

GENERAL AGREEMENT ON TARIFFS AND TRADE

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THIRD REPORT OF COMMITTEE II

Note by the Chairman

The Third Report of Committee II is attached. In this Report, on the basis of the information made available through thirty-four country consultations, the Committee has been able to indicate more precisely than in its previous Reports, the extent to which non-tariff protective measures are applied and their effect on international trade. This, in turn, has enabled the Committee to prepare general conclusions which are included in this Report.

After completing its Third Report during its meeting in May, the Committee gave preliminary consideration to a proposal submitted by the delegation of New Zealand, which provided for periodic reviews of developments in agricultural policies and measures of contracting parties. Although this proposal was supported by a number of delegations, other delegations were not in a position to give final consideration to the proposal at that time. The Committee therefore decided to examine the matter further at its meeting scheduled for September. At its September meeting the Committee will also carry out consultations with several countries with which consultations on their agricultural policies have not yet taken place and will discuss the progress made by the Expert Group which was appointed by the Committee to examine the possibilities of measuring agricultural protection.

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Committee's Findings on Commodities

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I. INTRODUCTION

1. The Committee's terms of reference are:

- (a) To assemble, in consultation with other competent international organizations, and in particular with the Food and Agriculture Organization, data regarding the use by contracting parties of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers, and the agricultural policies from which these measures derive. On the basis of such data and in consultation with the contracting parties concerned, to examine the effects of these measures adopted by individual contracting parties on international trade as a whole, and in particular on the trade in products entering importantly into international trade.

- (b) To consider, in the light of such data, the extent to which the existing rules of GATT and their application have proved inadequate to promote the expansion of international trade on a reciprocal and mutually advantageous basis as contemplated in Article I (revised) and to report on the steps that might appropriately be taken in the circumstances.
- (c) To suggest procedures for further consultations between all contracting parties on agricultural policies as they affect international trade.

2. In its first report the Committee set out the lines upon which it proposed to proceed. Subsequently, when the consultations called for under paragraph 1(a) of the terms of reference had been completed with twenty-four countries, the Committee felt that it was in a position to make a number of general observations which were set out in a second report (L/1192 of 19 May 1960). These included observations regarding agricultural protection and price support. Since then consultations with ten other countries have been completed but there are still a few consultations to take place.

3. The Committee recommended, and this was adopted by the CONTRACTING PARTIES, that the next stage of its work should be an analysis on a global basis of the effects of individual agricultural policies and systems of international trade for six groups of commodities, i.e. dairy products, meat, cereals, sugar, fish and vegetable oils. This work was directed towards an analysis of the principal factors influencing the volume, value and direction of such trade.

4. One of the particular difficulties which the Committee has encountered in attempting to draw conclusions from its work in carrying out the mandate given to it by the CONTRACTING PARTIES stems from the wide variety of national agricultural policies pursued. These in turn have led to the adoption of widely different measures of protection or support. Notwithstanding the difficulties, the Committee has endeavoured to tackle its work in a realistic way, recognizing that each country, whether an exporting or importing country, seeks to maintain economic stability and social equilibrium, and keeping in mind that two fundamental aims are the promotion of the expansion of international trade in real terms and the development of the full use of the resources of the world.

5. The Committee has not reached the stage where it can attempt on any extensive basis to make quantitative assessments of the effect of non-tariff protective measures on international trade. Indeed as discussions in the Committee have shown, this is a difficult task. However, as the CONTRACTING PARTIES will be aware, an expert group has been set up to look into the question of measuring the degree of agricultural protection. It will be some time before it will be possible to tell whether this is practicable.

Meanwhile, however, there is sufficient evidence of the impact of non-tariff protective measures upon international trade for valid comments to be made both in respect of individual commodities and also, at least to some extent, on international agricultural trade as a whole.

II. COMMITTEE'S GENERAL FINDINGS

1. The Committee noted from its second report (document L/1192 that "in its examination of individual systems, the Committee found that in general the main broad objectives were: (i) to maintain or raise the general level of farm incomes, usually with a view to some relationship being maintained with incomes in other sectors of the economy; and (ii) to reduce or eliminate fluctuations in domestic farm prices and incomes. A measure of stability in farm incomes was an aim common to most countries. In addition, at the present time, the objective of income support was stressed mainly by industrialized countries while price stabilization was stressed mainly by countries whose economies were mainly or largely dependent on exports of agricultural products".
2. The Committee also noted from its second report that "apart from the aims of supporting or stabilizing agricultural income or prices the Committee found there were other aims, considered to be either of equal importance or simply as contributors to the main goals of income or price support or stabilization or arising for extraneous reasons, such as protection of national security, social and demographic considerations, or balance-of-payments protection: the pursuit of these aims generally results in the fostering of agricultural productivity or maintaining or expanding total production for home consumption, or even for export, irrespective of world price levels".
3. The Committee's findings arising from its consultations and its analysis of the groups of commodities studied so far are set out below. Detailed analyses for each group of commodities are set out in an Appendix to this report.

Use of non-tariff measures

4. In the case of each product a wide variety of non-tariff protective devices is in use. One device or another (and sometimes several) is used in practically every country consulted.
5. The application of quantitative import restrictions (frequently in discriminatory form and sometimes amounting to complete embargoes) was found to be particularly widespread. For example, the secretariat estimates of the area of international trade covered by non-tariff measures (COM.II/86/Add.7/Rev.1) show that of total butter and cheese production in the countries examined, 84 per cent and 59 per cent of production respectively, occurred in countries applying quantitative import restrictions. For sugar, 52 per cent of production, and for wheat, 87 per cent of production, was protected in this way. Of thirty-four countries examined, more than two thirds were found to apply quantitative restrictions to imports of all or some types of meat, fish, cereals, dairy products, vegetable oils and on sugar.

6. Import levies¹ are a widely used protective device. In the case of meat, several countries were found to use this means, while more than one quarter of the world imports of wheat were into countries applying import levies. (See COM.II/86/Add.7/Rev.1)

7. It was noted that systems of State trading are accompanied by restrictive measures particularly in the case of wheat. The arbitrary management of imports by such monopolies prevents exporters from knowing to what extent they have access to important markets.

8. Bilateral agreements in one form or another operate to influence the pattern of trade and in many cases substantially determine the source of imports. For example, bilateral agreements for wheat are quite extensive. Moreover, a number of west European countries still maintain discriminatory import treatment against meat imports.

9. Systems of price support frequently take the form of deficiency payments or domestic subsidies. For dairy products, deficiency payments and other forms of price support are widely used. A similar situation exists for beet sugar. For meat products, many countries apply direct or indirect subsidies, it being noted that indirect aid to meat production through coarse grains subsidy arrangements can have effects fully equivalent to those of direct support of livestock and meat. In the case of wheat, more than one quarter of total world imports are into countries which assist their domestic producers by way of deficiency payments.

10. In some exporting countries too, subsidies are an important device for raising farm incomes. For example, a very high proportion of total world exports of wheat are made with direct export assistance. A somewhat similar situation exists with respect to beet sugar; a very high proportion of total exports of beet sugar are subject to export or production assistance, direct or indirect. The United Kingdom market, which is the only major free market for bacon, is adversely affected at times by imports of subsidized bacon. (The income of United Kingdom producers of pig meat is safeguarded by the deficiency payments system.) Domestic protection of dairy industries has resulted in a level of output which often exceeds domestic demand with the result that surpluses are disposed of on the United Kingdom market, usually with the aid of some form of export subsidy.

¹Throughout this report non-tariff measures include import levies so far as they have not been classified as tariffs.

Effects of non-tariff measures

11. While the Committee has not attempted quantitatively to measure the effects on trade in agricultural products of the widespread resort to non-tariff measures of protection, it is clear from the data which the Committee has examined that these measures, adopted in pursuance of income aims, have had and in many obvious cases were intended to have the effect of reducing imports and consequently reducing international trade in the products concerned. Thus, for dairy products, wheat and sugar beet, support policies are generally designed to maintain producer prices above international price levels, (where the governments concerned consider it necessary), and, except in the case of a deficiency payments system, to give effect to these arrangements, the regulation of the flow of supplies to and from the internal market is required.

12. Tariff bindings on each product are being impaired by the use of non-tariff protective devices. In the case of wheat, for example, one third of the countries examined were found to have tariff bindings and nearly all of these countries maintained some non-tariff device which reduced or even largely nullified the benefit of the binding.

13. Traditional importing countries over the post-war period have increased their production of all of the products under review. Whilst not ignoring the effects of technological progress, this increase is partly the result of the use of non-tariff protective devices associated with or forming part of support price arrangements. For example, recognition of this is implicit in the recent recommendation of the OEEC calling upon member countries, to the extent that an increase in consumption of milk and dairy products would not be possible, to consider limiting milk production, or at least limiting price guarantees to milk producers, so as to bring about a better balance between production and outlets. The Committee has found that policies of price and income support (virtually all operated through non-tariff measures) have contributed significantly to the increase in the production of wheat. The growth in European production of wheat, concurrent with declining consumption, has narrowed the European import market. The growing consumption in many less-developed countries has not been enough to absorb the additional quantities from this source and from the world increase in production now thrown on world markets. This situation has seriously affected the international trade in wheat. Between 1934/38 and 1954/58 the proportion of apparent consumption represented by the combined imports of the four major European importing countries declined from 42 per cent to 39 per cent, and their proportion of total world imports fell from 49 per cent to 30 per cent.

