

9 May 1960

Committee II - Expansion of TradeDRAFT REPORT OF COMMITTEE II

1. The Committee has so far carried out consultations on agricultural policies with twenty-four countries (Australia, Austria, Belgium, Burma, Canada, Ceylon, Denmark, Finland, France, Germany, Indonesia, Italy, Japan, Luxemburg, Malaya, Netherlands, New Zealand, Norway, Federation of Rhodesia and Nyasaland, South Africa, Sweden, Switzerland, United Kingdom and the United States). Consultations with five countries (Brazil, Czechoslovakia, Greece, Turkey, Yugoslavia) are scheduled to take place during the sixteenth session and the Committee will draw up a time-table for the balance of the consultations (Cambodia, Chile, Cuba, Dominican Republic, Ghana, Haiti, India, Israel, Nicaragua, Pakistan, Peru, Poland, Tunisia and Uruguay).
2. The consultations so far held have taken the form of an examination of the general agricultural policy of the country concerned and a discussion of policies in relation to those specific commodities entering importantly into world trade on which the Committee had agreed the consultations should be concentrated (dairy products, meat, cereals, sugar, vegetable oils and fish). Additional commodities were also covered in some consultations where requests had been received for these to be included. Each consultation was carried out on the basis of documents, furnished by the countries concerned, containing a synopsis of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers, and detailed information on tariffs, subsidies, quantitative restrictions, etc., on the commodities selected for study. The documentation submitted by countries, and on which the consultations were based, varied considerably in content with the result that the reports of the individual consultations also show considerable variation inasmuch as for some countries the consultations had to be in large part directed towards the collection of information which other countries had already provided in their basic documentation.
3. In its first report (document COM.II/5) the Committee put forward its view that the consultations would not only provide an appropriate and valuable means of filling gaps that existed in the available material but would also serve as one of the bases for further work of the Committee under the second and third of its terms of reference. The Committee expected that consultations carried

out on the lines it had proposed would provide a reasoned picture of the types, extent and effects of the protective measures employed in respect of the important agricultural commodities and at the same time of the agricultural policies of the individual countries as they affect production or trade.

4. In the event, the consultations so far held have served the purpose of providing a substantial volume of additional information on the individual systems applied, including statistics on trends in production, consumption, imports and exports of the selected commodities in the individual countries. Further, they have added to the knowledge of the objectives pursued by the consulting countries, the reasons for the systems and how these systems are being implemented. The consultations have also served the purpose of providing a forum for a concrete examination on a country-by-country basis of the effects on trade in the selected commodities and have in many cases provided opportunities for direct exchanges of views with officials responsible for directing agricultural policies in their own countries. Countries have pointed out their concerns at what they consider to be the effects that the systems and measures have had on production, consumption, etc., within an individual country and on the trade of that country, and the country concerned has ventured to give replies to the concerns expressed and its views on the effects of the measures. Comments have been made (and recorded in the reports of the individual consultations) on the characteristics of the systems, but no consolidated comparison of measures has been made.

5. The major part of each consultation has been confined to general agricultural policies. The commodity review has of necessity been limited and it was not therefore possible to cover all the points requiring examination under the individual commodities. No analysis of a general nature of the effects of the protective measures on international trade as a whole or the effects of the systems on trade in the basic commodities has been attempted.

6. Much of the material which would be needed to carry out an analysis on a global basis of the general effects of the individual systems on trade in the basic commodities has already been compiled in the individual consultations so far carried out. On the basis of this material, the secretariat has prepared a statistical study on a commodity basis on trends in production, consumption,

exports and imports for countries already consulted on the commodities covered in the consultations. From the information already provided by the consultations the secretariat has also made for each commodity a compilation of the use of non-tariff devices for each country consulted and has indicated where tariff concessions have been granted. Both these documents are attached to the report.

