

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1652
29 November 1961

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EXPANSION OF TRADE - AGRICULTURAL POLICY

Report of Committee II on the Consultation with

PORTUGAL

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 Portugal. In conducting the consultation the Committee recalled that the Working Party on the Accession of Portugal had agreed that a number of supplementary questions on matters of agricultural policy would be more satisfactorily elucidated in the Committee (document L/1411/Add.1, page 7). The Committee had before it the following documents:

- (i) COM.II/40(k) dated 19 September 1961 which contained a synopsis, supplied by the Government of Portugal, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers; and
- (ii) COM.II/125 dated 2 October 1961, which contained information, also supplied by the Government of Portugal, 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 16 November 1961.

A. General agricultural policy

2. In his opening statement the representative of Portugal gave a general picture of the situation of agriculture in his country. The climatic and soil conditions differed considerably from some regions to others, namely from those of the northern part to those of the southern part of the country. The population was mainly concentrated in the northern part of the country where the arable land was split up into a great number of smallholdings; the population was less numerous in the southern part, where the climatic conditions were less favourable and where large properties predominated. Such varying conditions throughout the country resulted in differing production potentialities which made it very difficult to develop a uniform agricultural policy throughout the country. The representative of Portugal described further some of the most important handicaps of Portuguese agriculture. He

referred, among others, to the growing danger of erosion, which weakened future productive capacity and to the fact that only recently, during the last twenty years, could the water resources be better controlled and used for irrigation.

3. In order to overcome the various structural handicaps of agriculture, extensive studies had been undertaken to get a better knowledge of the productive capacity of the country and investigations had been made to calculate costs of production. A specialized organization, the Internal Settlement Board, was working in the field of re-distribution of population. The Government had enacted a new legislation which would among other things establish new conditions for land lease and for the re-grouping of small-holdings by laying down certain limits to the size of property which may be held by any landowner. Further legislation was under consideration by the National Assembly.
4. Referring to the basic principles of the agricultural policy of the Portuguese Government, the representative of Portugal pointed out that the policy was not so much directed towards assuring a fixed and stable income for the agricultural producers, but rather towards keeping prices stable in a period of economic development and industrial progress.
5. The policy of maintaining price stability had led to the institution of a number of inter-professional organizations, but the system had not primarily resulted in affording any specific protection to the agricultural sector. In fact, the share of agricultural producers in the progress of the country had lagged behind and this had resulted in a flow of the agricultural population towards the cities. The stabilized prices had, in general been established at a level very close to world prices, and although in the most difficult agricultural sectors domestic prices had been set at a higher level, the agricultural policy did not tend towards the establishment of a system of self-sufficiency. Imports of agricultural products had increased over the last three years and it could be concluded that the agricultural policy, as conceived, had not resulted in any increase in obstacles to imports.
6. The representative of Portugal went on to say that in spite of its economic dependence on international trade, Portugal was among the countries which showed one of the smallest price fluctuations on the national market. This stability was the result of the Government's financial policy and of a policy of market intervention.
7. The representative of Portugal went on to explain the general characteristics of the agricultural policy of Portugal with regard to the Overseas Territories. He stated in that respect that due to a great diversity in their geographical position, population, special features of resources, etc., it had not been possible for the Government to apply a uniform agricultural policy in all the Overseas Territories. But nevertheless the general aims had been the same as in the Metropolitan area as expressed in paragraph 4 above.

To achieve those ends the Government did not resort to any special protectionist technique but tried to assist agriculture through measures which did not cause any hindrance to imports. The results of this policy had been very encouraging and considerable development of agriculture had taken place in the territories during the past twenty years.

8. To assist in making the policy effective, several inter-professional organizations and economic co-ordination organizations had been established in these territories. These bodies gave advice and distributed credits to small growers in order to encourage increased production which could be devoted to export or which could contribute towards the regular supplying of markets in the territory concerned.