14. Wheat provides the best example of the effect on international trade of price support measures causing export surpluses leading to pressures for disposal on subsidized or concessional terms; similar examples can be drawn from the international trade in dairy products. In its Review of the World Wheat Situation of April 1960, the International Wheat Council found that total wheat and flour exports covered by special governmentally assisted

export programmes made up nearly 28 per cent of world wheat and flour exports. Indeed, since about 1953 a fairly important increase in the world trade in wheat and flour has been almost entirely due to non-commercial transactions which have made possible increased consumption.

15. Where systems which necessitate restrictions on imports into the market operate, wheat shipped internationally is sold in the country of import at a price higher, and frequently considerably higher, than the price paid to exporters. (This applies also to most surplus disposal transactions where wheat is paid for by consumers at the prevailing price in the recipient country.) This indicates that in many importing countries there is a capacity to consume wheat at prices generally above those at which wheat is traded internationally. In some cases the revenue derived from the difference between international prices and prices on the national market have been used for financing support measures of agricultural income. Thus, not only are exporting countries placed in the position of being residual suppliers by the operation of quantitative restrictions, State trading, etc., but, through the operation of customs duties and certain types of import levies or taxes, they are denied the opportunity of securing the price which consumers are prepared to pay for their product. Such a situation also exists for sugar.

16. Deficiency payment systems provide another type of income support. While the Committee recognizes that under such systems it is not essential to apply quantitative restrictions to imports and that consumer prices are unaffected through high producer prices, nevertheless, as with other methods of price support, such a system does not in itself avoid the encouragement of high cost production where returns to farmers are guaranteed at relatively high levels. In addition, it is recognized that such systems, by providing a stimulus to production, can adversely affect import requirements and, from the point of view of the exporter, prices.

17. As a general rule, in the case of wheat the volume of consumption decreases as the standard of living increases, except where the level of consumption is very low, while consumption of butter, cheese and meat tends to increase provided that price increases do not offset the increases in real income. Support price schemes backed by non-tariff measures of protection have raised butter and cheese prices in many traditional importing countries; this did not prevent an increase in consumption in these countries although such consumption increased less rapidly than production.

III. GENERAL CONCLUSIONS

1. The foregoing summary indicates more precisely the extent to which non-tariff protective measures are applied and their effect on international trade than it was possible for the Committee to assess at the time it prepared its Second Report (L/1192). The result of this analysis gives more point to the observations of the Committee in that report and also shows how widespread is the use of non-tariff protective devices for important agricultural products.
2. In selecting dairy products, meat, cereals, sugar, vegetable oils and fish for its initial study the Committee chose six groups of commodities which are of importance in international trade and which are produced in a large number of countries. It was also believed that a study of these products would provide illustrations of the range and extent of protection and support. The evidence now available to the Committee shows that for each of these groups of commodities there has been extensive resort to non-tariff devices involving protection to an extent and having consequences which were probably not fully recognized earlier.
3. The Committee is aware of the many occasions on which international discussions on certain products in the six groups of commodities have taken place. For example, it notes that both the OEEC and the Committee on Commodity Problems of the FAO have had extensive discussions about butter; it also recognizes that the International Wheat Council, the Wheat Utilization Committee and the Grains Group of the Food and Agriculture Organization have all considered the more general aspects of the international wheat trade; it notes as well that the International Sugar Council has continuously studied the problems confronting the international sugar trade. The Committee believes that some of the international problems related to primary products have seriously been aggravated by the high agricultural protection made effective through non-tariff devices.
4. In countries where most of the national income is provided by agriculture, agriculture itself cannot obtain effective income support. Indeed it is often taxed to subsidize the development of other economic segments. It is in the countries in which other economic sectors can provide a major share of the national income to finance agricultural support that the highest levels of agricultural protection occur.
5. Agricultural policy is mainly aimed at maintaining or raising farm income. While most countries acknowledge the desirability of supporting farm income through increases in productivity, this aim remains a more long-term goal.
6. From the evidence received by the Committee from a wide variety of countries operating a great diversity of schemes, the choice of the devices used appears to have depended upon the general nature of agricul-

ture and the policy objectives of the countries concerned, the characteristics of the commodity and the nature of its problems. The Committee recognizes that the various schemes, due to the different techniques employed, react on international trade in different ways. The Committee has found from its examination that the effects on trade of the measures reviewed depend largely on the intensity with which and the manner in which they have been applied. This in turn has depended upon policy objectives. For example, a country by operating a system of deficiency payments with excessive guarantee prices, or by having variable import levies which under certain conditions could be very high, or by applying high tariffs, could produce a result as damaging to international trade as may be caused by quantitative import restrictions; however made effective, or by the use of export subsidies contrary to Article XVI.

7. The Committee's studies have resulted in the broad conclusion that non-tariff devices have seriously affected international trade in the products considered during the consultations, in a variety of ways. Furthermore, the Committee notes that the extensive use of those devices, particularly quantitative restrictions, and the widespread impairment or even nullification of tariff bindings, have frustrated benefits which many countries expected to receive as a result of the obligations arising from the General Agreement.

8. In the case of countries which are in the process of development and which are highly dependent on exports of agricultural products, the maintenance of the present situation, as it has been found to exist by this Committee, constitutes a source of great concern, as impediments to the marketing of their products have the effect of discouraging increased production, of intensifying balance-of-payments difficulties and of delaying their process of economic development.

9. The Committee recognizes that the level of protection and resultant increased production in the traditional importing countries, in as much as they lead to a decrease in imports, place a heavy burden of adjustment on exporting countries, which renders the abolition of non-tariff measures in exporting countries more difficult, and could be an important factor causing these countries to make use of non-tariff measures.

10. To the extent that income or price support has resulted in an expansion of relatively less efficient production and in a limitation of consumption, this has contributed to impairment of trade and to inefficiency in resource utilization from the point of view of international trade.

11. In agreeing to these conclusions the Committee is not unmindful of the many difficulties with which agriculture is faced in many countries. It is an industry which, with some important exceptions, e.g. animal products, is affected by a situation in which the demand (in volume) for its products becomes increasingly inelastic as levels of real incomes

rise, whereas technological progress makes enormous strides and almost becomes an independent influence for the expansion of production. At the same time, unlike some other industries, special conditions of production and marketing in agriculture lead governments to undertake measures which the producers in general cannot effectively undertake themselves. Some of the measures adopted can quite easily become effective barriers to trade. Adequate and comprehensive commodity arrangements may operate in the international marketing sphere to mitigate some of the restrictive trade effects of these measures.

12. The Committee is also aware that an important long-term contribution to the solution of the farm income problem, with its concomitant trade problems, must come through an improvement in the efficiency of resource allocation. Such improvement is tantamount to a further reduction in the resources employed to bring about a given level of output. In many cases this means a further reduction in the farm population which might be brought about by inducing farmers to move out of agriculture into other sectors of the economy, for example, by establishing industries in rural areas or by emigration¹. In some countries, the possibilities of transferring agricultural population to other activities are limited by social, demographic, traditional and other reasons. To the extent that the agricultural population can be moved out of agriculture to other regions or other sectors of the economy or to other countries where such population can be more efficiently employed, this would help to bring about changes which would assist in raising farm income to levels approaching those in other sectors of the economy. However, in some countries this movement out of agriculture, although of extraordinary proportions, has not yet had this result.

13. The Committee has concluded that a moderation of agricultural protection in both importing and exporting countries is desirable. It considers that a moderation of agricultural protection, through its effects on production and consumption, would have a substantial percentage effect on the volume of international trade; by imposing some restraint on protected production in countries where national resources tied in agriculture can be more effectively re-allocated, it would improve resource utilization throughout the world.

14. (a) The Committee recognized that a solution to the problems confronting agricultural trade would be facilitated by devoting attention to the factors affecting the formation of prices both at the national and international levels. Prices should not be such that (i) production ceased to be remunerative for efficient producers even in regions particularly favourable for such production; (ii) producers would be induced to increase production beyond existing outlets; or (iii) expansion of consumption would be inhibited.

¹The Committee agreed that any discussion on the question of restrictions on immigration would be inappropriate in the GATT.

(b) The outlets available for disposal of aggregate production are, in the broad, limited, apart from dietary habits, either (i) by the capacity of the consumer to absorb (and this is particularly relevant to countries with an already high standard of living); or (ii) by the insufficiency of individual consumer's purchasing power or of currency resources in countries where consumption is below desirable nutritional levels.

(c) To the extent that governments are able to make available their abundance of food to low-income food deficit countries on a grant basis or on other concessional terms without displacement of normal commercial trade, and to the extent that such food can be directed into additional total consumption, the limitation referred to in (b) (ii) above can be mitigated.