7. As to general studies, including other material which may be needed for the analysis on a global basis mentioned in paragraph 6 above, the Committee also looked briefly at the question of comparison of degrees of protection which the Panel of Experts has suggested should be carried out. Two delegations submitted papers on the question. The Committee recognized that while the undertaking would be difficult and results inevitably arbitrary, study should nevertheless be made if this were possible. The secretariats of FAO and GATT will present papers setting out the technical possibilities of carrying out such a study and the bases on which such a study might be made. The Committee also had before it a paper produced by the secretariat giving a comparison of prices received by farmers in various countries in 1955/56 (COM.II/W.6). The FAO submitted its views on the assumptions used in the secretariat paper. Some countries doubted the accuracy of some of the figures used in the secretariat paper and the Committee agreed that the paper should be developed; the secretariat is undertaking this work. The Committee agreed that the secretariat should also make studies of the relationship between retail prices and consumption of individual foodstuffs, particularly meat and dairy products, in a number of countries.

8. In its examination of individual systems employed, the Committee found that in general the main broad objectives were: (i) to maintain or raise the general level of farm incomes in order to provide agricultural incomes roughly comparable with other sectors of the economy; and (ii) to reduce fluctuations in domestic farm prices and incomes and in particular to give some safeguards against sharp falls in prices. At the present time, the objective of income comparability was of importance mainly in industrialized countries while price stabilization was more important in countries whose economies were mainly or largely dependent on exports of agricultural products. The bases on which countries attempt to establish comparability of agricultural income with other sectors of economy vary

considerably. These bases include, for example, measurement in terms of prices for agricultural commodities sold in relation to prices of commodities bought by farmers (United States), and incomes for a well-managed farm of a certain size designed to be at the same level as those received by non-agricultural wage earners in small and medium sized towns with a social environment and cost of living index similar to that prevailing in agriculture itself (Germany).

9. The Committee found that in general countries claimed that, whatever the effects of the systems they employed might be on production and consumption, they were not aiming at self-sufficiency in agricultural commodities nor even an increase in production generally. They found, however, that in a number of countries for a variety of reasons, e.g. to reduce dependence on imported foodstuffs for balance-of-payments reasons, security reasons, etc., a main aim was nevertheless the production of a certain amount of a product within the national boundary for home production or even exports.

10. The Committee found that a wide variety of measures is used to achieve aims and objectives. Two main categories of measures are used. Firstly, and these measures only apply to the objective of providing agricultural incomes roughly comparable with other sectors of the economy, there are long term measures related to bringing about structural improvements in agriculture by increasing the efficiency of farms. Grants for rebuilding, electrification, drainage, regrouping of farm holdings, education, roadbuilding, etc., are made. Measures such as these are employed in nearly all countries and the need for such measures was specially important in countries with small farms, uneconomic distribution of plots, etc. Structural measures, in particular those leading to a more economic size of farm/unit through a shift of the population to other occupations, appeared to the Committee to be of basic importance, particularly in the more developed countries with small farms, uneconomic distribution of plots, etc., where it is important to modernize the agricultural economy and to increase its competitiveness. The Committee found, however, that countries differed considerably in the degree of attention being given to structural improvements. In many cases it was found that there had been a movement of population away from agriculture which had helped to bring about an increase in efficiency. A number of countries realized the importance of movements from agriculture and were aware

of the necessity of facilitating such developments. Other countries, while not disagreeing with these views, indicated that there were limits to the action which their governments could take to move people from agriculture. The Committee agreed that measures to bring about shifts of population from agriculture could only be made to the extent that employment in other industries was available; agricultural economy should not therefore be separated from the development of the economy as a whole and changes in the <sup>structure of</sup> agriculture, must be made in a climate of economic expansion and high level of economic activity such as is being experienced at the present time.

11. The measures described above are of long term application and the effects would only be felt gradually and over a number of years. Countries felt that in the short term therefore they had to regulate markets in some way and it was found that a wide variety of measures was used to achieve the main objective of maintaining or raising agricultural incomes to levels comparable with the other sectors of the economy. The use of non-tariff devices was widespread and deeply entrenched in most countries. The measures used seemed to fall into three main groups, i.e. support prices, deficiency payments schemes and variable import levies, but in practice, the Committee found that in many countries the systems were a mixture of the different types of measures. It was found that while the actual mechanics of all three types of systems were of interest, the important element was the price or support level which the mechanism was used to achieve. All these systems could affect the level of domestic production or of domestic consumption, thereby influencing imports requirements or export availabilities and some part of the burden of high levels of agricultural support could be transferred to producers in exporting countries in the form of smaller export markets or lower prices.