9. The activities of these inter-professional bodies and economic co-ordination organizations in these territories had changed somewhat during the past few years and their activities were now mainly devoted to trying to avoid sharp fluctuations in prices which might adversely affect the position of producers as well as of consumers. The payment of subsidies, however, had not been necessary to maintain price stability.

10. In concluding his opening statement the representative of Portugal stated¹ that his Government was fully prepared to consult on the additional information given in regard to the Overseas Territories with the Committee at a later stage or with the Working Party on the Accession of Portugal.

11. Referring to different acts and legislative decrees which provided for structural improvements in agriculture, a member of the Committee asked about the percentage of the total land in Portugal where these measures were already applied. The representative of Portugal replied that in principle the total cultivated land, which represents 70 per cent of the entire geographical surface, was covered by those acts and decrees. He further added that a good part of the land could not be brought under cultivation due to substantial mountainous regions, configuration of soil and climatic conditions.

12. Some members of the Committee expressed interest in the migration of workers from the country to other areas and in particular in the movement of workers from agricultural to industrial sectors of the country. They enquired whether any encouragement was given by the Government to these movements. The representative of Portugal explained that primarily the development and expansion of industrial production had resulted in the movement out of agriculture of peasant workers. This was a kind of adjustment normally associated with the process of economic development. Besides favouring industrialization, the Government had not felt the necessity of taking decisive and permanent measures in order to encourage the transfer of agricultural workers into other sectors of economic activity, because wages in industry were higher than those in agriculture and served as a sufficiently strong attraction to people to switch over. The Government had, however, adopted certain measures to bring about a more desirable redistribution of agricultural population within the agricultural sector. In the second place there was the migration of agricultural people to the Overseas Territories and to other countries. The traditional migration of Portuguese people, particularly unskilled workers, to

¹Documents COM.II/40(k)/Add.1, COM.II/125/Add.2

Brazil, Venezuela, France and Canada was continuing. Depending on the situation in the countries concerned these migrants were generally first absorbed in the agricultural sector but many later moved on to the sectors of industry, construction and services. In France, for example, most of the immigrants were taken to work in the fields but a good number of them did go directly to the building and industrial sector.

13. Members of the Committee noted that the Second Development Plan aimed at increasing and improving agricultural production to such an extent as to create possibilities for exports. They asked whether the objectives were to achieve a greater percentage of self-sufficiency in agricultural products for the country so as to reduce imports and even to afford, eventually, a greater scope for the export of commodities to other countries. The representative of Portugal explained that the Development Plan was designed in such a way as to attain an overall improvement in the economy of the country and not only in the agricultural sector. The degree of productivity of every sector was taken into account and the chief aim was to introduce conditions favourable to the transfer of part of the agricultural labour force to other sectors. During the six-year period from 1959-1964, 22,000 million escudos were to be allocated to all sectors of the economy. This was expected to raise the gross national product by 27 per cent in six years time. The allocation of estimated investments in agriculture and forestry alone amounted to nearly 4,000 million escudos. Of this amount approximately 1,200 million escudos was allocated to irrigation and about 750 million escudos to reforestation. For consolidation of smallholdings in the northern part of Portugal, an amount of 300 million escudos was allocated which was not sufficient to produce much effective result. No visible signs could be detected by which it could be inferred that with such a programme, the country was moving towards self-sufficiency, nor was there any danger of the generation of permanent surpluses. It was hoped that the movement of the labour force from agriculture to other more productive sectors of the economy would result in a smaller number of people being employed in the production of commodities which were not suitable to stand competition from foreign countries. This would lead to an improvement in income and to an increase in consumption so that any increase in agricultural production should be fully absorbed.

