

GENERAL AGREEMENT ON TARIFFS AND TRADE

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MAINTENANCE OF QUANTITATIVE IMPORT RESTRICTIONS

Request by the Government of Luxemburg

Addendum

The secretariat has received from the Government of Luxemburg the following communication, dated 31 May 1955, relating to its request (L/358) for a waiver from the provisions of Article XI:

"I. History

"For more than a century, during which time the Grand Duchy of Luxemburg has been associated in an Economic Union with one of her neighbours, the economic policy of the country has always had to take due account of the precarious position of its agriculture by affording the latter certain protective measures.

"Within the Customs Union with Germany (1842-1919), the low agricultural production of Luxemburg derived considerable advantage from a protectionist tariff policy in the field of agriculture.

"Within the Economic Union with Belgium (since 1921), special protection has been granted to the agriculture of Luxemburg, to take account of her low productive capacity resulting mainly from unfavourable production factors.

"Within the frame of the Benelux, special steps have likewise been taken to favour Luxemburg's agriculture. These provisions entitle Luxemburg to regulate independently the import and export of certain agricultural products from and to partner countries.

"Special protection to agricultural products in Luxemburg having proved indispensable within the Belgo-Luxemburg Economic Union and Benelux, the Luxemburg Government is not in a position to forego this protection within the scope of the GATT regulations.

"The request by Luxemburg for a waiver from Article XI is therefore aimed at maintaining a system of protection for her agriculture.

"II. Supporting considerations for a system of protection

"Special position of agriculture within the economic and social structure of the Grand Duchy of Luxemburg.

"1) The agriculture of Luxemburg occupies a special place in the economic and social existence of the country whose population totals barely 300,000 inhabitants. It is not only an important branch of the national economy, but a static factor which is indispensable to the structural and political balance of the country.

"Failing a somewhat diversified medium industry, the economic structure of the Grand Duchy of Luxemburg is essentially based on the activities of the steel industry and of agriculture.

"Whereas the steel industry is able to maintain its economic potential by its own effort and possibilities of free development, the vital position occupied by agriculture in the national existence can be maintained only with the support of the State.

"For fundamental reasons of an economic, social and political character, the Grand Duchy grants agriculture the necessary protection for its maintenance and development. On the other hand, the State does not permit agriculture to benefit by the price fluctuations which may occur.

"2) Agriculture in Luxemburg has most pronounced incidences of a social order.

"Agriculture occupies 144,000 hectares of land, or 55 per cent of the area of the country. Its system of land tenure is characterized by a) the predominance of small and medium family homesteads, b) the direct cultivation of four-fifths of the arable area, and c) an excessive splitting-up of the land. The average size of parcels of land in the cultivated area of the country as a whole is between 0.25 and 0.30 hectares. The holdings of more than 50 per cent of the 11,500 farms of over 2 hectares are individually split up into more than fifteen parcels.

"3) Agriculture in Luxemburg operates in distinctly unfavourable productive conditions. Neither the natural nor the economic climate nor the market conditions are favourable to it.

"a) Natural conditions of production. The natural conditions of the country comprise a set of climatic, agronomical and geographical factors which are not very conducive to agricultural cultivation of the soil.

"The climate is fairly severe; average temperatures are low and spring frosts which are detrimental to fruit-trees, vines, and autumn sowing, are frequent. The rainfall is as a rule, inadequate, and distributed irregularly throughout the year.

"The soil of Luxemburg is uneven in quality. Its natural fertility is not high. Over one-half of the soil (58 per cent) is of poor quality; 30 per cent is of medium quality, and only 12 per cent may be described as "good soil".

"The hilly nature of the land is hardly conducive to the use of agricultural machinery. The wide diversity of the soil and its poor quality, coupled with the uncertainty of weather conditions, require the application of diversified crops and livestock production.

"b) Economic conditions of production. The agriculture of Luxemburg is confronted by a two-fold economic difficulty.

