

GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES

S U B S I D I E S

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

Notification by Canada

Calendar Year 1949 or Fiscal Year 1949-50
Where Indicated

This report has been prepared pursuant to the obligation under Article XVI of the General Agreement on Tariffs and Trade to notify the CONTRACTING PARTIES of any subsidies, including any form of income or price support, leading directly or indirectly to increased exports or to reduced imports.

Federal subsidies including any form of income or price support which might be considered under the purview of Article XVI are discussed under two main headings:

- I Agricultural products
- II Mineral products

Notification of each subsidy in each group is given under the following sub-headings:- Legal authority for the subsidy; Circumstances; Extent and nature; Cost and Effect.

I SUBSIDIES GRANTED OR MAINTAINED ON AGRICULTURAL PRODUCTS

1. GRAIN AND GRAIN PRODUCTS

Western Grains, Whole or Ground, Wheat Bran, Wheat Shorts,
Wheat Middlings, Wheat Screenings and Millfeeds

Authorization - P.C. 7523, 25 September 1941, P.C. 5434,
17 November 1949, with respect to freight assistance.

Circumstances - This was a wartime measure designed to utilize surplus feed grains and to assist Eastern farmers in obtaining the necessary Western feed grains and millfeeds at prices which would permit them to maintain livestock production.

Extent and Nature - The subsidy which covers practically all freight charges is paid on Western grains and millfeeds moved in carload lots from Fort William-Port Arthur to points in Eastern Canada and from points in Western Canada to British Columbia. The subsidy is not paid on grains and feeds which are exported. Wholesale receivers are reimbursed the amount of the freight when proof of usage is submitted.

Cost - The rate of freight assistance per ton varies from \$6.00 to \$20.00 depending on the length of the freight haul. The total cost of feed freight assistance in the calendar year 1949 amounted to \$16,254,000. The cost from January 1 to May 31, 1950, amounted to \$3,813,000.

Effect. - This program has probably had three effects. The most important is that it has reduced imports of feeds by encouraging Canadian consumption. It also has decreased Western Canadian exports of feeds. Finally it may have caused an increase in Canadian exports of pork and pork products through the lowering of production costs.

2. LIVESTOCK AND LIVESTOCK PRODUCTS

Hog Premiums

Authorization - P.C. 62, 10 January 1944, amended April 1946.

Circumstances - This payment was designed to improve the quality of Canadian bacon and to encourage the channelling of such hogs through inspected plants.

Extent and Nature - Payment of the quality premium is confined to producers who deliver their hogs for slaughter at inspected plants or approved establishments throughout Canada. The farmer receives with his settlement statement a hog premium warrant which is negotiable at par at any chartered bank. The Government then reimburses the bank. In 1949 a premium of \$2.00 per head was paid on "A" grade carcasses and \$1.00 per head on "B-1" grade. The same premium rates apply in 1950.

Cost - In the calendar year 1949 hog premium payments cost the government \$4,696,000. In 1950, up to April 30, the government paid out \$463,000 in hog premiums. The total number of hogs on farms in Canada at June 1, 1949 was estimated at 5,163,000, valued at \$178,362,000.

Effect - Although the quality premium has not brought about a marked increase in top quality hogs marketed in Canada, it is considered to have maintained the proportion of the top grade hogs in the face of rising feed costs. Although Canadian production and exports of pork and pork products have declined in recent years, this subsidy has facilitated production and exports of top grades of these products.

Subsidy in connection with Canada - United Kingdom Bacon Export Agreement of 1950

Authorization: Agricultural Products Act, 1947; P.C. 325, January 20, 1950.

Circumstances - Because of the changed conditions of the market and the more intense exchange difficulties abroad, the 1950 Export Agreement on bacon with the United Kingdom called for a much smaller quantity at a considerably lower price (60 m. lbs. at 29 ¢ per lb. in 1950 as compared with 160 m. lbs. at 36 ¢ per lb. 1949.) In order to prevent this sharp downward adjustment in the quantity and price of the export agreement from demoralizing the Canadian hog market, and bringing about a serious reduction in the income of hog producers, the government took steps to stabilize the market. This was accomplished through the Meat Board offering to buy all deliveries of the proper grade of bacon at 32.5 ¢ per lb. which was 3.5 ¢ above the contract price for export, but 3.5 ¢ below the 1949 contract price.

Extent and Nature - Since the contract price is 29 ¢ per lb. and the price which the Meat Board will pay for the same grade is 32.5 ¢, the government is in fact paying an export subsidy on shipments to the United Kingdom of 3.5 ¢ per lb. So far sales to the Meat Board are considerably below the contract requirement so that the price support operation has not resulted in any accumulation of bacon stocks.

