

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## EXPANSION OF TRADE - AGRICULTURAL POLICY

### REPORT OF COMMITTEE II ON THE CONSULTATION WITH ARGENTINA

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 Argentina. The Committee had before it the following documents:

- (i) document COM.II/40(1) dated 23 October 1961, which contained a synopsis of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers, and commodity information furnished by the Government of Argentina;
- (ii) document COM.II/114 dated 10 March 1961, which contained the statement by the representative of Argentina to the meeting of Committee II in March 1961.

In conducting the consultation, the Committee followed the plan for consultations contained in Annex A to COM.II/5 (see BISD, Eighth Supplement, page 127) and adopted by the CONTRACTING PARTIES at their fourteenth session. The consultation was completed on 14 November 1961.

#### A. General agricultural policies

2. In opening the consultation, the representative of Argentina briefly described the most important features of Argentina's economy and his Government's agricultural policy. He explained that the development of Argentina's agricultural economy was closely linked to the industrialization of Europe which had gathered momentum particularly in the second half of the nineteenth century. The growing demand for imported foodstuffs had permitted Argentina to develop the pampas, virtually 60 million hectares of desert land in the early part of the nineteenth century, into one of the richest agricultural producing zones of the world. This development was made possible by a number of significant advances in the mechanization of agriculture and improvements in transport and handling facilities. These developments, the inflow of settlers from all over the world and the extraordinary fertility of the soil, the mild climate and, last but not least, the efforts made by Argentine producers, working within the framework of a free economy, to utilize up-to-date production

techniques, had all contributed to making Argentina one of the most efficient suppliers of such items as cereals, meat and fodder and one of the world's most important agricultural exporters.

3. It was with concern, therefore, that Argentina had observed the tendency in many of the industrialized countries to pursue policies apparently aimed at self-sufficiency in agricultural commodities. This tendency, which had already been noticeable in the decade prior to World War II and which became particularly apparent during the post-war years, had not been without impact on foreign exchange earnings and development possibilities for a country like Argentina which had an economy built largely upon agricultural exports. The persistence of this situation had compelled Argentina to make a special effort to decrease its reliance on agricultural exports and to spur industrialization. Such a shift was seriously impeded, however, by the fact that agricultural exports were practically the sole source of foreign exchange earnings which were needed for financing necessary capital imports.

4. Notwithstanding these difficulties which impaired Argentina's capacity to change the structure of its economy and export trade, the Government had adopted a policy of trade liberalization. Based upon the belief in the efficiency and competitive strength of agricultural production in Argentina and in the benefits to be derived from the unimpeded functioning of market forces, the Government had also proceeded to eliminate State intervention in production and marketing of agricultural products. The Government merely sponsored incentive measures to increase the efficiency of production. There too, however, it did not act directly but through organizations financed by a tax levied on producers' earnings and governed by independent bodies composed principally of agricultural producers. The system of guaranteed minimum prices which was in force for certain products had as its main objective to prevent excessive fluctuations in commodity prices. These minimum prices, although established at a level to cover average production costs, were so low, and always below world prices, on account of the high level of efficiency of agricultural production in Argentina, that they could never be considered as being subsidies or State-financed compensation.

5. In fact, the internal economic difficulties which the country had experienced in recent years had led to the imposition of various taxes on agricultural exports in order to balance the national budget. This was in contrast with the almost universally adopted practice of subsidizing agricultural production and exports. In concluding his opening statement, the representative of Argentina once again stressed that export subsidies and agricultural protectionism in many countries were at the root of many of the difficulties confronting agricultural producing countries like Argentina.

6. The Committee thanked the representative of Argentina for his opening statement and the vivid description he had given of the main features of Argentina's economy. They enquired in this context about the share of agriculture in national income and about the proportion of the population engaged in agriculture. In his reply the representative of Argentina stated that out of a total population of 21 million about 2.5 to 3.0 million were directly dependent for their livelihood on agriculture. Agriculture accounted for some 40 per cent of the national income and for some 95 per cent of total export earnings.

