

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

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ORIGINAL: ENGLISH

CONTRACTING PARTIES

S U B S I D I E S

NOTIFICATIONS REQUIRED BY ARTICLE XVI AND  
BY THE DECISION OF THE CONTRACTING PARTIES  
OF 2 MARCH 1950

Notification by the Union of South Africa

The following communication, dated 17 July, 1950, has been received from the Government of the Union of South Africa:

"In accordance with the provisions of Article XVI of the General Agreement on Tariffs and Trade and the Decision which was taken by the CONTRACTING PARTIES on March 2nd, 1950, the Government of the Union of South Africa have the honour to submit the following information in respect of subsidies as well as income or price support schemes at present in operation in South Africa:-

A. STATE SUBSIDIES.

1. Subsidies paid by the Government of the Union of South Africa must be voted by Parliament and all amounts involved are reflected in the annual Estimates of Expenditure.

(i) Direct export subsidies.

2. At present no direct export subsidies are paid by the State on any agricultural products. During the past few years there has been only one instance that could be regarded as falling within the category of export subsidies, viz. that in respect of edible oils in 1947/48 and 1948/49.

3. The dislocation of international trade during the war years resulted in a serious shortage of edible oils. For this reason, and also because of the beneficial effects of groundnuts on the soil, the Government of the Union of South Africa encouraged the cultivation of this crop, primarily by means of guaranteed prices to the producer. As a result, the production of groundnuts, as well as other oil-bearing seeds, particularly sunflower seed, was rapidly expanded and exceeded domestic requirements during the two seasons mentioned above. To enable the oil industry to take up the whole of the groundnut and sunflower - seed crops, the Government undertook to purchase, at fixed prices, any oil surplus to domestic requirements during the 1947/48 and 1948/49 seasons. Approximately 15,500 tons of oil were purchased at about £139 per ton and exported at about £117 per ton. During the same two seasons a subsidy was also paid on oilcake to keep down the price of feed mixtures. No subsidies are contemplated in respect of the 1949/50 oil-seed crops.

(ii) Subsidies on farming requisites.

4. Certain farming requisites, viz. bags and fertilisers, are subsidised by the Government, primarily to keep down costs, but in the case of fertilisers the object is also to encourage their use.

5. These subsidies probably have little or no effect, either direct or indirect, on the Union's foreign trade. South Africa is an importer of bags and fertilisers, particularly the former, so that the use and consequently the importation of these materials would, if anything, be stimulated by artificially lowering their domestic selling prices. On the other hand, with the exception of fruit and wool, hardly any of the products in the production and marketing of which fertilisers and bags are used, are normally exported. Moreover, for the major cereal crops prices are fixed, and the lower cost of bags and fertilisers is taken into consideration in determining these prices. The consumer thus derives the main benefit therefrom and production is not stimulated unduly as a result of these subsidies.

(iii) Subsidies on foodstuffs.

6. The Government also subsidises certain foodstuffs, viz. wheat, mealies, butter and margarine, in order to keep down the cost of living.

7. The Union of South Africa is a signatory to the International Wheat Agreement and normally imports a very substantial proportion of its wheat requirements. Since the producers' prices for wheat in South Africa are still well below the landed cost of imported wheat, and as no restrictions are imposed on the use of wheat and wheaten products, the subsidy would, if anything, tend to enhance imports.

8. During the past eight or nine years mealies have been imported or exported only spasmodically, the Union of South Africa in most years barely producing sufficient for its own requirements. On such quantities of mealies or mealie products as are exported, at least the amount of the Government subsidy is recovered.

9. In respect of butter, the Union of South Africa at present produces barely sufficient for its own requirements and only negligible quantities have been supplied to neighbouring territories. Due to the continued world shortage of butter the Union of South Africa has in recent years also not imported supplies of this commodity.

10. The production of margarine in the Union is subject to quotas, and very little has been exported. Such exports as do occur, are not subsidised.

