

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## SURPLUS DISPOSAL

### Experience under the Resolution of 4 March 1955

#### Note by the Australian Delegation

During the Review Session the Australian Government was profoundly concerned about the effects which surplus disposal transactions could have upon regular international trade. The Australian delegation accepted the Resolution of 4 March 1955, not because it fully satisfied Australian views but because more stringent provisions could not be obtained on a generally acceptable basis.

2. The Australian delegation is convinced that the agenda item which it has proposed deals with a matter which is of interest to all contracting parties and one which is of very great and continuing importance to many of them.

3. This conviction is based firstly upon the consideration that although some progress has been made towards the reduction of the level of surpluses of some products, the overall magnitude of surpluses has not diminished in recent months. As pointed out in the report of the FAO Committee on Commodity Problems for the present Conference of FAO, "Stock accumulations are as serious a problem as they were a year ago. In the case of wheat, coarse grains and cotton, in which accumulations were heaviest, there have been increases since last year and, because of the good harvest results, it is expected that this year will bring still further increases. There have been reductions in stocks of dairy products, linseed oil and sugar." The total investment in price support commodities of the United States Commodity Credit Corporation stood at 7 billion dollars on 30 June 1955, compared with 6 billion dollars a year before. It is clear that the problems presented by the liquidation of such surpluses will be with us for some time.

4. A second basis for this conviction is that, at least in the United States of America, the tempo of physical disposals of surpluses, and the number of disposal agreements, have been considerably stepped up since the CONTRACTING PARTIES considered the matter in March last. For example, under United States Public Law 480, more than 60 per cent of the total funds authorized for Title I transactions over a three year period were committed during the first year's operation of the Act. Some of these surplus disposal agreements have either not yet been put into effect or transactions under them have not yet been completed. Moreover, the United States Administration has been reported recently

as intending to follow "a stepped-up programme of surplus disposal and an expansion of farm exports". Hence there are reasons for misgivings whether the full impact of surplus disposal arrangements has yet been felt.

5. It follows, in the Australian view, that although the Resolution on Surplus Disposal was adopted only a comparatively short time ago, recent experience under the Resolution may provide constructive and positive suggestions for the avoidance of undue disruption of normal trade in future operations.

6. The Australian objective in listing this agenda item, therefore, is a discussion based on practical experience since 4 March of the operation of the Resolution under what, in our view, are the two main questions arising out of the Resolution:-

- (a) whether the disposal of agricultural products has been carried out in such a way as to avoid unduly provoking disturbances on the world market that would adversely influence other contracting parties, and
- (b) the effectiveness of the consultation referred to in the Resolution.

It is not intended to seek any elaboration of the terms of the Resolution in the way either of more detailed procedures or other detailed arrangements for consultation.

7. Hitherto it has been the United States of America which has mainly engaged in surplus disposal transactions, and the Australian experience described here relates largely to operations conducted by the United States Government. However, the Resolution is quite general in its application to the disposal of surpluses of agricultural products, and principles which emerge from a consideration of recent experience are applicable to any country disposing of surplus stocks.

#### Comments on surplus disposals

8. Apart from consultation procedures, as such, there is the larger question of the way in which surpluses can be disposed of so as to avoid unduly provoking disturbances on the world market. This of course is a matter of concern to other international bodies, including FAO, as well as to the CONTRACTING PARTIES.

9. There is no intention to bring into question genuine flood or famine or other relief programmes which involve the movement of surplus products to stricken areas. Programmes of this kind have never been challenged - in fact, have been actively supported - by the Australian Government and are outside the scope of this paper. Nor does the Australian Government oppose the movement of existing surpluses into consumption, where this can be done without adverse effects on international trade. It supports and is ready to co-operate in programmes designed to move surpluses into needy areas, to raise nutrition standards or to improve human welfare. It has, for example, co-operated actively in work of this kind under the Colombo Plan and in FAO.

10. In the view of the Australian Government particular countries clearly have a direct interest in avoiding prejudice to their own trade; but equally clearly, the direct and indirect effects of various kinds of surplus disposal transactions are certain to reach out to many countries and no country significantly interested in international trade can ignore or treat as unimportant the effects of surplus disposal transactions which do not pay the fullest regard to commercial trade.

