasons, such as protection of national security, social and demographic considerations, or balance-of-payments protection: the pursuit of these aims generally results in the fostering of agricultural productivity or maintaining or expanding total production for home consumption, or even for export, irrespective of world price levels.

11. The Committee also acknowledges the fact that not all measures of agricultural protection can be charged to agriculture. If society elects to support agriculture for reasons of national defence or social policy it is obvious that any effects on international trade emanating from such measures are not a responsibility exclusively of agricultural policy.
(b) Use of non-tariff measures

12. The Committee's findings arising from its analysis of the products (i.e. butter, cheese, meats and wheat), studied so far are set out below. Detailed analyses for each product are set out in the Annex.

13. In the case of each product a wide variety of non-tariff protective devices is in use. One device or another (and sometimes several) is used in practically every country consulted.

14. The application of quantitative import restrictions (frequently in discriminatory form and sometimes amounting to complete embargoes) was found to be particularly widespread. For example, of the total butter and cheese production in the countries examined, 85 per cent and 62 per cent respectively were subject to protection by quantitative import restrictions. Countries accounting for about 75 per cent of total world wheat imports applied quantitative import restrictions on wheat. Of twenty-four countries examined, eighteen applied quantitative restrictions to imports of all or some types of meat.

15. In each group tariff bindings on each product are being impaired by the use of non-tariff protective devices. In the case of meat, for example, one-third of the countries examined have tariff bindings on meat and, with only one exception (United States), all maintain some non-tariff device which reduces or even largely nullifies the benefit of the binding.
16. Import levies are a very widely used protective device against import competition. In the case of meat, four countries use this means, while more than one-quarter of the world imports of wheat are into countries applying import levies.

17. It was noted that systems of State trading are accompanied by restrictive measures particularly in the case of wheat. Arbitrary management of imports prevent exporters from knowing to what extent they have access to important markets.

18. Bilateral agreements in one form or another operate to influence the direction of trade and in many cases substantially dictate the source of imports. For example, bilateral agreements for wheat are quite extensive. Moreover, five OEEC countries still maintain discriminatory import treatment against non-OEEC meat exports.

19. Systems of price support frequently take the form of deficiency payments or domestic subsidies. For dairy products deficiency payments and other forms of price support are widely used. For meat products, many countries apply direct or indirect subsidies, it being noted that indirect aid to meat production through coarse grains arrangements can have effects fully equivalent to those of direct support of livestock and meat. In the case of wheat more than one-quarter of total world imports are into countries which assist their domestic producers by way of deficiency payments.
20. In exporting countries too, subsidies are an important device for raising farm incomes. For example, a very high proportion of total world exports of wheat are made with direct export assistance. The United Kingdom market, which is the only major market for pig meats, is affected by large imports of subsidized bacon and pork. Domestic protection of dairy industries has resulted in a level of output which often exceeds domestic demand with the result that surpluses are disposed of on the United Kingdom market, usually with the aid of some form of export subsidy.

21. The various measures of protection, such as tariffs, variable levies, quantitative restrictions, deficiency payments, export subsidies, etc., appear more as the means which make the policy, however determined, effective. (While the nature of the measures concerned could be appraised differently, it is nevertheless true that their effect upon trade depends essentially upon the spirit and the degree to which the various types of measures are applied, which in turn depends upon the basic policy or goal.) However, the type of measure is not altogether irrelevant.

22. As recorded in the Committee's Second Report, there is a difference in the types of measures in that some affect trade only by way of their effect on production, while others could also effect trade by way of their effect upon consumption as well as production. However, it is agreed that a more reliable appraisal of this aspect is impossible so long as there is a lack of concrete data on the
elasticity of demand which could vary greatly according to commodity and even more according to country.