7. Members of the Committee noted that in his opening statement the representative of Argentina had referred to special efforts being made to bring about industrial development. They enquired to what extent these efforts could be expected to reduce, in the foreseeable future, the country's dependence upon agricultural products as the major source of export income and about details concerning Argentina's long-term development policy. The representative of Argentina explained that the problem confronting Argentina was that traditionally the process of capital formation had been, and continued to be, based on agricultural exports. The success of the efforts made at present to encourage industrial development depended to a large extent on the possibilities for maintaining or increasing export income from these traditional exports. Thus, it was difficult to predict how soon Argentina's dependence on agricultural exports would be reduced. He further explained that in order to facilitate industrial expansion considerable efforts were being made to develop mineral and energy resources. Significant progress had already been made with respect to the development of fuel resources, with the result that import savings on fuel oils per year were in the order of 200 to 300 million dollars, thus permitting the utilization of this amount of foreign exchange for other essential imports.

8. In clarification of a number of questions regarding the nature and administration of export taxes imposed on agricultural products, the representative of Argentina explained that the principal agricultural exports were subject to a withholding tax ranging from 10 to 20 per cent depending on the commodity involved. In addition, most of these products were subject also to an export sales tax ranging between 5 and 10 per cent. Moreover there had been a so-called "temporary tax" of 15 per cent on stocks held by exporters which had been imposed at the beginning of 1959 to prevent traders from making excess profits as a result of the exchange reform. This tax had been abolished. On the other hand, withholding taxes, which had been instituted in order to prevent excess profits arising from the system of exchange regulations in force prior to 1959, although scheduled to remain in force only for a transitional period following the exchange reform, had had to be maintained in order to balance the national budget. Continued efforts towards the elimination of withholding taxes were being made, however, and it was the Government's intention to remove this tax as soon as the budgetary position permitted.

9. Members of the Committee noted that part of the taxes levied on exports were used to finance agricultural research or were levied in support of other sectors of the economy. They invited the representative of Argentina to comment on the extent and purpose of this practice. The representative of Argentina explained that the proceeds of certain taxes were in fact earmarked for such purposes as agricultural research and development assistance for other sectors of the economy and had provided the necessary finance for agricultural research carried out for example by the National Institute of Agricultural and Stockbreeding Technology and also for the Agricultural Extension Service. The withholding taxes had originally been paid into the General Stabilization Fund which had been established to assist the development of different industries and sectors of the economy. Internal economic difficulties which Argentina had experienced in recent years had, however, obliged the Government to use these funds to cover general budget expenditure.

10. In reply to questions concerning the operation of the system of index values, the representative of Argentina explained that this system had been introduced primarily for administrative convenience, so as to facilitate the calculation of export taxes. Index values were calculated for each category of products on the basis of average export prices for the commodity concerned in a specified previous period. Index values were changed periodically in relation to changes in world market prices. In practice, this system permitted major changes in world market prices to be reflected with sufficient speed in index values. In reply to another question, the representative of Argentina explained that there was no direct relationship between the guaranteed minimum prices established for certain products and the index values established for exports of these products. The representative of Argentina also stated that the use of index values for the computation of export taxes did not have the effect of stimulating exports of one commodity as compared to another.

11. In discussion of the system of guaranteed minimum prices in force in Argentina, the representative of Argentina explained that the system of guaranteed minimum prices had as its main objective the avoidance of excessive fluctuations in producer incomes and the discouragement of speculative price movements. For these reasons, farmers were assured at the start of the sowing season of a guaranteed minimum price, fixed at a level to permit cost of production on efficiently managed farms to be covered. He further explained that guaranteed minimum prices were in existence only for those categories of products which were subject to export taxes and were very low in comparison with world market prices. While the low guaranteed prices were a reflection of the general policy of the Government to avoid intervention on the market unless this was required by exceptional circumstances, the low minimum prices were also desirable in view of the difficult budgetary position of the country. The representative of Argentina explained in this connexion that intervention in the market would have to be financed through the budget. The low level at which minimum prices had been fixed had, however, not made it necessary for the Government to intervene in the market except on a few occasions. Also the stocks acquired in this way had been sold at a favourable margin after prices had risen, since Government intervention in the market did not take the form known in other countries under which farmers had the option to repurchase, within a specified time and at an agreed price, the quantities sold to the Government, if the development of prices made such action profitable.

