

GENERAL AGREEMENT ON
TARIFFS AND TRADE

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AUSTRALIAN MEMORANDUM ON
"WORLD TRADE IN AGRICULTURAL PRODUCTS"

The attached memorandum is being circulated to the Group as a contribution to the further discussion on the subject of world trade in agricultural products at the fifth meeting of the Group to be held in July 1977.

Australian Memorandum on "World Trade in
Agricultural Products"

1. The Australian delegation outlined something of its thinking on this subject in statements at the third and fourth meetings of the Consultative Group and in a memorandum (CG.18/W/16) circulated prior to the fourth meeting. It was stated at that time that the Group might appropriately consider the direction and kind of changes which could serve the longer-term interests of low cost and high cost agricultural producing countries and of producers and consumers.
2. From the history of GATT negotiations in regard to agriculture some might be inclined to accept as a fact of life that the GATT in its present form will never be fully applicable to agricultural trade, in the sense that it is applied to trade in manufactures. In our view, it would be a retrograde step for the GATT, as an institution, if such attitudes became entrenched in its operation and accepted by the contracting parties. The Consultative Group by examining international practice in agricultural trade against the principles of the GATT, could help ensure a better outcome for agricultural trade. Initially the Consultative Group could give attention to identifying those aspects of the trade where there is a possibility of achieving some common resolve to mitigate the adverse effects of some existing measures.
3. Given the complexity of agricultural support systems it is recognized that the issues involved are manifold. It was suggested, therefore, at the last meeting of the Consultative Group that discussion at the forthcoming meeting might focus on a specific area of concern and that my delegation provide a paper to stimulate discussion on such an area.
4. Such an area of concern among many on which the Consultative Group might focus as a start is the type of situation where domestic agricultural support measures can result in an overspill of high cost surplus production into world markets and where its commercial disposal affects adversely the volume and terms of export sales by low cost agricultural producers. This is an area of special concern to the majority of GATT member countries whose economic development and standards of living are dependent to a significant extent on the volume and terms of sale of their exports of agricultural products.
5. The Consultative Group might consider whether it is, in general, appropriate for high cost producing countries to stimulate production for commercial purposes to the extent that it exceeds domestic self-sufficiency requirements. Irrespective, for the purposes of the discussion, of the pros and cons of agricultural self-sufficiency as a policy objective, it can be argued that agricultural support measures should not be such that they extend directly beyond national borders by means of subsidized commercial disposals of surpluses where these affect adversely the staple line of exports of low cost agricultural producers.

6. There are, of course, instances where the export of high cost agricultural products has been subsidized for long periods, with substantial associated export infrastructures. In some such cases it might be unrealistic in the light of many unsuccessful attempts to negotiate on such questions to expect the infrastructures supporting such export trade to be dismantled. That notwithstanding, it may be questioned whether it is equitable for the level of subsidization of such trade to be maintained and to the extent that it does not, over time, permit domestic re-adjustment of production and thereby allow low cost producers an increased share of export markets. It may be questioned also whether or not it is equitable for the levels of subsidization to be such that high cost production increases its share of markets at the expense of low cost production.

7. There are other cases where high cost production of a commodity has not previously been commercially exported in any significant quantity but where the relevant support programme has resulted in self-sufficiency being increased to the point where it may be considered expedient to export, at subsidized rates, impending over spills of production. Given the pursuit of high levels of agricultural self-sufficiency by many countries, the base of the "free" world market in some products is a relatively narrow one - one which is apt to be unbalanced by relatively small changes in the volumes traded in it. Thus a given national agricultural support programme may, in fact, result in a volume of production reasonably close to the target volume. If, however, the volume is in absolute terms quite large, disposal of the surplus on a narrow world market can be quite unsettling. It can also pose serious problems for the competing industry in a low cost country in cases where a relatively moderate (in terms of volume of internal production in the high cost country) degree of overspill may displace a large proportion of its exports.

8. The difficulties posed for low cost producers by what initially may be an "unintended overspill" of subsidized high cost production into world markets are compounded where appropriate action is not taken to prevent a repetition of overspill. The commercial parties involved adapt readily and quickly to any expectation of continuing surpluses and a new export infrastructure is rapidly brought into being. The subsequent operation of the "ratchet effect" can be such that high cost agricultural producers, who formerly had no expectation of, nor direct interest in, exportation of their produce, come to believe it their due to receive support payments for a significant level of exports as well as being supported in respect of domestic sales of their produce.

9. It would also be a matter for consideration as to whether world trade in agricultural products would proceed on a more equitable basis if there were to be a review, or closer continuing scrutiny, of the administration of national agricultural support programmes, especially in relation to export subsidization. The scale and complexity of such programmes can be such that it may, for example, be difficult to preclude the possibility of subsidization proceeding at levels in excess of those which would be consistent with national policy objectives and international obligations.

10. In the light of the above the Consultative Group might wish to consider, among others, the following aspects:

- whether the subsidized export of high cost agricultural production in ways which adversely affect competing low cost producers is necessary to attain national agricultural policy objectives;
- what types of policy response or adaptation of existing support programmes might be appropriate in order to avoid what may initially be unintended over spills into world markets;
- whether it would be helpful if there were to be a readiness to consult and, where necessary, to provide information of why subsidization of high cost production may be proceeding at levels which more often than not result in price under-cutting of low cost producers;
- whether it would be desirable to adjust systems of export subsidization of high cost agriculture so as to assist in attaining and sustaining an adequate rate of real capital formation in competing low cost agriculture.