

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/3250

18 September 1969

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## REPORT OF THE WORKING PARTY ON PARAGRAPH 4 OF SWISS ACCESSION PROTOCOL

1. The terms of reference of the Working Party were "To conduct the first triennial review of the application of the provisions of paragraph 4 of the Protocol for the Accession of Switzerland, and to report to the Council" (document L/3197).
2. The Working Party met under the Chairmanship of Mr. S. Kennan (Ireland) on 16 and 17 June. It had before it the annual reports by the Government of Switzerland under paragraph 4 of the Protocol, covering the years 1966, 1967 and 1968, respectively (documents L/2903, L/3076 and L/3214).
3. In his opening statement, the representative of Switzerland recalled that when the CONTRACTING PARTIES had decided in 1966 to grant his country full accession, eight years had elapsed since Switzerland's provisional accession. This length of time had been due to the fact that Switzerland had been unable to relinquish the use of quantitative restrictions aimed at protecting its agriculture and had had to seek relief from the provisions of Article XI in that respect. Over the years the contracting parties had been able not only to witness the sincere determination with which Switzerland actively pursued the objectives of the General Agreement, but also to see for themselves that Switzerland's reservation in respect of Article XI represented the real needs of a particular case. When granting Switzerland full accession the CONTRACTING PARTIES had therefore confirmed their decision to relieve it from the obligations under Article XI in respect of agriculture subject, however, to certain conditions. These were that Switzerland should, so far as was consistent with the implementation of the laws listed in its reservation, observe to the fullest possible extent the appropriate provisions of the General Agreement, and in particular should endeavour to ensure that the measures concerned were being applied in such a manner as to cause minimum harm to the interests of contracting parties; and that it should respect the principle of non-discrimination. Also, Switzerland was called upon to report annually on the measures concerned and to enter into consultation regarding these upon request of the CONTRACTING PARTIES, who would, furthermore, conduct a thorough review of the application of the provisions of paragraph 4 every three years.
4. Continuing, the representative of Switzerland stressed that the most prominent feature in the way his authorities had applied the quantitative restrictions over the years was its constancy: no new measures had been introduced, nor had any of the existing measures been intensified. This constancy was a reflection of the unchanged

objective of his country's agricultural policy which consisted of maintaining a basic minimum of farm population and agricultural production for social, economic and strategic reasons, but which at the same time took account of the interests of the other sectors of the economy as those of Switzerland's trading partners. In spite of technological progress - another policy objective - Swiss imports of agricultural products had been far from stagnant. Switzerland's agricultural policy had never been expansion-oriented. Proof of this was the draconic measures his authorities had taken to eliminate the surpluses of dairy products that had accumulated in Switzerland, as they had in other European countries. These measures had involved a considerable contribution by producers, who had been required to reduce production and to bear part of the financial losses incurred. In carrying them out, Switzerland had fully met the conditions imposed on it under the provisions of paragraph 4. Faithful to its traditional policy, Switzerland would also in the future contribute honourably to the interests of international agricultural trade and thus to the interests of its GATT partners.

5. The Working Party expressed its appreciation for the three annual reports and the introductory statement by the Swiss representative. It noted with satisfaction that no new restrictive measures had been introduced and that existing measures had not been intensified. It regretted that the results in the agricultural sector of the Kennedy Round negotiations had not been such as to lead to a removal or relaxation of import restrictions in Switzerland and other countries. It expressed the hope that Switzerland would keep its import restrictions, whether or not covered by the Protocol, under constant review, with the aim of further liberalizing access to its market for the benefit of contracting parties. The Working Party further hoped that Switzerland would continue to participate fully in the pursuit of the objectives of the General Agreement in the agricultural field under the GATT-Programme for Expansion of International Trade.

6. The representative of Switzerland, commenting, said that all the views expressed had reflected a fundamental appreciation of his country's situation and of the consistency of his Government's policy. Switzerland was faced with two alternatives: to maintain the present system allowing a hard-core agricultural production to continue, or to abandon agriculture altogether. Switzerland had the world's highest per caput agricultural imports, and did not pursue an aggressive expansionary production policy. Its agricultural population had steadily decreased down to some 8 per cent of the total, and would continue to decrease. The area devoted to agriculture had also diminished. Modernization and rationalization of agriculture had enabled some of the effects to be offset. Switzerland was resolved to maintain its hard-core agricultural production, and could therefore not abandon the present system. He shared the view with exporters that the results in the agricultural sector of the Kennedy Round had far from matched those in the industrial sector. He pledged Switzerland's participation in any future efforts aimed at bringing about orderly conditions in world trade in agricultural products. He added that in his view prices, subsidization policies, and the lack of assured access were more pressing problems than quantitative restrictions.