12. In discussion of measures applied by the Government of Argentina for the stimulation of agricultural production, one member of the Committee enquired about the existence of special credit facilities for agriculture, for example for financing purchases of machinery and equipment. The representative of Argentina stated that although credit institutes in Argentina, as in most other countries, tried to provide credit facilities on commercial terms which took account of the special characteristics and needs of agricultural production, investment in agricultural machinery and equipment continued to be handicapped by the high cost of capital equipment in Argentina. Although Argentina had recently reduced or eliminated surcharges

on imports of many items of agricultural machinery, imported machinery as well as domestically produced agricultural machines, which generally had a high import content, continued to cost 50 to 100 per cent more in Argentina than comparable machines in most other countries, on account of the continuing necessity to impose relatively high charges on many categories of imports.

13. Members of the Committee noted that imports of agricultural products, in addition to customs duties, were subject also to surcharges ranging up to 200 per cent of the import value, supplemented in some instances by advance deposits requirements. Obviously these charges could not but have a restrictive, if not prohibitive, effect on agricultural imports. They enquired about the reason for the application of these apparently protective measures and about prospects for their early elimination. In his reply the representative of Argentina informed the Committee that the advance deposit requirement had been abolished. With respect to surcharges, he explained that although most agricultural products were at present included in the "unspecified category", subject to customs duty plus surcharge of 150 per cent, these surcharges were not intended for the protection of agriculture. Argentine law provided for an import surcharge of 150 per cent on the c. and f. price of products not included in the seven lists currently in force. That did not imply that the 150 per cent surcharge had been applied. The products concerned were typical Argentine exports whose case had not been studied because no imports had been recorded up to December 1958, when the new system had been drawn up. As a country dependent for 95 per cent of its export earnings on agricultural products, Argentina would not be able to afford the establishment or expansion of uncompetitive agricultural production behind the shelter of import barriers.

14. The representative of Argentina further explained that in cases where importers had indicated actual import interest in certain agricultural items, the commodities involved had in practice always been reclassified to a lower or zero surcharge category. It had also to be remembered that the imposition of import surcharges in connexion with the exchange reform measures at the end of 1958, was a transitional measure, to be repealed with the envisaged coming into force of the new customs tariff during 1962. The new tariff would amalgamate all customs duties, surcharges and other taxes on imports. While nothing could be said at this time about the level of duties which would be established under this tariff, it could nevertheless be assumed that duties on agricultural products would not be protectionist and would be considerably lower than the present combined incidence of duties, surcharges and other taxes. It was on the basis of this new tariff that Argentina, with a view to full accession, would enter into tariff negotiations with contracting parties to the General Agreement.

15. Members of the Committee enquired whether import surcharges were applied equally to imports from all countries. The representative of Argentina explained that import surcharges were applied on a basis of non-discrimination. He pointed out, however, that, as notified when applying for accession to the General Agreement, surcharges had been suspended as regards the importation of goods normally subject to a surcharge of up to 40 per cent coming from neighbouring countries (including Peru) or of goods forming part of traditional trade with those countries. Surcharges on imports of agricultural products from neighbouring countries which had traditionally been imported from these countries and in which importers had expressed import interest had consequently been reduced or suspended. Also, under the IAFTA Agreement Argentina had offered complete liberalization for imports of many agricultural items. The representative of Argentina further explained that on the occasion of shortages arising from the crop failures import surcharges had also been suspended for imports from any source with respect to commodities in inadequate supply.

16. In reply to another question, the representative of Argentina explained that, except for a few products notified to the CONTRACTING PARTIES, imports and exports took place freely and were not subject to controls, permits, quotas or certificates. With the exception of restrictions justified under Article XX of the General Agreement, there were no export prohibitions.

