

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1484

23 May 1961

Limited Distribution

REPORT OF COMMITTEE II ON THE CONSULTATION WITH

P O L A N D

1. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourteenth session that consultations should be held with individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with Poland. The Committee had before it the following documents:

- (i) document COM.II/40(j), dated 24 February 1961, which contained a synopsis, supplied by the Government of Poland, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers; and
- (ii) document COM.II/110, dated 20 February 1961, which contained information, also supplied by the Government of Poland, on commodities entering importantly into international trade.

In conducting the consultation, the Committee followed the Plan for Consultations contained in Annex A to COM.II/5 and adopted by the CONTRACTING PARTIES at their fourteenth session. The consultation was completed on 3 May 1961.

A. General Agricultural Policies

2. In his opening statement, the representative of Poland stated that agricultural problems in Poland always had been and remained of utmost importance to the national economy, regardless of the fact that the economy of the country had ceased to be predominantly agricultural, as was the case in pre-war years. He explained that today Poland, like other countries, was confronted with difficult problems in relation to its agricultural policies, since 86 per cent of the agricultural land was still owned by small private farmers whose production remained the basis of food supplies in Poland. For many years Poland had been a traditional exporter of agricultural products to western European markets, consequently there was a tendency to overlook the fact that Poland now had an adverse balance of trade in the agricultural sector. Polish exports of such commodities played a completely different rôle in the economy from that which they played before the war. On an average, the share of agricultural products in total exports fell from 41 per cent prior to the war to 13.1 per cent, where it stood in 1960. The decrease was a

consequence of rapid industrialization, the growth in urban population and increased consumption, with the result that generally the demand for food in Poland was now greater than the domestic supply. In view of these circumstances the Government's policy was to avoid a spontaneous increase in agricultural price levels.

3. In order to clarify certain features of Poland's agricultural policy, the representative of Poland emphasized the similarity between Poland's economic development and that of many western European countries in spite of differences in social structure and political principles. In so doing, he pointed out that although industrialization in Poland had not yet reached the same level as in some western European countries, agricultural production was lower and a higher percentage of personal income was used for nutritional purposes; there were, however, in Poland similar phenomena such as urbanization, growth of consumption, and a decrease of agricultural exports, etc.

4. Poland did not consider it appropriate to develop agriculture by inducements such as price support measures. The representative of Poland drew the attention of the Committee to a number of principles upon which the agricultural policy of Poland was based. Consumer prices were fixed with a view to making basic food products available to the population with lower incomes.

5. Purchases of all agricultural commodities, whether for export or for the home market, were carried out simultaneously and at the same prices. After purchase, a portion of purchased food products of appropriate quality might be assigned for export. Consequently, there was no difference in prices paid to the Polish farmer with respect to commodities for sale on the domestic market or to commodities for export. In such circumstances any general non-price measures for agricultural products could not have an influence on the level of export prices.

6. In concluding his statement, the representative of Poland advised the Committee that farm prices had always fully covered production costs in Poland, since this was considered a sole and favourable method by which to induce an increase in agricultural production on individual farms.

7. A member of the Committee, observing that agricultural products accounted for 18.1 per cent of total Polish exports, enquired about the share of agricultural products in the gross national product. The representative of Poland replied that approximately 23 per cent of national income came from agriculture.

8. Another member of the Committee asked what proportion of the active labour force was engaged in agriculture. The representative of Poland explained that statistics showed that 38 per cent of the population was engaged in agriculture. He explained, however, that approximately one million persons who were engaged in agriculture as owners of smallholdings, or their families supplemented their basic incomes by working in industry. It was therefore estimated that rather than 38 per cent approximately 29 per cent of the population was fully employed in the agricultural sector.