The Committee faces special difficulties since important considerations of another kind have to be taken into account if results conforming to reality are to be achieved. Whilst preferring measures tending to favour multilateral or regional trade, the Committee is of the opinion that the same measures could lead to different results depending on whether an exporting or importing country is involved, or whether the share of agriculture in national output is high or low and related to weather conditions. In its subsequent work, the Committee would also analyse these factors since the effects on international trade measures in the agricultural and economic fields are greatly influenced by them.

\[\text{See also paragraph 34 of Australian text}\]
(c) Effects of non-tariff measures which have been delineated.

23. Measures also acquire importance from the point of view of international trade, if they are of a type which cannot be effectively covered by the procedures of GATT. Thus, while tariffs can be covered by these procedures, quantitative restrictions, variable levies and other devices, even if in conformity with Articles XI, XII, XVI, or other Articles of the General Agreement, are difficult to include in an equitable system of reciprocal benefits.

24. While the Committee has not attempted quantitatively to measure the effects on trade in agricultural products of the widespread resort to non-tariff measures of protection, it is clear from the data which the Committee has examined that these measures have had and indeed were intended to have the effect of reducing the volume of international trade in the products concerned. Thus, in both dairy products and wheat, support policies are designed to maintain domestic prices above international price levels, even where those price levels do not reflect the operation of export subsidies; and to give effect to these arrangements the regulation of the flow of supplies to and from the internal market is required.
Such price policies have usually resulted in increased production in the countries concerned. Traditional importing countries over the post-war period have increased their production of all of the products under review. Whilst not ignoring the effects of technological progress, this increase is largely the result of the use of non-tariff protective devices associated with or forming part of support price arrangements. For example, in Europe the OEEC has lately called upon member countries to curb excessive milk production by, inter alia, lowering levels of support. World meat production has increased by some 50 per cent since before the war but world trade in meat has increased by only 27 per cent. Again, the Committee has found that policies of price and income support (virtually all operated through non-tariff measures) have significantly stimulated production of wheat. Whilst there have been big increases in consumption of wheat in non-European countries the growth of wheat production in the European countries themselves has seriously affected the international trade in wheat. Between 1934/38 and 1954/58 the proportion of apparent consumption represented by the combined imports of the four major European importing countries declined from 42 per cent to 39 per cent, and their proportion of total world imports fell from 49 per cent to 30 per cent.
26. Wheat provides the best example of the effect on international trade of price support measures causing exportable surpluses leading to pressures for disposal on concessional terms. In its Review of the World Wheat Situation of April 1960 (page 52) the International Wheat Council found that total wheat and flour exports covered by special governmentally assisted export programmes made up nearly 28 per cent of world wheat and flour exports. Indeed, since about 1953 a quite important increase in the world trade in wheat and flour has been almost entirely due to non-commercial transactions.

27. With some exceptions (the most notable being the United Kingdom which maintains a deficiency payment system for wheat) wheat shipped internationally is sold in the country of import at a price higher and frequently considerably higher than the international price. (This applies also to most surplus disposal transactions where the wheat is paid for by consumers at the prevailing price in the recipient country.) This indicates that in many importing countries there is a capacity to consume wheat at prices generally above those at which wheat is traded internationally. In some cases the levy on imported wheat to raise its price to the domestic price level is used as a source of funds for buttressing the income of domestic wheat producers. Thus not only are exporting countries placed in the position of being residual suppliers by the operation of quantitative restrictions, State trading etc., but, through the operation of import levies, they are denied the opportunity of securing the full price which consumers are prepared to pay for their product.
28. Although in the case of wheat changes in the volume of consumption appear mainly to be influenced by changes in dietary habit rather than changes in price, the reverse applies in the case of butter, cheese and meat. Support price schemes backed by non-tariff measures of protection have raised butter and cheese prices in traditional importing countries. The increase in consumption of dairy products has lagged behind the increase in production.

NOTE

The Drafting Group will note that paragraphs 13 to 16 and parts of paragraphs 12 and 17 of COM.II/111, together with paragraphs 29 to 32 and paragraphs 35 and 38 of the Australian text, have been omitted on the assumption that the Group will want to examine the text of these paragraphs under "General Conclusions".