

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

W.9/71

6 December 1954

Special Distribution

CONTRACTING PARTIES
Ninth Session

Original: English

Review Working Party III on Barriers to
Trade other than Restrictions or Tariffs

DISPOSAL OF SURPLUSES

Statement made by Dr. Gerda Elau, Observer
for the Food and Agriculture Organization

I regret that I have not been able to be present at the previous meeting of this Working Party when some important statements were made on the disposal of surpluses. These statements referred to matters in which the FAO is also taking an active concern. We believe, therefore, that it will be of interest to the CONTRACTING PARTIES to have the following summary account of FAO's functions and activities in regard to these matters, under two main headings:

- (1) Principles of Surplus Disposal; and
- (2) Machinery for Consultations.

(1) Principles of Surplus Disposal

The FAO Conference, in reviewing at its Seventh Session a year ago, the world agricultural commodity situation, gave special attention to the growing difficulties encountered in absorbing supplies of certain commodities. The Conference concluded that intergovernmental examination of the movement of surpluses into consumption required full consideration of the possible international repercussions of such measures, including the effects not only on competing exporters of identical or related products, but also on production and economic development within receiving regions. With a view to promoting constructive action and relieving the anxieties of interested governments, the FAO Conference therefore requested its Committee on Commodity Problems to draw up principles and standards which might be applied in the disposal of agricultural commodities in surplus supply.

The Committee on Commodity Problems, acting upon the Conference recommendations, and in the light of the report of a Working Party which it had established earlier in the year, agreed on a set of principles, and commended them to the serious

attention of FAO Member Governments. The Committee also drew up a series of guiding lines to provide the general framework for the application of the more specific principles. For the information of delegates we shall append the full text of these Principles and Guiding Lines to this statement in handing it in for the record. I shall here merely try to summarize their salient features. Before doing so, I should just like to say a word, however, on the present status of these principles. They have been endorsed by the Council of FAO at its Twentieth Session in November this year, and commended again to the attention of FAO Member Governments. The Council also asked the Director-General to request governments to let him know, well in advance of the next Council Session in June next year, whether they are prepared to adhere to these principles as recommended by FAO. The principles also form the basis for intergovernmental consultations under FAO auspices to which I shall refer in the second part of this statement.

The Committee on Commodity Problems, in drawing up these principles, based its recommendations on the following two main ideas which had been accepted by the Conference, and which it regarded as closely related to each other: first, that a solution should be sought for the current surplus problems through efforts to increase consumption rather than by measures to restrict supply, and, second, that measures taken by countries having surpluses to dispose of should be made without harmful interference with normal patterns of production and international trade. The Committee concluded that the first of these two objectives, namely the expansion of consumption, was desirable not only as an end in itself, but also because it held better guarantees than any other for meeting the second objective, that is, for avoiding harmful interference with normal production and trade patterns.

Starting from these general premises, the Committee first considered it necessary to arrive at a workable interpretation of the phrase "harmful interference with normal patterns of production and international trade". It concluded that there was no way of arriving at a precise internationally applicable definition of the term "normal". It pointed out that any definition based solely on a historical base period would clearly be inadequate since it would not allow for the crucial fact that change itself is normal, and that it is neither possible nor desirable to freeze the status quo. Moreover, to define any average of trade over a number of years as "normal" would not take account of the width of the range between lows and peaks which in the case of some commodities in some countries might well exceed within a period of say five years a range of several hundred per cent. For the same reason no one year could be taken as a base.

The Committee therefore felt that a more flexible approach had to be found for ascertaining any "harmful interference with normal patterns of production and international trade". The operative word, in its view was "harmful"; for, clearly, unless disposal of surplus stocks could be fully absorbed by truly additional consumption, the release of such stocks in any markets through special measures would always, almost by definition, cause some interference with normal

patterns of trade, A ruling as to whether or not such interference is "harmful" implies some judgment of values and weighing of interests; that is, a combination of a kind of criteria comparable to those proposed for the determination of equitable shares of trade under Article 28 of the Havana Charter. Based on these general lines of reasoning, the Committee attempted to formulate some of the criteria which in its view had to be taken into account in determining whether or not Sales on Concessional Terms cause any harmful interference with established trade patterns. These criteria are set out in Section II, paragraph 4, of the text of the Principles which will be circulated for the record.¹

In speaking of Sales on Concessional Terms, the Committee noted that concessions in terms could relate to prices or to other conditions of sales or payment. Special attention was given, in the formulation of principles, to sales of surplus disposal against payment in importers' currencies and, in particular, to those stipulating the use of counterpart funds in aid of development or for special welfare distribution programmes.

