

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 United Kingdom

INTRODUCTION

1. The main use of subsidies in the United Kingdom is for the purpose of stabilising at a relatively low level the prices to consumers of a number of basic foodstuffs, as part of the United Kingdom Government's policy - which is an integral part of its overall economic policy - of maintaining stability in the cost of living. The main commodities to which this applies are bacon, bread, flour, shell eggs, meat, milk, butter, cheese, margarine, cooking fats, potatoes, sugar and tea, and the subsidisation takes the form of trading losses incurred by the Government on the purchase and re-sale of domestically produced and imported foodstuffs in order to maintain the price stabilisation scheme. For the reasons given in paragraph 7, these subsidies, at any rate in the main and in present circumstances, do not fall within the scope of Article XVI of the General Agreement; nevertheless, it may be of interest to the Contracting Parties to give the description of these subsidies which is contained in paragraphs 3 to 7 below.
2. In addition, the United Kingdom Government grants direct subsidies or other financial assistance (a) to calf rearing, and to the keeping of sheep and cattle on hill farms and (b) for various forms of farm improvement (para. 8). There are at present subsidies on flax growing (para. 9), in connection with forestry (para. 10), the production of herring oil and meal, the catching of white fish and certain provision of financial assistance to inshore and herring fishermen (paras. 11-13). In the industrial field, assistance is given to the watch and watch jewel industries (para. 14); and there is also a voluntary scheme (para. 15) within the film industry for subsidising the domestic production of films out of increased box-office receipts arising from certain tax re-adjustments. Certain trading losses incurred by the Government in the operation of price control schemes relating to finished and semi-finished iron and steel and non-ferrous metals arise only in respect of imports, and are therefore outside the scope of Article XVI. His Majesty's Government does not grant or maintain any export subsidies; indeed, the classes of goods which it subsidises are ones of which the United Kingdom is a large net importer.

I. FOOD SUBSIDIES

3. As already indicated, the so-called "food subsidies" arise from the trading operations of the Ministry of Food. The detailed arrangements differ from product to product, but can be described in general terms as follows. The Ministry of Food or their agents purchase from domestic producers (at prices determined as indicated below) and from overseas suppliers, and re-sell to distributors at prices which enable re-sale to the consumer within the statutory maximum retail prices. As regards purchases from domestic producers, first-hand purchase prices, and measures to provide assured markets within certain limits for the main agricultural commodities, are guaranteed to farmers in pursuance of the Agriculture Act 1947; these are determined annually in advance on the basis of an annual review of the general economic condition and prospects of the agricultural industry.

4. In order to enable the farmers to plan their production efficiently, firm prices for crops (wheat, barley, oats, rye, potatoes and sugar beet) are fixed 18 months ahead, while for fat stock (cattle, sheep and pigs) milk and eggs, firm prices are laid down 12 months ahead and "floor" levels below which future prices will not be reduced are laid down from 2 to 4 years ahead. These prices are fixed at levels calculated to secure a stable and efficient agriculture capable of producing such part of the nation's food as in the national interest it is desirable to produce in the United Kingdom, and of producing it at minimum prices consistently with proper remuneration and living conditions for farmers and workers in agriculture and an adequate return on capital invested. The payment of these guaranteed prices to domestic producers, and of the prices currently prevailing for imports, together with the maintenance of a stabilised and relatively low re-sale price to distributors, involves the Government in the case of a number of products in trading at a substantial loss. These trading losses are in effect subsidies of variable amount, both on domestic and imported products, operated by means of Government purchase.

5. Estimated trading losses during 1950-51 on those types of foodstuffs which are produced domestically are shown in the following table:

Commodity	Estimated Trading Losses during 1950-51			Estimated increases in average prices which would be required to eliminate these losses		
	Home Production	Imported	Total	Unit	Home Production	Imports
1.	2.	3.	4.	5.	6.	7.
	£m.	£m.	£m.		s. d.	s. d.
Bacon	24.7	13.5	38.2	lb.	1 6 $\frac{3}{4}$	7 $\frac{1}{2}$
Bread	18.3	37.0	55.3	3 $\frac{1}{2}$ lb loaf	5 $\frac{1}{4}$	5 $\frac{1}{2}$
Flour \neq	8.4	25.5	33.9	7 lb	1 1	1 1
Shell Eggs	23.3	3.0	26.3	doz	1 5 $\frac{1}{2}$	3 $\frac{1}{4}$
Meat	37.3	2.8	40.1	lb	1 4	5
Butter	1.7	38.5	40.2	lb	1 0 $\frac{1}{2}$	1 0 $\frac{1}{2}$
Cheese	3.8	15.1	18.9	lb	9 $\frac{1}{4}$	9 $\frac{1}{2}$
Sugar	3.1	7.0	10.1	lb	1 $\frac{1}{4}$	1 $\frac{1}{4}$
Milk	72.0	-	72.0	quart	2 $\frac{3}{4}$	-
Potatoes *	15.4	-	15.4	7lb	2	-
Total	208.0	142.4	350.4			

\neq Other than flour for bread

* Includes acreage payments at the rate of £10 per acre.