14. A member of the Committee enquired whether the policy, as regards animal production, would raise the production of meat. The representative of Portugal explained that in the Second Development Plan more funds were allocated for the improvement of the agricultural structure of the country than were provided for in the First Development Plan. This made it possible for several schemes to be designed to construct barrages in several rivers, which would allow for the irrigation of land for fodder production and livestock production mainly in the southern part of Portugal. In order to reach a greater production of meat the Portuguese Government had to solve several technical difficulties which at present seemed difficult to overcome. Portugal was facing the same problems as those which existed in other parts

of southern Europe, such as lack of suitable pastures and in finding the type of cattle which could be bred in the dry climatic conditions with which southern Portugal was endowed. The Portuguese representative added that consumption of meat in Portugal was very low so that even if production was encouraged in that region and a reasonable amount of success was achieved, the increased produce would entirely be consumed within the country and no quantities would be available for exports. Conditions in southern Angola, however, were different and much more suitable for breeding cattle so that meat production in that part of overseas Portugal could be raised and possibilities for exports of meat eventually created.

15. One of the members of the Committee noted that the long-term goal of the Portuguese Government was to transform the structure of the country's economy, while the short-term objective was mainly to maintain internal financial stability. He enquired as to whether these two objectives could be achieved at the same time. The representative of Portugal recognized that the policy of price stabilization had sometimes brought about a difficult situation for the agricultural producers. The conditions for agriculture were very difficult in Portugal, so that the Government tried to achieve its objectives by taking out farmers working on land not suitable for agricultural production, thus leaving that portion of land for forestry.

16. A member of the Committee enquired why the application of a price stabilization policy was considered ineffective in the case of animal production. The representative of Portugal explained that until now there was no necessity for a special price policy for animal production as the economic conditions for extensive animal production were not favourable. With the development of an irrigation system in the country, the possibility of expanding fodder production would be increased so that a change towards cattle breeding could be considered.

17. Members of the Committee expressed interest in the establishment and the mechanism of the various inter-professional boards, such as the National Federation of Wheat Producers and the economic co-ordination boards like the National Animal Husbandry Board, the National Wine Board and the National Olive Oil Board. The representative of Portugal replied that the corporative organization of production and marketing included horizontal bodies, the inter-professional boards, i.e. associations of either producers or processors, or distributors of a given commodity or group of commodities, and vertical bodies, the economic co-ordination boards. The inter-professional bodies consisted of "Gremios", some of which were regional. They were grouped together in federations, such as the NEWP (National Federation of Wheat Producers). The economic co-ordination boards consisted of national "Juntas" for wine, fruit, olive oil, livestock products, cork and resins, which were exported, and "regulating commissions" for products which were imported, such as rice and oilseeds. In reply to questions whether there was any relationship between the boards and the Government, the representative of Portugal explained that the inter-professional boards had been instituted by law; the direction was elected by the members of the associations. The economic co-ordination boards had similarly been

instituted by law and were composed of representatives of the various associations and syndicates, but their president and vice-president were nominated by the Government. As far as inter-professional boards were concerned, the case of wheat might be taken as an example: the National Federation of Wheat Producers was composed of the grain producers and the law established that the direction was to be chosen by the various corporative associations of wheat producers. The danger that a board would not consider enough the interests of other boards or of consumers was covered by a general meeting at which each board was represented and by which the necessary action was co-ordinated. This liaison helped to evaluate the far-reaching effects of the policy of the boards on the economy generally.

18. In reply to further questions with regard to the mechanism of the inter-professional and economic co-ordination boards and of the equalization fund, the representative of Portugal explained that the policy of his country was aimed at keeping prices as stable as possible. To this end guaranteed producer prices were established for some agricultural commodities and maximum retail prices were laid down for a number of products, such as rice, table potatoes, olive oil, butter and certain categories of meat. To ensure that this stability was achieved the inter-professional and economic co-ordination boards were responsible for intervening on the market, mainly by resorting to storage programmes or by financing stocks. The market intervention was financed by the boards themselves and it was only when their resources were inadequate to cover the necessary measures that they would receive allocations from the equalization fund. They would also resort to banking credit. The boards were financed from levies on sales on the domestic market, from fixed import taxes over and above the usual customs duties and from levies on certain exports. The representative of Portugal went on to explain that the equalization fund was not financed by the national budget but only by levies on imports of certain products in cases where import prices (including customs duties and additional taxes) were lower than national market prices. The intervention of the equalization fund had two aspects: firstly, action to help agriculture by reducing the cost of certain means of agricultural production and by ensuring the maintenance of guaranteed prices to producers; and secondly, through the provision of subsidies to consumers for certain essential commodities when import prices exceeded the home market level.