(d) The Committee noted that taking these factors into account it was obviously necessary to seek a better balance between world demand and supply. The achievement of such a balance would be notably assisted if outlets for the exports of efficient producers were extended by moderation in the use of such measures as subsidies on production and exports; quantitative restrictions, certain State-trading operations, excessive tariffs and similar devices, some bilateral agreements; and other barriers to trade in agricultural products. The Committee recognized, however, that in the present situation with the structural imbalance in world production and demand, the establishment of equilibrium between production and demand requires different solutions and adjustments for different commodities with different orders of priority. In some instances it might be more appropriate to look for progress through measures which would be directed towards price levels. In other cases it might be more appropriate in the first instance to look for measures directed towards controlling production.

15. The Committee has also recalled that the GATT rules and procedures are obligations and rights exchanged between contracting parties on a mutual basis. Therefore, measures acquired special importance in the Committee's mind, from the point of view of international trade, if they were applied in a manner not provided for in the procedures of GATT. As noted in paragraph 7 of this section, there has been extensive resort to the use of non-tariff devices, whether or not in conformity with the General Agreement, which, in many cases, has impaired or nullified tariff concessions or other benefits which agricultural exporting countries expect to receive from the General Agreement. Hence, the Committee concludes that the balance which countries consider they had a right to receive under the General Agreement has been disturbed. These developments are of such a character that either they have weakened or threatened to weaken the operation of the General Agreement as an instrument for the promotion of mutually advantageous trade. This situation raised the question as to the extent to which the GATT is an effective instrument for the promotion of such trade. Again, the scope for increased tariff concessions by some

agricultural exporting countries in favour of industrial exporters has been significantly narrowed by the inability of the former countries, whose economies are highly or mainly dependent on agricultural exports, to see sufficient incentive to offer concessions when non-tariff devices prevent them from securing meaningful access to agricultural markets. Whilst the Committee notes, in passing, that little if any action has been taken by contracting parties to seek redress (under Article XXIII) for impairment or nullification resulting from the use of non-tariff measures, it is also aware that such action would result in a balancing downward of mutual obligations and benefits.

APPENDIX

Committee's Findings on Commodities

DAIRY PRODUCTS

I. General characteristics of the market and trade¹

1. A very large number of countries are involved in the production of and international trade in dairy products, dairy farming being an important and traditional element in agriculture in virtually every country where climatic conditions are favourable. In many countries milk production is largely confined to family farms located in areas where conditions hamper a transition to other production patterns; this adds to the difficulty of bringing about modifications in production.
2. A very large proportion of total milk production is consumed in the producing country either as liquid milk or in manufactured form as butter, cheese, milk powder, etc. The quantities entering international trade account for only about 15 per cent of total milk production.
3. Only four countries, Denmark, New Zealand, Australia and the Netherlands, traditionally export dairy products in substantial volume and as an important part of the country's exports. The United States has become a very important exporter of dried milk, although a considerable part of these exports are on non-commercial terms.
4. A number of countries traditionally export cheese specialities and relatively small quantities of other dairy products, these other exports being in certain cases excesses over domestic demand, especially in periods of peak production. It should, however, be noted that among such countries there are importers of dairy products, and sometimes important importers.
5. In the remaining producing countries, domestic production is usually insufficient to meet domestic demand, and additional supplies are imported. In many cases the quantities imported are determined by government action rather than by the free play of market forces.
6. The United Kingdom is by far the most important import market for dairy products, importing approximately three quarters of total butter imports, approximately one quarter of total cheese imports and about 7 per cent of total processed milk imports.
7. The trade in dairy products is of a highly complicated character because of the direct relationship between the various dairy products and also the relationship between dairy products and other agricultural and food products.

¹For background information and statistics see documents COM.II/86/Add.1 and COM.II/86/Add.6.

8. The market in dairy products suffers from the difficulty of establishing a representative world price quotation. Domestic protection of dairy industries at the frontier and at the farm has resulted in a stimulation to production in some countries with the result that surplus dairy products from these countries are generally disposed of on the United Kingdom market with the aid of some form of export or production subsidy.

9. In most countries, butter marketing is the residual outlet for milk surpluses after supplying other uses. Butter shows relatively the lowest returns in comparison with other dairy products, and the international butter market, in particular in the United Kingdom which is the only free import market of any importance, is highly unstable.

II. Production, consumption and trade¹

10. There has been a considerable increase in total world milk production in recent years compared with the period before the war. The indications are that this trend will continue.

11. During this period, cow numbers have increased in many countries and productivity per cow has increased in most.

12. The increase in milk production has been most marked in the European countries which have traditionally imported dairy products or which are minor exporters.

13. The Committee notes that in an assessment of the prospects the FAO in its yearbook, The State of Food and Agriculture, 1960, concludes that there is a strong possibility for the growth of world production of dairy products to exceed the increase in effective demand for these products in the world as a whole, and that this would result in an accumulation of surpluses in the next few years.

14. Total exports of butter from the major and minor exporters have come close to regaining their respective pre-war levels (in tonnage). Exports from the major exporting countries (in total) regained their pre-war level some years ago, but in recent years their export tonnage has not risen significantly. The exports of the minor exporting countries have risen rapidly in recent years, particularly with the entry into the export market of former importers, or the entry on a larger scale of countries which were formerly very small exporters, who now dispose of their domestic surpluses to a greater extent on the international market. The rise in butter exports from a number of minor exporters, however, has not been to an extent which brings their exports above the pre-war level. The effect of export increases in other dairy products has, however, resulted in a situation in which the minor exporters have increased their total exports of dairy produce, in particular in recent years, to an extent that brings their level of exports very substantially higher than the pre-war level.

¹For background information and statistics see documents COM.II/86/Add.1 and COM.II/86/Add.6.

III. Non-tariff measures¹

15. In its examination the Committee has found that there is a wide variety of non-tariff devices applied. The use of these devices is very widespread, and extends, in some form or another, to all but three of the thirty-four countries examined by the Committee. The exceptions are countries of little importance as producers or consumers of dairy products, and therefore of little significance to world trade in such products.

16. The Committee found that for dairy products both deficiency payments systems and price support systems are widely used, but that price support systems are considerably more widespread than systems of deficiency payments.

17. As a means of implementing price support, the use of quantitative import restrictions has been found to be particularly widespread. In over three quarters of the thirty-four countries consulted, imports of all or some types of dairy products are subject to quantitative restrictions. In very few cases can restrictions be justified on balance-of-payments grounds only. The statistical analysis prepared by the secretariat indicates that of total butter and cheese production in the countries examined, 84 per cent and 59 per cent of production respectively occurred in countries applying quantitative import restrictions. In addition to quantitative restrictions, the Committee's examination shows that approximately two thirds of the thirty-four countries employed government subsidies, whereas a few countries employed import levies. Only 4 per cent of butter production and 37 per cent of cheese production was not protected by non-tariff measures.

IV. Effects of non-tariff measures

18. Although from the information available the Committee has found it impossible to come to a concrete evaluation of any effects of the widespread non-tariff measures on trade in dairy products, there is general agreement that these measures do affect production, consumption, trade and prices.

19. The Committee recalls that during the country consultations it had found that support policies, which involved maintaining domestic or consumer prices of dairy products above prices ruling in international transactions, generally require the regulation of the flow of external and internal supplies. The Committee notes that in the case of dairy products, the level of domestic prices in most countries is generally substantially higher than the prices ruling in the international market. It is evident to the Committee that quantitative restrictions and other non-tariff devices operated by most of the important consuming countries generally have a restrictive effect on imports of dairy products into these countries.

20. In discussing the increase in milk production it is recognized that technological advances play an important part. It is apparent, however, that the use of non-tariff devices to protect and support domestic producers also has contributed in some part to increased production even though the exact

¹See synopsis of non-tariff measures contained in document COM.II/112 and area of trade covered by non-tariff measures in document COM.II/36/Add.7/Rev.1.

effect of these measures on production cannot be isolated or measured. In this connexion, the Committee notes a recent OEEC recommendation calling upon member countries, to the extent that an increase in consumption of milk and dairy products would not be possible, to consider limiting milk production or at least limiting price guarantees to milk producers so as to bring about a better balance between production and outlets.

21. The Committee also agrees that the consumer price levels undoubtedly are a factor affecting consumption of milk products and that, although, here again, other factors are also important, and precise measurement is not possible, experience in several European countries in 1958 has provided convincing evidence, particularly in the case of butter, of the responsiveness of consumption to price changes.

22. The Committee notes that the widespread use of non-tariff devices also has indirect effects on international trade in dairy products. The restriction on imports into nearly all important consuming countries, amounting in some cases to almost complete prohibition of imports, means that world trade is concentrated on the United Kingdom market which is the only open market consistently available. This results in the United Kingdom market being characterized by chronic and sometimes acute instability. In general, the market tends to be over-supplied with prices depressed, to the detriment of traditional exporters. On the other hand, during occasional periods of acute shortage of butter in Europe, such as occurred in 1959, some supplies which normally go to the United Kingdom were diverted to other markets, leading to excessively high prices. While these high prices were of short-term benefit to traditional exporters, they had adverse longer-term effects in the context of the competitive position of butter vis-à-vis margarine.