7. A member representing a country with a State-trading system raised a point relating to Switzerland's commercial policy. Under a bilateral trade agreement with Switzerland, his country was required to import Swiss agricultural export commodities in a certain proportion to its exports of certain agricultural products to Switzerland. This member considered that although the stipulated proportion was only 10 per cent and had so far not been reached, the requirement was nevertheless a discriminatory measure and a trade barrier in practice. He pointed out that under its Protocol of Accession, his country had undertaken to increase the value of its imports from other contracting parties by not less than a certain annual percentage; the undertaking was global and not on a discriminatory country basis. The representative of Switzerland explained that the clause referred to represented the only form of assurance of access to the market in question. The basic problem was that the rules governing trade relationships between State-trading and market economy countries had not yet been entirely formulated in the GATT; in the meantime, bilateral agreements remained. The representative of the above-mentioned country pointed out that the rules governing trade relations between contracting parties and his country had been laid down by the Protocol of Accession to GATT in 1967. There was consensus in the Working Party that this type of problem was of a multilateral nature and of major concern to all contracting parties. A member observed that in view of the difficulties in establishing whether or not the distribution of trade under quotas approached as closely as possible the shares that might be expected to obtain in the absence of quotas, the simplest solution would appear to be to eliminate bilateral quotas altogether.

8. Questions were put regarding Switzerland's current and future policies in respect of livestock and meat. The representative of Switzerland explained that the problems in the meat and dairy sector were closely linked, particularly so in his country where cattle was mostly of a dual-purpose type. On the dairy side, milk output would have to be reduced, but alternative sources of income must be found for farmers. The growing consumption of meat in Switzerland offered such an alternative. Meat production did not follow increased consumption during the last years but improved its position in 1968. In the dairy sector where consumption, at stable prices, would continue to grow at 1 per cent per annum as against a 2 per cent growth in yields per cow, about 1 per cent of the cow population, or 10,000 cows would have to be slaughtered each year to maintain market equilibrium. This would result in a shortage of calves. On the other hand, the meat market, even with stable imports, would allow an increase in domestic production of slaughter cattle by 10,000 head. After examining the merits and shortcomings of various possibilities of raising beef and veal output, the Swiss representative drew the conclusion that domestic production would not be able to keep up with demand for bovine meat, so that Switzerland would remain a growing market for outside supplies also in the future. Some 90 per cent of bovine meat imports consisted of sirloin and manufacturing meat (mostly for sausages). These types of meat could not be produced separately from inferior cuts for which demand was low; it was thus in the interest of all suppliers not to overload the market with these qualities. Replying to another question, he stated that in Switzerland the beef cycle was less pronounced than the pig cycle, and that it had been interrupted by the additional slaughter of 26,000 cows (equivalent to 8,000 tons of meat) in order to reduce cow numbers. This explained the decrease in 1968 meat imports. The measures to reduce cow numbers would be continued, so that imports in 1969 would be about the same as in 1968.

9. A member of the Working Party put questions on the current and prospective trends of sheep-meat production and consumption, and as to any changes in the indicative or guaranteed prices for sheep for slaughter or lean lambs. He expressed concern at the decline of Swiss imports of lamb from his country and from outside suppliers as a whole. He considered that this was a result of the conditional import régime which required importers to take over the domestic product in a ratio corresponding to their imports. He stated that the recent increase in production of higher cost domestic lamb had led to a higher ratio in favour of the domestic product and thus to higher average prices to the consumer with adverse effects on consumption and imports. He felt that the recent decline in imports was due to the importers' fear that they might not be able to dispose of the higher-priced domestic product which they were obliged to take over; and that their uncertainty as to the quantities they might have to take over in the future made them reluctant to maintain or increase imports. The representative of Switzerland explained that 1968 imports had shown a 33 per cent decline because imports in 1967 had been so exceptionally high that they had remained on stock into the following year. Furthermore, sheep-meat consumption had declined in 1968 because of low pork prices. Production of sheep-meat had risen by 13.6 per cent in 1968; the ratio of production to imports was roughly one to one. Producer prices had not been increased. Finally, he pointed out that at the beginning of 1967 exporters had launched a publicity campaign to introduce lamb to the consumer, and consumption had risen. Subsequently, publicity ceased and this had a negative impact on consumption. The representative confirmed that the Decree of the Federal Council of 27 December 1966, under which quota restrictions on imports of sheep and lambs for slaughter and meat of these animals were eliminated and replaced by a take-over system, was still in force. As regards the future, he stated that no special incentives to production in this sector were envisaged by his authorities, and that the growth in production was expected to slow down.