The Committee also concluded that harmful interference with normal patterns of production and international trade can be caused not only by sales on concessional terms but also by the quantity of the commodity sold, or the rate at which it is moved, seen in relation to other market characteristics. It recommended that governments undertaking or proposing to undertake large-scale stock releases should, whenever practicable, consult with the governments of other countries interested in the possible effects of such transactions. These provisions are set out in Section III of the consolidated Principles.

(2) Machinery for Consultations

The Seventh Session of the FAO Conference also recommended that methods of surplus disposal should be considered, in the light of agreed principles, in an international forum. The Conference noted, to quote its Report, that "the necessary machinery for such consultation was readily available through the medium of the FAO Committee on Commodity Problems, which in its view was well equipped, on grounds of both past experience and current competence, for dealing with these matters." At the same time, the Conference asked the Committee to give further thought to the question of consultative machinery. The Committee, in acting on the Conference recommendations, decided to set up a Consultative Sub-Committee on Surplus Disposal, to meet in Washington at frequent intervals. Membership on the Consultative Sub-Committee is open to all FAO Member Nations who wish to contribute actively to the carrying out of its mandate. Others can attend as observers. The two main provisions of the terms of reference of the Consultative Sub-Committee are:

- (1) to keep under review developments in the disposal of agricultural surpluses, and to assist FAO Member Nations in developing suitable means of surplus disposal; and

¹ See Annex to this statement.

- (2) to provide a forum for the discussion of proposals, programmes, policies or transactions of Member Governments for the disposal of agricultural surpluses in the light of principles recommended by FAO.

Recommendations of the Sub-Committee are not, however, binding on FAO Member Governments.

In interpreting its mandate, the Sub-Committee is to view surpluses in perspective and to bear in mind the continuing need for steps to raise consumption levels, particularly in areas in need of development and among vulnerable and low-income groups. The Sub-Committee is also asked to take account of basic policies of selective expansion of agricultural production and trade. In general, it is to interpret its terms of reference in a flexible way.

The Sub-Committee started its work in Washington in July this year and has since held a number of meetings, when various matters within its terms of reference were being considered.

Some weeks ago, the Sub-Committee also decided to set up a special sub-group to consider proposals for multilateral arrangements for the orderly disposal of surpluses of skim milk, with special reference to the possible uses of such surpluses in development and welfare programmes.

In conclusion, I should like to mention another FAO approach which may be of interest here. That approach is based on the idea that in attempting to provide constructive methods of surplus disposal, it may help to supplement the machinery for centralized consultations by some field surveys, to ascertain the practical possibilities of surplus absorption in a given country, in line with the agreed principles. A pilot survey on such lines was conducted by the FAO in Egypt in August this year, to ascertain that country's possibilities of absorbing dairy products in additional consumption under special welfare distribution programmes. A similar survey has now been requested by the Government of Jordan. Plans for other surveys are under consideration.

A N N E X

PRINCIPLES OF SURPLUS DISPOSAL RECOMMENDED
BY THE COUNCIL OF FAO

Section I

General Principles

Paragraph 1

The solution to problems of agricultural surplus disposal should be sought, wherever possible, through efforts to increase consumption rather than through measures to restrict supplies.

Paragraph 2

Member Governments which have excess stocks of agricultural products should dispose of such products in an orderly manner so as to avoid any undue pressure resulting in sharp falls of prices on world markets, particularly when prices of agricultural products are generally low.

Paragraph 3

Where surpluses are disposed of under special terms, there should be an undertaking from both importing and exporting countries that such arrangements will be made without harmful interference with normal patterns of production and international trade.

Section II

Principles Governing Sales on Concessional Terms

Paragraph 4

In determining whether or not sales on concessional terms or grants to a given region¹ cause any harmful interference with normal patterns of production and international trade and prices, account should be taken of special factors affecting trade in the commodity concerned, with particular regard to the following aspects:

¹ The "given region" may be either "all foreign markets" or a particular area.