19. A member of the Committee noted that Portugal applied two different rates of tariff duties. He enquired whether, when the boards had to make up the deficiency between the higher import prices and the domestic price, the maximum or minimum tariff applied. The representative of Portugal replied that in these cases normally the minimum tariff was applied, while sometimes no tariff duty was levied at all. He added that the minimum tariff was applied to imports from countries with which Portugal had bilateral agreements; the maximum tariff to all others. In fact, the minimum tariff was applied to practically all imports.

20. Several members of the Committee were interested in knowing whether the boards could be considered as enjoying exclusive or special privileges through

import monopoly arrangements. The representative of Portugal explained that after the inter-professional boards had determined the quantities to be imported, imports took place through established importers. The inter-professional and economic co-ordination boards supervised the imports only with regard to the imports of products which came under their jurisdiction, namely the main foodstuffs. The only products at present subject to such supervision were those which were classified under tariff items Nos. 02.01.01 (meat of animals of the bovine species); 02.01.02 (meat, not specified, and edible meat offals); 03.01.01 and 03.02.01 (cod fish); 04.03 (butter); 07.01.01 (potatoes for consumption); 10.01 (wheat); 10.02 (rye); 10.03 (barley); 10.05 (maize); 10.06 (rice); 15.07.01, 15.07.02 and 15.07.03 (olive oil); 15.07.10 (ground-nut oil); and 17.01 (sugar). No supervision was exercised on the import of other products. The supervision of imports was exercised in line with criteria of quality and price established by the boards and by importers and consumers. This did not mean to say that it was for the boards to decide whether quantitative restrictions on imports were to be established. Such questions were considered by the Government which took into account the reports and recommendations submitted by the boards, together with other relevant considerations.

21. A member of the Committee asked what criteria were followed by the Government in accepting import tenders and he enquired how traders could become eligible to quote for such tenders. The representative of Portugal explained that the quality of the product and lowest price quoted were always the deciding factors. Any firm or individual desirous of quoting for a tender should comply with the trading rules in force. The firm had to deposit a guarantee for the execution of the order but this was refunded when the transaction was completed. There were no restrictions in Portugal on any firms or individuals taking part in tenders provided the firm or the individual concerned had a business established in accordance with the laws of the country. The prior deposit amounted in general to 5 per cent of the value of imports, but for certain imports, notably wheat, a deposit of 250,000 escudos was required, irrespective of the quantity of wheat imported.

22. In reply to questions with regard to the application of measures of protection, the representative of Portugal explained that although the measures applied by Portugal had incidentally a protective effect, they were designed mainly to assist the agriculture of the country through technical assistance; through research work done in the field to determine the real potential and capacity of the soil; and through the maintenance of stability in prices through the activities of the inter-professional boards.

23. Referring to the bilateral agreements which Portugal had concluded with a number of countries, a member of the Committee asked how these fitted in with the tender system of importing certain commodities. The representative of Portugal stated that bilateral quotas did not cover in general those products which were subject to the tender system of importing and that the price was the sole criteria. The country of origin did not influence the importation of commodities subject to tenders in any way.