23. In addition, production in the protected markets often exceeds domestic demand at the prices maintained with the result that surpluses from these countries are disposed of on the United Kingdom market, usually with the assistance of some form of export subsidy.

24. Many of the countries examined by the Committee have GATT tariff bindings on all or some categories of dairy products. Many of these countries concerned have some form of non-tariff device which reduces the benefits of the bindings and, in some cases, largely nullifies them. Certain of these countries are important consumers of dairy products. The Committee notes that the impairment of bindings is obviously of great significance to the exporters of dairy products. The Committee takes note that a positive assurance of access to the markets of countries with whom tariff concessions were negotiated is regarded as essential by some exporting countries if they are to be able to participate effectively in tariff negotiations.

MEAT

I. General characteristics of the market and trade¹

1. Although most countries produce meat for their own consumption, the international export trade is confined in the main to a few major exporters. For beef, Argentina, Australia, New Zealand, Denmark and, to a lesser extent, Canada, France, the Netherlands, Ireland, Uruguay and Brazil are the main exporters; for mutton and lamb, New Zealand, Australia and Argentina are the only major suppliers; for pork and bacon, Denmark is by far the greatest exporter among western countries, followed by the Netherlands and Canada.
2. In most countries, domestic production provides a major part of total meat consumption, the balance being met from imports. The major importers of beef are the United Kingdom, the United States, Canada, Japan, the Federal Republic of Germany and Italy. For mutton and lamb, the United Kingdom is by far the greatest market, but the United States and France also import significant quantities. Canada and Greece are also importers. The United Kingdom is the largest market for pork and bacon with the Federal Republic of Germany also an important market for pork.
3. There are for beef two large free markets (the United Kingdom and the United States) and a number of smaller markets. The price situation thus mainly depends upon two import markets where market forces have free play.
4. The trade in live cattle is important between the Republic of Ireland and the United Kingdom, in North America, in continental Europe and within Latin America. The largest part of international trade in meat takes place through the export of chilled or frozen meat from the southern hemisphere countries, Australia, New Zealand, Argentina and Uruguay. Denmark and the Netherlands are the largest exporters of fresh meat and live cattle in Western Europe.

II. Production, consumption and trade¹

5. Total world meat production has increased by some 50 per cent since before the war, the highest increases being for pork and beef with a much lower rate of expansion for mutton and lamb (17 per cent).
6. Production of beef has also risen in most of the principal producing countries in recent years. Argentina, Brazil, Australia, Uruguay, the Federal Republic of Germany and the United Kingdom have all substantially increased their production of beef since 1954. In the United States, production reached a peak in 1956 and has since fallen off somewhat, although this fall is believed to be temporary. Other countries which have increased their production of beef in recent years were Belgium, Denmark, Italy and New Zealand. French production in 1958 and Argentine production in 1959 showed a slight decline but this decline may also be of a temporary nature.

¹For background information and statistics see documents COM.II/86/Add.2 and COM.II/86/Add.6.

7. ECE projections for Europe suggest that between 1956 and 1965 per capita consumption of beef might rise from 16 to 23 per cent depending on the income assumption made. The total demand of the region might increase by 23 per cent under the lower income assumption and 32 per cent under the higher one.
8. It is anticipated that demand for beef and other meats will rise in other areas of the world also unless there is in the meantime a most unexpected reversal of the strong trend which has developed in recent years.
9. In the long term there is the possibility of a reversion from dairy farming and even cereal growing to beef cattle raising in some countries. This is to be borne in mind in assessing the long-term prospects.
10. The production of pig meat has risen substantially since 1954 in the United Kingdom, Italy, Japan, the Netherlands, the Federal Republic of Germany, France, Canada, Belgium and Sweden.
11. The production of mutton and lamb has increased significantly only in Australia, France and New Zealand and has declined in most other countries.
12. Consumption of meat has also risen considerably. Whilst in some countries consumption has not yet regained the pre-war level, in certain countries the rate of consumption is much higher. Furthermore, the trend in recent years has been for steadily rising consumption levels for meat generally, although variations in price levels have affected demand for individual products. In recent years, the increased demand for beef has been particularly noticeable. Another factor has been the development of new markets, notably Japan.
13. While most countries which the Committee examined are substantial consumers of beef and pork, consumption of mutton and lamb is high only in the major producing countries themselves and in the United Kingdom.
14. Total world trade in meat has increased by only 27 per cent, with the greatest increase taking place in beef and veal. There have been some increases in mutton and lamb trade but trade in bacon and pork did not appear to be much greater than pre-war. Imports of bacon and ham into the United Kingdom, the main market, had been less than pre-war but in recent years have been increasing; in 1960 they exceeded pre-war figures.

III. Non-tariff measures¹

15. Of the thirty-four countries examined by the Committee, all but five maintain some form or forms of non-tariff device affecting world trade in meat.
16. In twenty-five of the countries concerned, imports of all or some types of meat are subject to quantitative restrictions. In some cases these affect only a small area of meat imports; in others they apply to all types of meat. In some cases they are operated in a discriminatory manner, for example, a

¹See synopsis of non-tariff measures contained in document COM.II/112 and area of trade covered by non-tariff measures in document COM.II/86/Add.7/Rev.1.

number of West European countries still maintain discriminatory import treatment against meat imports. In very few instances can these restrictions be justified on balance-of-payments grounds. On the contrary, the restrictions are often severest and most comprehensive in countries enjoying substantial balance-of-payments surpluses. Where quantitative restrictions are directly linked with minimum price systems, they are applied only when the level of prices constitutes a threat to farm prices in the importing country.

17. In addition to the quantitative restrictions, the examination shows that a few of the countries examined by the Committee employ import levies and over one third provide government subsidies or some other form of government financial support.

18. Many of the countries examined maintain various forms of income or price support involving direct or indirect subsidies to domestic meat producers.

19. It has been noted that in some countries meat production is assisted through subsidies on feedingstuffs, especially coarse grains. Indeed, indirect aids through coarse grain arrangements can have effects fully equivalent to those of direct support of fat stock and meat.

20. As regards bacon, it is noted that the principal export market, the United Kingdom, is affected by imports of subsidized bacon. As the United Kingdom is the only major free market, the wide price fluctuations there in recent years have had serious consequences for economic producers, particularly important exporters of bacon which do not resort to subsidies.

21. It has also been pointed out that non-tariff measures, e.g. veterinary restrictions, are applied in many countries to imports of poultry meat and variety meats.

22. There are a large number of sanitary and veterinary regulations instituted by various countries to prevent the introduction of products which might transmit diseases of animals. It is possible that some of the regulations are not well designed for their stated purpose and, therefore, act as unnecessary trade barriers. Perhaps some of the other regulations are more stringent than they should be.

23. A number of countries have bilateral and long-term trade agreements which lead to patterns of trade in meat products which are different from those which would exist in the absence of these agreements. A large proportion of the trade in livestock and meat products between Eastern and Western Europe is carried out under bilateral agreements. Bilateral agreements probably do not substantially affect the volume of total trade in these products, but they may interfere in some cases with trade and with the efficient allocation of resources.

IV. Effect of non-tariff measures

24. Quantitative restrictions and restrictive import levies constitute a direct barrier to trade for the types of meat and for the trade of the countries against which they are maintained.

25. Use of subsidies or other forms of income or price support to protect producers from the full effect of market trends also has adverse consequences for international trade; it delays structural changes by encouraging a higher level of production than would otherwise be the case.

26. Measures which restrict imports and/or keep consumption prices at a higher level than they would be on a free market can have an adverse effect on consumption.

27. Approximately one third of the countries examined have GATT tariff bindings on all or some categories of meat imports. Nearly all of the countries concerned maintain some form of non-tariff device which reduces the benefits of the bindings and, in some cases, largely nullifies them. Many of these countries are important meat consumers. The Committee noted that the impairment of bindings was obviously of great significance to the meat exporting countries. The Committee takes note that a positive assurance of access to the markets of the countries with whom tariff concessions were negotiated is regarded as essential by some exporting countries if they are to be able to participate effectively in tariff negotiations.

28. In Europe, the ECE has reported that production within Europe and shipments from other continents appear unlikely to bridge the gap between the supply of and demand for beef in the next year or two except at a higher level of prices to consumers.

29. There are two major markets open for beef exporters. A narrowly based export market constitutes an element of instability which it is in the interest of both exporting and importing countries to avoid.

30. Consumption per capita of mutton and lamb is low except in the United Kingdom and in the major mutton and lamb producing countries. A change in dietary patterns could lead to an increase in consumption but would probably be effected only over a long period of time even if trade were unrestricted. For this reason, the removal or relaxation of restrictions on imports of mutton and lamb is unlikely to result in a sudden or large increase in imports. This has been the experience in most countries where restrictions on imports of mutton and lamb have been removed.

31. The foregoing analysis indicates that current world meat trade conditions are favourable for the relaxation, indeed for the removal, of barriers to trade.

32. However, some countries indicated that meat production at prices covering production costs is a major factor in farm income in many countries and, in accordance with their particular situation, some of these countries will have to consider the repercussions involved in the removal of trade barriers.

