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Committee on Subsidies and
Countervailing Measures

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QUESTIONS SUBMITTED BY AUSTRALIA ON THE LEGISLATION OF THE EUROPEAN COMMUNITIES

(L/6630/Add.20)

The following communication, dated 14 October 1991, has been received from the Permanent Delegation of Australia.

Australia seeks comment on and/or clarification of the following aspects of the EC's subsidies notification.

Coal

1. Could the EC please provide a breakdown of its coal subsidies in terms of:

- total subsidy expended in each member State
- subsidy per unit of production for each subsidizing member State

: Australia is particularly interested in subsidies to the German coal industry. Our estimates are that the level of subsidies to the industry in 1990 totalled more than \$A8 billion, which is greater than the total value of Australia's coal exports (\$A5.8 billion, making it the world's largest coal exporter). According to the IEA the total PSE in 1989 was DM 11,197.2 million and total economic costs of German hard coal averaged more than three times the average delivered price of equivalent coal on world markets. (IEA/OECD "Energy policies and programmes of IEA countries, 1989 review".)

2. The EC's notification shows an increase in "other" aid from ECU 23.7 million in 1988 to ECU 5,099.2 million in 1989. Could the EC please explain what has caused this increase, and also what items "other" aid includes?

3. In a previous notification (L/6111/Add.19) the EC stated that, "all aid to the coal industry, whether specific or general, financed by member States or through state resources in any form whatsoever, may be considered community aid".

- Does the EC consider that its present notification details all assistance to the coal industry benefiting current production, whether specific or general, regardless of the method of financing?

: in particular, could the EC indicate whether its notification includes such member State subsidies as the German "Kohlepfennig" tax and the subsidy effect of the "Jahrhundertvertrag" and "Huttenvertrag".

4. In relation to the Spanish coal industry could the EC please provide recent statistics on subsidies per unit of coal produced in Central Asturias, and subsidies per unit for production of coal for the iron and steel industry?

- Could the EC indicate whether subsidies to the Spanish coal industry provided by the Office for Compensation of the Electricity Industry (OFICO), which reimburses electricity producers to compensate for losses incurred as a result of purchasing local rather than imported coal, have been included in the EC's notification?

: we understand that the value of this assistance to the Spanish coal industry was Pta. 12.265 billion (\$A175 million) in 1989.

5. The EC notification states that aid to the coal industry may be considered compatible with the proper functioning of the Common Market if, among other things, it (1) contributes to assure better security of supply and (2) creates new capacities, provided that they are economically viable.

- Has the concept of "security of supply" been defined or made operational in EC decisions, legislation or regulations? Does the EC definition of security of supply encompass only security of domestic supply? Has the EC done any analyses of threats to security of coal supplies, assessments of the extent to which its coal programmes have enhanced security, and the cost-effectiveness of its coal programmes in enhancing security?

: could the EC comment on the view of the International Energy Agency (IEA) in relation to the German coal industry (though applicable to other EC member States) that "the argument to continue protection (of the coal industry) on security of supply grounds is not acceptable in the context of the IEA"? (IEA/OECD, "Energy policies and programmes of IEA countries, 1989 review".)

- Has the term "economically viable" been defined or made operational in EC decisions, legislation or regulations? Is it understood to mean economically viable on the world market, unassisted by border protection and domestic subsidies, or does it mean economic viability after receiving subsidies and border protection?
- Does the term "new capacities" refer to additional production capacity or simply to new production capacity displacing existing capacity?

6. Australia notes that the Community has sought to justify the range of its subsidies by reference to the objectives of the assistance without reference to their possible trade effect or costs to consumers. Australia would appreciate EC estimates of the trade effects of its coal subsidies, such as:

- trade distortions caused by the subsidies
 - adverse effects on coal exporters (lost export earnings)
 - slower growth in coal demand (and import growth) in the EC
- : (the IEA has estimated that between 1987 and 2000 coal demand in "protected" Europe is expected to grow by only 16 per cent, compared with an increase of around 100 per cent in the rest of OECD Europe)
- dampening effect on world coal prices
 - costs of EC coal programmes on consumers.

