

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Agricultural Committee

PRODUCTION POLICIES

Note by Secretariat on Discussions of 17 to 21 March 1969

1. At its meeting of 17 to 21 March the Committee took up the examination of production policies, as provided for in part II of its programme of work (COM.AG/11, paragraph 17).
2. The Committee had before it the basic information supplied by contracting parties in response to the questionnaire contained in COM.AG/9 - this is contained in COM.AG/W/2 to 35 and Addenda 1 to 8. The Committee also had before it three notes prepared by the secretariat: self-sufficiency ratios for some agricultural products in selected countries, Spec(69)35; prices received by producers, Spec (69)36; and a note on the tables prepared by the secretariat in connexion with the examination of production policies, Spec(69)37.
3. The Committee agreed to take up in turn each of the products groups subject to the examination, on the understanding that it would be possible at a later stage for members to draw more general conclusions if they so wished. For each product group members of the Committee gave short oral descriptions of production policies in their countries, with particular reference to the points set out in part II of the Committee's programme of work and answered questions put by other members. A summary of the discussions is contained in paragraphs 4 to 37 of this note. Finally, the Committee agreed that certain additional data relevant to its examination of production policies should be supplied by 15 May 1969. Details are given in COM.AG/12, paragraphs 12 and 13.

DAIRY PRODUCTS (COM.AG/W/-/Add.1).

Production policy objectives

4. In most countries, the major aims of production policies were to assure stable and adequate supplies of high quality milk and dairy products and to stabilize the economy of dairy farmers at a level which would provide a fair return for their input of labour and of capital investments. In several countries income support for dairy farmers was used to raise the income level in the agricultural sector in general. In this connexion the relative importance of the dairy industry was pointed out. In most countries the industry accounted for over 20 per cent of agricultural gross output, and in some cases for over 35 per cent. Furthermore, in most countries, milk production was spread over a large number of small units, and it was considered necessary to promote a more rational production pattern within the sector.

5. In certain countries, milk production was encouraged as a part of the efforts made in order to strengthen the balance of payments. In replying to a question, the representative of one importing country stated that it was not his Government's aim to expand dairy production, and they gave relatively more support to the beef production, and the standard quantity, for which a price guarantee was given, had shown only minor increases in recent years. In some other countries, where consumption of dairy products was still low, the authorities wanted to improve the diet by increasing the per caput consumption of milk and dairy products, and had found that such an increase could be obtained to a great extent through increased supplies of domestic produce.

6. Some countries, mainly traditional net exporters, had no clearly defined policy aims with regard to the volume of their dairy production. However, in view of the actual situation in the market, some measures had been taken recently with the aim of stabilizing production.

7. One member of the Committee stated that in his country agricultural policy aimed at a reduction of milk production for trade policy reasons, partly in order to provide access to the market for food products from developing countries and to reduce governmental expenses on export subsidies. Other members stated that steps had been taken in their respective countries with the aim of preventing a further expansion in the milk production.

Production trends

8. For a number of countries production had shown little change in recent years, and neither was a strong expansion expected to take place in the near future. A downwards trend in the number of cows (and also in the number of herds) had more or less been outweighed by improved yields, mainly due to favourable supplies of fodder, improved feeding techniques and also to a certain improvement in livestock. However, in some countries the dairy herd had expanded slightly. This, together with technological improvements, had resulted in a steady increase in production. At the same time, improved marketing facilities and higher prices to producers had resulted in less milk being used on the farms, and deliveries to dairies rose even faster than production. These additional supplies of milk for processing caused a subsequent increase in the output of dairy products, notably butter, and there had been a strong accumulation of butter stocks in a number of countries. These developments had necessitated the introduction of various measures in order to restore a market equilibrium. In replying to a question about why the production in one country had declined even though the price had been increased, the representative of this country said that this might be due to the incomes of dairy farmers being generally low and the price increases had not been sufficient to make dairying more profitable because of the high capital costs.

