

GENERAL AGREEMENT ON TARIFFS AND TRADE

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EXPANSION OF TRADE - AGRICULTURAL POLICY

Report of Committee II on the Consultation with Australia

2. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourteenth session that consultations should be held with the individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with Australia. The Committee had before it: (i) document COM.II/2(q), dated 29 July 1959, which contained a synopsis, supplied by the Government of Australia, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers, and (ii) document COM.II/14, dated 14 September 1959, containing detailed information, also supplied by the Government of Australia, on commodities entering importantly into international trade. In conducting the consultation the Committee followed the plan for consultation contained in Annex A to document COM.II/5 and adopted by the CONTRACTING PARTIES at the fourteenth session. The consultation was completed on 17 September 1959.

A. GENERAL AGRICULTURAL POLICY

2. In his opening statement the representative of Australia stressed the importance of agriculture to the Australian economy. Over one-fifth of Australia's domestic output originated in agriculture, while over three-quarters of the total value of Australia's merchandise exports were in the form of agricultural products. Export earnings from the agricultural sector were vitally important for financing Australia's import requirements which were steadily rising, due to a rapidly increasing population and a rapidly developing economy.

3. The general objectives of Australian policy in the agricultural field were to increase efficiency and output, to give some stability in the return to producers and to cushion the effects on the Australian economy of fluctuations in world prices of primary products. It was Australian policy to seek arrangements which contributed to the objective of stabilizing prices without impeding long-term production adjustments in response to changing market circumstances and without occasioning increases in domestic prices which might curtail consumption.

4. The responsibility for governmental measures relating to agricultural production in Australia rested primarily with the six State Governments. Measures to increase efficiency and output included the provision of facilities for research, extension services to make available to farmers economic and scientific information, and the provision to primary producers and others concerned with marketing, of the best available data relating to the market outlook.

5. To give some stability in the return to producers, the Commonwealth Government had, at the request of producers, assisted in the development of systems for orderly marketing and for stabilizing prices for a number of commodities.

6. Under joint Commonwealth and State legislation, domestic prices had been established at a level related to the cost of production, for wheat, butter and cheese, and sugar. These domestic prices had sometimes been above the export price and sometimes below it. The instability of prices had also been an important factor in the development of some form of orderly or co-operative marketing for most other important rural products. Marketing boards operated under Commonwealth or State legislation or both. The establishment of these Boards was conditional on the agreement of a majority of producers, but when formed, their obligations and powers extended to all producers. Otherwise, the purpose of orderly marketing arrangements could be defeated by individual producers moving in and out of the arrangements as it suited their convenience.

7. Commonwealth marketing boards had been established at the request or with the approval of producers of wheat, dairy produce (butter and cheese), meat, eggs, wine, canned fruits, dried fruits, apples and pears. The functions of these Commonwealth Boards, all of which were concerned with exports, varied somewhat from product to product. Their activities could embrace such matters as the licensing of exporters, the allocation of export quotas, the determination of price limits, prescribing conditions of insurance and carriage and negotiating freight rates. They also contributed to industry research and trade promotion. In some cases, as indicated in document CCM.II/2(q), these boards engaged in trading.

8. Australia had also sought and supported international action to moderate fluctuations of prices of primary commodities by international commodity agreements. It was a party to the multilateral agreements for wheat and sugar and had a bilateral agreement with the United Kingdom on meat.

9. Price stabilization schemes were used both to support farm income during periods when export returns were low and to stabilize domestic consumer prices when export returns were high. With the exception of canned fruits all the two-price schemes for agricultural products were in a phase where home consumption prices exceeded export returns. It was the view of the Australian Government that its efforts to stabilize returns to its producers and to stabilize domestic prices had not created problems for international trade in the commodities concerned.

10. It was not the purpose of the various stabilization schemes to accord protection to Australian industry against imports. Basically, where protection against competition from imports was needed Australia accorded such protection through the customs tariff. For most agricultural products, Australian producers had effective "protection" derived from their production efficiency. The representative of Australia did point out, however, that subsidies were used to a very limited extent; the only subsidy of significant size being that on butter and cheese. Subsidies were also used to assist the protection

of local production of raw cotton and flax and there was a very small subsidy for the air transport of beef. For all products other than butter and cheese, the total amount of the subsidies was only about £4150,000 per year. In the case of sugar protection was afforded through a prohibition on imports.