10. Questions were asked on the methods of administering quotas on meat. A member of the Working Party considered that the fixing of quotas on a fortnightly basis represented an obstacle to his country's exports. He asked whether the Swiss administration had any latitude as regards the length of this period and expressed the wish that it be increased. The representative of Switzerland replied that the fortnightly period applied only to fresh meat. The system was flexible, and based on an assessment of the market situation every two weeks; this frequency was necessary on account of the small size of the market in terms of population numbers. If market prices were near the upper limit of the indicative price range imports were allowed to increase; if near the lower limit, imports were restricted. Answering a question regarding the stipulation that imports must meet between 5 and 10 per cent of total requirements of the market, the Swiss representative explained that this was not a limit fixed by his Government, but an objective for producers based on legislation. In fact, the producers will in practice obtain the prices foreseen in the Agricultural Law only if imports are taking place. In recent years imports had in fact exceeded the 10 per cent level. In answer to a further question, the Swiss representative said that the fact that in fixing global quotas account was taken of bilateral quotas established by commercial treaties did not mean that the provisions were being applied in a discriminatory manner. There was a traditional aspect to these quotas which applied to products such as hams or salamis.

11. As regards dairy products, a member of the Working Party expressed his admiration for the firm measures taken by Switzerland to reduce its butter surpluses. Referring to Switzerland's agricultural agreement with Denmark in the context of EFTA (of 21 December 1959 and additional agreement of 11 May 1963) which provided that in order to enable that country to regain the possibility of at least a 45 per cent share in Swiss butter imports, the Swiss Butter Supply Board (BUTYRA) would exercise a certain restraint on its foreign butter purchases, the price of which had been reduced below the world price level by means of subsidies; and referring to the undertaking given by Switzerland in 1967 to afford to the European Economic Community a minimum 20 per cent share of its total butter imports, this member asked whether Switzerland experienced any difficulties in implementing these objectives or commitments, in regard to the provisions of Article XIII of the GATT. Further, how were butter imports administered, were they governed by a concept of dividing up the market according to suppliers, and were there any bilateral quotas? The representative of Switzerland replied that imports of butter into his country traditionally came from the countries of the EEC and EFTA, which together accounted for the total or near-total. He pointed to the proviso in the undertaking to the EEC, which said "to the extent that the quality, price and availability of the merchandise permit". The criteria of quality, price and availability governed butter imports in general. When, for instance, imports were resumed in November 1968, Denmark was not in a position to supply fresh butter, imports took place from the EEC and certain other EFTA countries. Import needs were determined by BUTYRA on the basis of the market situation and stock levels. As BUTYRA does not have the powers to regulate production, its import decisions are necessarily on a relatively short-term basis. The decision to import is followed by a request for offers, and these are taken up according to the criteria mentioned. At the same time, regard is had to the existing bilateral agreements. If the bilateral partner is not in a position to supply, then imports must be made from elsewhere. If on the other hand his offer is particularly attractive, imports from him may well, and often do, substantially exceed the share provided for in the bilateral agreement. Replying to a further question, the Swiss representative said that bids are solicited from all sources known to be potentially in a position to supply butter of the desired quality and price, and within the required time. Any exporter could, moreover, address himself to the monopoly.

12. A member of the Working Party expressed his concern at the harmful effect which, in his view, the three-phase system as applied to fruit and vegetables had on his country's exports. The uncertainty as to the duration of each phase, and the rapid change from one phase to the next created a hardship for distant suppliers, particularly of those of perishable goods. He doubted whether the imposition of quantitative restrictions and the sudden closing of frontiers was the only possible way of safeguarding Switzerland's residual agriculture. He wondered whether, for instance, a system based on prices might not serve the same purpose better. He furthermore feared that the present system would lead to production increases and so to a hardening of the measures and a shortening of the first phase. Another member, stressing the importance of the second phase for his country's exports, suggested that decisions regarding quotas should be published well in advance of entering into force. The representative of

Switzerland said that a major factor underlying the three-phase system was that the marketing season for Swiss produce occurred late in the year and was short. In the course of the last nine years, the average degree of Switzerland's self-sufficiency in fruit had remained stable at about 57 per cent, and in the case of vegetables had dropped from 67.4 to 47.7 per cent. This showed that production of fruit and vegetables was decreasing and the market for imports was growing, and that the system had therefore allowed imports to develop. A certain risk was always attached to trade in perishables. However, changes in the import régime were announced to embassies at least eight days before they occurred; furthermore, the trade itself knew well in advance coming changes in the import phase on the basis of current information on weather and market conditions, and prices. The present system left import prices to move freely, and as they were always lower than domestic prices they created a pressure to import. An import régime based on prices and, for instance, involving levies, would be less flexible and would not provide the same opportunities for access as the present system. He recalled that the Swiss market was relatively small, compared to the huge production potential which surrounded it. Asked whether his authorities had any flexibility in granting entry to products which had left their place of origin on time but had been delayed for reasons beyond the exporter's control, the Swiss representative said that the frontier was closed only when this had become absolutely necessary. If the system was to be effective, one could not in general allow imports to enter in a succeeding phase and thus perturb the market. Furthermore, imports into Switzerland were as a rule not on a consignment, but on a firm commitment cash basis.