Measures

9. In order to achieve the policy objectives for the dairy production, a variety of measures had been employed; these ranged from rationalization schemes (including programmes for transfer and retraining of the labour for other

employment and retirement schemes) and various forms of production support, to consumers' subsidies. Several members of the Committee reported on various public efforts made in their respective countries, such as governmental assistance, in order to raise productivity; there were various programmes for development of the domestic fodder production (mainly by increased use of subsidized fertilizers), amelioration of the dairy herd through improved breeding and selection methods and schemes for the eradication of animal diseases, (i.e. tuberculosis, brucellosis and foot and mouth disease). In some countries governmental assistance was given to promote a more efficient organization of the marketing of milk and dairy products.

10. In a number of countries a dominating element in production policies was a direct price support, linked to guaranteed minimum prices or to target or indicative prices, fixed by governments or in agreements between the government and the producers. In other countries, price pooling practices, a price differentiation between the domestic market and the export market and price equalization schemes had been established in order to stabilize returns to producers and, to some extent, prevent these from falling to extremely low levels. Several countries were operating arrangements by which losses on exports were covered by governmental funds. In other countries the funds were raised by the industry itself. In replying to a question, one member stated that a programme of payment-in-kind exports of butter and skimmed milk powder had been suspended although the legislation underlying the programme continued to exist.

11. Several countries granted direct subsidies to producers. In reply to a question about why the producer's subsidy per unit had been raised recently in one country, the representative of this country said that this was due to a decline in production as the total amount granted for this subsidy had been kept constant during recent years. Another member of the Committee said that his Government envisaged the phasing out of such payments and that from the spring of 1969 no subsidies would be paid to farmers producing less than 22.5 tons of milk. Two other members mentioned that direct support to milk producers had been limited to particularly sensitive regions where there were few or no alternative employment opportunities. In another country a subsidy to small farmers had been abolished recently. Other members stated that, in their countries, increases in guaranteed minimum prices had been restricted to a reasonable compensation for increased costs. Consumers' subsidies were still made use of in several countries in order to encourage consumption or to maintain a high level of consumption. Attention was drawn to the problem of distinguishing between producers' and consumers' subsidies; the latter might provide indirect support to producers.

12. Certain members stated that in their countries a certain market equilibrium had been achieved by keeping prices to producers unchanged but by imposing fees on sales of milk and on purchased feedstuffs. This obliged producers to contribute to the financing of special sales at reduced prices and exports of surpluses. The consumption of butter and cheese among the rural population had been stimulated through compulsory repurchases of such products by farmers. In several countries, imports of feed were limited or prohibited with

the aim of curbing upward production trends, and in one country a proposal for taking land out of agricultural production was under consideration. Various efforts were being made in many countries to obtain a shift in the orientation of production from milk to beef.

13. A member of the Committee gave supplementary information on a market arrangement which had been completed in the Summer 1968. According to this a target price had been fixed for milk and intervention prices had been agreed upon for butter, skimmed milk powder and certain types of cheese. Provisions had also been adopted for the calculation of import levies and for the granting of export restitutions. In reply to questions the member said that short-term measures taken to halt recent trends included discount sales of butter for special purposes on the home market, a reduction in the intervention price for butter, a change in the price basis from fat content to protein content, culling off of dairy cows and a reorientation of production from milk to meat. A general consumer subsidy had been found to be more expensive and less efficient than other measures such as special sales at reduced prices.

GRAINS (COM.AG/W/-/Add.2)

Production policy objectives

14. The policy pursued was in general designed with a view to creating conditions conducive to the maintenance of expansion of production so as to meet demand. Some members of the Committee indicated that their country's policy aimed at self-sufficiency; others said that while it was intended that imports should be maintained, they were seeking to guarantee supplies for their market and to encourage improved production quality. Two factors affecting the orientation of grains' cultivation were mentioned: the desire to restrain production in other sectors (in particular the dairy sector) and the increased need for feed grains resulting from the development of animal husbandry. One member of the Committee indicated, however, that his country was encouraging a reduction in grain production. Representatives of exporting countries mentioned the influence of the world market situation on their production. Some members of the Committee expressed the hope that increased production in their country would make it possible to export certain grains.