B. SUBSIDIES PAID BY MARKETING BOARDS

11. Apart from the above State subsidies, which are consumer subsidies in the main, instances of export subsidisation by one or other of the Marketing Boards established under the Marketing Act (Act N° 26 of 1937, as amended) have occurred in recent years, viz. in respect of tobacco and raisins and, to a very minor extent, in respect of potatoes and bacon and baconers.

(i) Tobacco.

12. The Union of South Africa is, on balance, an importer of tobacco. During the war years serious shortages developed and the producers' prices fixed by the Tobacco Board were gradually raised to stimulate local production. Favourable prices, together with several exceptionally favourable seasons in succession, led to a substantial increase in production. As a result, there was an excessive accumulation of certain grades of Virginia tobacco, and the Tobacco Control Board, with the approval of the Minister of Agriculture, consequently decided to subsidise the export of these grades from its accumulated levy funds, which are derived from a levy on leaf tobacco. The quantities exported and the subsidies paid were as follows:-

	<u>Quantity (1,000 lb.)</u>	<u>Subsidy.</u>
1945/46 .....	259	£ 3,390
1946/47 .....	301	£ 1,958
1947/48 .....	59	£ 376
1948/49 .....	1,595	£14,923
1949/50 (provisional)	1,500	?

Substantial quantities of tobacco, however, continue to be imported into the Union from the Rhodesias for blending with Union tobacco.

(ii) Raisins.

13. In terms of the Wine and Spirits Control Amendment Act (N° 23 of 1940) the Koöperatiewe Wynbouers Vereniging van Zuid-Afrika, Bpk. (the Co-operative Winegrowers Association of South Africa, Ltd.) guarantees a minimum price for raisins equivalent to the distilling-wine price. Thus, partly as a result of the increase in wine and spirit prices during the war years and subsequently, the prices of raisins in the Union are relatively high. At the same time the Union produces a surplus of raisins over domestic requirements and this is exported at a loss by the Dried Fruit Board. To reimburse itself the Board loads its domestic selling prices. For the current season, this "loading" amounts to about one farthing per lb.

14. It should be pointed out, however, that the production of dried vine fruits has declined from a peak of 13,000 to 14,000 tons in 1942/44, to about 10,000 tons and less in recent years. As the domestic consumption increased substantially during the same period, exports have shown a substantial decline. With the exception of currants, moreover, the prices of raisins in the Union do not, on the whole, exceed the cost at which imported raisins could be landed here.

(iii) Bacon.

15. During 1949 the production of baconers increased to the point where local requirements were exceeded. Consequently, small quantities of bacon and frozen baconers were exported. On the whole no losses were incurred on these exports. For a limited period, nowever, the Director of Meat Supplies (a statutory body) subsidised the railage on bacon for export from inland factories. The subsidy paid amounted to £178 on 117,000 lb. of bacon.

(iv) Potatoes.

16. Normally the Union produces more or less sufficient potatoes for its own requirements. Production varies greatly, however, and to stabilise prices to some extent the Potato Board periodically operates an open buying scheme. Potatoes purchased by the Board during periods of peak deliveries are either stored for sale during periods of scarcity or on occasion exported. In general no losses are incurred on such exports. On one occasion only, viz. in 1947, did the Board suffer a loss of about £24,000 on 95,000 bags of potatoes sold to the British Ministry of Food.

C. PRICE STABILISATION MEASURES

17. Apart from tobacco, dried fruit and potatoes, marketing boards have also been established for the following products:

1. Wheat, oats, barley and rye;
2. Mealies;
3. Butterfat, industrial milk, butter, cheese and condensed milk;
4. Slaughter stock (cattle, sheep and pigs);
5. Citrus fruit;
6. Deciduous fruit;
7. Chicory root.

With the exception of deciduous fruit and potatoes, fixed prices are determined for all these commodities, except, of course, for the portion exported.