11. Members of the Committee thanked the Australian representative for his very thorough and informative statement. Understanding was expressed by members of the Committee of Australia's concern for stability in export prices particularly in view of the considerable dependence of Australia on agricultural exports, many of which were subject to frequent and often wide fluctuations. Comments also included reference to the importance in Australian policy of bilateral marketing arrangements supported by a system of guaranteed prices and subsidies. The Australian representative pointed out in reply that the limited extent and the reasons why Australia had entered into bilateral arrangements and the purposes for which it had granted subsidies and adopted guaranteed prices in a very limited number of cases were brought out in the documents placed before the Committee by Australia and should be borne in mind in the Committee's examination of the Australian papers.

12. In response to a question, the Australian representative pointed out that there was no direction to Australian farmers as to what or how much they should produce, nor were there any controls on production except in the case of sugar and, through water rights, on dried fruit and rice. However, the various measures which had been taken by the Commonwealth and State Governments did influence the pattern and level of production.

13. One member of the Committee noted that for wool, no system of stabilization was employed. He asked the representative of Australia why this, Australia's most important commodity, formed an exception to the general policy of stabilization through producer boards followed in Australia. The representative of Australia stated that the policy of the Australian Government was to maintain an agricultural economy based on free enterprise where the individual producer took his decisions in the light of his own assessment of the market. The Commonwealth Government was ready to examine requests by producers for its assistance in establishing arrangements to stabilize prices when a substantial majority of producers had indicated that they favoured such arrangements. This had not so far been the position in the case of Australian wool producers.

14. A member observed that the agricultural commodities for which Government price guarantees operated were few. There were, however, schemes involving different export and domestic price arrangements for many products entering international trade. The Australian representative pointed out that some of these arrangements were operated by producer organizations in an effort to stabilize producer returns and domestic prices. A member requested information as to how these domestic marketing arrangements were protected from external competition. The representative of Australia explained that the only measure of protection for such industries--apart from protection afforded by geographical factors and by the relative efficiency of Australian producers as compared with external suppliers--was the Customs tariff, and even this was only necessary when domestic prices were higher than prices on the export market.

15. In response to a question on subsidies, the representative of Australia emphasised that the subsidy on butter and cheese was primarily related to domestic consumption; exports equivalent to 20 per cent of Australian consumption of butter and cheese also qualified for subsidy to ensure production at a level sufficient to cover domestic demand.

16. In response to requests for information on the various marketing boards established under State or Commonwealth legislation, the representative of Australia confirmed that the boards were established at the request of or with the approval of producers. The Wheat, Dairy Produce and Egg Boards all engaged in export trading activities. The Wheat Board had exclusive trading powers in wheat, whereas the overseas trading powers of the Dairy Produce and Egg Boards were limited. The Queensland State Government Sugar Board had exclusive export trading powers in sugar.

17. Several members sought information on the effect of the remaining quantitative restrictions on Australian imports of agricultural products. The representative of Australia explained that practically all agricultural products subject to quantitative restrictions were accorded Category B licensing treatment. Importers were free to use their quotas to import any of the wide range of goods included in that category. The liberalization measures introduced in April 1957 and August 1959 had increased by 66 2/3 per cent and 20 per cent, respectively, the quotas available for products in Category B. The Australian representative also informed the Committee that as from 1 August discrimination had been removed from all agricultural imports from the dollar area with the exception of canned fruits.

B. COMMODITIES

DAIRY PRODUCTS

18. The Committee was advised that the Commonwealth Government provided an annual subsidy for the dairy industry. This subsidy, which was primarily related to domestic consumption, had amounted to £13½ million annually for the past four years. Exports equivalent to 20 per cent of Australian consumption also qualified for subsidy. This was not for the purpose of increasing exports, but was incidental to ensuring production at a level which would fully cover Australian domestic demand. In Australia, milk production varied considerably from year to year and from season to season. It was necessary to have excess production of butter and cheese at certain times to ensure adequate supplies throughout the year.