24. In reply to questions with regard to the compensatory payments and subsidies at present in force, the representative of Portugal explained that the following subsidies were paid out of the equalization fund:

- (i) Subsidies to reduce the cost of high quality seeds. These subsidies amounted to 21 million escudos in 1958, 20 million escudos in 1959 and 14 million escudos in 1960.
- (ii) Subsidies to reduce the cost of fertilizers, amounting to 144 million escudos in 1958, 124 million escudos in 1959 and 79 million escudos in 1960.
- (iii) Finally, a subsidy was introduced in 1960, amounting to 19 million escudos on motor fuel used for agricultural purposes.

The representative of Portugal explained that in addition to the above subsidies compensatory payments were also paid in the framework of the stabilization scheme in order to meet the difference between prices on the domestic market and higher import prices for basic foodstuffs. The representative of Portugal stated that the system of maintaining prices at a stable level had caused difficulties for producers. The internal price for wheat, for example, had not been revised for thirteen years. It was, however, not possible to increase this price without harmful effects for the consumers. The price for wheat was profitable to about 70 per cent of the wheat growers, but it was difficult to apply a differentiated system for the benefit of the 30 per cent of marginal producers. Special credit assistance was given to the farmers who were also provided with fertilizers at reduced prices.

25. In reply to a question regarding the agricultural survey of the country by means of aerial photography, the representative of Portugal stated that this programme promised to yield good results. On the basis of an agricultural map, together with maps based on regional soil surveys, the Government would receive a clear picture of the agricultural conditions in the various parts of the country. It would thus be possible to assess the real capacity of the soil for each agricultural product and to frame on a better basis the future agricultural policy.

26. A member of the Committee enquired whether Portugal afforded the same treatment to imports from countries not members of the OECD as it afforded to imports from the OECD countries. The representative of Portugal replied that his Government envisaged, after its accession to GATT, affording, to the greatest possible extent, the same import treatment towards all contracting parties. In this connexion attention was drawn to the reply to question 36 of document L/1411 on the accession of Portugal.

27. In reply to a question whether a maximum level of the equalization levy was negotiable, the representative of Portugal replied that Portugal would not be prepared to bind these levies at a maximum.

B. Commodities

Wheat

28. A member of the Committee noted that the domestic price of wheat was maintained at a higher level than the price prevailing on the international market. He suggested that such a high price could only be maintained by some form of protection and enquired as to whether this policy tended to

stimulate production of wheat in the country beyond domestic needs. The representative of Portugal replied that the functioning of the National Federation of Wheat Producers necessarily reflected the interests of the great number of small growers of wheat. The board determined the quantity of wheat required for the needs of the country, based on statistical and other relative data, including local production and estimated domestic consumption. Imports of wheat into Portugal went through normal trade channels and the difference in price between the locally-produced wheat and that of imported wheat was paid into the equalization fund. The conditions of a great number of wheat producers in Portugal were generally unsatisfactory but these producers constituted an important sector of the agricultural population. Unlimited imports of wheat at international prices would lead to a complete elimination of wheat production. The representative of Portugal went on to explain that there was no fear that the higher price would stimulate production beyond domestic needs. Wheat production in the year 1960 had been the lowest for many years; the production was 30 per cent less than in the year 1959 and amounted to only 50 per cent as compared with 1958. Portugal had never produced sufficient wheat to meet its own domestic demand. As the standard of living of the Portuguese people was improving, some increase in production could readily be absorbed by an increase in consumption. Moreover, as there was a growing consumer preference for breads containing wheat, the need for such imports was likely to continue.

Wine

29. In reply to a question by a member of the Committee with regard to interventions by the inter-professional and economic co-ordination bodies on the wine market, the representative of Portugal stated that the National Wine Board intervened on the market to ensure price stability. Market intervention took place only when prices fell below the minimum considered remunerative, or when prices rose too high. The Board purchased wine which producers could not export or store, and later sold wine from its stocks when considered necessary to combat a rise in prices. The activities of the Board resulted in the maintenance of wine of good quality and exercised a healthy influence on the stability of prices. He explained further that a credit system was developed in order to avoid the many small producers all selling their wines on the market at the one time. With regard to the exportation of wine, the representative of Portugal stated that a co-operative organization had been established to guard the quality of exported wines and to seek to achieve price stability.

