Agriculture Committee

Note on Tables Prepared by the Secretariat
in Connexion with Examination of Production Policies

1. The secretariat was requested by the Committee to "prepare the categorization of certain data relating to production policies in order to facilitate the examination of this area" (COM.AG/II, paragraph 18). Among these data the Committee had indicated the concept and the level of overall support, the supply balance sheets by country for the major products traded internationally, and the prices received by producers (paragraph 17, II, 3 of above-mentioned document).

2. Information has been assembled on the two latter points - supply balance sheets, and prices received by producers - and is set forth in documents Spec(69)35 and Spec(69)36 respectively.

3. On the other hand, it did not appear feasible for the secretariat to prepare a categorization of data with a view to examination of the concept and the level of overall support, without having first received from the Committee precise directives as to the method to be used in compiling this type of information in a form that would be acceptable to governments and suitable for practical use in the Committee's future work.

4. This is, of course, not the first time that the governments have undertaken to refine this concept of overall support, with a view to determining its content and defining it more concretely, in a way acceptable to all so as to enable them to initiate discussions on a rational and if possible quantitative basis.

5. The first attempt of this kind in GATT dates back to 1960, when Committee II appointed a Study Group to examine whether or not it would be technically possible, and in the affirmative by what method, to calculate degrees of protection for certain categories of agriculture products.

6. The fairly impressive methodological difficulties which the group of experts encountered in its work are recorded in the reports of the Study Group of Committee II, in particular in its first report (COM.II/103 of 29 November 1960, and especially Annex E thereto).
7. Although the exercise in which the Agriculture Committee decided to engage by examining the concept and level of overall support may in some respects differ from the work done by the Study Group, it nevertheless remains that, on the analytical plane, most of the difficulties underlined by the experts in their report still obtain and that the problems of method would arise in very similar terms.

8. In theory, the problem seems relatively simple however. Overall support can be measured according to one or more of the three following methods:

(a) one can consider that such support is reflected by the frontier measure or the sum of such measures if there are more than one;

(b) alternatively, one can consider that such support is measured for each sector by the ratio: compensation payment/overall income of the sector;

(c) or again one can consider that support is measured in terms of the difference between the prices paid to the producer and the import prices.

The three methods can, if the case arises, be used in conjunction with each other, whether because measures at the frontier are used in conjunction, for example, with compensation payments, or in order to try to check by one method the results arrived at through a different method.

9. The difficulties begin when one attempts to define the terms used in each method and to achieve comparability between them.

10. With the first method, the most simple case is where a category of products is protected by an ad valorem duty. Even in this very simplified case, however, certain problems arise if one tries to arrive at comparable data: valuation for customs purposes; the existence or non-existence of preferential duties; uncertainties in the concept of world or of import prices which are often held down by subsidies; the comparability of products because of differences in nomenclature, quality, variety, packaging; in brief, even in the most simple case the difficulties that arise if one attempts to define the concept of support and make it comparable are such that there would be no solution other than to ignore them and rely on a standard, overall and rough evaluation of support. This is the practice in tariff negotiations of the conventional kind, when it is agreed that a given product which enjoys tariff protection - and nothing else - at the rate of 10 per cent ad valorem in two different countries probably enjoys in those two countries overall support equivalent to 10 per cent of its value in the national market. Admittedly, there is no proof of this, but how else can you proceed?
11. Naturally, the measure of overall support through protective measures on imports becomes an uncertain and even, in certain cases, completely unreliable exercise when the protection is afforded through means other than the ad valorem tariff - for example, mixing regulations, quotas, minimum prices and any others among the measures, whether or not discriminatory, that over the long or short term have come to affect a considerable proportion of agricultural trade. In the case of quantitative restrictions in particular, the method followed is clearly unsuitable and the level of overall support cannot reasonably be approached except through different techniques.

12. Variable levies on imports deserve special attention. As an instrument for measuring the level of overall support and on the assumption that it is the only measure used, at the frontier and inside the country, one can see immediately that such levies can hardly provide anything more than an indication of fluctuations in support. Assuming that solutions have been found to the problems of comparability of products, qualities, identical stages at which prices are recorded, etc., they also give rise to two additional categories of problems in relation to fixed tariffs.

13. The first of these relates specifically to the variability of the component terms: world price and entry price. Because of wide fluctuations in international prices and relatively frequent changes in entry prices, the incidence would have to be recalculated whenever the amount of the levy was adjusted, and such adjustments - sometimes affected every week, sometimes at longer intervals - would need to be recorded. By weighting these variations by the quantities imported during the corresponding periods, one could theoretically arrive at an approximation of the average incidence over a period of several years. It must be acknowledged, however, that in the event of any substantial change in the terms, these averages would not be of any very clear significance.

14. A second category of problems arises in regard to processed or semi-processed products, for which the levy only intervenes so to speak at the second stage, to the extent that it affects certain primary components of the products concerned. Here the actual incidence of the levy on imports of such products fluctuates in relation with additional variables such as the conversion rates used, etc.

15. Lastly, it is not technically impossible to translate the incidence of the variable levy into an ad valorem percentage, provided the terms of the calculation are agreed beforehand, but the results may very well in many cases not be amenable to an exercise of strict comparison. Furthermore, such a calculation would inevitably take a lot of time and would require a mass of statistical data.
16. One might imagine that the difference between the price received by the producer and the international price constitutes a reasonable approximation of the overall support received by a product. Here again, however, difficulties are considerable and one may mention two types among many others. On the one hand, the relation between the payment received for the supply of a product and the cost of producing that product is very often complicated by the existence of horizontal subsidies (for the purchase of fertilizers or fuels, electrification, mountain regions, etc.) which it is virtually impossible to apportion between the various crops where multiple cropping practices are followed. On the other hand, it would be necessary to have a detailed statement of inter-sector exchanges (grains and meat for example, or bovine sector and packing industries) to be able to form even a rough idea of overall support by sector. Apart from the fact that such statistics are available only in exceptional cases, it goes without saying that as regards those sectors of the processing industries that are located at a fairly advanced point in the production chain such a calculation would be of no great significance.

17. Of course, one could say that many difficulties derive from the fact that one attempts to establish a level of overall support by sector or by product. On the other hand, the usefulness of the concept of the overall support level for agriculture as a whole still has to be shown. In any event, the heterogeneous character of income corresponding to the supply of a given product, in relation with the geographical situation, size of the farm, capital invested, etc., is in many cases so notable that one must, in any case, reason in terms of averages.

18. The complications are all the greater as the sector concerned is more complex and more ramified. One may even question the feasibility of establishing, other than for illustrative purposes, an overall support level for the dairy products and fruit and vegetables sector in a large number of countries.

19. These few considerations represent only a very summary outline of the difficult problems inherent in examining the concept and level of overall support. Analyses that are much less unrefined will be found, in particular in the reports of the Study Group established by the CONTRACTING PARTIES in 1960, and in the work of other organizations. The foregoing reflections are simply designed to explain why it has appeared difficult to attempt to collect data on this particular point in the absence of more detailed directives from the Committee. They also have another objective - to draw the attention of the Committee to the dangers of getting bogged down, which are admittedly inherent in any detailed studies, but which seem particularly great in this particular instance.