17. Members of the Committee stated that the suspension of import surcharges in the case of crop failures appeared to be an indication that the Government recognized that these surcharges had a protectionist effect. They expressed the hope that Argentina would soon find it possible to eliminate these surcharges and other measures having a restrictive effect on trade, especially as it did not appear to be in the interest of Argentina to encourage the establishment or expansion of inefficient production capacity. The representative of Argentina explained that the reason for the suspension of import surcharges had been to make these imports available to consumers at the lowest possible price.

B. COMMODITIES

Cereals

18. A Member of the Committee noted that exports of wheat from Argentina in 1960-61 were smaller than those in the previous seasons and that domestic wheat prices had shown some increase. He asked whether the Government of Argentina had taken any steps to restrict exports of wheat. The representative of Argentina confirmed that the 1960-61 wheat harvest had been relatively poor and that prices had consequently increased. He also confirmed that there had been an increase in the guaranteed minimum price for the 1961-62 season. Nevertheless, this was still below the world market price for wheat. He further explained that it was not considered necessary to restrict exports but that Argentina might not be able in all instances to fulfil bilateral commitments regarding wheat sales.

19. Noting that the National Grain Board had in the past intervened in the market, a member of the Committee enquired about the methods used by the Board in disposing its stocks. The representative of Argentina explained that on the very few occasions during the past few years when the Board had intervened in the market, it had been able to resell the quantities purchased, normally at prices above the guaranteed minimum price, on the domestic market or for export.

Meat

20. Members of the Committee noted that Argentina had experienced a serious drought in 1959, and asked to what extent this had influenced livestock production and the availability of meat and meat products for export. The representative of Argentina explained that notwithstanding the drought in 1959 and again in the current year, it had been possible to reverse the trend of a decline in livestock production noticeable in previous years. Therefore, an increase in meat available for export could be expected in the near future. He pointed out, however, that as a result of the drought this year, the appearance of fatstock on the market was likely to be delayed by several months.

21. Members of the Committee noted that maximum prices for meat sold on the domestic market and the system of subsidies and compensation payments to the refrigerating industry, had been abolished. In reply to a question the representative of Argentina confirmed that exports of meat continued to be subject to withholding taxes.

22. Members of the Committee asked about the functions of the Meat Board and whether its operation was similar to that of the National Grain Board. The representative of Argentina explained that the main function of the Meat Board was to promote exports. There was no guaranteed minimum price for meat, thus the Meat Board had no occasion to intervene in the market.

23. Noting the efforts made by Argentina to increase productivity in agriculture, members of the Committee enquired whether provision had been made to facilitate the import of breeding stock. The representative of Argentina explained that the 20 per cent surcharge on imports of breeding stock which had been in force following the exchange reform had been abolished a year ago.

24. Members of the Committee noted that the statistics supplied by Argentina showed no record of imports of meat in recent years. They enquired whether this might not be due to the imposition of a 150 per cent surcharge on imports of meat and meat products. The representative of Argentina explained that meat and meat products had been shown as being subject to the surcharge solely because they were typical export items and it had not been thought necessary to study them when the exchange system had been reformed.

Dairy products

25. Members of the Committee noted that while butter production in Argentina had shown some increase in recent years, butter exports had increased very significantly; for instance, from 8,500 tons in 1958 to 23,200 tons in 1959. At the same time, there appeared to have been an increase in domestic prices

of butter and they enquired whether the very low level of per capita consumption of butter in Argentina, approximately 2 kgs. per capita per year, might not be related to the price policy followed by Argentina with respect to dairy products. The representative of Argentina replied that there was no government intervention on the butter market. The increase in domestic butter prices noticed in recent years was largely attributable to the effects of the exchange reform on the general level of prices. In any event, it was not thought that the level of domestic butter prices was mainly responsible for the admittedly low level of per capita consumption; there was in fact little demand for butter as vegetable oils had traditionally formed an important part in the diet of the population.

26. In response to questions concerning the price formation for dairy products in Argentina, the representative of Argentina explained that the prices for dairy products were formed by market forces. Domestic prices had in recent years been somewhat above export prices which corresponded to world market prices. There were no export taxes on dairy products. He explained that dairy producers' co-operatives accounted for a large part of production. In reply to a question relating to the influence of these co-operatives on dairy production, the representative of Argentina stated that there were no governmental measures for encouraging the establishment of co-operatives.