13. A member asked for the reasons of the marked decline in imports of seed potatoes in 1968. The representative of Switzerland replied that this had been a question of quality, both as regards plant health and the varieties in demand on the Swiss market. Certain mountain regions lent themselves particularly well to the production of potato seedlings and production had been extended there.

14. A member of the Working Party observed that the Swiss import system did not authorize imports of white wine and considered that it did not provide sufficient access for his country. He felt that the fixing of quotas in the light of traditional currents of trade and of certain contractual obligations prevented good-quality low-priced wines to be placed in Switzerland. The system should be more commercially oriented and take account of prices and quality. He considered that his quota, together with the supplementary quota was too small compared with that allocated to certain other suppliers. Another member stated that although the present system of annual plus supplementary quotas provided a magnificent outlet for his country's wines, an element of uncertainty would be removed if supplementary quotas were abolished and annual quotas were increased instead. A further member asked whether, or to what extent, the mechanism allowed exporters of small quantities or new exporters to enter the market. In view of the account that was taken of traditional currents and contractual obligations, the global quota put aside for this purpose was small, and was probably taken up by suppliers who already had links with the trade; new suppliers might find it difficult to find importers. Commenting, the representative of Switzerland pointed out that only wine in casks was under quota, while bottled wine could enter freely. There were a number of bilateral agreements, some of them of long-standing, and quotas

were allocated according to these. Then, quotas were granted to traditional suppliers or suppliers with major interests, the levels being set autonomously by the Swiss authorities. Finally, depending on the market situation, demand and domestic production, additional quotas can be granted. It was not likely that importers would buy only from suppliers with whom they had existing links, as new initial quotas would be reserved for a particular country; this was one of the advantages of a country allocated quota system.

15. In answer to a question regarding imports of cut flowers, the representative of Switzerland said that the quotas are fixed according to species of flower. A committee advises the authorities of the import quantities needed to fill the gap between supply and demand and, in determining the size of quotas, takes into account existing bilateral quotas to ensure that they are filled. In recent years total imports exceeded the quantities provided for under bilateral quotas. Import licences on species of flowers not produced in Switzerland were granted freely.

16. A point was raised concerning monopoly duties on alcohol. The representative of Switzerland, while pointing out that this matter lay outside the scope of the present consultation, nevertheless gave particulars on it and expressed his readiness to provide additional information to the two delegations concerned.

17. In view of the frequent reference to bilateral agreements and bilateral quotas in the report submitted by Switzerland, the discussion reverted to the general aspects of this subject. A question was put whether the quotas under bilateral agreements were revised from time to time. Members pointed out that the number and size of bilateral quotas determined the access for suppliers who did not have quotas. If the implementation of bilateral agreements involved discrimination and resulted in greater shares in trade for the partners concerned than might be expected to obtain in the absence of such agreements, then this matter became of interest to other countries and of concern to the Working Party. Admittedly, it was difficult to establish the exact distribution of trade that would obtain in the absence of quantitative restrictions. Members of the Working Party welcomed the statement in Switzerland's report for 1968 that there was no discrimination in applying quantitative restrictions. Without wishing to query the correctness of this statement, they nevertheless felt that more detailed information on this question would provide useful evidence on the basis of which the implementation by Switzerland of the provisions of paragraph 4 of the Protocol could be thoroughly discussed, in particular in relation to the provisions of Article XIII of the General Agreement. They therefore expressed the wish that more detailed information on this matter should be included in future annual reports by the Swiss Government, and suggested that this information should cover, for each product subject to restrictions and for which country quotas existed: the size of each quota, the size of the opportunity open to countries that had no quota, and the size of actual imports under quota.

18. The representative of Switzerland stated that bilateral quotas had last been negotiated in 1967, but that it was not possible to foresee when a further revision might take place. The existence of bilateral quotas enabled the partner

concerned to make representations if imports did not reach the stipulated level. He agreed that it would be useful if future annual reports contained additional information on the source of imports, and expressed his readiness in future to furnish more details in respect of each tariff item under quotas or restrictions, showing data country by country. He stressed that the administration of quotas by his Government had been carried out in full conformity with Article XIII. He agreed that it was difficult to establish what trade would be in the absence of quotas, and pointed out that under present disrupted conditions in international trade where subsidization and restrictions were prevalent, it was virtually impossible to establish what the pattern would be under normal conditions. Switzerland's system was liberal and opened and maintained access for outside suppliers. Switzerland had to take account of its own market situation, but made serious endeavours to meet the needs and wishes of its trading partners. In conclusion, he thanked the other members of the Working Party for their understanding of his Government's efforts in the three years under review.