

SECOND REPORT OF COMMITTEE IICountry Consultations

1. The Committee has so far carried out consultations on their agricultural policies with twenty-four countries (Australia, Austria, Belgium, Burma, Canada, Ceylon, Denmark, Finland, France, the Federal Republic of 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 other 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 of its 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 the aims of current agricultural policies and of the non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers, together with detailed information on tariffs, subsidies, quantitative restrictions, etc., on the commodities selected for study. The documentation submitted by countries varied considerably in content. In consequence, the reports of the individual consultations also show considerable variation: for some countries the consultations had to concentrate first on eliciting 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 non-tariff measures of protection or support 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 choosing the systems used to achieve these objectives and how these systems are being implemented. The consultations have thus also served the purpose of providing material for a concrete examination of the effects on international trade in the selected commodities. Moreover, they have in many cases provided opportunities for direct exchanges of views with officials responsible for directing agricultural policies in their own countries. Countries have expressed their anxieties about what they consider to be the effects that the systems and measures have had or could have on production, consumption, etc., within an individual country, on the trade of that country and on international trade. The country concerned has in turn explained its own views on the effects of the systems and measures employed by it. Comments have been made (and recorded in the reports of the individual consultations) on the characteristics of the systems and measures, but no consolidated comparison of their effects has been made. No analysis of a general nature of the effects of non-tariff measures of protection or support on international trade or of their effects on trade in the selected commodities has yet been undertaken.

5. Much of the material which would be needed to carry out an analysis on a global basis of the general effects of the individual policies and systems on trade in the basic commodities has already been compiled in the individual consultations so far carried out. 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.

6. It was envisaged that in carrying out its various tasks the Committee would have available to it the results of a study recommended by the Haberler Report, paragraphs 45 and 240, about the measurement of agricultural protectionism. As it was likely that such a major study would not be available for some little time the GATT secretariat, in order to assist the Committee, made available a working paper (COM.II/W.6) which set out the prices received by farmers in various countries for selected commodities. Members of the Committee held different views about the value of the tentative study (which indeed had not been intended as a substitute for the broader approach) and it was agreed that countries would comment further on the information provided. As yet the GATT and FAO secretariats have not been able to furnish the study referred to in the Haberler Report. They have, however, had some preliminary discussions about the technical difficulties involved and the methods of approach to be adopted. In the light of the discussion, the Committee considers that it would facilitate its further discussion on this point to appoint a small group to receive the views of the FAO and GATT secretariats and the comments of contracting parties (including those already submitted by Germany and the United States), together with the secretariat paper (COM.II/W.6), and to make recommendations to the Committee.

7. 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. 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.

8. The bases on which countries attempt to support agricultural incomes vary widely. In some cases a precise income objective is sought, based for example on costs of production, parity price indexes, a moving average of market prices or some combination of these methods. Examples of bases which are used to pursue a precise income objective included the 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). In other cases, no precise income objective is pursued but instead a very general aim with much attention given to other factors. The objective of reducing fluctuations in farm prices and incomes is being pursued in some countries by means of equalization (or stabilization) funds, part of the export proceeds at times of high prices being set aside in order to increase returns to producers when prices are low.

9. Aside 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 for extraneous reasons, such as protection of national security, social and demographic considerations, or balance-of-payments protection: the pursuit of these aims 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.

10. The Committee further noted that in those less-developed countries where agriculture is the main source of national income and output, the aims of agricultural policy and their implementation have different implications. In such circumstances some branches of agriculture may be favoured at the expense of others, but agriculture as a whole cannot be supported in the sense of a diversion to it of income from other segments of the economy. On the contrary, these countries must call upon agriculture itself to "support" or finance its own economic development and much or all of general economic development.

11. The Committee found two broad categories of measures emphasized; those for structural improvements (which are of a long term character) and those for the immediate protection of agriculture and the support or stabilization of farm income. The structural measures, calculated to increase the efficiency of farms, include grants for rebuilding, electrification, drainage, regrouping

of farm holdings, education, road building, etc. Measures such as these are employed in nearly all countries and the need for them was specially important in countries with a small farm problem. Assistance for structural changes appeared to the Committee to be of basic importance, particularly in the countries with small farms, uneconomic distribution of plots, etc., where it is important to modernize the agricultural economy and to increase its competitiveness. 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. In considering the importance of movements of population from agriculture and the desirability of facilitating such movements, the Committee noted that there were limits to the action which governments could take. There could also be economic limits to the movement of population from agriculture, including the relative efficiency of the utilization of resources in the various sectors of the national economy which could not be ignored. In this connexion, it was also noted that certain measures for the protection of agriculture could have the effect of retarding the movement of population out of agriculture that might otherwise have taken place in the absence of such measures. Furthermore, unless this movement of population did take place in some countries pressure for the continuation of protective measures in these countries would be more intense. Some of these measures were justified by the countries concerned on social and other grounds. The Committee, whilst noting that the problem was one which would necessarily have to be dealt with over a period of time, felt that structural changes in agriculture had to be looked at in the context of the economy as a whole: such changes in the structure of agriculture would be facilitated in a climate of economic expansion and higher level of economic activity.