Meat

30. A member of the Committee enquired whether import restrictions existed in Portugal on imports of meat. The representative of Portugal stated that the imports of meat in Portugal, coming from countries to which the OECD liberalization list had been applied, were liberalized; but they should always be effected by a commercial firm by means of the tenders authorized by the corresponding economic co-ordination board. The tender system was necessary in order to allow for some equalization between import prices and the lower prices on the domestic market. Thus, in order to maintain stability of prices, meat imports needed to be subsidized. With reference to page 17 of document COM.II/125 the representative of Portugal added that no imports were made under the system of clearing operations.

31. In comparing the import regimes for meat and for wheat a member of the Committee recognized that as the domestic price for meat was lower than the price of the imported product, the possibility existed that no imports of meat would take place without subsidization within the framework of the Portuguese stabilization policy but that in the case of wheat the price on the domestic market was higher than on the international market and therefore imports were restrained by some State interference. The representative of Portugal replied that some interference was necessary because the producers' and consumers' interests had both to be protected and a stable price was deemed necessary for the development of economic sectors other than agriculture.

32. In reply to a question whether he expected the market for imported meat to expand, the representative of Portugal replied that the increase in the standard of living would lead to an increase in the consumption of meat and that therefore it would be natural that more imports of meat could be allowed. So far, however, the results of cattle breeding had been far from satisfactory due, among other things, to difficulties caused by various epizootes which still were not completely overcome.

33. With regard to the fight against African swine fever, the representative of Portugal replied that the results of a vaccination campaign were not yet certain. The best results in eradicating the pest were obtained by slaughtering. The disease was fairly well controlled as was shown by the number of pigs slaughtered. These amounted to 200 in 1930 as compared with 3,000 some years ago.

Dairy products

34. A member of the Committee enquired whether or by what means the consumption of milk was being encouraged in Portugal. The representative of Portugal explained that the Government fixed the price of milk at a low level in order to encourage consumption. Secondly, through publicity and the introduction of milk-feeding programmes in schools, in part through foreign assistance, the consumption of milk was promoted.

35. A member of the Committee enquired about the criteria followed in determining the import requirements of butter for home consumption. The representative of Portugal explained that such an assessment was made by the Board which took account of such factors as the general trend of production of milk in the country, the state of the market, and a comprehensive appraisal of other relevant information.

36. A member of the Committee enquired whether an importer was required to deposit a guarantee for the import of dairy products. The representative of Portugal explained that prior deposits from importers were required but only in the case of public bidding. It was a legal matter which could not be avoided. A deposit of about 5 per cent of the value of the imports under tender was required in most cases.

37. In reply to questions regarding the establishment of the guaranteed price for milk, the representative of Portugal explained that this price was fixed by the Board. This price was calculated on the basis of an estimated cost of production increased by 5 per cent.

38. A member of the Committee enquired whether there was any reason for not liberalizing imports of soft cheese. The representative of Portugal replied that there was a small industry producing soft cheese in a small area of Portugal and by placing quantitative restrictions on the imports of soft cheese the Government afforded some protection to the local industry.

Vegetable oils

39. A member of the Committee enquired why soya bean oil was classified as an inedible oil. The representative of Portugal replied that this was necessary in order to avoid the mixture of soya bean oil with olive oil. It was the policy of the Government to maintain the high quality of olive oil.

Wool

40. In reply to a number of questions on wool, the representative of Portugal stated that there were no quantitative restrictions on the import of wool, nor was there any obligation for importers to buy a certain percentage of locally-produced wool or to export a certain quantity of wool textiles. Imports of wool into the Overseas Territories were unimportant because a textile industry in these territories had not yet been developed.