

**GENERAL AGREEMENT ON  
TARIFFS AND TRADE**

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REPORT OF COMMITTEE II ON THE CONSULTATION WITH  
THE UNION OF SOUTH AFRICA ON AGRICULTURAL POLICIES

1. 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 the Union of South Africa. The Committee had before it (i) a synopsis, furnished by the Government of the Union of South Africa, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers, and (ii) a series of documents giving detailed information on the commodities entering importantly into world trade on which the CONTRACTING PARTIES had agreed the consultations should in the main be concentrated. In conducting the consultation, which was concluded on 25 September, the Committee followed the "plan" contained in Annex A to document COM.II/5 and adopted by the CONTRACTING PARTIES at their fourteenth session. The present report summarizes the main points discussed during the consultations.

A. GENERAL AGRICULTURAL POLICY

2. In his opening statement the representative of the Union of South Africa stressed the importance for contracting parties to pursue policies calculated to promote internal economic stability and a reasonable rate of growth; the GATT objective of promoting an expansion of international trade could not be realized unless these conditions were met. The agricultural policy of the Union of South Africa should be evaluated against that background.

3. As a result of industrialization the relative importance of agriculture in the South African economy had been declining, and its contribution to national income had fallen from 18 to 12 per cent over the past three decades, but agriculture continued to be of great social and economic significance for the country. South Africa had traditionally been an agricultural country; about two-thirds of its total area was arid or semi-arid and lent itself to little else but extensive farming. The climatic conditions were relatively unfavourable for agriculture. The experience of the inter-war years had shown that unless farmers were offered a reasonable measure of protection against the unpredictable fluctuations pertaining to agriculture, sound husbandry would tend to give way to practices of exploitation. In order to improve average farm incomes, which had always been low and which had been depressed to abnormally low levels in the early thirties, the Marketing Act was passed in 1937 which had the dual objectives

of introducing a measure of security and stability into farming and of raising farming efficiency. The Act provided for marketing schemes supervised by Marketing Boards and empowered the Minister of Agriculture to regulate the import and export of agricultural products. A marketing scheme could be introduced only at the request of the producers concerned, and at present seventeen commodities were regulated by Marketing Boards set up under this Law.

4. The representative of the Union of South Africa described for the Committee the position in respect to certain commodities with which these consultations were primarily concerned. The information thus provided is noted in the commodities sections below. In conclusion, the representative of South Africa summarized the country's position in the following terms: (a) on the whole prices of the major agricultural commodities in South Africa were reasonably close to world market prices, but since the latter show fairly wide fluctuations, the flow of imports and exports had to be regulated in many cases in order to prevent a disruption of domestic stabilization programmes; (b) import controls were not used in South Africa as a means of reducing the consumption of any product or of diverting consumption to a local substitute which might be available more abundantly; within the limits of foreign exchange resources imports were always permitted fully to meet domestic requirements, and such imports were generally effected on ordinary commercial considerations and without discrimination; (c) on the whole the application of the Marketing Act had not led to any radical change in the country's traditional position in the import or export trade of the products concerned; South Africa's price policy had always taken due account of long-term trends and the prospects in international markets; and (d) there were no compulsory mixing regulations and no export subsidies financed by the Exchequer; in the only case where the State rendered financial assistance to an equalization fund, its contribution was relatively small and declining.

5. The representative of South Africa further noted that practically all the members of GATT pursued policies of one kind or another aiming at agricultural stabilization and that the policy measures varied from one country to another. In the view of the Union Government, what was of primary importance was not so much the method by which stabilization was pursued, but whether or not the measures applied were operated with moderation. Individual policies should be judged by their impact on the natural forces which would otherwise determine the country's position in relation to the international trade in the products concerned.