Cost - During the first six months of 1950, Canadian Government expenditure in connection with this subsidy amounted to about \$0.5 million. The total value of marketings of hogs during this same period is estimated at about \$150 million.

Effect - The subsidy has tended to maintain Canadian production and exports to the United Kingdom at a higher level than they would otherwise be.

Silver Fox Pelts (Including Platinum and White Marked)

Authorization - The Agricultural Products Co-operative Marketing Act, 1939.

Circumstances - Producers frequently find themselves in a tight credit position early in the season and for this reason are compelled to unload large quantities of pelts on the market. The guaranteed advance payment provides needed financial assistance at this time and facilitates orderly marketing.

Extent and Nature - Agreements are made by the Minister of Agriculture with fox pelt marketing associations who agree to market the product under a co-operative plan. The operation involves no loss to the government unless the selling price is less than the initial advance.

Cost - Initial payments under the 1949-1950 agreements represent approximately 50 per cent of the last three year average wholesale prices. The actual average guarantee per pelt is approximately 40 per cent below the average initial payment of the 1948-1949 season.

Effect - Although there has been a steady decline in production of ranch raised foxes and exports of fox pelts since 1939, this subsidy has probably had the effect of maintaining exports at levels higher than would otherwise have prevailed.

2. DAIRY PRODUCTS

Cheese Quality Premiums

Authorization - Cheese and Cheese Factory Improvement Act, 1939, as amended.

Circumstances - The purpose of the subsidy is to improve the quality of cheddar cheese.

Extent and Nature - The subsidy is paid to cheese factories by the Federal Department of Agriculture on high quality cheese graded at government grading stations. The cheese factories distribute it to their milk supplies. The amount of the subsidy is one per cent per pound on cheese scoring 93 points and two cents on cheese scoring 94 points or more.

Cost - The amount of the subsidy was \$910,000 in 1949, payable on 66,500,000 pounds, and \$108,000 for January 1 - May 31, 1950. Total production of cheddar cheese in 1949 was 113,787,000 pounds, valued at approximately \$34 million.

Effect - While production and exports of cheddar cheese have declined in recent years this subsidy has probably facilitated the production and exports of high quality cheese.

Cheese Price Support

Authorization - 1949 - Agricultural Prices Support Act, 1944, as amended, and P.C. 4325, August 24, 1949. 1950 - Agricultural Products Act, 1947, and P.C. 366, January 25, 1950.

Circumstances - The effect of the United Kingdom contracts was to provide a floor price for cheese from 1940 to August 1, 1949 when the 1949 contract terminated. From August 24 to December 31, 1949 purchases were made by the Agricultural Prices Support Board in order to avoid a sharp decline in prices which would have resulted in hardship to the dairy industry. In 1950 a subsidy is being provided by the Federal Government to help absorb the shock of a sharp decline in the export price.

Extent and Nature - The 1949 United Kingdom contract called for the shipment of 50 million pounds of cheese at a price of 30¢ per pound, first grade, f.o.b. factory. The contract was filled by August and the Agricultural Prices Support Board undertook to buy cheese produced on or after August 1, 1949 at the contract price.

A new cheese contract was negotiated in 1950, calling for the shipment of 70 to 84.7 million pounds of cheese at a price of 25¢ per pound, first grade, f.a.s. Canadian Seaboard. The Dairy Products Board was authorized to buy the cheese necessary to fill the contract at 28¢ per pound, first grade, f.a.s. Canadian Seaboard, the 3¢ difference between this price and the contract price is paid from funds provided by the Canadian government.

Cost - At May 31, 1950 the book value of cheese held by the Agricultural Prices Support Board was \$5,347,000 and the quantity 16.7 million pounds. It is expected that most of this amount will be sold and the expenditure recovered.

From January 1 - May 31, 1950 the cost of the 3¢ subsidy on cheese purchased by the Dairy Products Board for the United Kingdom contract was \$20,000.

Effect - While the volume of exports has not increased the subsidy has a direct effect in maintaining production and exports of cheddar cheese to the United Kingdom.

Butter Price Support

Authorization - Agricultural Prices Support Act, 1944, as amended; P.C. 1573, April 14, 1949, P.C. 1609, March 28, 1950 and P.C. 2126, April 25, 1950.

Circumstances - The production of butter in Canada is usually about sufficient to meet domestic needs. Small surpluses or deficiencies occur from time to time. In light of the wide fluctuation in the output of butter during the 1947-48 season, and the uncertainty respecting butter marketing in the 1948-49 season, the trade was unwilling to undertake the usual storage operations. In order to avoid extreme price fluctuations the Government on April 1, 1949 established a floor price for butter under the Agricultural Prices Support Act.