18. A major aim of these boards is to achieve a measure of price stability for the products concerned. In pursuance of this object, the domestic prices for the products concerned have, in general, during the current inflationary period been

maintained at levels lower, in varying degree, than those ruling in most countries abroad. This has been true particularly of mealies, oats, barley, citrus fruit and chicory. Dried fruit constitutes a notable exception, but conditions in this industry have been complicated by the high prices obtainable for fresh and preserved fruits and wine and spirits, particularly on overseas markets.

19. It is evident, therefore, that apart from the instances dealt with above, these price stabilisation measures have not to any undue extent encouraged production of the products concerned and, therefore, could not have tended to stimulate exports or to reduce imports. On the other hand, it is also clear that the policy of price stabilisation might, under altered circumstances, lead to a situation where the domestic prices of these products may in general be maintained at somewhat higher levels than those prevailing on overseas markets.

20. It should be borne in mind that agricultural production in the Union of South Africa, due to the extremely uncertain climatic conditions, is highly variable, and that periodic surpluses and shortages are consequently characteristic of a wide range of products. The occurrence of export surpluses in respect of a wider range of products than has been the case in recent years is probable, although it is possible that the rising trend in domestic consumption may, to a certain extent, counteract such a tendency.

#### D. DIFFERENTIAL RAILWAY RATES.

21. In South Africa, as in most other countries, railway rating policy is governed by three main considerations, namely, that :-

- (a) certain classes of traffic can only afford to pay railway rates lower than the average cost per ton mile of conveyance by rail;
- (b) some classes of traffic can afford to pay railway rates considerably higher than the average cost per ton mile;
- (c) it is better for the South African Railway Administration to convey additional traffic at rates below the average cost per ton mile rather than lose such traffic by charging higher rates than the traffic can afford to pay.

##### (i) Nearest Port Rates.

22. For the reasons mentioned in subparagraph (c) above a number of South African products, though chargeable at the normal scale of rates, are granted the following concession:-

"In no instance is the rate charged between South African railway stations higher than the port rate, according to classification, from the port nearest to destination station, subject, however, to a minimum specified rate per ton per mile."

23. The essence of this principle is that if the distance from the South African point of production to the destination station is less than the distance from the nearest port, the South African product pays the ordinary tariff rates. If, however, the distance from the South African point of production is greater than that from the nearest port, then the rate applicable to the imported article from the nearest port applies as a maximum on the South African article.

24. Under this provision inland producers are enabled to compete with the imported article in the coastal areas where the distance from the nearest port of importation is less than that from the inland point of production. Where the distance from the South African point of production to the destination station is less than from the nearest port, the South African product pays the ordinary tariff rates.

25. It may be argued that this method of rating constitutes an indirect subsidy. The basic principle in this rating is, however, merely that of securing to the South African Railways traffic at rates below normal rather than lose the traffic altogether. If this system of rating were withdrawn, it would mean that a considerable volume of traffic to the coastal areas would be lost to the Railway Administration since inland producers would no longer be able to market their products economically in this area.

26. It may also be contended that this rating arrangement has the effect of reducing the quantity of goods which would otherwise be imported. This may be the case, but as mentioned in the preceding paragraph, its application follows ordinary railway rating principles.

(ii) Preferential Rates.

27. The policy of the South African Railways, in its capacity as a carrier of goods, is opposed to the granting of preferential rates since the Railway Administration considers that if protection is to be accorded to products of the Union it should be given by means other than railway rates. Nevertheless, a certain number of South African commodities do enjoy preferential tariffs, but most of these tariffs are of very long standing, having been in operation prior to the establishment of the Union of South Africa in 1910. Since Union, however, preferential rates have been removed from 170 articles and others may be removed as opportunity offers.

(iii) Export Rates.

28. In accordance with the rating principle that it is more economical for the South African Railways to convey additional traffic at rates below the average than to lose such traffic altogether, reduced rates have been quoted in favour of a number of South African commodities when conveyed to a port for export overseas. If the normal tariffs were charged, most, if not all, of the commodities effected could not be economically exported with a resultant loss in traffic and revenue to the Railway Administration."