CEREALS

Wheat

I. General characteristics of the market and trade in wheat¹

1. In the last five years the United States, Canada, Argentina, and Australia have accounted for approximately 80 per cent of total exports of wheat and wheat flour; the share of exports in domestic production has varied from 37½ per cent in the United States to 66 per cent in Canada. France also exported large quantities of these commodities. The Federal Republic of Germany also has been important as an exporter of wheat flour. Other minor wheat exporters are Uruguay and Sweden and, in some years, Turkey. In addition, the USSR has lately become increasingly important as an exporter; when taking into account exports to Eastern European countries, the USSR was in 1958/59 the third largest exporter in the world.
2. Against these comparatively few exporters, accounting for the bulk of the supply to world markets, there is a large number of importers. The largest importing area is Western Europe, where annual imports approximate 13 million tons. The largest individual importers in the area are the United Kingdom, the Federal Republic of Germany and the Netherlands. In Asia and Africa, imports have expanded over the last five years. Although a large number of countries and territories in these areas import wheat, by far the biggest importers are India, Japan and Egypt. In Latin America the main importer is Brazil, although most of the other countries in the area also import some wheat.
3. Owing to the continuous fluctuation in production both in exporting and importing countries, the level of world trade in wheat and wheat flour may change considerably from one year to another. The total volume exported in 1958/59 reached about 30.8 million tons, i.e. 1.5 million tons more than in 1957/58, but 1.8 million tons less than in 1956/57. In the period 1954/55-1958/59, the lowest export volume was 25.7 million tons and the highest 31.7 million tons (USSR exports to Eastern European countries not included).
4. Stocks have been high in relation to trade and in relation to effective demand of traditional importing countries. End-of-season stocks in 1959/60 in the four major exporting countries were estimated at some 53 million tons (about the same quantity as a year earlier), far exceeding the average annual trade volume.
5. Trade in wheat flour, about 5.7 million tons in 1958/59, accounted for almost one fifth of total wheat trade and it has its own special features. In 1958/59 the United States accounted for about 38 per cent of total exports, Canada for 17½ per cent, and the Federal Republic of Germany, a large wheat importer, for 11 per cent. Australia, France and Spain each had 8 to 10 per cent of the total, and Italy about 4 per cent. The main importers are the United Kingdom, the Netherlands and Yugoslavia in Europe; Ceylon, the Philippines, Malaya and Indonesia in Asia; Egypt in Africa; and Venezuela and Cuba in Latin America. In addition to surplus disposal schemes, an important

¹For background information and statistics see documents COM.II/Add.3 and COM.II/86/Add.6.

incentive to the increase in flour trade had been the assistance to exports in the form of government subsidies of various kinds, e.g. in the United States, the Federal Republic of Germany and France. In several less-developed countries there is lately to be noted an increase in milling capacity which has resulted in a switch of imports from flour to wheat, notwithstanding the fact that frequently imported flour is relatively cheaper than imported wheat.

6. In its Review of the World Wheat Situation of April 1960 the International Wheat Council found that total wheat and flour exports covered by special governmentally-assisted export programmes made up nearly 28 per cent of world wheat and flour exports. Indeed, since about 1953, a fairly important increase in world trade in wheat and flour has been almost entirely due to non-commercial transactions.

II. Production, consumption and trade¹

7. The Committee recognizes that trends in production need to be studied with a knowledge that particular circumstances might have operated in alternative base periods. For example, production in the period 1934/38 was affected by widespread drought in North America while agriculture in many countries in the period 1948/52 was still influenced by the effects of war-time conditions, notably serious grain shortages. Nevertheless, total world production has shown a clear upward trend over the past twenty-four years. This trend has been common to both wheat-importing and wheat-exporting countries. Comparing average production in the periods 1934/38 and 1954/58, United States production has increased by 48 per cent. Production in the four other principal exporting countries has increased by 23 per cent. Production in the six principal importing countries has increased by 33 per cent over the same period. The Committee agreed that advances in agricultural science and technology have contributed to greatly increased production in some countries. There are other factors, such as changes in patterns of land use for non-price reasons, which may also affect production trends. With regard to consumption the evidence suggested that the volume of consumption was influenced in both directions by changes in dietary habits arising from changing income per capita. In some wheat-importing countries, the level and direction of imports has been affected by domestic and external trade policies and by balance-of-payments difficulties and/or low purchasing power.

8. Consumption, on the other hand, shows a less uniform pattern. In the United States, apparent consumption fell by 12 per cent between 1934/38 and 1954/58. An increase of 18 per cent is recorded by the other four principal exporters. Although apparent consumption in the major importing countries has, in total, shown a substantial rise, being 42 per cent in the case of the six major importers, the increase is largely a reflection of considerably increased wheat consumption in India, Japan and Brazil. Apparent consumption in the four largest European wheat importing countries rose only by 15 per cent

¹For background information and statistics see documents COM.II/86/Add.3 and COM.II/86/Add.5.

9. These changes were reflected in developments in the pattern of international trade in wheat. In the case of the United States, commercial exports in 1954/58 represented 33 per cent of production, compared with 6 per cent in 1934/38. Comparable figures for the other four principal exporters combined were 45 per cent in each period. The share of total commercial world trade in wheat in the hands of the four principal exporters, other than the United States, (Canada, Australia, Argentina and France) had fallen from 67 per cent to 48 per cent, whilst the United States' share had risen from 7 per cent to 31 per cent. For the four major European importers, the proportion of apparent consumption represented by imports had declined from 42 per cent to 39 per cent, and their proportion of total world imports had fallen from 49 per cent to 30 per cent.

10. The increased importance in the international wheat trade, implicit in these developments, of non-European importers on the one hand and the United States on the other, is a major factor in the current wheat situation. The United States has developed disposal programmes enabling it to move into consumption a portion of the high wheat stocks held by that country, through sales for local currencies, among other methods. As a result, many countries which have suffered balance-of-payments problems and other limitations on their capacity to buy wheat on normal commercial terms, have been able to maintain, and in some cases increase, their consumption of wheat. These circumstances are reflected in the fact that over recent years, a large proportion of the wheat entering international trade has been shipped under special programmes. The volume of wheat shipped under special programmes rose from 3.0 million tons in 1953/54 to a peak of 10.5 million tons in 1956/57. The proportions of total world exports represented by these figures were 13.0 per cent and 32.3 per cent respectively. In 1957/58 and 1958/59, wheat moved under special programmes amounted to 7.8 and 8.9 million tons, or 26.6 per cent and 28.9 per cent respectively of total world exports.

11. The Committee notes that in some countries, notably the United States, systems of price or income support are coupled with limitations on the acreage to which the support measures applied. In some cases, where acreage controls have existed, large, and at times record, production has been attained. On the other hand, support systems in some other countries are "open-ended" so that the stimulation of production (to the extent to which it existed) is not subject to quantitative control.

III. Non-tariff measures¹

12. The Committee notes that measures or systems designed to protect the domestic prices of wheat or other measures of supporting the incomes of wheat producers are applied in practically all wheat producing countries. Prices obtained by producers or paid by consumers in most cases bear little relationship to prices at which international transactions take place. Statistics before the Committee, although necessarily imprecise, indicate that countries

¹See synopsis of non-tariff measures contained in document COM.II/112 and area of trade covered by non-tariff measures in document COM.II/86/Add.7.

accounting for about three quarters of the total world wheat imports apply quantitative restrictions; more than one quarter of imports are into countries which assist domestic producers by way of deficiency payments; and more than one quarter of imports are into countries applying import levies. In some countries more than one non-tariff measure operates. On the export side, a very high proportion of total world exports are made with direct export assistance.

13. The non-tariff measures which are used by countries to support prices or incomes embrace almost the whole range of techniques noted and discussed in the Committee's second report (document L/1192, paragraphs 11-15). It is agreed that the essential feature of support measures is the level of support, and the degree to which production is thereby stimulated, with consequent effects on trade, rather than the particular techniques used in implementing the scheme. This is not to say, however, that some devices might not be found, on examination, to possess characteristics which result in harmful distortions which might be avoided by the use of other techniques.

14. On the information currently available, the Committee is unable to assess the intensity of protection accorded by the measures of support which are applied. However, some delegations have referred to the prices received by producers in different countries as representing a necessarily rough but significant guidepost to the range and, in some cases, the extent of protection. Figures published by the International Wheat Council (Review of the World Wheat Situation, November 1960) indicate that governments' declared producer prices for wheat for 1959/60 which, in terms of United States dollars, ranged from \$0.99 to \$4.34 per bushel; for the 1960/61 season prices ranged from \$1.30 to \$4.34. Importing countries, with few exceptions, have wheat prices to the producer of \$2.00 or more per bushel. Support prices in the four major exporting countries are less than \$2.00 per bushel, those in Argentina, Australia and Canada being well below this level. Other factors, such as differences in quality, methods of farmer assistance through fertilizer subsidies, etc., may also be important in obtaining an accurate comparison of producer prices. In this connexion, however, the Committee took note of the views of the International Wheat Council that despite the many difficulties involved, international price comparisons could provide certain indications in this field.