Extent and Nature - From April 1, 1949 to April 30, 1950, the support price for first grade butter was 58¢ per pound basis delivery Montreal and Toronto. From May 1, 1950 to April 30, 1951 the support prices will be 53¢ per pound basis delivery Montreal and Toronto.

Cost - The inventory at book value for butter held by the Board at May 31, 1950 was \$11,334,000 and the quantity 19.1 million pounds. It is expected that most of the amount outstanding will be recovered. Production of creamery butter in 1949 in Canada amounted to 278,657,000 pounds, valued at approximately \$153,261,000.

Effect - Exports of butter, all by private trade, in 1949 amounted to 1,069,000 pounds. Exports in the year 1950 up to April 30 amounted to 641,000 pounds, almost all of which was sold from government held stocks. The export prices of this quantity of butter was about 10¢ below the domestic selling price.

Dry Skimmed Milk Price Support

Authorization - Agricultural Prices Support Act, 1944, as amended and P.C. 2250, May 27, 1949.

Circumstances - There was a considerable accumulation of this product in 1949 due largely to import restrictions imposed abroad despite diversion of manufacture of dry skimmed milk and butter to cheese and other products. Price support operations were undertaken to prevent a sharp price decline.

Extent and Nature - The Board was authorized to buy first grade dry skimmed milk to a maximum expenditure of \$1 million at 9.5¢ per pound for the roller processed product and 10.75¢ per pound for the spray processed products, f.o.b. country points.

Cost - The actual amount purchased was 10,380,641 pounds valued at \$994,746. The entire quantity was donated by the government to the International Emergency Children's Fund.

Effect - The disposal of the government-held stocks was through non-commercial channels. The product is not now under price support.

4. APPLES

Authorization - Agricultural Prices Support Act, 1949 as amended. P.C. 4712, 13 September, 1949. P.C. 1780 and P.C. 1781, 12 April, 1950.

Circumstances - Due to the loss of overseas markets, resulting from currency difficulties abroad, it was considered desirable to assist Canadian apple growers in finding an export outlet for fresh apples and to supplement returns received by growers.

Extent and Nature - Direct assistance in the form of an export subsidy applied to about 2 million bushels out of a total crop of 17.5 million bushels. The total cost of these 2 million bushels amounted to \$3 million which was shared equally by the British and Canadian governments.

Cost - In addition to the cost of \$1.5 million, grants to growers amounted to \$2.5 million making a total cost to the government of \$4 million for the 1949 crop of apples. The value of the 1949 Canadian apple crop is estimated at \$20.3 million.

Effect - The program had the direct effect of moving these apples to the United Kingdom market.

5. HONEY

Authorization - Agricultural Prices Support Act, 1944, P.C. 1789, 7 April 1949.

Circumstances - The purpose of the measure was to prevent a sharp decline in prices which would have occurred because of a surplus of honey arising from a large crop in 1948 and the reduction in overseas export outlets.

Extent and Nature - The government announced April 9, 1949 that it would purchase up to July 31, 1949 five million pounds of honey produced in 1948. Purchases were confined to bulk containers in car lot quantities at a price of 14 cents a pound basis White No. 1 grade.

Cost - Total purchases by the Government amounted to 3,002,346 pounds at an outlay to the Treasury of \$369,252. Export sales from January 1 to June 30, 1950 amounted to 102,000 pounds on which the government recovered \$8,731. Total production of honey in Canada in 1948 amounted to 45 million pounds with a farm value estimated at \$9.3 million. The 1949 crop of honey which fell to 33.2 million pounds, valued at \$5.2 million, is not under price support and due to the short crop it is expected that Board holdings of white honey will be disposed of in the domestic market, without loss.

Effect - A subsidy is involved in export sales which have returned 3 to 4 cents a pound less than the purchase price. Exports which varied between 5 and 10 million pounds before the war dropped to 29,000 pounds in 1949.

II. SUBSIDIES GRANTED OR MAINTAINED ON MINERAL PRODUCTS

1. COAL FREIGHT SUBVENTIONS

Authorization - Dominion Coal Board Act, 1947, P.C. 5896 dated 23 December 1948.

Circumstances - This form of assistance, which has been maintained in varying degrees during the last twenty-three years, has arisen from the geographical position of the Canadian coal fields in relation to the major Canadian coal markets. The aid was designed to assist the movement of Canadian coal to some portions of central Canada by equalizing the laid-down costs of Canadian coal with United States coal.

Extent and Nature - There is a wide variety in the subventions designed to assist Canadian coal movements. With only one exception they are all designed to place Nova Scotia, New Brunswick, Saskatchewan, Alberta and British Columbia coal on the markets of Ontario and Quebec in Competition with imported coal. The one exception is the subvention on Alberta and British Columbia coal moved to Manitoba for railway use only.