In addition, trading losses are incurred in respect of tea and raw materials for margarine and cooking fats, which are wholly imported, and in respect of raw materials for the manufacture of fertilisers in order to maintain a fixed and relatively low maximum price for fertilisers used in agriculture. Taking account also of the cost of welfare schemes for free milk in schools and cheap milk and vitamin foods for infants and expectant mothers, of the "attested herds" scheme (under which quality premiums are paid for milk from dairy herds conforming to high veterinary standards), and of day-to-day profits and losses incurred by the Ministry of Food in trading in miscellaneous foodstuffs, the total estimated loss on government account in trading in foodstuffs and related raw materials for the financial year 1950-51 amounts to approximately £410 million.

6. It follows from the nature of these arrangements that it is not possible to separate in any precise way the element of subsidisation of producers which they contain from the element of subsidisation of consumption; this is particularly so because the products concerned are price-controlled and most of them (viz. bacon, eggs, meat, butter, cheese and sugar) are rationed. The figures in columns (6) and (7) of the above table might be taken as a measure, in a sense, of the "amount of subsidisation per unit"; but the fact that (for example) home-produced sugar is subsidised at an average rate of 1 $\frac{1}{4}$ d. per lb. affords no basis for estimating whether or to what extent it would be necessary to subsidise it in order to maintain the volume of domestic production if rationing and price-control

did not exist. Further, in those cases where the figure in column (6) exceeds that in column (7), the difference between these columns is not necessarily a measure of the difference in unit costs of production between domestic and overseas producers; in the cases, for example, of meat and of eggs, the domestic product, because of higher quality or greater freshness, would be likely to command a larger retail price premium over imported supplies than is permitted under the present control of prices.

7. It is impossible to assess with any precision the effect of these subsidy arrangements on the volume of imports of the products concerned. It seems clear, however, that the general effect of the system is not to decrease imports as compared with the volume which would be imported in the absence of the system, since:-

- (a) The food subsidies, by enabling the maintenance of a far lower level of prices to consumers than would otherwise prevail, cause the level of demand for foodstuffs to be considerably higher than it would otherwise be.
- (b) In order to meet the high level of demand for foodstuffs (even when restrained by rationing), within the limitations of the United Kingdom balance of payments position, it is necessary both to maintain a high volume of imports and to obtain a substantial increase in domestic agricultural output; and the object of the guaranteed price system is to produce this increase.
- (c) The volume of United Kingdom imports of subsidised foodstuffs from soft currency sources is limited not by import restrictions but by availabilities and/or prices, while the volume of imports from hard-currency sources is limited by severe restrictions necessary to safeguard the balance of payments. Thus any decrease in the subsidisation of a domestic product which resulted in a decrease in home production would result, not in any increase of imports (unless the Government were prepared to pay higher prices and in consequence higher subsidies in order to acquire additional imports from soft-currency sources), but simply in a decrease in the total available supply, necessitating more severe rationing.

These comments also apply to the arrangements described in para. 8.

II. DIRECT SUBSIDIES AND OTHER FINANCIAL ASSISTANCE TO AGRICULTURE AND FISHERIES

Agriculture

8. Apart from the "food subsidies", direct subsidies or other financial assistance are granted (a) to certain forms of agricultural production and (b) to assist the improvement of farms and agricultural land and the increased use of modern agricultural methods. Under head (a), the following subsidies are paid :

(i) Calf rearing subsidy

This subsidy, which is aimed at encouraging the rearing of calves for beef and milk production, takes the form of a payment to the farmer of a fixed rate for each calf on his farm which is certified suitable for beef production or for dairy herd replacement. The current rates of payment are £5 and £2 per head respectively for steer and heifer calves. The subsidy is to be discontinued, however, for heifers born after 30 September 1950 and for steers born after 30 September 1951.

(ii) Subsidy to hill sheep and hill cattle

The object of this subsidy is to encourage the maintenance (for breeding purposes and to maintain the productivity of hill grazing land) of sheep of certain breeds and of cattle in hill farming areas. The subsidy takes the form of an annual payment in respect of each animal eligible for subsidy; for the current year, the maximum rate of subsidy is 5/- per ewe and £4 per breeding cow or heifer.

Under head (b) may be mentioned Government refunds - as an encouragement to land improvement (in particular the improvement of grassland and the increase of tillage) and in view of the intended elimination in 1951 of the fertilizer subsidy mentioned in para. 5 - of a proportion of their expenditure on lime and on fertilizers, applied to grassland and ploughed-up grassland; grants of a proportion of farmers' expenditure on ditching and field draining, bracken eradication, water supply installations, and improvements to hill farms and marginal land, and grants or loans towards the cost of grass-drying equipment; financial assistance (in view of the recent removal of subsidies on animal feedingstuffs) to smallholders largely dependent on purchased feedingstuffs; and financial assistance towards the cost of milk recording and artificial insemination of cattle.