12. In the first type of system, i.e. support prices, the measures taken to ensure that the level of price determined was in fact operative appeared to require, as an integral part of the system, the regulation of the flow of supplies to the market by quantitative restrictions on imports which in many cases were most stringent. The support price systems in respect of certain key commodities were often based on keeping out imports unless domestic producers were able to supply the market. Furthermore, consumption was kept below the level it might otherwise reach because, through the absence of imports, internal prices for these products were generally well above world prices.

In some cases the maintenance / of import restrictions was used as a bargaining weapon for export policy and under bilateral agreements countries gained preferential access in external markets in return for preferential access in their markets, which could only be provided by maintaining quantitative restrictions on imports from other sources.

13. In the second type of system, i.e. the implementation of price guarantees by deficiency payments, it was found that direct restriction of imports to maintain price levels on domestic markets appeared in the main to have been avoided but as with other methods of price support such a system did not avoid the encouragement of uneconomic production where returns to farmers were guaranteed at relatively high levels and that there was some reduction of import requirements because of increased production. There were cases where the stimulus to production afforded by the guaranteed prices had been such as to displace imports.

14. In the third type of system, i.e. variable import levies to compensate for the difference between the domestic and the world price level, it was found that, while quantitative restrictions did not appear to form an integral part of the system, nevertheless such levies were subject to frequent alterations and could have the effect of completely protecting domestic producers from import competition and of insulating them from movements in world markets while at the same time preventing consumers from benefiting from lower prices.

15. During the course of consultations some countries indicated that liberalization measures had been taken and that a few agricultural commodities had been affected by these measures. No indications were, however, given that countries would abandon all quantitative restrictions when no longer in balance-of-payments difficulties. Quantitative restrictions appeared to be an integral part of the protective systems in force in many countries and had no connexion with the balance-of-payments positions of those countries. It was also found that in some cases the activities assigned by some governments to State-trading agencies had the same effect on trade as quantitative restrictions and that not only buying and selling operations but the quantitative regulation of imports, which was properly a function of government, were being carried out by State-trading agencies.

16. The development of agricultural price stabilization and support policies in many countries was being accompanied by extensive and increasing use of export subsidies and other aids to export as a means of disposing of supplies which could not be sold at guaranteed price levels on domestic markets. All types of systems of support could involve the use of export subsidies or what in practice would amount to export subsidies, since all types had effects on production and therefore on the amounts which might become available for export. It was noted that expansion of exports was seldom a primary objective and in many cases countries claimed that use of such measures to dispose of surpluses had been undertaken reluctantly; it appeared however that resort to such measures was an almost inevitable development of domestic price support policies. During the consultations various countries, including both importing and exporting countries, pointed to the need for protection against subsidized exports and to the fact that no legislation existed in some countries by which the protection afforded by the rules of the General Agreement could be achieved and, where legislation existed, many countries were reluctant to use the legislation.

17. The Committee found that the objective of reducing fluctuations in farm prices and incomes is being pursued in some countries by means of equalization (or stabilization) funds, setting aside part of the export proceeds at times of high prices in order to increase returns to producers when prices are low. Insofar as such funds are solely financed by producers, this would not seem to involve a stimulus to an increase of uneconomic production. The situation was, however, different where government funds were involved.

18. Many criticisms were advanced during the consultations on the effects of support policies on domestic production and thus on the trade of the countries concerned. The main criticisms advanced were that when support policies resulted in farm prices being held at a higher level than would obtain from free market conditions, as was generally the case, this encouraged, or at least perpetuated, uneconomic production and retarded the necessary transfer of manpower from agriculture to other occupations. It also restricted consumption, especially of commodities with relatively high price elasticities, and thus reduced the volume of international trade, contributed to the development of surplus stocks and placed an undue burden on other sectors of the economy. So far as systems of stabilization funds to reduce fluctuations in returns to producers were concerned, it was suggested that there was some danger that they might have the

effect of masking long term changes, thus preventing the influence of economic trends in world markets from making themselves felt and so reducing the flexibility of adjustment of agricultural production to changes in consumer demand.

19. Future Work Programme.