9. Noting that agricultural development had not kept pace with Poland's rapid industrial development, a member of the Committee asked if income in agriculture was lagging behind income in other sectors. The representative of Poland replied that in recent years the urban population had increased substantially as a result of industrialization and the tendency for people to leave the land. This had had a favourable effect on the per capita income in the agricultural sector which had sustained a proportionate balance between agricultural income and the income realized by those engaged in industry. In this connexion a member of the Committee pointed out that in its Third Report, Committee II had concluded that: "To the extent that the agricultural population can be moved out of agriculture to other regions or other sectors of the economy or to other countries where such population can be more efficiently employed, this would help to bring about changes which would assist in raising farm income to levels approaching those in other sectors of the economy." He remarked that Poland appeared to be an example of a country where there had been a significant movement out of agriculture and that this had achieved the desired result. He asked if this movement had been spontaneous or if it had been encouraged or supported by the Government. The representative of Poland replied that no pressure had been applied to the farm population to move to urban centres, but that this move had been the result of a natural sociological trend similar to that which took place in other countries.

10. Several members of the Committee expressed an interest in the manner in which prices were established for agricultural products. One member of the Committee asked whether domestic prices in Poland were much higher than international prices. Another member of the Committee drew attention to the statement by the Government of Poland to the effect that if sales of agricultural products were not controlled, the strong tendency towards upward price pressure would be inevitable because of the steady increase of demand over supply. He noted that the Government of Poland felt that the real danger which might result from the uncontrolled "free play" of market forces would find its reflection, first of all, in an increase in prices of agricultural products, which in turn would adversely influence the standard of living. He asked if it were the intention of the Government of Poland to keep prices of agricultural products low. The representative of Poland explained that the intention of the Government was to control the agricultural market by the establishment of prices at a relatively low level, covering, however, costs of production. This was done in consultation with the agricultural co-operatives and with consumer co-operatives. International prices had no influence on the formation of prices in Poland. Approximately 90 per cent of agricultural products were purchased by the Government at these established prices. He emphasized again that at the time the Government purchased from the producer there was no way of knowing whether the product would be destined for export or for domestic consumption. He stressed the absolute necessity of maintaining stable prices in a planned economy and advised the Committee that in general prices in Poland for agricultural products had not been changed for three or four years, except for certain items such as milk and dairy products where it was the practice to re-examine prices each spring and autumn. The representative

of Poland reiterated that the fundamental objective of State intervention in Poland was not price support or any other form of income support. The aim was rather to satisfy a predetermined pattern or level of consumption based on estimated nutritional requirements. He confirmed that prices paid to the farmer covered the cost of production; these prices were calculated on the basis of the average cost of production on several thousand farms where the scientific methods of Professor Laur concerning agricultural compatibility were used. In so doing the Government took into consideration any necessity to influence the localization and pattern of production of the population as well.

11. A member of the Committee raised the question of the influence of the Polish system on international trade. He took note that in Poland producer prices were based on costs of production and that export interests were not taken into consideration when these prices were fixed. He also noted that it was not possible to compare export prices with prices charged when the products were disposed of for internal consumption. However, one conclusion could, in his opinion, be drawn, namely, that international trade could be affected by price relationships, for instance, in the case mentioned by the representative of Poland where his Government had raised the domestic consumer price of butter and at the same time had lowered the consumer price of margarine.

12. The representative of Poland explained in response to questions that export prices had no direct connexion with consumer or producer prices. The latter did not influence export prices since these depended on conditions on the international market. The representative of Poland said there was no question of exports being subsidized although at times when international prices fell below domestic prices dumping would arise. The primary objective of Polish exporters was to achieve the highest prices possible and if these fell below expected levels, generally exports were decreased.

13. One member of the Committee, noting that foreign trade in Poland was exclusively within the jurisdiction of State-trading enterprises, asked if these enterprises, in making purchases, acted in a manner consistent with the general principles of non-discriminatory treatment prescribed in the Agreement for governmental measures affecting imports or exports by private traders, in accordance with the terms of Article XVII of the General Agreement. The representative of Poland explained that his country was self-sufficient in the agricultural commodities concerned. However, under special circumstances it was necessary to import certain foodstuffs, e.g. meat in 1959. At the present time such imports were largely carried out within the framework of bilateral trade agreements. If a need arose to import supplies additional to those established under quotas in trade agreements, then tenders were announced by both the State and co-operative foreign trade enterprises, and the supplier offering the most advantageous terms was awarded the contract. On the other hand, imports of foodstuffs took into account the necessity of using resources for investment purposes.