12. In addition to the structural measures described above, countries are also using direct methods designed to support or stabilize agricultural incomes or prices. The tariff is not generally the only or even the principal method of providing such assistance, and the use of a wide variety of non-tariff devices is deeply entrenched in most countries. Agricultural income is

supplemented in a variety of ways which either help keep market prices higher or more stable than would otherwise be the case or leave market prices free to find their own level while providing supplementary income to producers by direct payments. Irrespective of which method of support is used or of the means which implement the chosen method, all of these programmes can increase the level of domestic production, thereby reducing import requirements or even creating or increasing export availabilities with consequential effects on international trade. The stimulating effect appears to depend more upon the price or income objective than on the method of support as such. Whilst the effects on international trade of the level of support aimed at were important, the mechanics of the various systems were also of considerable interest since the degree of direct interference with the flow of trade could, for a given level of support, vary widely according to the system employed.

13. In a situation where domestic support prices were maintained above international price levels the measures taken to implement these support prices require regulation of the flow of supplies to and from the internal market. So far as imports are concerned, this regulation usually requires limitation of imports made effective through the use of such devices as:

- (a) Quantitative import restrictions, State-trading, mixing regulations, etc. The support price systems in respect of certain key commodities were often based on keeping out imports unless domestic producers were unable to supply the market. In some cases there was also limitation on the domestic supplies coming on to the market. Various control measures are used for this purpose. However, effective controls are rare and over-production chronic. It was also noted that in some cases import restrictions were used as instruments of commercial policy to give or gain preferential access to markets under bilateral agreements.
- (b) Variable import levies to compensate for the difference between the domestic and the world price levels. It was felt that such levies could have the effect of completely protecting domestic producers from import competition and of insulating them from movements in world markets.
- (c) Other devices which in some form or another involve restriction at the frontier, e.g. minimum price arrangements.

Where exports are concerned, all the above systems of support prices above international level require measures to be taken to adapt the domestic prices to world prices for exports to take place. Where the acquisition of stocks of government agencies (or their equivalent) is employed as a means of maintaining internal price levels, two contrasting effects can be distinguished. In some circumstances, the holding of stocks by such agencies can have a stabilizing influence on international markets. On the other hand, the disposal of such stocks on world markets, which do take place from time to time, can disturb those markets to a very considerable degree. Finally,

it was noted that all of the systems operating through an increase in market prices tend to increase the share of consumer income used for agricultural products with consequential effects on consumption.

14. Another system of income support was the implementation of price guarantees by deficiency payments; it was found that direct restriction of imports was not essential and appeared in the main to have been avoided. Moreover, the development of consumption could proceed unaffected by prices above world levels. As with other methods of price support, however, such a system did not in itself avoid the encouragement of uneconomic production where returns to farmers were guaranteed at relatively high levels. There could be reduction of import requirements, or indeed the creation of export surpluses, because of increased production. In fact, cases were on record where the stimulus to production afforded by the level of guaranteed prices had been such as to displace imports. Prices realized for imported products could be influenced by the operation of a deficiency payments system.

15. The Committee to date has not made any comparative analysis of the systems described in paragraphs 13 and 14. Although the effects of the schemes on imports have been discussed in the appropriate consultations, the Committee felt that it would be unwise to make any judgments at this time about the relative merits or demerits of the systems. For such a judgment it would be necessary to take into account, among other things, not only the circumstances of a particular country but also the implications for international trade.

16. 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. Few 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 longer any 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.

17. 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 domestic price levels. All types of systems of support could involve the use of export subsidies or what in practice would amount to export subsidies to dispose of surpluses, 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 in a number of cases a direct consequence of domestic price support policies which had resulted in greater production than could be consumed or absorbed on the home market. Even countries which were traditional exporters could only continue to export under subsidies when domestic prices were held above world levels. Moreover, in such circumstances an additional volume of exports usually resulted. During the consultations various countries, including both importing and exporting countries, pointed to the need to take protective action in certain circumstances against exports of agricultural products which were subsidized or dumped. In this connexion the Committee noted the provisions in the General Agreement for dealing with dumping and subsidization.