Production trends

15. In the view of most members of the Committee, increased grains' production was a possibility as a result of better yield, even if it were not accompanied by any extension of the area under cultivation or by any special guarantee measures. As a general rule, coarse grains as a whole were likely to develop more rapidly than wheat as a result of increased demand, combined in some cases with measures to promote animal husbandry. Some members of the Committee, nevertheless, mentioned production incentives with respect to certain qualities of wheat.

Measures

16. The majority of grain producers enjoyed a price guarantee, in particular with respect to wheat. Members of the Committee described the various systems applied in their individual countries. In some of these, the entire harvest of

certain grains was purchased by special agencies at prices above the level of world prices, in order to ensure an equitable return to producers. The products were subsequently sold at lower prices. In other countries, the difference between a guaranteed price and the market price was covered by complementary premiums. Mention was also made of a target price, set as a minimum permitted price level for imported grains. The proceeds from variable equalization charges were paid into a fund which was subsidized and out of which aid was granted to certain purchasers of coarse grains. National producers sometimes benefited under compulsory mixing regulations for bread grains. The fixing of prices of the various grains was sometimes designed to shift production towards certain qualities or varieties.

17. There were also minimum production prices, support prices at which all or part of the production could be purchased by special agencies, and intervention prices at the level of which the producer was assured that the product would be taken over. In connexion with purchases by intervention agencies, one member of the Committee pointed out that the volume of such interventions was small and that products were not channelled back into the market on terms likely to disrupt prices. Another member indicated that purchases for support reasons were disposed of by means of non-commercial transactions, donations, etc.

18. A member of the Committee noted that in one group of countries the establishment on a regional basis of indicative prices, used as a reference for determining intervention prices, had the effect of making it more advantageous to utilize imported grains.

19. Subsidies for cultivation of certain grains were paid by some countries. One member of the Committee described the principles underlying the operation of a stabilization fund with respect to a specified volume of wheat for export. Reference was also made to milling premiums designed to harmonize prices of domestic and imported flour, as well as to subsidies on transport costs for feed grains. One member of the Committee explained that in his country producers were required to participate in production restraint programmes as a condition for their participation in support programmes.

20. Measures of a more general character were reported, including credits and loans, advance part-payments; tax allowances for agricultural investments, stock management programmes, and harvest insurance.

21. Many countries were endeavouring to achieve better yield by means of improved production techniques. Several members of the Committee mentioned subsidies to promote the general use of fertilizers.

MEAT (COM.AG/W/-/Add. 3 and 4)

Production policy objectives

22. In most countries, production policies were designed to increase meat production. The main reason for encouraging an expansion of production was the steady growth in demand for, and consumption of meat, and several countries

planned to increase production at a rate corresponding to the foreseen rate of growth for consumption. As sales of meat constituted an important share of incomes to the agricultural sector, various support measures had been established for the purpose of raising and stabilizing agricultural incomes in general. In certain countries, for which exports of meat constituted a major source of export earnings, expansion plans for meat production were important parts of general economic development programmes. However, for a number of countries, the major aim was to be more or less self-sufficient with meat. In a few countries, governmental programmes for improving the diet and in particular for raising the consumption of animal protein required a certain increase in the meat production. Production policies for beef and veal were also influenced by the objectives for dairy production, and in a number of countries a re-orientation of production from milk towards beef was aimed at in order to bring some relief to an over-supplied dairy market.

Production trends

23. Current trends for meat production showed an upward movement in nearly all countries. There had notably been a strong expansion in the production of poultry meat during recent years (with annual growth rates being as high as 12 to 15 per cent). A continued expansion was expected, but perhaps at a more modest rate than in the past. For bovine meat and pigmeat, general trends had been steadily upwards in recent years. For some countries, however, the cyclical movements in pigmeat production made it difficult to draw firm conclusions with respect to medium-term trends. Replying to a question about likely developments in the industrial type of production applied to poultry meat and eggs and, to a lesser extent, pigmeat, a member of the Committee said that this might develop further in the future, although for the moment there seemed to have been a slow-down, apparently because this type of production was exposed to certain risks. Another member of the Committee mentioned that in his country beef production had been relatively high in recent years because of reduction in the dairy herd, and once this reduction had been terminated a decline in beef production might come about.