19. Several members of the Committee expressed considerable interest in the subsidy granted the Australian dairy industry. One member of the Committee considered that stabilization schemes which were financed on a self-balancing basis from funds contributed by the producers themselves were largely unobjectionable from the viewpoint of other exporting countries. He expressed concern, however, for any plan which provided for a large annual subsidy from Government funds. He queried the validity of the contention of the Australian Government that the subsidy did not operate to increase exports. He

considered it inevitable that, in the long run, any continuous payment of government funds to maintain producer incomes at a higher level must also assist in maintaining total production at a higher level than would otherwise be the case. When this additional production was prevented, by a policy of fixed consumer prices, from being attracted into additional domestic consumption, the obvious result was that the surplus must be disposed of on the export market. The member asked the Australian delegation whether they had considered the alternative of encouraging increased domestic consumption by reducing the domestic consumer price, or by even freeing the domestic price from control and thus permitting it to find its own level.

20. Another member of the Committee considered that from the statistics supplied on the returns from domestic and export sales, it appeared that the subsidy paid on dairy products was almost exclusively an export subsidy. He felt that the present system of regulating prices to maintain production at an amount equal to domestic consumption plus 20 per cent, was ineffective. Experience had shown year after year that production had considerably exceeded the desired amount. The member asked whether the Australian Government had contemplated the introduction of more effective measures for limiting dairy production.

21. The representative of Australia in reply, drew attention to the statistics in document COM.II/14 which showed that about 60 per cent of the subsidy was paid in respect of domestic consumption. He further pointed out that exports of butter had not risen, as compared with past levels as a result of the subsidy. He explained that in the experience of his country it was an historical fact that when incomes of dairy farmers fell, production rose, which only further aggravated the problem. The subsidy had tended to keep the incomes of butter producers at a reasonable level without inducing an increase in production. Experiments conducted by the butter trade in reducing retail prices had not proved successful in stimulating consumption, which was already very high. Other measures, such as sales of butter to domestic food manufacturers at export prices and national marketing research and sales programmes, were considered more promising. These kinds of measures were now being actively pursued by the Australian Dairy Produce Board, which was intent on reducing the degree of dependence of the Australian dairy farmer on an unstable export market. The size of the annual subsidy being paid to the dairy industry was causing the Australian Government concern. It had appointed a special committee to enquire into and report upon the industry and to make recommendations regarding steps considered necessary to place the industry on a more efficient, economic and stable basis.

22. In concluding the discussion on dairy products a member informed the Committee that it had been the experience of his country that in a recent period of depressed prices production of dairy products had fallen by approximately twenty per cent.

MEAT

23. In reply to various questions on the Australia - United Kingdom Meat Agreement, the Australian representative explained that under the Agreement the United Kingdom guaranteed by means of deficiency payments minimum prices for Australian beef, mutton and lamb sold on the United Kingdom market. If Australian meat exported to the United Kingdom realized an average market price less than that specified in the agreed schedules of minimum prices, the United Kingdom Government was bound to make up the deficiency by payment of a lump sum to the Australian Government. The benefits of any deficiency payments were in turn passed on to the producers through the Australian Meat Board. In the eight years that the Agreement had been in operation, no deficiency payments had been made for mutton and lamb. It was emphasized by the Australian representative that, at the time Australia entered into this agreement, the United Kingdom was prepared to offer similar agreements to other meat exporting countries.

24. A Committee member expressed the opinion that the offer of meat contracts to other countries at the time of the signing of the Australia - United Kingdom Meat Agreement did not detract from the fact that the agreement was discriminatory. The member felt that the Agreement involved discrimination beyond the margin of tariff preference enjoyed by Australia by reason of the deficiency payments made by the United Kingdom. He felt that it would have been difficult for any non-Commonwealth country to accept such an Agreement which would involve committing the future of an industry to the British market where preferences enjoyed by Australia and other Commonwealth suppliers would not be available. He felt that the initial reason for the Agreement, namely the concern of the United Kingdom to avoid a scarcity of meat supplies, was no longer applicable in view of the current balanced situation of the supply and demand for meat.