27. Commenting on the difficult situation in the international market for butter, members of the Committee noted the recent increase in exports of cheese from Argentina. They asked whether this indicated a deliberate shift from the production of butter to cheese. The representative of Argentina stated that while there were factors which favoured such a shift, possibilities for further increasing production and exports of cheese depended, of course, on relative cost of production and price developments with respect to these products.

28. The representative of Argentina confirmed that there were no restrictions on the import of dairy products: the 150 per cent surcharge on imports of dairy products had been imposed because these items had not normally been imported and it had not been thought necessary to study them when the exchange system had been reformed. Regarding the possible effect of Argentine export prices on the world butter market, he pointed out that exports were unrestricted, free of subsidy and withholding taxes. About 50 per cent of dairy exports were effected by the dairy producers co-operatives themselves. Accordingly, they should have a salutary and stimulating effect, since any drop in prices would imply a net loss to the exporter.

Sugar

29. A member of the Committee noted that Argentina had established compulsory export quotas for sugar, together with a system of compensation payments to producers for encouraging exports of sugar. He enquired in this context about the meaning of the statement in the background document (COM.II/40(1)) that these export quotas "had had no effect on the level and pattern of imports" and "would not be harmful to international trade as they would only provide minimum levels of protection". He also asked about the method adopted for financing compensation payments to sugar producers. The representative of Argentina stated that sugar presented a special problem. Basically, Argentina had no interest in encouraging the formation of exportable surpluses. Sugar production in Argentina was intended to supply the domestic market. However,

as a result of record harvests in 1958 and 1959, large stocks of sugar had accumulated which had to be marketed to permit producers to recover their investment and in order to avoid serious economic difficulties for the localities mainly dependent on sugar production in the northern part of the country. It was for this reason that the Government of Argentina had introduced the system of export incentives. He explained that no marketing organization for sugar existed and that compensation payments to producers had to be financed through the national budget.

Vegetable oilseeds and oils

30. In response to a request for information on the total incidence of duties and charges on oilseeds and vegetable oils, the representative of Argentina provided the following information:

	Total import charge	Customs duty	Surcharge
Sunflower	195%	45%	150%
Linseed oil	185%	35%	150%
Castor oil	162%	12%	150%
Tung oil	58%	18%	40%

He confirmed in this context that imports of these commodities were permitted from all sources, without discrimination with the exception of the preferences traditionally granted to products of neighbouring countries.

31. Members of the Committee enquired about the factors which had caused exports of oilmeal and oilcake to fluctuate sharply in recent years. The representative of Argentina explained that the fluctuations in the level of exports reflected the decrease in the production of oilseeds in recent years. This was due in part to unfavourable climatic conditions and to the occurrence of plant diseases, but primarily to the decline of export prices for oilseeds.

32. A member of the Committee noted that the export of linseed had been virtually prohibited to give preference to the domestic processing industry. Apparently, exports of linseed were only permitted on condition that for every ton of linseed, five tons of linseed oil would be exported. The representative of Argentina explained that export restrictions on linseed were imposed to safeguard employment in the industry, which had been significantly expanded during World War II in order to avoid spoilage and waste of flax and linseed, exports of which suffered on account of the shortage of shipping.

Apples and pears

33. A member of the Committee enquired whether governmental assistance was given to the production and exports of apples and pears, and whether exports of these two items took place under bilateral arrangements. The representative of Argentina stated that no such assistance was given and that there existed

no bilateral commitments with respect to these products. He confirmed that apples and pears were included in the category of imports subject to a rate of surcharge of 150 per cent, being among the typical export products. This surcharge did not apply to imports from certain LAFTA countries.

Wool

34. Members of the Committee asked whether Government financial assistance was given to wool products and exports, and whether there were any bilateral arrangements concerning wool exports. The representative of Argentina stated that no such assistance was given and that there existed no bilateral arrangements regarding wool exports. In reply to another question, the representative of Argentina informed the Committee that the export tax retention scheme for wool exports was still in force.