6. The Committee thanked the representative of the Union of South Africa for his very clear and comprehensive statement. Some members of the Committee commented on the extensiveness of the coverage of South Africa's agricultural marketing regulations and the complexity of its organization. The methods used seemed to include price fixing, subsidies, equalization funds, State trading, etc. The various Marketing Boards seemed to perform different functions; some engaged in price fixing while others seemed to operate as ordinary buyers and sellers with their field of operation embracing both domestic and international markets. The impression one got was that the whole South African market was organized and controlled. A

member of the Committee noted that of all the major export commodities, wool seemed to be the only one which was not being subject to regulation but was sold in the open market through auction, and enquired as to the reasons behind this special position of this product.

7. The representative of South Africa thought the complexity of the system was more apparent than real. The functions performed by the different Marketing Boards varied according to the production and marketing problems peculiar to each product. Thus in the case of citrus and deciduous fruits, which were primarily produced for export and were also highly perishable, the boards concerned have confined their activities to the achievement of efficient marketing. Various boards merely endeavoured to achieve a measure of price stability for the producer, whilst some, e.g. the Wheat Board and Dairy Board, pursued both objects. As to the position of wool, apart from the special nature of the product, it would be difficult to stabilize the price for a commodity of which only a small portion of production was consumed domestically. About 90 per cent of the wool produced in South Africa was exported.

8. Some members of the Committee pointed out that while in the documentation supplied by the South African Government, the payments made through the Marketing Boards were varyingly referred to as "deficiency payments", or "stabilization" or "equalization" payments, in most cases they would appear to be production or export subsidies. The term "consumer subsidy", which should have been reserved for cases where free market prices were reduced through such payment for the benefit of consumers, were sometimes used where producers shared the benefit, and in many cases, producer prices were not determined by the interplay of market forces but were fixed by the Government. It would seem more appropriate to speak of "producer" subsidies rather than "consumer" subsidies.

9. In response to these comments the representative of the Union of South Africa noted that the term "subsidy" was normally reserved for direct contributions paid from State funds, which was not the case in respect of many of the products in question. The three consumer subsidies had been introduced during the war to stabilize the cost of living and to keep down inflation, but some of these subsidies now included, in all likelihood, some element of a subsidy to producers. If, for example, the subsidy on butter were to be abolished, it was unlikely that the whole burden would fall on the consumer, since an increase in consumer prices might entail a decrease in consumption and result in an export surplus. A member of the Committee noted that, while this might be the case for butter, it might not be so in the case of cereals, and especially for wheat, where the abolition of subsidies would be most unlikely to lead to a fall in consumption. In reply to this latter point the representative of South Africa pointed out that the Government subsidy on wheat was paid on the imported as well as the domestic article, and for many years the rate of subsidy on imported wheat had substantially exceeded that on Union wheat. Only during the past season or two had a somewhat lower subsidy been required on imported wheat to maintain bread prices at the desired level. The subsidy could, therefore, not be regarded as anything else but a consumer subsidy. The Government subsidy on mealies, as in the case of butter, probably conferred some benefit on producers as in this instance too, total abolition of the subsidy was unlikely to be borne by the consumer alone.

10. One member of the Committee thought that a proper appreciation of the farm support system in South Africa could not be made without data on farm net incomes, the cost of farm support programmes and the relationship of total expenditures to farm net incomes, and urged the Government of South Africa to make this information available. The representative of South Africa stated that he would bring this to the attention of his Government.

11. In reply to a question concerning the reasons for the control of consumer prices, the representative of the Union of South Africa explained that these measures had been introduced during the war or in the early post-war years to prevent undue increases in the cost of living index. Since then price controls had been lifted for many products; more recently the price of eggs and citrus fruit had been decontrolled. For flour, butter and maize, price controls would probably have to be maintained, at least as long as the Government subsidies may continue. Price stability was more essential in the Union than in many other countries because of its dependence on gold production. With the price of gold fixed, even a slight increase in the cost of living index might affect the reserves of gold-bearing ore that could be profitably mined and might even adversely affect the Union's external financial position.