25. The representative of Australia reminded the Committee that the preferential tariff systems applied by Australia and the United Kingdom were fully recognized by the General Agreement even though no increase was allowed in the margin of preference. He explained that, in order to carry out the accepted responsibility of supplying the United Kingdom market it had been agreed that it would be necessary for Australia to undertake extensive development work involving considerable capital investment. When the Agreement was being negotiated it was recognized that such investment and expenditure could only be undertaken in exchange for assurances of minimum prices and an assured market over a lengthy period. The Australian representative pointed out that it was not unusual for private enterprises to seek long-term commercial contracts to protect their investments. Moreover, a similar type of agreement, with the exception of the price guarantees, existed between the United Kingdom and New Zealand. A ten-year agreement also existed between the United Kingdom and the Government of Ireland.

26. Referring once again to the Meat Agreement, a member of the Committee stated that the conclusion of the long-term Agreement had removed for a considerable period any possibility for other meat-producing countries to share in the important United Kingdom market. The Committee member feared that this Agreement might be a fore-runner to similar Agreements which might be entered into by European countries in an effort to protect colonial production. He felt that such action would seriously impair the trade of less-developed countries.

27. The representative of the United Kingdom informed the Committee that there was currently a shortage of beef supplies on the United Kingdom market. This applied particularly to chilled beef. He felt that in these circumstances the Australia - United Kingdom agreement could not be said to have deprived any country of a share of the United Kingdom market.

28. The question was raised as to why meat imports into Australia did not seem to occur when domestic prices in Australia were above export prices. The representative of Australia said that when the Australian domestic price was higher than the export price the Customs tariff and freight rates operated against large imports. He stressed that basically the meat industry in Australia was very efficient and it was unlikely that internal price level would rise above the level prevailing in other important markets.

OATS, BARLEY AND WHEAT

29. In response to a number of questions, the representative of Australia informed the Committee that a stabilization plan for wheat provided for the domestic price to be fixed by the State Governments at a level based on cost of production. The Commonwealth Government for its part guaranteed a return, equal to cost of production, for 100 million bushels exported from each crop. This guarantee was made good in the first instance from a fund raised by a levy on exports, a subsidy by the Australian Government was only payable in the event that this fund became exhausted. To date the Australian Government has not had to provide any money to meet this contingent liability.

30. Unlike wheat, 90 per cent of the production of barley was confined to two States - South Australia and Victoria. An Australian Barley Board, set up by joint legislation of these two States was responsible for the domestic and export marketing of barley produced in these States.

SUGAR

31. In response to a number of questions on sugar, the representative of Australia explained that under an Agreement between the State of Queensland and the Commonwealth of Australia it was prescribed that the price for sugar sold domestically should be uniform in all Australian capital cities at a level based on cost of production. The Australian representative explained that the rebates paid by the sugar industry to other sugar-using industries were not taken into account when determining the domestic price of sugar. He also explained that the import of sugar into Australia was prohibited as part of the two-price scheme for sugar.

1955. It was an integral part of the Agreement between the State Government of Queensland and the Commonwealth Government. It was considered by the Australian Government that, because of the regulation of exports of sugar by the International Sugar Agreement, this import prohibition did not have any effect on the international trade in sugar. In fact if Australia were to import sugar, the quantity she could export under her quota would be correspondingly increased.

VEGETABLE OILS

32. A member of the Committee referred the Australian delegation to the statement in the Australian paper regarding "expanding production of import saving crops". The representative of Australia explained that for a number of years his country had been in serious balance-of-payments difficulties. During this period efforts had had to be made to increase the production of some agricultural products in order to assist in relieving the strain on foreign exchange. He informed the Committee that the question of future protection for the vegetable oil industry was presently under study by the Australian Tariff Board. Members of the Committee welcomed this statement as an assurance that Australia was not contemplating long-term policies of self-sufficiency.

33. Another member referred to the procedure by which processors were permitted to import peanut oil duty-free under customs byo-law provided they bought up the domestic "culls" at prices agreed upon with the marketing authority. The representative of Australia informed the Committee that the duty-free import of certain products in quantities that would in any case be needed because they could not be supplied domestically, was not unusual under the Australian tariff. It was a common practice in respect of secondary as well as primary products and avoided the payment of a protective tariff. He maintained that the arrangement referred to was not a mixing regulation.