14. With respect to allocations for exports, in reply to questions by members of the Committee, the representative of Poland explained that the system in

operation was not based on coefficients. He emphasized the fact that it was only after an export transaction took place that one might make a comparison of the zlotys paid to the domestic supplier against the amounts of foreign currencies received from foreign buyers for the product concerned. However, there were no formal coefficient rates with respect to individual products; these rates were calculated only on the basis of the profitability for the economy as a whole, and later used to prepare export plans for the following year. He advised the Committee that the foreign trade enterprises were interested in selling at the highest possible price.

15. Members of the Committee expressed an interest in Poland's five-year plans for economic development. The representative of Poland advised the Committee that from 1950-57 these development plans were geared to the establishment of heavy industry. This process was lessened in 1957 when the emphasis was partly shifted to the light engineering and chemical industries. At the same time the establishment of food-processing plants was encouraged. One member of the Committee, noting that the last five-year plan ended in 1960, asked if the goals established in that plan had been achieved. The representative of Poland replied that while it was seldom possible to fulfil by 100 per cent any economic plan, Polish industrial production had increased by 59 per cent during the five-year plan instead of by 50 per cent as originally planned. He explained that in the agricultural sector the goals established had been largely realized, especially for animal production. With respect to production of grains and cereal products the targets established for the last plan had not been fully reached because of seasonal conditions. The same member of the Committee asked if farmers and consumers could exert an influence on the establishment of a five-year plan. The representative of Poland explained that for many years dating back before the war, consumers in his country had organized consumer co-operatives. These co-operatives together with producer co-operatives participated in the preparation of the five-year plans. He mentioned that the Polish Ministry of Agriculture was particularly pleased to receive any recommendations or comments from the co-operatives because of the difficulty of establishing targets in the agricultural sector. He went on to say that the new five-year plan for 1961-65 continued along the same lines as the previous plan, although it provided for an increase in agricultural production of approximately 22 per cent. He mentioned that further mechanization was needed to increase productivity on the farms. He pointed out that this did not mean that production costs would necessarily decrease since the cost, maintenance and operation of farm machinery could not generally be considered as inexpensive.

16. In reply to a number of questions, the representative of Poland explained that the annual Foreign Trade Plan included two distinct and separate estimates. One part of the Plan covered needs for commodity imports, export possibilities and consumption, while another provided calculations for the commodity turnover in terms of foreign currency exchange, taking into account the situation on foreign markets and international commitments under trade agreements. It was possible for foreign trade enterprises, acting within the framework of obligatory national economic plans, to demand changes. The plans, especially long-term plans, were flexible rather than rigid in order to allow an upward adjustment

and permit increased imports without undue difficulty when these were considered necessary. Under the new Foreign Trade Plan the main agricultural import requirements were for foodstuffs, feedingstuffs and oilseeds.

17. Another member of the Committee expressed an interest in the system of obligatory deliveries applicable to certain agricultural products (cereals, meat and potatoes). He asked what prices were paid for these obligatory deliveries, how the prices were fixed and how they compared with prices for shipments under contract. He asked if it were the intention to gradually discontinue this system and requested confirmation of his understanding that the proceeds from obligatory deliveries were used to support the Agricultural Development Fund. He also asked by what other means this Fund was supported. The representative of Poland replied that in 1957 his Government had decided to gradually abolish the system of compulsory deliveries. At that time prices paid for such deliveries were at 25 - 28 per cent of normal market prices, whereas now the figure stood at 60 per cent. It was the intention of his Government to increase annually the prices paid for compulsory deliveries until this system was abolished. In 1959, for example, the price paid for compulsory deliveries of pork meat was 8.7 zlotys per kg., whereas the normal market price was 18.8 zlotys per kg. In the same year, for compulsory cattle deliveries the price paid was 3.6 zlotys per kg. live weight compared to the normal market price of 12.1 zlotys. For wheat, the compulsory delivery price was 199 zlotys per 100 kgs., whereas the normal market price was 310 zlotys. Virtually the entire Agricultural Development Fund, or at least 95 per cent of it, was supported by proceeds from these compulsory deliveries.