11. The acquisition of surplus commodities from the United States under local currency arrangements (e.g. F.L. 480) is not likely to save dollars for the importing country, because the legislation requires the United States Administration in arranging such disposals to safeguard the "normal marketings" of the United States. The acquisition for dollar payment, even though at concessional or non-commercial or bargain prices, of surplus products which would otherwise be bought from non-dollar sources does not save dollars because under the present United States external trade situation and policies these dollars are not matched by additional imports into the United States. They merely go to aggravate the dollar gap. Moreover, such transactions may displace the importing country's normal commercial imports from another source. Thus indirectly the ability of the importing country's own customer countries to buy its products may be adversely affected.

12. Two of the main effects of indiscriminate surplus disposals may be noted. Firstly, they shift the location of the physical surplus. By way of illustration, to the extent that exports of grains under surplus disposal techniques displace Australian exports of grains on a commercial basis the tendency will be for Australian stocks to be that much higher than they would otherwise be. This in effect is not only an export of the physical surplus but an export of the farm policy problem of which the surpluses are the concrete expression. Secondly, such transactions adversely affect normal channels of trade and international payments in numerous ways. For example, when Australian commercial movements of wheat are reduced by other countries' surplus disposals, Australian export income and hence her ability to import is reduced. Under present conditions that requires so much the more severe restrictions by Australia on imports from all sources.

13. A question relating to avenues of disposal is whether it is clear that all the possibilities for increased internal utilization of surpluses have been exhausted. Again, perhaps more attention could be given to devising ways and means of surplus disposal tailored to the particular characteristics of production, consumption, or trade of a major commodity or groups of closely related commodities which is in surplus.

14. It is important that existing surpluses should not be continually added to, or that, having been liquidated, they should not from time to time recur. If current and future production could be kept within the bounds set by normal commercial demand, then the question of the orderly disposal of some of the existing surpluses should prove somewhat less intractable. In this connexion, Australia recognises the fact that the United States Government has recently been re-examining its agricultural programmes, and has taken steps to reduce the possibility of continuing surplus production of some commodities. Unless there is effective progress in this direction consultation procedures can have at best limited value.

#### Comments on Australian experience in consultations

15. In general, as far as Australian experience is concerned, it can be said that the consultation procedures recognized in the Resolution of 4 March have assisted in reducing the disruption of normal commercial trade, but their effectiveness could be significantly improved.

16. There have been cases where the Australian position was taken into account in a reasonable way. These included cases of real importance to Australia. But there have been a number of instances - of varying importance to Australia - where Australian representations were ineffective.

17. Particular ways in which consultations could be made more effective as Australia sees them, in the light of her experience, include:

- (a) Earlier notification of a proposed transaction by the country disposing of surpluses; it should be possible to avoid a situation where the earliest indication that a particular transaction is under consideration comes from trade or other sources.
- (b) More time for the preparation of information following notification of a proposed transaction; in Australian experience adequate time has not always been available to enable a reasonably complete statement of Australian views to be developed, even on a basis of urgency.
- (c) So arranging the negotiation of all surplus disposal agreements that views received in response to consultation procedures can be effectively taken into account.

18. An important aspect of Australian experience is that there is insufficient recognition of the indirect impact of disposal transactions on the trade of particular countries, or of the fact that the effect in some cases, although it may not be to displace existing trade, is such as to prevent an increase in existing commercial trade or to prevent or hinder the development of a new trade on a commercial basis. In this connexion the implications and repercussions of triangular transactions for the commercial trade of other countries call for greater emphasis and more searching exploration than they appear so far to have received.

19. The responsibility for applying consultation procedures clearly, under the Resolution of 4 March, rests upon countries disposing of surpluses for export. Nevertheless, Australian experience suggests that some importing countries have considered carefully the importance to them of the effects of surplus disposal transactions upon both their export and import trade. Both the immediate interests and the wider interests of the importing countries are relevant. In some circumstances their consideration of these issues may be facilitated by consultation on the part of the importing country with the main commercial suppliers of the products involved.

#### Summary

20. Australia stresses the onus which rests upon the countries concerned to ensure, first, that disposals are conducted with full regard to their effects on the commercial trade of other countries, and, second, that the consultation procedures are so managed that the purpose of the consultation can in fact be achieved - that there is a real opportunity for views expressed in the course of consultation to be taken effectively into account.

21. The Australian delegation is confident that the highly important, pervasive and continuing nature of the problem is sufficiently established for contracting parties to give this agenda item their serious attention.