FISH

34. Concern was expressed by several Committee members at the apparent rigidity of the remaining quantitative restrictions on canned fish products. One member stated that, although Australia was in the admirable position of having no subsidies on fish products and few, if any, involved regulations, the quantitative restrictions on fish products were very severe. He expressed the hope that these quantitative restrictions would be relaxed or abolished in the very near future. The representative of Australia emphasized that the declared policy of the Australian Government was that balance-of-payments restrictions would not be used to protect Australian industry. Producers were constantly reminded of this by the Government. The Australian representative drew the attention of the Committee to relaxations which had been accorded imports of canned fish products at the time of the liberalization measures introduced on 1 August 1959. Members expressed appreciation of the Australian representative's statement to the effect that his Government did not use quantitative restrictions imposed for balance-of-payments reasons as protective devices. They looked forward to the complete removal of the restrictions as soon as balance-of-payments conditions permitted.

TOBACCO

35. One member drew the attention of the Committee to the fact that the percentages relating to the usage of Australian leaf in the mixing arrangements for tobacco had been increased severely in recent years. He said that the rate of mixture of domestic tobacco to be used in the manufacture of all domestically produced cigarettes had risen from 3 per cent in 1952 to $28\frac{1}{2}$ per cent for 1960. For smoking tobacco these figures were 5 per cent and $24\frac{1}{2}$ per cent respectively. The effects of these arrangements were great as manufacturers must purchase the required percentage from domestic producers at high prices or be penalized by higher import duties.

36. The Australian representative explained that the mixing percentages had increased with the increase in domestic tobacco production. He also indicated that the arrangements were not mixing regulations but were tariff measures which provided for the admission of leaf at a reduced or concessional rate of duty if a certain proportion of Australian leaf was used in the manufacture of cigarettes and cut tobacco.

37. The member also drew attention to an increase by 200 per cent of imports from the Federation of Rhodesia and Nyasaland from 1948 to 1959. He sought confirmation whether there was a guaranteed long-term purchase agreement. The representative of Australia explained that he did not have details of any commercial arrangement that existed but there was no inter-governmental agreement.

38. In response to questions on the import restrictions applicable to tobacco, the representative of Australia explained that no restrictions were placed on imports of current requirements of tobacco.

GENERAL

39. One member of the Committee observed that Australia applied import controls for sanitary reasons as well as for balance-of-payments reasons. With regard to the restrictions imposed for balance-of-payments reasons, he noted that it was extremely difficult to introduce agricultural products on the Australian market. Although full interchangeability was permitted among the items in Category B, it was the impression of the Committee member that the quota system did not give import possibilities for all products since goods in the quota category were licensed on the basis of percentages of imports in a selected base year. The representative of Australia explained that the Australian import licensing system provided for importation free of licence for certain goods considered essential to the economy. Some other products were also admitted freely because the disruption of normal trade in the post-war years made licensing difficult. For the products remaining subject to control, quotas

were generally based on imports made during 1950-51. Quotas for most consumer goods were, however, based on imports during 1954-55, since import restrictions were relaxed in 1954, and it was felt that imports in 1954-55 reflected more normal conditions.

40. With regard to the controls imposed for sanitary reasons, the Committee member acknowledged that a country must protect itself from the importation of plant and animal diseases. He stated, however, that it has been the experience of exporters in his country that sanitary controls in Australia were such as to severely restrict importations of certain agricultural products and to completely prohibit the importation of others. He felt that the expansion of international trade would be hampered considerably if all countries were to apply regulations as severe as those applied by Australia. He requested the Australian representative to bring this matter to the attention of his Government in the hope that these regulations could be modified. The Australian representative pointed out that Australia, being an island continent, was free of many of the diseases prevalent in other parts of the world and its sanitary regulations were intended to maintain that position. He said that he would bring to the notice of the Australian authorities for examination, the question that had been raised whether in some particular cases the regulations were being too rigorously applied.

41. Referring to the question that had been raised concerning bilateral agreements to which Australia was a party, the Australian representative said that his country had entered into a number of arrangements with other countries in respect of the sale of wheat and flour. These arrangements ensured Australia of the opportunity of making sales at normal commercial prices in certain of its traditional markets where it was facing non-commercial competition from subsidized suppliers and surplus disposal operations. The object of these arrangements was to retain a share of its traditional markets whilst it continued to seek remedies through the General Agreement.

42. It was pointed out by another member of the Committee that surplus disposal took place within the framework of internationally agreed principles designed to protect the normal commercial marketings of all countries.