12. In discussing the general aspects of South Africa's commercial policy, the representative of the Union declared that quantitative restrictions were at present applied for balance-of-payments reasons. As the balance of payments improved, restrictions had been and were being progressively relaxed. It was envisaged that import restrictions would eventually be no longer justifiable under Article XII. While there would be no difficulty in abolishing the restrictions on most products, there were others for which the regulation of imports was an integral part of stabilization measures. This was the case with wheat, dairy products and maize, although the problem was not thought to be serious in the case of maize. Generally speaking, domestic prices for agricultural products were competitive and lower than the landed prices, including import duty, of imported like products; that is, as long as the foreign export prices bore a reasonable relationship to production costs.

13. Several members of the Committee expressed concern and disappointment over the prospect of the continued application of import restrictions in South Africa after its balance-of-payments difficulties had ceased to exist. Countries in the dollar area had for many years suffered from import restrictions imposed on balance-of-payments grounds, and had looked forward to the day when they could derive benefit from the obligation assumed by other countries. They would therefore call the attention of the Government of the Union of South Africa to the facilities provided by the hard-core procedures, which were specially designed to lessen the difficulties and hardships that might be met in such cases. The representative of the Union of South Africa commented on the possible drawbacks of alternative measures in the stabilization of agricultural prices. The use of high and variable rates of duty adjusted in accordance with the availability of domestic supplies would inevitably lead to higher internal prices. He expressed his belief that, regardless of the stabilization measures employed, the effects on trade would have been largely the same. What really mattered therefore was not so much the system

but the degree of protection or the level at which prices were stabilized. His Government believed that the restrictions now in force had not caused any substantial deviation from the normal patterns of trade; imports in any event would not have been much larger. However, his country had no intention of escaping her GATT obligations and if, when the time came for the elimination of balance-of-payments restrictions, the Union should be faced with a hard-core problem, the matter would certainly be referred to the CONTRACTING PARTIES in accordance with established procedures.

14. The representative of the Union of South Africa, in response to a question, affirmed that no measures in the exchange control field were used in South Africa for the restriction of imports, other than those employed for balance-of-payments reasons.

#### B. COMMODITIES

15. The Committee conducted a detailed examination of the information submitted by the Union of South Africa on those commodities on which it had been agreed the consultations were to be concentrated. This section of the present report summarizes the main points made by the representative of the Union in his opening statement with regard to the respective commodity groups as well as the main points discussed during the examination.

#### Dairy Products

16. The Committee was advised that the Union was particularly anxious to develop and maintain a healthy dairy industry. Under South African conditions this branch of farming tended to afford a more regular and stable income to the producers than practically any cash crop. In addition, the introduction of the animal factor in farming was considered essential for the building up and maintenance of soil fertility. On the whole, it appeared that in many parts of the Union dairying was the most feasible and economic way to accomplish this purpose.

17. To achieve these objectives the maintenance of stable prices at reasonable remunerative levels was considered essential. The Dairy Board was empowered, therefore, to prescribe, subject to the approval of the Minister of Agriculture, the prices which processors had to pay to producers for butterfat and milk used for the manufacture of cheese and condensory products. The Board was the sole importer of butter and of cheese of the Cheddar and Gouda types. The importation of condensed and dried milk and condensed milk products was subject to permit-regulation by the Minister of Agriculture. The Board also conducted advertising campaigns, co-operated with the Department of Agriculture in a milk-recording scheme and contributed financially towards various research projects of relevance to the dairy industry.

18. Before the war the Union had exported approximately one third of the output of creamery butter and one quarter of factory cheese production. Owing to a rapid increase of consumption over production during the war and early post-war years, exports had ceased and at times even shortages were experienced. Because of the Union's highly variable rainfall, it was not

always possible to strike a balance between output and requirements; nevertheless, it had been possible over the past years to maintain a reasonable balance so that the volume of either imports or exports was relatively small. The representative of the Union assured the Committee that, on the basis of export prices during the past few seasons, there was no intention to encourage the production of dairy products to the extent of producing a permanent surplus for export.