IV. Effect of non-tariff measures

15. Although no precise quantitative measurement of trade effects is possible, it is nevertheless reasonable to conclude from the nature, extent and relative level of non-tariff measures employed that the policies of price and income support which are in operation significantly stimulate the production of wheat at the expense of other agricultural products. In one way or another, non-tariff measures afford priority to the absorption of home production rather than imports, regardless of considerations of comparative prices. Thus exporting countries are placed in the position of residual suppliers, whose commercial trade prospects depend almost entirely upon the difference between domestic production, which is stimulated by supports, and domestic consumption in importing countries. In these circumstances, the volume of commercial exports tends to be subject to greater uncertainty and instability than would otherwise occur.

16. To the extent that production is stimulated by supports, and the growth of consumption retarded by high consumer prices, the level of imports taken by importing countries is diminished. Similarly, to the extent to which high supports stimulate output in exporting countries, there are additions to exportable supplies and greater pressures for disposal of surpluses on concessional terms in many cases, with adverse implications for the trade, and trade prospects, of other exporting countries. At the same time, it has to be recognized that, owing to their balance-of-payments difficulties, a number of less-developed countries would not find it possible to acquire, through commercial transactions, the level of imports needed to keep pace with their growing requirements. The availability of foodgrains under surplus disposal programmes has allowed consumption and stocks in these countries to be maintained at considerably higher levels than may have been possible otherwise. Further, these arrangements may, particularly in conjunction with other forms of aid, stimulate economic development in less-developed countries.

17. With some exceptions, the most notable being the United Kingdom which maintains a deficiency payments system for wheat, wheat shipped internationally is sold in the country of import at a price higher, frequently considerably higher, than the price at which wheat is traded internationally. This applies also to most surplus disposal transactions where the wheat is paid for by consumers at the prevailing price in the recipient country. This indicates that in many importing countries there is a capacity to consume wheat at prices generally above those at which wheat is traded internationally. In some cases the revenue derived from the difference between international prices and prices on the national market is used for financing measures to support agricultural income.

18. The pattern of trade and prices has been influenced by the non-tariff measures, whether or not discriminatory, applied by importing and exporting countries. Quantitative restrictions (including mixing regulations) of a kind which normally have not been negotiated, are in many cases employed to limit imports so as to shelter internal production and prices, or the same result is achieved by other non-tariff measures. Exporters thus do not know to what extent they have access to many important markets.

19. Such measures, and deficiency payments also, have inevitably affected price relationships and the volume of imports. Among practices followed by some exporting countries, subsidies affect both international prices and the direction of trade. The use of bilateral agreements to export wheat at relatively high prices has implications not only for other wheat exporters, but also for the trade of countries which export products similar to those for which wheat may be exchanged under bilateral arrangements. These measures of export assistance have had a particularly serious effect in limiting the export opportunities for the relatively low-cost producers who found themselves shut out of many markets.

20. The Committee notes that, although virtually all trade in wheat was regulated by non-tariff measures, there exist a number of tariff concessions on wheat which were bound by important importing countries to major exporting countries.

21. In the light of the foregoing considerations, the Committee's view is that non-tariff measures had exerted a substantial effect on trade. They have also contributed to the existing wheat situation of recent years.

Feedgrains

I. General characteristics of market and trade¹

1. There is an inter-relationship between the production of coarse grains and wheat in that in many areas the production of one can be substituted for the other. The extent to which this takes place is determined largely by the relative price differential and policies relating to these commodities. Coarse grains are in the main not directly consumed but are used in the production of other agricultural commodities, e.g. livestock and livestock products, and for industrial purposes. Accordingly a feature is the large proportion of coarse grains consumed in the country of production. There is, however, a large international trade in these commodities and in view of the increasing trend of meat consumption there appears to be reasonable prospects of continued growth in this trade especially if livestock prices are not increased through increases in the price of feedgrains.

2. From 1955/56 to 1959/60 (July-June) world feedgrain exports increased steadily from 15.7 million metric tons to an estimated record of 22.7 million metric tons. This represents an increase of about 45 per cent. The 1951/52 to 1954/55 average was 13.5 million tons. The major part of the increase has been from the United States. The United States share in total exports rose steadily from 36.0 per cent in 1956/57 to about 50.7 per cent in 1959/60.

3. Western Europe has been, and quite certainly will continue to be, the most important feedgrain export market. The principal suppliers are the United States, Argentina and the Union of South Africa, for maize; Argentina, Australia, Canada and the United States, for oats; the United States, Canada, France, the Middle East countries, Argentina, Australia and Denmark, for barley; and the United States, Argentina, the Union of South Africa and Australia, for grain sorghums. World trade in grain sorghums has increased greatly in recent years, and the United States has been supplying the bulk of the exports.

4. Concurrently with increasing livestock and poultry production and consumption in many countries as a result of improving economic conditions and consumer purchasing power, world feedgrain production and consumption have almost doubled during the past decade. The increased production has been obtained through expansion of the feedgrain area and rising yields which, in turn, are the result of improved seeds and greater use of fertilizers.

5. Production has been stimulated by producer support prices in some importing countries above prices at which imports are available, and by direct government subsidies of various kinds. In nearly all importing countries it has been further encouraged by tariff and non-tariff restrictions and other regulations which limit imports and otherwise maintain relatively high and stable prices on the domestic markets.

¹For background information and statistics see documents COM.II/86/Add.3 and COM.II/86/Add.6.

6. The 1960/61 world production of maize, oats and barley (information on output of grain sorghums in most countries is not available) is estimated at 338.7 million metric tons. This is 11.4 million metric tons above the 1959/60 crop and 17.1 million tons above that of 1958/59. It is about 40 to 50 million tons greater than the 1957/58 and 1956/57 production. The 1950/54 average was 277.4 million tons. Between 1956/57 and 1960/61, the world output of oats generally declined from 61.8 to an estimated 57.6 million metric tons, and barley production dropped from 73.8 to about 73.6 million tons, with some intermediate fluctuations. However, these declines were more than offset by a steady increase in maize output from 167.0 to approximately 207.6 million tons. During the same period, United States production of these three grains rose from 112.9 to an estimated 134.4 million tons.

7. Stocks of maize are nearly as large as stocks of wheat, and are increasing. Even though the large bulk of these stocks are held by a single country who has thus far been prepared and able to carry them and market them in an orderly manner, it nevertheless constitutes a serious problem especially in view of the fact that the downward adjustments in maize prices in recent years have not been permitted to result in an increased usage of maize against other feedgrains in importing countries.

II. Non-tariff measures¹

8. Nearly all countries of any importance in the international feedgrain trade operate one or more non-tariff measures designed to protect domestic production; the measures include global and country import quotas, exchange controls, State trading, bilateral trade agreements, equalization fees, stabilization funds, subsidies and import levies.

9. There are only a few importing countries which protect maize production as such. However, protection afforded to other feedgrains should be taken into consideration when assessing the degree of maize protection.

¹See synopsis of non-tariff measures contained in document COM.II/112 and area of trade covered by non-tariff measures in document COM.II/86/Add.7.

FISH¹

I. General characteristics of market and trade

1. International trade in fish products is confined in the main to a few major exporting countries. Norway is the leading exporter in Western Europe, accounting for almost one third of the aggregate export value in that area. The other principal exporters are Iceland, Denmark, Portugal and the Netherlands. Canada accounts for more than 80 per cent of North America's trade in fish, most of the exports going to the United States.
2. In most countries domestic production provides a part of the total fish consumption, the balance being met from imports. The largest importer of edible fish products is the United States. The largest European importers are the United Kingdom, with about 30 per cent of total import in Western Europe, and Italy, France, the Federal Republic of Germany, and Belgium. Most other countries in the area also participate to some extent in the trade as importers.
3. In 1957 the volume of international trade in fish amounted to about 5.7 million tons which represented an increase since 1953 of 1.3 million. The 1957 quantity represented exports from countries accounting for nearly 80 per cent of the total world catch. The share of exports in the total catch of these countries rose between 1948 and 1957 from 19 to 25 per cent. The international trade in fish and fish products was in 1957 composed of 27 per cent fresh, chilled or frozen fish, 19 per cent dried, salted or smoked, 15 per cent canned, 24 per cent fish oil and meal, and 5 per cent crustaceans.
4. Of the main geographical areas, Europe, North America and Australia were in 1957, in terms of value and counting all fish and fish products, net importers, while Latin America, Africa and Asia were net exporters. Oceania's trade was entirely intra-regional. If only edible fish products are considered, European countries together exported more fresh, frozen and cured fish than they imported. In the trade of fish meal there has been observed a tendency for European countries to rely to a greater extent on imports from South America and Africa where production has been rising sharply. As regards canned fish, imports in Western Europe exceeded exports substantially. North America had a deficit in the trade in all these varieties, except cured fish. Prices on fresh, frozen, cured and canned fish products have during later years remained firm or have shown a slight increase. Prices on fish meal, however, have fallen heavily.