Measures

24. Both indirect and direct measures were employed in order to achieve the objectives of the production policies. Indirect support was given in most countries through rationalization schemes of various types, disease eradication schemes, breeding programmes, credit facilities and taxation concessions. Various steps taken in order to limit the increase in the milk production were expected to facilitate an expansion of the production of beef. Replying to a question about the reduction of the dairy herd, a member of the Committee said that in his country such a reduction had been possible without the introduction of slaughter premiums for dairy cows, as other factors had sufficiently favoured the culling off of dairy cows.

25. Some countries said that, in the case of meat, they did not apply any type of direct price support, which for some time had been a basic production policy instrument in most other countries. In replying to a question about the relatively low meat prices in a country which did not apply any price support, the representative of this country stressed that a comparison of prices should take into account differences in production costs and living conditions. In most other countries price support was provided through guaranteed minimum prices, target or indicative prices secured through various practices of support purchases, market intervention or deficiency payments. However, in some countries the market situation had not necessitated market intervention or governmental expenses in recent years, because market prices had been above the guaranteed minimum. For a group of countries in which market intervention for beef had become necessary in 1968, intervention purchases had amounted to less than 1 per cent of total production. In other countries, price pooling practices, a price differentiation between the export market and the domestic market and price equalization schemes were in operation in order to stabilize returns to producers. Such measures might have been financed by funds raised by the producers themselves or by the slaughtering industry and did not necessarily involve financial assistance from governments. In reply to a question, a member of the Committee said that, although it was possible that deficiency payments might be paid on meat for export, this had usually not been the case in the past because the products exported had been of a quality which had not met with the standard requirements laid down for products on which such payments could be made. Another member said that store cattle exported to the major export outlet was normally eligible for guarantee payments under the fatstock guarantee scheme in operation in the recipient country. It was pointed out that increased guarantee prices and deficiency payments in a net importing country would limit access to this market for traditional exporters. The representative of the country concerned said that, although guarantee prices and deficiency payments would be raised for 1969/70, market prices would remain at the world market level, the upward trend in the consumption of beef and veal would be maintained and the total import demand was not expected to diminish.

FRUIT AND VEGETABLES (COM.AG/W/-/Add.5)

Production policy objectives

26. For most countries, policy objectives appeared not to be stipulated in specific terms, but in general countries aimed at as high a degree of self-sufficiency as possible in those commodities for which climatic conditions were suitable. For such products, it was usually an aim that producers should be able to obtain remunerative prices. Development programmes for production for exports were normally limited to such products for which the respective countries believed that their products would be competitive in the international market.

Production trends

27. Production of fruit and vegetables was believed to show an upwards trend, though the large annual fluctuations in crops often made it difficult to draw meaningful conclusions with regard to medium-term trends. There were, furthermore, significant differences between the various products. In replying to a question about the reasons for the strong expansion of the area under tomatoes in one country, it was explained that this had been caused by favourable market conditions and suitable natural conditions which had allowed for a certain progress in the productivity; although there was a market equilibrium at present, it might become necessary to limit the expansion of this production in the future. Another member stated that in his country production of fruit and vegetables would be increased through further developments and improvements of production and marketing co-operatives.

Measures

28. In general, direct production subsidies were not given and governmental support was limited to indirect subsidies (e.g. fertilizer subsidies and the providing of reasonable credit for rationalization purposes). In countries where systems of guaranteed prices were in operation, these applied to a limited number of products only, such as tomatoes, potatoes and some deciduous fruits. Measures at the frontier, including tariffs and the prohibition of imports when domestic supplies are sufficient, constituted the major protective device in most countries. In several countries, marketing boards or marketing orders exercised a certain control of the market, and took certain steps to adapt supplies to the demand. A few countries also had legislative provisions for granting of export subsidies. In a group of countries which had legal provisions for market intervention for tomatoes and a number of fruits, intervention bodies could make purchases of such products and offer them to the processing industry on favourable terms for export at reduced prices, or the products might be destroyed.