19. A member of the Committee observed that, although the South African support programme for dairy products did not appear, either by intent or in practice, to lead to a substantial deviation from the normal pattern of international trade in these commodities, the system inevitably led to some undesirable interferences with trade. Though the level of subsidization appeared to have declined in the last few seasons as compared to 1954-55, exports continued to be subsidized. In clarifying certain details in the documentation before the Committee, the representative of the Union explained that differences in the two sets of prices mentioned for butter imports in 1959 arose from the fact that they were quoted on the basis of different import contracts.

#### Meat

20. The representative of the Union explained that although the production of slaughter-stock was a major branch of farming in South Africa, hardly any meat products were being exported, with the exception at times of pigs. The Meat Board guaranteed minimum prices for dressed beef, mutton, lamb and pig carcasses at several major marketing centres. The funds required for this purpose were obtained from levies on all commercial slaughterings.

21. Over the past several seasons the open market prices for cattle, sheep and lambs had, in general, moved well above the floor prices so that the Board had rarely been called upon to purchase these products. Such purchases as there had been were largely confined to the higher grades of beef. The relatively high floor prices for these grades of beef had been fixed for the specific purpose of encouraging better breeding and farming practices.

22. In respect of mutton, lamb and the higher grades of beef, the Board had lately substituted the method of buying any carcasses which failed to realize the floor price by the method of making up short-falls in the prices through direct payments. The surpluses of pigs, which had been experienced for several seasons, had now disappeared largely due to the price adjustments introduced in 1957 which had led to curtailment of production.

23. In response to questions, the representative of South Africa clarified certain points in the documents before the Committee. It was explained that the statement that "no guaranteed prices existed" should be understood in the sense that there were no long-term guaranteed prices. Adjustments in the prices for slaughter-stock could be made at any time, since the Board

was dealing with an industry supplying a continuous output. It is generally accepted, however, that any adjustments to these floor prices should not be of too drastic a nature at any one particular time. To implement the floor prices the normal procedure would be for the Board to purchase, through nominated agents, carcasses which failed to fetch the floor prices. As long as the number of carcasses failing to make the floor prices remained relatively small, the carcasses were not actually bought by the Board but allowed to go to the highest bidder, the Board merely making up the deficiency in price. When pressure on the market became too heavy, however, this procedure was not practicable and the carcasses were in fact purchased and cold stored for the time being.

24. Several members expressed concern over the price and export policy which the Board had followed in previous years in disposing of the pig surpluses. Export prices of pigs had then been fixed below prices prevailing on the internal market. The action did not seem to be in accordance with Article VI of GATT. The representative of the Union of South Africa explained that in view of the country's plentiful and relatively low-priced maize supplies, South Africa had believed that it could build up a profitable export trade in pig products. Attempts at developing exports, however, had met with unexpectedly severe competition, and export losses were incurred. These losses, however, had been financed by the industry, entirely without any State assistance. As a result of drastic downward price adjustments to curb production, the export of pig products had now ceased completely. It was hoped that the adjustment measures could deal satisfactorily with the hog cycle. The decrease in the consumption of pork during the last few years was due largely to the preference of South African consumers for beef and mutton, the supply of which had increased concurrently with the decrease in pork consumption. In reply to a question put by a member, it was explained that stabilization of funds for beef and mutton, financed by the industry itself, were in existence. There were, however, no exports of these commodities at present and no such exports were foreseen in the near future.