Cost - The total cost of these subventions in the calendar year 1949 amounted to \$3,401,852 and the total coal moved under subvention amounted to 2.4 million tons. In 1949 the total Canadian production of coal amounted to 19 million tons.

Effect - It is likely that in the absence of the subvention very little of the coal produced in the Maritime Provinces or Western Canada would have moved to Central Canada. Hence it appears that the subvention reduced Canadian demand for imported coal by around 2 million tons in 1949.

2. COAL EXPORT SUBSIDY

Authorization - Dominion Coal Board Act and P.C. 1094 dated 15 March 1949.

Circumstances - This subsidy was provided to assist the coal producers of British Columbia and Alberta to find markets elsewhere than in Canada, since they are located so far from the major markets of central Canada. It provides a subsidy on coal exported to all countries other than the United States or its territorial possessions or used as fuel for ships' stores.

Extent and Nature - This subsidy provides a payment of up to \$1.00 per ton on Alberta and British Columbia coal exported from Canadian seaports.

Cost - In 1949 the export of 36,170 tons of coal was subsidized in this way at a cost of \$29,893. In the same period total Canadian production of coal amounted to 19 million tons.

Effect - In 1949 total Canadian exports of coal amounted to 432,000 tons. It is not possible to estimate with any precision the effect of the subsidy on exports. Since the amount of the subsidy paid is quite small in relation to the price it is likely that most, if not all, of the quantity exported would have moved without the subsidy.

3. COKE BOUNTY

Authorization - Coke Bounty Act, 1930 (See para.2 under Legislation Part III.)

Circumstances - This subsidy provides that any iron and steel producer not entitled to a draw-back on imported coal may be granted a subsidy on the coal of Canadian origin which he converts into coke. It was designed to assist those iron and steel producers who, because of their geographical position, are not able to utilize lower priced imported coal for coking. It thus reduces the cost differentials between various Canadian primary steel producers.

Extent and Nature - This subsidy amounts to 49.5 cents per ton of Canadian coal used by primary iron and steel producers for converting into coke.

Cost - In 1949 the subsidy was paid on 740,288 tons of coal at a cost of \$366,443.

Effect - This subsidy has little effect on Canadian foreign trade. Those companies receiving the subsidy would not be able to use imported coal for coking purposes because of geographical location. It is possible that the subsidy, by lowering costs increases Canadian exports of primary iron and steel. However these exports amounted in 1949 to only 250,000 tons whereas total production amounted to 3.2 million tons.

4. STEEL FREIGHT SUBVENTION

Authorization - Appropriation Act, No.7, 1949 and P.C. 2105 dated 29 May 1947.

Circumstances - This subsidy which is designed to maintain capacity production in the Canadian iron and steel industry arose because of the unequal distribution of primary capacity and finishing capacity. The subsidy facilitates the movement of primary steel (ingots, billets, blooms and slabs) from those mills unable to process it to other mills where there is excess finishing capacity.

Extent and Nature - Total freight charges on the movement of primary steel to finishing mills are paid under this subvention.

Cost - The payments under this subsidy in the year ending 31 March 1950 amounted to \$1,804,440.

Effect - It is estimated that through this subsidy an additional 200,000 tons of domestic finished steel are made available annually. This compares with a total Canadian production of 3.2 million tons and imports of 1.2 million tons. It is possible that in the absence of this subvention all of the steel movements involved would not have taken place. Hence the subvention probably reduces Canadian demand for imported steel by a small amount. It may also result indirectly in a small increase of exports.

• STEEP ROCK IRON MINES ORE FREIGHT SUBSIDY

Authorization - P.C. 8423 dated 18 September 1942 and continued by annual appropriation acts.

Circumstances - In order to guarantee domestic supplies and to stimulate iron ore production when wartime demand was very great, it was decided to assist the shipment of ore produced by development of a new ore body located at Steep Rock near Atikokan, Ontario.

Nature and Extent - In consideration of the setting of a special reduced rate by the C.N.R. on ore moving from Steep Rock to Port Arthur, Ontario, the Government agreed to pay 20¢ per gross ton on the first 5,000,000 gross tons of ore handled. Shipments to the end of the 1949 shipping season totalled 4,354,673.98 gross tons. The balance is expected to be shipped during the 1950 season and it is not the intention of the government to renew or extend the subsidy.

Cost - Subsidy payments in 1949-50 totalled \$226,419.33 and \$129,066.00 has been appropriated to cover cost of concluding the arrangement in 1950-51.

Effect - The subsidy no doubt was of substantial encouragement in expediting development of the Steep Rock orebody and bringing it to the production stage. Its exact effect, however, cannot well be estimated as it seems most probable that an orebody of this size and richness would have warranted development in any case. The bulk of the ore produced has been exported to the United States.