18. One member of the Committee noted that about 86.8 per cent of the acreage in Poland was utilized by private farmers whose share of total agricultural production was estimated at 89.6 per cent. Hence, the co-operative or State farms accounted for 13.2 per cent of the acreage and 10.4 per cent of the production. The representative of Poland informed the Committee that generally, as it stood now, productivity was higher on State or co-operative farms in the non-animal sector, but lower in the animal sector.

19. A member of the Committee suggested that in order to maintain prices at a stable level, some system of reserves or rationing must exist. The representative of Poland assured the Committee that rationing did not exist in Poland. Moreover, this was considered the worst method of control. In the case of inadequate supplies it was preferable to increase production or to raise prices in order to achieve equilibrium between demand and supply. For basic products such as bread, prices could not be raised nor production increased quickly in times of shortages, hence under such circumstances it would be necessary to provide for imports. On the other hand, for luxury items prices could be raised.

20. Another member of the Committee asked what types of products were considered as luxury items: for example, would butter and meat be considered as basic or luxury products in Poland. The representative of Poland replied that products were not defined categorically as either basic or luxury items, but that generally

prices for commodities such as butter and meat were raised in order to reduce consumption which was considered relatively high.

B. Commodities

Dairy products

21. A member of the Committee asked how the dairy industry was organized in Poland. The representative of Poland explained that milk, cheese and butter were not subject to Government control, but were entirely in the hands of dairy co-operatives. There were no compulsory deliveries for dairy products. The dairy co-operatives followed market trends closely and formulated plans which they submitted for Government approval. There had been no instance thus far where the Government had not accepted a plan submitted by a dairy co-operative.

22. A member of the Committee asked if the Foreign Trade Plan envisaged continued exports of butter. The representative of Poland replied that estimates included in the Plan anticipated that butter exports would be maintained and domestic consumption might decrease with a parallel increase in margarine sales.

23. In reply to another question, the representative of Poland advised the Committee that the annual average producer price for milk was 2.4 zlotys per litre, and the consumer price was 2.5 or 2.6 zlotys. For butter, the consumer price was 68 zlotys per kg. For eggs the producer price was 1.4 zlotys per piece. The retail price was 1.6 zlotys. On the other hand, the export price depended on world market prices.

Meat

24. A member of the Committee asked if sanitary regulations permitted the slaughter and sale of livestock on the free open market. The representative of Poland explained that swine were slaughtered under veterinary control in authorized slaughter houses. Once the meat had been inspected and approved, the owner was free to take it away. Noting that the Government of Poland had been encouraging a shift from cereal to animal production, a member of the Committee asked what effect this was expected to have on the dietary habits of the population and the import requirements for meat. The representative of Poland explained that there was about 42 per cent of very light sandy soils in his country which influenced the raising of cattle, other than swine and this was being encouraged in order to increase the farm manure. Present plans involved an increase in cattle production by 50 per cent over a ten or twelve-year period with a view to increasing overall agricultural production.

Sugar

25. A member of the Committee asked for clarification of the Polish statement that "similar to the contracts for the purchase of sugar beet concluded by sugar mills in western European countries, the contracted production and purchases of agricultural products in Poland are based on voluntary agreements

concluded between the State and agricultural producers who are obliged to deliver contracted products at fixed prices". The representative of Poland agreed and explained that in granting or refusing a contract for the production and delivery of sugar beet, the Government took into account the question of the general texture of the soil. Producers in areas not suited for sugar beet production would not qualify for Government assistance in the form of seeds, fertilizers, etc. and were thereby encouraged to switch to other lines of production. Another member of the Committee stated that prices paid to producers of beet sugar in Poland must be higher than the prices for sugar on the international market. The representative of Poland advised the Committee that the producer price per 100 kgs. of sugar beet was 60 zlotys and the consumer price of refined sugar was 12 zlotys per kg. He explained that sugar production was one of the most profitable branches of industry in Poland, thus there was no need to pay a price differential on exports; exports were not made below the cost of production. He informed the Committee that less than 20 per cent of Poland's sugar production was exported; domestic sugar consumption was three times higher than the pre-war level.