#### Cereals

25. The representative of the Union emphasized the importance of maize production for the South African economy. Maize was not only a staple item of food and the basic constituent in most feed concentrates, but also an important export commodity. Maize was produced on a commercial scale on nearly one third of the total number of farms in South Africa, accounting for approximately 15 per cent of total gross output in agriculture. The prosperity of the maize industry was therefore accorded a high degree of priority in the South African farm policy. The Maize Board had been entrusted with comprehensive marketing powers, making it the sole buyer of this product at prescribed prices. After allowance for a substantial carry-over of maize from one season to the next had, as a safeguard for consumers, been made, surpluses were sold by tender for export. Deviations in export realization from domestic selling prices were accounted for in a stabilization fund. Initially the fund had been built up from the profits realized by the Board from time to time on the export of maize. More recently these

payments had been supplemented by means of levies on producers and consumers. The State had also made a direct contribution during the past five seasons. Imports of maize did not normally take place and barring exceptional droughts it was not expected that maize would be imported. It was, therefore, of academic interest that under the Statutes the Board was the sole importer of maize. The Board's efforts had been directed towards assisting in the research and introduction of improved seeds and farming systems.

26. The production of wheat, barley and oats in the Union was not nearly as important as that of maize. Nevertheless, to ensure reasonably stable prices the Wheat Board was given comprehensive marketing powers. The Board was the sole buyer of these cereals from producers at predetermined prices and also the sole importer. In practice the import of wheat and barley, when required, was left to the trade subject only to permit regulation by the Board.

27. The domestic production and consumption of wheat had been increasing, with imports remaining on the average the same. Though it was not the expressed policy of the Union to become self-sufficient in wheat, this situation could nevertheless arise if the attempts to cultivate summer wheat - as an alternative crop to maize - were to succeed in the summer rainfall areas.

28. A member of the Committee, noting the nature of import restrictions applying to wheat and also that the substantial increases in wheat consumption had been accompanied by a substantial increase in production, observed that his country, as a wheat exporter, would welcome an expanding opportunity to share in South Africa's growing market. The representative of the Union considered that the present system had its merits as it was felt that a restriction of imports through customs duties alone would, to the detriment of international trade, have led to higher prices and lower consumption. Since wheat imports were handled by the State monopoly, the re-imposition of the special duty in addition to the normal duty was not considered necessary. Under the system wheat prices had been maintained at a reasonable level and for many years after the war were well below world prices.

29. On points of detail concerning documents submitted by the Government of the Union of South Africa, the representative of South Africa explained that if a comparison was to be made between imported and local wheat, allowance should be made for the fact that the imported wheat had a better baking quality than the predominant local B.1 grade; a price reduction of one shilling per 200 lbs. should perhaps be made for South African B.1 grade wheat for this purpose. It was also explained that the prices for wheat landed in the Union, quoted in the tables, included the duty. The substantial reduction in wheat imports during the last few years had been due primarily to the drawing down of large accumulated stocks and the low level of imports was, therefore, only temporary.

#### Vegetable Oils and Seeds

30. The representative of the Union explained that before the war this industry had been insignificant; rapid progress had, however, been made

since 1946. While the bulk of the sunflower-seed crop was taken up by the oil-exPELLing industry in the Union, a substantial proportion of the groundnut crop had since the early 1950's been exported in the form of oil as well as nuts. The total crop was handled by the Oilseeds Board; this Board supplied the domestic industry at prices determined each year in consultation with the Ministry of Agriculture. Oilseeds which were not required domestically were exported. The proceeds from the domestic and export sales were pooled before being distributed to producers. To stabilize to a certain extent the return to producers from season to season, a stabilization fund built up from levies on all oilseeds handled was operated by the Board. No specific production target for oilseeds had been set and export prospects were given considerable weight in the determination of prices. For this reason, reflecting the recession in world prices for vegetable oils, the total pay-out to producers of groundnuts had over the past eight years been reduced from a peak of £60 per ton to around £51. During the same period production costs had risen substantially, with the result of a tendency in recent seasons for production to level off.