Cereals

7. The notification makes no attempt to analyse the trade effects of the EC subsidies on cereals. We would appreciate some assessment of these trade effects by the EC, in the context of the following observations:

- . since 1985 the EC has steadily increased the level of its export subsidies, with expenditure in 1991 for wheat and flour export subsidies expected to be more than treble that of 1985
- the figures provided by the EC on the total amount of export subsidies by sector, by focusing on refunds for the period 1988 to 1990, do not show the dramatic increase in subsidy levels between 1986 and 1987.
- . annual EC expenditure on wheat and flour export subsidies have been as follows:

1985	\$A0.52 billion	ECU 0.48 billion
1986	\$A1.02 billion	ECU 0.69 billion
1987	\$A2.74 billion	ECU 1.66 billion
1988	\$A1.63 billion	ECU 1.16 billion
1990	\$A2.19 billion (1)	ECU 1.26 billion
1991	\$A2.80 billion (1)	ECU 1.62 billion

(1) Budget credits.

- . as a result of the EC's use of export subsidies, the EC has been able to increase its share of global wheat trade significantly
- in 1987/88 the EC's share of the world wheat market was 15.5 per cent, by 1989/90 this share rose to 20 per cent, representing an actual increase of nearly 30 per cent in EC exports.
- . EC wheat export subsidies increased markedly between November 1989 and November 1990 from ECU 50 per tonne to ECU 112 per tonne.
- . in November 1990, the price relationship between EC internal prices and export prices was so fractured that EC export subsidies per tonne were significantly higher than the international price of wheat per tonne.
- . the EC's share of the world market in wheat and flour has risen from 14 per cent in 1987/88 to 23 per cent in 1990/91. Since 1985 the EC's expenditure on wheat and flour export subsidies has more than trebled and in 1991 that expenditure was expected to reach about \$A2.4 billion.

8. Does the EC consider that the increase in its share of the world market in wheat and flour has resulted from the above-mentioned increases in the relevant subsidies? If it does not, to what does it attribute the increase in its share of the world market?

9. We note the EC Commission's recent proposals for reform of the CAP. How does the Community assess the impact that these reforms may have on future levels of export refunds? In particular, we are interested in the EC's assessment of the possible impact of the proposed set-asides scheme on the level of EC production, particularly if the existing stabilizers package is discontinued.

Rice

10. Australia notes that the EC does not mention any adverse trade effects arising from its rice subsidies. Nonetheless, there are significant adverse effects. EC production subsidies stimulate production which then needs to be sold on the world market with the use of export restitutions.

These export sales have a depressing effect on world prices, given the residual nature of the world rice market. Could the EC comment on this assessment?

Sugar

11. The EC does not mention any adverse trade effects of its sugar policies. However, Australia has experienced significant injury as a result of these policies.

- . EC sugar subsidies impinge on Australia's trade interests stimulating production which depresses world prices.
- . the Australian Bureau of Agricultural and Resource Economics has estimated that Australia would receive higher export returns for sugar, by around \$A193 million per year if the EC were to reduce its A quotas by 10 per cent and its B quotas proportionately, thereby reducing the amount of production eligible for subsidies.

12. Could the EC please comment on these estimates or provide its own estimates of the trade effects of its sugar policies?

Processed fruit and vegetables

13. In May 1985 measures were introduced under which aid for tomato products was granted solely in respect of the quantities fixed as thresholds. Could the EC please explain what effect on production these measures have had?

14. Australia would appreciate recent statistics on production, consumption, export and guarantee thresholds of processed tomato products, for Spain and Portugal in particular as well as for the EC as a whole.

15. Could the EC please explain why aid per unit of processed tomato product has been rising in the case of Spain and Portugal?

16. Could the EC please provide recent statistics on the total amount of aid expended on each of the eligible processed fruit and vegetables products?

17. Could the EC please provide recent statistics relating to production, consumption and exports/imports of pineapple preserves?

18. Does the EC's system of production aids for processed fruit and vegetables "cascade"? For instance, where a processed product is used as input in the production of another processed product, are production aids payable on both the input and the final product?

19. What percentage of average production costs per unit of each of the products eligible for aid does the present aid per unit represent?

- . Australia notes that the EC has not made any mention of the possible adverse effects of its subsidies for processed fruit and vegetables on other countries. Our experience indicates that EC subsidies, in the form of production aids on canned peaches, canned pears and processed tomato products, have seriously eroded markets for Australia's canned deciduous fruit and processing tomato industries.
- . EC subsidies were introduced to assist the Mediterranean areas of the Community. The Accession of Greece, Spain and Portugal to the EC has exacerbated the harm suffered by Australian industries.
- . subsidized EC canned deciduous fruit has displaced Australian product in European and other traditional Australian markets. In addition, subsidized EC product which is imported into Australia lower the price received by the local industry on the domestic market.
- . Australia is not self-sufficient in some processed tomato products. Nevertheless, the importation of subsidized EC product into Australia lowers returns to tomato growers and hinders the growth of the processing sector.

20. Could the EC comment on this assessment of the impact of its subsidies policies?