GENERAL AGREEMENT ON
TARIFFS AND TRADE

29 September 1966

CONFIDENTIAL
Spec(66)56

Group on Dairy Products

Original: English

EXPORT SUBSIDIZATION

Paper Prepared by New Zealand for
Dairy Group

In the New Zealand offer tabled on 16 September 1965 the section on export
subsidization paragraphs 8 to 11, outlined the New Zealand view on this question.
It was emphasized that New Zealand regarded this as a problem of particular
importance which unless covered adequately could have the effect of nullifying
gains made in respect to access commitments.

It was indicated that the two broad means of tackling this problem were
by action at the frontier, e.g. through a quota system such as operates in
Britain, or through commitments by exporting countries. New Zealand regards the
British quota system as being reasonably effective and, as it covers some
80 per cent of world trade in butter, believes that it should be retained. For
other markets, however, more appropriate action might be by a standstill of
export subsidization. For convenience of reference the exact wording was as
follows:

"We would propose a standstill on export subsidization as at, say,
16 September 1965. More specifically, we suggest that in respect of markets out-
side the United Kingdom all participating countries should undertake not to offer
butter at prices which are lower in relation to the domestic price than those
in force at a specified date; there would be no increase in export subsidy and
the offer price could be lowered only if there were also an equivalent lowering of
the domestic price. The appropriate 'domestic' price would be a matter for
discussion in the course of the negotiations. It seems probable that most countries
operate differential pricing schemes resulting in different offer prices on
different markets. It may, therefore, be desirable to freeze different export
subsidy levels in different markets."
In presenting the New Zealand paper in the June 1966 meeting of the Group, the New Zealand delegate indicated that while a standstill must be the first objective, the ultimate aim should be the complete elimination of the practice of export subsidization. The object of the proposal was to give more specific content and a more binding nature to the provision in Article XVI of the General Agreement that no export subsidy "shall be applied in a manner which results in that contracting party having more than an equitable share of world export trade in that product". For the same reason we considered that the limitation should be applicable also to the volume of subsidized exports, taking into account amounts exported during a representative period. We did suggest, however, that if an International Dairy Council were established it might have authority to vary commitments in certain defined circumstances.

One of the criticisms of our proposal was that it did not differentiate between exporting countries which have been forced to introduce some element of subsidization and those countries which use extensive subsidies so as to be able to quit their excess supplies on the international market. We consider that one way of meeting this objection might be to differentiate in the first instance between marginal and excessive subsidization. Thus, the Group might agree that where the agreed level of subsidization does not exceed a prescribed percentage of domestic prices the country would belong to the first category, whereas for countries where this percentage is exceeded there will be a requirement that subsidies be progressively reduced to the prescribed level.

To this end we proposed at the meeting of the Group on 22 September that:

(a) The margin between the price at which such products are offered for sale for export and the comparable wholesale price for the like product in the domestic market shall not exceed the margin which existed between these prices on 16 September 1965 nor shall such margin be applied to quantities exceeding those sold during a previous representative period;

(b) Export subsidies which amount to more than a specified percentage of the wholesale price in the domestic market shall be reduced by 10 per cent in the second year and in each subsequent year until they reach the prescribed percentage.

A simple example based on index figures would be as follows:

<table>
<thead>
<tr>
<th></th>
<th>Wholesale price</th>
<th>Export selling price</th>
<th>Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>100</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td>Country B</td>
<td>100</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>
In other words, Country A is giving a subsidy equivalent to 20 per cent of its wholesale price and Country B 50 per cent of its wholesale price.

On the assumption that the ultimate aim should be complete elimination of subsidization, the first step might therefore be to negotiate an arrangement under which

(a) Country A and others at a similar level would give an assurance that they would not increase the amount of subsidy per unit and the quantity involved, and

(b) Country B and others similarly situated would gradually reduce the level of subsidization according to a negotiated formula.

For example, Country B might agree to reduce its subsidies by, say, 10 percentage points per year. After a standstill for the first year, there would then be a reduction of the subsidy to 40 per cent of the domestic price in the second year, 30 per cent in the third year, and so on.

At a subsequent stage, review procedures would be required to ascertain the steps to be taken in order to eliminate subsidies completely.