"Firstly, the cost price of agricultural production is high. The natural conditions of production as a whole require heavy and costly labour on the part of the producer, and do not permit of very high output.

"Further, the general economic conditions under which agriculture has to operate do not further its development. The concentration of a very powerful steel-producing industry on a narrow national territory and the complete dependence of that industry on the world market lead to the compulsory subordination of the general economic policy of the country to the requirements of that situation. These requirements, being centred around low cost prices and consequently low costs of living, are in opposition to the requirements of agriculture, whose productive costs are high.

"c) Market conditions. The market conditions of Luxemburg are likewise not very favourable to agriculture. The market is a narrow one, comprising scarcely 300,000 consumers, and it is therefore extremely sensitive and ill-adapted to absorbing specialized foodstuffs.

"4) Taken as a whole, the agriculture of Luxemburg should be described as marginal. To be able to exist and progress within the national economy, it requires the moral and material support of the State.

"The agricultural policy of the Government of Luxemburg is therefore an active policy of support for agriculture within the framework of the national economic policy. That policy is aimed, in particular, at valorization of the main agricultural products by

reserving the home market for home-grown products and fixing remunerative prices which are at the same time maximum prices. The Government is also in favour of legally organizing the home market, with a view to promoting rational distribution of agricultural products.

"To prevent the valorized agricultural products from reaching too high a price level at the consumption stage, the State intervenes directly by granting structural subsidies. These subsidies are confined to the quantities of products absorbed by the home market; they are paid in support of the prices for bread-grains and bread, processed milk, pork and beef, but not veal.

"The State in addition promotes the introduction of technical progress both in individual enterprises and agricultural co-operatives and in developing the training of young farmers by appropriate vocational tuition and by the dissemination of applied agronomical science.

"Lastly, the Government is prepared to examine on the legislative plane the vast problem of structural reform of agriculture in the fields of re-grouping land holdings, legislation on inheritance, and social insurance.

"III. System of protection at present benefiting the agriculture of Luxemburg and its possible incidence within the framework of GATT

"As already mentioned, the Government of Luxemburg is entitled to take independent measures to regulate the importation and exportation of a certain number of products in relation to its partner countries.

"The products which come under the above special régime are the following: live bovine cattle and hogs, carcass and processed beef and pork, milk and milk products, except cheese, bread-grains and derivatives. In the case of hens' eggs and potatoes, the regulation of imports is confined to certain periods of the year.

"Certain figures will best illustrate the scope of the waiver requested by Luxemburg.

"The volume of annual requirements of the country in agricultural products and foodstuffs is 345,000 tons, of which 45,000 tons have to be imported. The proportion of products under import restrictions is 13,000 tons, of which 8,000 tons represent bread-grains, whereas the products which can be imported freely represent 32,000 tons. Amongst the unrestricted products are, in particular, sugar, vegetable oils, vegetables, fruit, fish, rice, chocolate and coffee.

"Within the framework of the Benelux, quantitative restrictions on certain agricultural products are not actually detrimental to the economies of the associated countries in view of the low absorption capacity of the home market of Luxemburg. Applied to the contracting

parties, the scope of the Luxemburg waiver would seem even more insignificant. The Netherlands and Belgium, benefiting by exemption from customs duties on the Luxemburg market are, practically speaking, the only countries to export agricultural products to Luxemburg.

"Conclusions

"The Grand Duchy of Luxemburg is fully aware that the protection at present afforded its agriculture does not dispense it from practising an active agricultural policy. The Government of Luxemburg is resolved to do all in its power to make its agriculture more competitive, in order to relax in so far as possible the present system of protection.

The creation of Benelux and the possible institution of other international bodies aiming at economic integration - and the Grand Duchy of Luxemburg has never refused to co-operate in the establishment of such bodies - cannot fail to alter the character of certain fundamentals of the present economy of the agriculture of Luxemburg. However, as long as it is impossible to compensate for the inferiority in the conditions of natural production of the agriculture of Luxemburg, the Government of Luxemburg will be compelled to maintain a special régime in support of its agriculture."