II. Production, consumption and trade

5. While fish production is apt to fluctuate heavily from year to year, due to changes in natural conditions, aggregate landings have shown a long-term rising trend. Western European catches increased from 5.5 million tons in 1938 to 7.5 million tons as an average for 1954-1958. The corresponding figures for the United States and Canada were 3.1 and 3.8 million tons. The increase in some other parts of the world has been even heavier.

¹See synopsis of non-tariff measures contained in document COM.II/112 and area of trade covered by non-tariff measures in document COM.II/86/Add.1/Rev.I.

6. The increase in fish production in the post-war period has mainly been a result of expanded fishing efforts in the North Atlantic, and on the western coast of Africa and South America. The expansion in the North Atlantic has been achieved by the introduction of bigger and more efficient vessels and by improved fishing techniques. In Western Europe particularly, the tonnage of the fishing fleet, and notably that of large trawlers, has increased substantially. As the fishing population in many countries has shown a decline, the catches per man have risen considerably. On the other hand, catches per ton of fishing fleet must be assumed to have shown a decline. This is at least the situation in the main countries fishing in the North Atlantic.

7. The increase in production is not reflected in a corresponding increase in human consumption. In many countries per capita consumption is roughly the same now as before the war. This indicates that the total quantity for human consumption has increased only in step with the growth in population. The surplus has been converted into fish meal and fish oils. The recent heavy increase in fish meal production in some countries has severely affected the fishing industry in other countries, and, in spite of a heavy fall in world market prices, it is difficult to find buyers for total world production. Total production of canned fish has shown a slow upward trend during the post-war period, but while the production of traditional fish products such as dried, salted and smoked fish has been fairly stable or has shown a decline, the production of frozen fish products has expanded significantly.

8. According to OEEC statistics, the production in western Europe of frozen fish rose from 117,000 tons (net product weight) in 1948 to 307,000 tons in 1958. In the United States and Canada total production amounted to about 220,000 tons in 1957, having risen from about 170,000 tons in 1948. The United States, Iceland, Canada and Norway are the leading producers of frozen fish, while the United Kingdom, Denmark, the Federal Republic of Germany and Belgium are also important producers.

9. An essential prerequisite for the distribution of deep-frozen fish is the existence of a "cold chain", with storage facilities in all stages of trade, transport equipment and retail cabinets capable of maintaining the product at the appropriate low temperature. As a sufficient development of "cold chains" has only taken place in the highly industrialized countries in the world, practically all frozen fish is consumed in these countries.

10. The largest part of fish consumption in the highly industrialized countries is still covered by traditional fish products, while these products also find markets in other parts of the world.

11. Human consumption of edible fish products varies greatly from country to country. In Western Europe, according to OEEC statistics, consumption varies from 1 to 100 kgs. per capita, based on whole weight, with an estimated average of 15.5 to 16 kgs. In the United States and Canada per capita consumption is 5 and 6 kgs. respectively (edible weight). In many countries there should be room for an increase in the consumption of fish products.

III. Non-tariff measures

12. Of the thirty-four countries examined by the Committee, all but six maintain some form of non-tariff devices affecting trade in fish and fish products. There are wide differences from country to country in the use of non-tariff measures, and some of the measures examined are either not in use or of no practical importance, as for instance mixing regulations and State trading.

13. Consumer's subsidies and arrangements for the disposal of surpluses are in use in some countries. The predominant and important devices applied are various forms of income and price support including government subsidies, import levies and quantitative restrictions on imports. Of the thirty-four countries examined, seventeen practise income and price support systems of various kinds, and of these countries twelve give direct governmental financial support to the fishing industry.

14. In most of these countries subsidies, either as grants or as loans at preferential interest rates, are given in connexion with the building of new fishing vessels and in order to improve generally the fishing gear and equipment. Governmental guaranteed minimum price system in many cases also involve subsidies. A few countries gave subsidies directly to the fishermen to improve their incomes.

15. Grants and loans given to the fishing industry for improving the equipment, and the guaranteed minimum price systems are arrangements which usually will be in operation over a longer period of time, as a part of the fishing policy pursued by the country. Direct subsidy schemes will often be of a more limited character based on special circumstances such as sudden and heavy decreases in catches of certain products or sudden falls in market prices.

16. Quantitative restrictions are applied by twenty-five of the thirty-four countries. In some countries quantitative restrictions are directed against imports from certain countries or areas. Other countries impose restrictions on all or most imports of fish and fish products. Only thirteen of the twenty-five countries stated that quantitative restrictions are imposed for balance-of-payment reasons. Quantitative restrictions appear to be an integral part of the protective systems in force in many countries and have no longer any connexion with the balance-of-payment position. Seventeen of the countries examined have GATT tariff bindings on all or some categories of fish imports; many of these countries maintain some form of non-tariff devices by which the benefit of the bindings are reduced or in some cases largely nullified. In addition, many of these countries aim at self-sufficiency or a high degree of self-sufficiency.

IV. Effects of non-tariff measures.

17. There is a general feeling that the widespread non-tariff measures applied by the various countries, especially such measures as public financial assistance, and quantitative restrictions affect production, consumption and prices in international trade in fish and fish products. The lack of expansion of trade must to a large extent be attributed to these measures, which in most cases seem to be especially designed as part of the fishery policies pursued by countries.

18. In countries where quantitative restrictions are in use, these measures constitute a barrier to the development of the trade for fish products against which they are directed, in this way protecting the producers from import competition and insulating them from fluctuations in world market prices.

19. Income and price support, including governmental subsidies, grants and loans at preferential rates, may in the long run have adverse effects on the fishing industry if the financial support leads to over-fishing in certain waters.

20. Non-tariff measures will, in one way or another, tend to restrain structural changes and natural development in production and to impede the free development of competition in international trade.

21. The increase in production is not reflected in a corresponding increase in human consumption. Removal of the existing barriers to trade would lead to an increase in the consumption of edible fish products, especially in the field of frozen products. The great inland areas in the world, where fish supplies until now have been scarce or non-existent should be potential markets for large quantities of fish, especially frozen fish, when cold chains are sufficiently established.

22. The national fishery policies pursued create great problems for the traditional exporting countries and, in particular, for those countries whose national economies depend heavily upon fisheries. Furthermore, the measures applied cannot be said to have solved adequately the economic problems confronting the fisheries of other countries.

23. Many of the countries examined have GATT tariff bindings on fish imports. Many of these countries maintain some form of non-tariff device which reduces the benefits of the bindings and, in some cases, largely nullifies them. Certain of these countries are important fish consumers. The Committee notes that the impairment of bindings was obviously of great significance to the fish exporting countries. The Committee takes note that a positive assurance of access to the markets of the countries with whom tariff concessions were negotiated is regarded as essential by some exporting countries if they are to be able to participate effectively in tariff negotiations.

SUGAR

I. General characteristics of the market and trade¹

1. Sugar sales in world markets are influenced to a large extent by preferential systems. Of total world exports in 1958 (13.6 million tons) less than half was traded at the world market price. The rest was traded under special arrangements at prices well above those prevailing in the free market. Among these arrangements the United States Sugar Act provides for the importation from certain foreign suppliers under quotas which reflect a certain share in the growth of United States consumption requirements. The Commonwealth Sugar Agreement embodies contractual arrangements for the purchase, from the main Commonwealth exporters, of a given tonnage which is incorporated as an aggregate in the provisions of the International Sugar Agreement. Approximately 64 per cent of this quantity is sold at annually negotiated prices; the balance is sold at world prices but benefits by tariff preferences if sold to Commonwealth countries where Commonwealth preferences pertained for sugar. Preferential arrangements are also operated by certain other countries. Cane sugar producers whose economies depend on the export of sugar and who are not covered by such special arrangements are faced with competition from countries benefiting from preferential arrangements as well as from others applying a variety of systems protecting the output of sugar beet.

2. The level of world sugar exports has in recent years (1955-59) fluctuated between 13 and 15½ million tons (raw basis). In 1959 world net exports amounted to 12.9 million tons. Basic export tonnages for the free market under the International Sugar Agreement were 6.4 million tons, and initial export quotas for 1960 were 5.3 million tons; the final quotas in effect for 1960 were approximately 6.8 million tons.

3. In 1959 Cuba exported approximately 5 million tons, the Philippines about 1 million tons; the Federation of the West Indies, Brazil, the Dominican Republic, Taiwan and Australia exported some 600 - 700,000 tons, and Mauritius and Peru about 500,000 tons each. Other substantial exporters, with between 100 - 300,000 tons, were British Guiana, Guadeloupe, Mexico, Mozambique, the French Department of Réunion, Fiji, Union of South Africa, Poland and Czechoslovakia. For a number of these countries, the proceeds from sugar sales constituted a major part of their total export earnings. The United States, the United Kingdom, Japan and Canada were by far the largest importers in 1959 accounting together for about 8 million tons. Net imports into Europe (including eastern Europe but excluding the USSR) were on an increase until 1957, but since then have shown a downward trend. Among the other areas, net imports into Latin America, Africa, Asia and Oceania have changed little in volume over the past few years. Only in North America has a slight increase occurred.