#### Sugar

31. With regard to sugar, the representative of the Union of South Africa explained that apart from the tariff, the only restrictions applicable to sugar imports were those maintained for balance-of payments reasons. At present, the price of sugar in the Union was at par with world prices, but below average export realizations. The agreement under which canners had obtained sugar from domestic producers at a preferential price had come to an end about ten years ago. There was no intention to return to this system and the Government had resisted demands for subsidies from the canning industry despite the difficulties through which this industry was passing. The Union of South Africa was a signatory to the International Sugar Agreement and the Commonwealth Sugar Agreement. Under the terms of these Agreements, South Africa had a sugar export quota. One member of the Committee expressed concern over certain provisions of the Commonwealth Sugar Agreement which had the effect of subsidizing freights for Commonwealth producers and thereby particularly affected producers, such as those in Latin America, who had to seek distant markets. The representative of the Union replied that the price paid under the Commonwealth Sugar Agreement was based on production costs as determined by the United Kingdom at regular intervals but he was not acquainted with the details of how the different cost elements were brought into account.

#### Fish

32. The representative of the Union of South Africa stated that no price support or stabilization measures for that industry were in force. Apart from restrictions maintained for balance-of-payments reasons, the only form of protection enjoyed by the industry was the tariff. A member of the Committee pointed out that, as indicated by production figures, the Union of South Africa was one of the leading fishing nations, whose policies in this field were therefore of interest to other fishing nations. The member referred to the Fishing Industry Development Act of 1944 and the Fisheries Development Corporation of South Africa, the functions of which included the

administration and financing of schemes for developing the fishing industry, the processing and marketing of fish and fish products, etc. It would be useful to know, for example, whether the Corporation was subordinate to Governmental direction, whether the Government contributed to the financing of its operations, what part was played by the Corporation in trade, and whether it possessed monopoly rights in the trade.

33. The representative of the Union explained that the function of this Corporation was two-fold; the Corporation concerned itself with the provision of housing, small loans, equipment and the like for the improvement in the social and economic conditions of fishermen. In addition, the Corporation promoted efficiency by means of the re-organization of inefficient enterprises. For this purpose, the Corporation acted as a minority shareholder in several companies. The Corporation, which was State financed, acted in many respects like a normal industrial bank and paid normal dividends to its shareholder - the State. Despite the rapid increase in the importance and the size of the fishing industry after the war, the general policy of the Union concerning this industry was one of conservation. The figure of 624,000 tons of landed fish quoted by a member of the Committee included, in addition to the catch of the Union itself, both the catch of South-West Africa and the catch for the fresh, smoked and dried fish markets. The annual fish catch in the Union for the purpose of canning and the production of fish-meal was limited to 250,000 tons.

34. A member of the Committee pointed out that the value of the tariff binding on fish products which the Union had granted to Canada was at present effectively limited by the continued application of quantitative restrictions. Under the present system, quotas for canned fish imports were included in the more restrictive of consumer goods, Category B. Owing to these regulations the formerly important South African market for Canadian canned fish products, particularly sardines and salmon, had almost been closed. The representative for the Union said that his Government realized that Canada was not enjoying the full benefits of her concession under the GATT, but it was hoped that imports of canned fish could in the coming year, along with other consumer goods, be more liberally licensed. No hard-core problem was expected for the fishing industry.

#### Tobacco

35. One member of the Committee commented on the export payments on tobacco financed from a levy imposed by the Tobacco Board on domestic and imported leaf tobacco. This seemed to be incompatible with the expressed aim of the South African Government to keep down the cost of living. The representative of the Union, pointing to the high excise duties on tobacco imposed in many countries, felt that the levy could not be considered a major impediment to his Government's general policy of keeping down the cost of living. He indicated that South Africa's export trade in tobacco was not large.

#### Other products

36. A member of the Committee drew attention to the prohibitive character of South African plant health regulations insofar as they affected the import of horticultural products. Under these regulations, only ten units of any single variety of such products could be imported in individual consignments. This amounted in practice to an import prohibition for such products. The representative of the Union of South Africa assured the members of the Committee that he would bring this matter to the notice of his Government.