9. Flax. During the war, when imports of flax were unavoidably curtailed, the United Kingdom Government and the Government of Northern Ireland took over responsibility for purchases and sales of flax and stimulated the expansion of domestic production by purchasing at prices sufficient to cover production and development costs. Control of the purchase and sale of flax has now been removed, but subsidisation is being continued for the time being on a limited scale. Under the present arrangements, which will be reviewed not later than the end of 1952, flax growers are subsidised to the extent necessary to allow specified quantities of flax (2,000 tons per annum in Great Britain, 4,000 tons and 2,000 tons of rescutched tow in Northern Ireland) to be sold to flax spinners at prices slightly above world prices for comparable grades.

10. Forestry. Financial assistance to encourage the expansion of private commercial forestry in the United Kingdom is given to owners of woodlands (of area not less than 2 acres) on the following basis :

- (a) Where the owner is prepared to dedicate his woodland permanently to forestry a grant of up to 25% of his operating losses until the woodland becomes self supporting or alternatively £12 per acre for planting plus an annual contribution of 4 shillings per acre towards the cost of maintenance over the first 15 years.
- (b) A grant of £12 per acre for planting woodlands not suitable for dedication, or
- (c) A grant of £8 per acre or alternatively 2 shillings per tree where not less than 200 trees are planted in avenues for planting on land devoted exclusively to poplars.

In addition payments are made for the timely thinning of young plantations. Payments in respect of coniferous thinnings are at the rate of 3 pence per cubic foot subject to certain conditions as to area and volume or £3.15s. per acre. The flat rate of £3.15s. per acre is also applicable to hardwoods.

Fisheries

11. White Fish. A subsidy is being paid during the period August 1950 - January 1951 to catchers of white fish (i.e., any fish found in the sea except herrings, salmon, migratory trout and shell fish) caught from British fishing vessels of less than 140 feet in length, in certain waters (between 43° and 63° N. and east of 17°W). For vessels up to 70 ft. in length, the subsidy is at the rate of 10d. per stone of fish sold wholesale; for larger vessels, it takes the form of a fixed sum (up to £12) per day spent at sea, and is not paid or is reduced where the gross earnings of the vessel per day at sea and/or for the voyage exceed certain maxima.

12. Financial Assistance to Inshore and Herring Fishermen. Under the Inshore Fishing Industry Act, 1945, the Minister of Agriculture and Fisheries and the Secretary of State for Scotland were authorised to make grants not exceeding a total of £500,000 and loans not exceeding a total of £800,000 to inshore fishermen (i.e. fishermen using boats not exceeding 70 ft. in length) for the construction, acquisition and improvement of fishing boats and the purchase of nets and gear. The White Fish and Herring Industries Act, 1948 increased the aggregate amounts authorised to £1,000,000 for grants and £1,800,000 for loans. At 30 June, 1950 grants totalling £763,363 and loans totalling £1,327,852 had been offered and accepted. Similar grants and loans to herring fishermen may be made under the Herring Industry Act 1944. At 30 June, 1950 grants totalling £344,375 and loans totalling £622,489 had been offered and accepted.

13. Herring oil and meal. Herring surplus to other requirements is purchased by the Herring Industry Board at a fixed price of 35 shillings per cran for conversion either in their own factories or in commercial factories. The proceeds from the sale of oil and of the meal (which is rationed and subject to a maximum price)

does not meet the cost of purchase, processing and transport of the herring taken for conversion. The Board's loss is reimbursed by the Government by means of grants under the White Fish and Herring Industries Act 1948. In the year ended 31 March 1950 the total grant for these purposes (excluding capital expenditure) amounted to £160,135.

III. INDUSTRIAL SUBSIDIES

14. Watches and watch jewels. The watch and watch jewel industries are industries developed during the Second World War and are not yet fully economic. To assist their development, certain essential machinery is provided by the Government on easy rental terms (4% per annum) and the user has the option to purchase the machinery at the end of five years at the market value then prevailing. It is estimated that this financial support will not exceed 5% of the production costs of the firms concerned during the five years' rental period.

15. Films. There is no Governmental subsidisation of films, but it may be mentioned that under a voluntary agreement concluded on 29 July 1950, between the principal Trade Associations of the film producers, renters and exhibitors, a central reserve of funds has been established within the industry for the purpose of supporting and encouraging domestic production of films. The central reserve is maintained by payments which exhibitors have undertaken to make as a result of additional receipts derived mainly from slight increases in the higher prices of admission to cinemas in the United Kingdom and partly from some adjustments made under the Finance Act, 1950 to the scale of entertainments duty applicable to cinemas. These funds, which it is estimated will amount to about £1½ million per annum, are administered by a Central Committee consisting of representatives of the film Trade Associations concerned.

30 August 1950.