¹See synopsis of non-tariff measures contained in document COM.II/112 and area of trade covered by non-tariff measures in document COM.II/86/Add.7/Rev.1.

II. Production, consumption and trade

4. World production of sugar reached its pre-war level in 1947/49, and from then on its upswing has been more rapid than that of any other agricultural commodity. This trend was due both to the reconstruction and increase in capacity of existing producers and to the introduction of new capacity where none had existed before. Thus today a large number of former importers in Africa, Asia, as well as in Europe, produce an increasing part of the sugar they consume. The process has by no means stopped, a number of countries having provisions in their investment programmes for further increases in sugar producing capacity.
5. During the period from 1950 to 1958, the increases in consumption kept pace broadly with the increases in production: however, there were imbalances between supply and demand which caused wide price swings in the world market. In the last two years, however, a lower rate of growth in consumption than in production has been in evidence, with the result that stocks have increased and the International Sugar Agreement has had to introduce severe restrictions on the exports of its member countries. Due to the increase in domestic production in the importing countries, many of which have become self-sufficient, traditional sugar exporters have not derived the corresponding benefit of increases in consumption.
6. Sugar prices in the free market have fluctuated violently over the past five years, as reflected in the annual averages. From 3.24 cents per pound in 1955, the quotation for Cuban sugar sold to destinations other than the United States rose to 3.46 cents in 1956 and to 5.16 cents in 1957 (as a result of the Suez crisis). It fell to 3.50 cents in 1958 and to 2.97 cents in 1959. In July of that year a bottom level of 2.55 cents was recorded. Subsequently prices recovered in response to action taken by the Sugar Council, because of large purchases by the USSR of Cuban sugar, and on account of higher import requirements in Europe occasioned by a smaller best crop in that area. In mid-July 1960 the price had reached 3.30 cents. In 1961 the price fell to 2.95 cents.
7. The Government of Cuba declared its intention of maintaining the export price at a minimum of 3.25 cents and probably staved off a collapse of the market. In December 1960 the International Sugar Council established provisional export quotas for 1961 at 85 per cent of basic tonnages; this figure was reduced in February 1961 to 82½ per cent. The price for consumers is of great importance; there is a wide range of prices at which sugar is available. Among 121 countries investigated by the FAO it was found that in seventeen of them retail prices (in 1957) were below 15 US cents per kg. and in eight countries over 40 cents. In seventy-three countries prices were below 25 cents and in forty-eight countries they ranged from 25 to 79 cents. Although production and distribution costs vary considerably the extreme width of the range is explained mainly by the great diversity of taxes, duties and other fiscal elements. The depressing effect of taxation on consumption is the greater, since the higher prices are generally found in low and very low income countries where the price elasticity is considerable.

8. Sugar production has been tending upwards in all regions. In the five principal exporting countries sugar production increased from 6.02 million metric tons in the 1934/38 period to 9.45 million metric tons in 1954/58, which represents an increase of about 57 per cent. At the same time exports from the same five countries increased from 5.18 million metric tons in 1934/38 to almost 8 million metric tons in 1954/58, representing an increase of about 54 per cent. The production pattern of the five principal importing countries shows the following corresponding figures: production expanded from 4.54 million metric tons to 6.48 million metric tons, which constitutes a 43 per cent increase. On the other hand, imports rose from 7.17 million metric tons to 8.34 million metric tons, constituting a 16 per cent increase. While in the five principal exporting countries all the sugar produced comes from sugar cane, in the five principal importing countries cane sugar output accounted for 1.31 million tons in 1934-38 and for 1.48 million tons in 1954-58 whereas beet sugar rose from 3.23 to 5.00 million tons in the two periods; the relative increase in production of the latter countries was 13 per cent in respect of sugar cane and 55 per cent in respect of sugar beet (both in terms of raw sugar). Production of beet sugar, which is substantially protected in many countries and may lead to self-sufficiency in some, is rising faster than cane sugar, as output of the latter is controlled in certain countries due to the decline in the opportunities for selling to former import markets: exports are controlled by the International Sugar Agreement, due to the loss of opportunities of selling to former import markets. In some countries production has been rising; for example, in the Federal Republic of Germany production, expressed in millions of metric tons, rose from 0.56 in the average period 1935/36 - 1938/39 to 0.83 in the period 1948/49 - 1952/53 and to 1.39 in 1954/55 - 1958/59, while imports declined from 0.52 in 1948/49 - 1952/53 to 0.27 in 1954/55 - 1958/59. In the last year of reference (1958/59) production, expressed as a percentage of domestic consumption, reached 103 per cent (but this year was an extraordinary one in respect of the crop) by contrast with 64 per cent in the average from 1948/49 - 1952/53. In the meantime the Federal Republic of Germany has limited sales of domestically-produced sugar and has at the same time imported considerable quantities of sugar; imports of sugar beets into the Federal Republic have been liberalized and are free from taxes. In this connexion reference might be made to measures applied recently in certain countries, such as the United States, for increasing subsidized production. Production in the United States is regulated, however, within the framework of legislation which reserves a substantial share of the United States market for certain foreign suppliers.

9. Reasons of a political, social or strategic nature have been put forward to justify certain systems of protection. Certain recent measures, based in part on political factors, may influence the traditional patterns of the sugar trade and may have an adverse effect on the expansion of that trade.

10. As regards prospects, in the highest income areas per capita consumption appears to be approaching the saturation level, and in other areas the rate of increase has slowed down. For the world as a whole (excluding the USSR

and mainland China) there was a distinct slowing down in the rate of increase of consumption in recent years, while the annual compound rate of increase in 1952-56 was 5.3 per cent, the figure for the period 1957-61 is estimated at about 3.2 per cent. According to FAO estimates, the increase of consumption in 1961 over 1960 may be estimated at about 1 million tons; the estimated increase in production noted above would thus leave a surplus of some 4 million tons in the current year. For comparison, the Sugar Council's first estimate of free market requirements for 1961 amounted to about 6.4 million tons. In 1961, the export quotas of the European industrialized countries, under the International Sugar Agreement, total 657,000 tons.

III. Non-tariff measures

11. Certain countries, chiefly industrial countries which are traditional sugar importing countries are resorting to non-tariff devices to protect their sugar production: 63 per cent of sugar imports are subject to quantitative restrictions, 32 per cent to deficiency payments and 26 per cent to import charges. It may be said that the consultations have disclosed all the known non-tariff devices, whether they are applied singly or in combination with very complex techniques, sometimes going as far as a ban on imports. Only 4 per cent of imports are not subject to non-tariff measures. So far as exports are concerned 78 per cent are not protected by any non-tariff devices and hence are subject to the normal rules of trade.

IV. Effects of non-tariff measures

12. While it is difficult to estimate to what extent non-tariff devices affected trade, sugar is perhaps the one commodity best suited for an analysis of this kind, keeping in mind the principle of the most rational utilization of existing resources in the producing countries and the great disparity between the economic factors which influence the production of cane sugar and beet sugar.

13. The Committee feels that certain changes regarding the import policy of certain countries for sugar may lead to a substantial modification in the traditional pattern of trade for this product. In many countries, imports, insofar as authorized, are used, through import charges, as a source of revenue for programmes to promote home production. In many cases, the guaranteed minimum prices for national production are three or four times the commodity's price in the international market. Frequently, in cases where domestic production is insufficient, sugar imports are charged with the difference between the domestic and the international market price, the profits so obtained being added to government revenue. If operations of this kind were translated into terms of normal tariff protection, the duty so charged would reach levels of more than 500 per cent. In connexion with the entire discussion, one delegation proposed that it would be useful if Committee II, or another Committee of the GATT, could agree to undertake a study of the pattern of trade in sugar for an average period, in order to ascertain the normal volume of imports in this base period, since this might facilitate some arrangement whereby major sugar cane producers could have some assurance that their traditional markets would continue to be open for equivalent amounts of sugar imports in the future.

VEGETABLE OILS AND OILSEEDS¹

1. In view of the fact that vegetable oils and oilseeds are among the commodities discussed by Committee III, the following comments constitute only a brief reference to non-tariff devices applicable to trade in this commodity and the effects of the use of such devices.
2. Non-tariff measures are widely employed in respect to production and trade in vegetable oils and oilseeds. Restrictive measures applied by governments on imports of vegetable oils and oilseeds include the use of quota restrictions, variable import levies, mixing regulations and differential duties. Quantitative restrictions are the most widely used non-tariff measure, although direct aids to exports and deficiency payments are also used to a significant extent.
3. The measures described above tend to limit the export earnings of producers of vegetable oils and oilseeds, some of which are countries in the process of development. In many cases the measures applied to vegetable oils and oilseeds are not related to any basic objectives of national agricultural policies, but appear to be intended primarily to give protection to domestic processing industries. In a number of countries, oilseeds constitute one of the first alternatives available to the production of wheat or other grains in surplus supply. Efforts of some countries to develop production and trade in oilseeds on a normal commercial basis, as an alternative to grain products, are hampered by the existence of non-tariff measures which tend to restrict trade and to stimulate additions to supplies of similar or competitive products.

¹See synopsis of non-tariff measures contained in document COM.II/112.