VEGETABLE OILS AND OILSEEDS (COM.AG/W/-/Add.6)Production policy objectives

29. The production of vegetable oils and oilseeds was relatively unimportant in most of the countries participating in the Committee. Only a few countries had clearly defined production policy objectives. In most of the countries which had a significant production of vegetable oils, the major aim was to maintain the production volume at the present level, especially in regions where it was difficult to replace oilseeds by other crops. In only one country was the objective to increase production in order to meet a rising demand for vegetable oils. In countries where the production of oilseeds was of only minor importance in comparison with the total supply, production was maintained for a variety of reasons, such as a need for crop rotation and the need for a minimum supply of vegetable oils for strategic reasons.

Production trends

30. Production of olive oil had changed only little over recent years, apart from annual fluctuations. In certain countries, production of other oil crops had showed some increase, notably that of soybeans and to some extent also that of sunflowerseed and rapeseed.

Measures

31. Even in countries where the production was of little relative importance, it benefited from various support measures such as guaranteed minimum prices, indicative prices and deficiency payments. In several countries the marketing of oilseeds was handled by marketing boards, supply boards or marketing co-operatives and in one country the marketing took place under contracts between the producers and the crushing industry. In a group of countries, the support system included indicative prices, intervention prices and, in addition, provisions for direct aid to producers. In replying to various questions a member mentioned that in his country the support price for soybeans had been lowered by 12 per cent in 1969, in order to curb the upward trend in the production. Demand had, however, been growing faster than production and so far support purchases for soybeans had not been of great importance.

UNMANUFACTURED TOBACCO (COM.AG/W/-/Add.7)

Production policy objectives

32. In most cases, tobacco production was relatively small and policies were designed only to improve qualities and yield, and stabilize the market. In some countries, however, the product was of considerable social importance because of the large number of growers or the relative importance of exports in the trade balance; programmes had been established with a view to maintaining and stabilizing those resources.

Production trends

33. Despite variations due to climatic factors, some degree of stability, and even a slight increase was becoming apparent in tobacco production. In particular, the volume of production of certain tobacco qualities could be increased substantially.

Measures

34. In a number of countries, production was limited by regulations on acreage and/or the establishment of sales quotas. Marketing was frequently the responsibility of monopolies or special agencies which purchased all or part of the crop at fixed prices; sometimes, production was geared to contracts entered into with those agencies. Some members of the Committee mentioned programmes providing for the mixing of domestic and imported leaf in return for advantages guaranteed to manufacturers. Reference was made to payments in respect of certain tobacco

qualities not eligible for the tax benefits available under the mixing programmes. In another country, a subsidy was designed to offset the increase in production costs. In addition to the quality premiums mentioned by one member of the Committee, reference was made to numerous technical aid measures introduced for the same purpose. As a general rule, there were only few direct assistance measures but the import régime could afford protection.

WINES (COM.AG/W/-/Add.8)

Production policy objectives

35. As a general rule, improved quality of production was sought rather than any increase in volume. The objective was to adjust supplies to disposal possibilities.

Production trends

36. Variations in production as a result of climatic factors were considerable. Some members of the Committee, however, noted an upward trend in the long term, principally due to better yield. Other countries were endeavouring to stabilize production.

Measures

37. In several countries, the desire to improve the quality of wine or to harmonize supply and demand had resulted in limitations or in supervision of the area under cultivation. Indirect support could be granted in the form of credits and loans on favourable terms, conservation premiums, distilling subsidies, and above all, technical aid. In some cases guaranteed prices were provided to ensure disposal of any production surplus. In general, prices were formed by the free play of market forces, and marketing was usually unrestricted. Protection was afforded in some countries through the import régime.