- (1) the extent to which commodities supplied on concessional terms are likely to be absorbed by additional consumption (i.e. consumption which would not have taken place in the absence of the transaction on special terms);
- (2) to the extent that sales of the commodities supplied on special terms may constitute some danger of displacement of commercial sales of identical or related commodities, that danger will have to be assessed in the light of relevant factors, particularly the following:
 - (a) the exporter's share in the region's imports of the commodity concerned during a representative base period, due allowance being made for factors which lessen the significance of such historical comparisons;
 - (b) whether the exports on special terms are likely to form so small (or large) a share of the region's imports of the commodity¹ that the effect of special terms on such trade is likely to be of minor (or major) significance;
 - (c) the degree of importance of trade in the commodity to the economy of the exporter concerned, to the economies of competing exporters of the commodity concerned and of closely related commodities and to the importing region's economy;
 - (d) the character and extent of the concessions offered and their probable effect on (i) the region's usual total imports of the commodity concerned and related commodities, (ii) the exporter's share in the region's imports of the commodity concerned, and (iii) the interference with implementation of treaties or agreements which deal with world trade in these commodities;
 - (e) the degree to which commercial market prices are, or are likely to be, affected in the importing region and in world trade;
 - (f) the degree, if any, to which effects of the kind mentioned under (d) and (e) above are likely to affect the stability, or desirable expansion, of production and trade of the commodity concerned and of closely related commodities in both exporting and importing countries.

¹ If the "region" is "a particular area", the significance of the exports on special terms on world trade generally may have to be considered as an additional criterion.

Paragraph 5

In weighing the advantages to countries benefiting from special disposal measures against the possible harm done to other countries, account must be taken of the relationship of possible sacrifices to the economic capacity of the countries concerned, and in particular to the effects of such sacrifices on their rates of development.

Paragraph 6

In accordance with Paragraph 4 above, the following more specific considerations should be taken into account in determining whether or not harmful interference with normal patterns of production and trade is caused, or likely to be caused, by some of the most important types of transactions on concessional terms, namely the following:

(1) Sales on Concessional Terms, or Grants, in Aid of Development

Account should be taken in particular of the following aspects:

- (a) the extent to which commodities supplied on special terms in aid of economic development are likely to be absorbed by additional consumption, which will depend, inter alia, on the net increase in purchasing power resulting from total new development expenditure, and on the extent to which such additional purchasing power will be directed to purchases of the commodities supplied on special terms;
- (b) to the extent that export of the commodities supplied on special terms in aid of development programmes may constitute some danger of displacement of commercial sales of identical or related products, that danger will have to be weighed against the advantages resulting from such programmes to the receiving country and to the world at large.

(2) Sales on Concessional Terms, or Grants, for Special Welfare Distribution Programmes

Account should be taken in particular of the following aspects:

- (a) whether conditions of, and facilities for, welfare distribution in the recipient country are likely to be of such as to lead to additional consumption of the beneficiary group;
- (b) to the extent that the transaction may constitute some danger of displacement of commercial sales of identical or related products, that danger will have to be weighed against the character and extent of the benefits resulting from the contribution to the welfare programme.

(3) Sales on Concessional Terms, or Grants, for Emergency Relief

Account should be taken in particular of the following aspects:

- (a) the character, extent and urgency of the emergency;
- (b) the effect of the emergency on the stricken country's ability to pay;
- (c) the volume of relief and the character and extent of the concessions offered, and their probable effect on the total commercial imports of the stricken country and on trade of competing exporters.

Paragraph 7

Assurances against Resales or Trans-shipment

- (1) In bilateral transactions involving special concessional terms, the intended beneficiary country should make every effort to prevent resale or trans-shipment to other countries, or the use for other than additional domestic consumption, of the commodities supplied to it on special terms.
- (2) Care should also be taken by the intended beneficiary to prevent exports of supplies of the same or related commodities which might be freed for sale abroad as a result of the country's imports on special terms.
- (3) Where a triangular transaction occurs, under which a commodity supplied on special terms is shipped for processing in a third country, the third country should use its best endeavours to ensure that the commodities supplied on special terms are trans-shipped to the intended beneficiary. The same principle should apply when more than three countries are involved.

Section III

Principles Governing Sales of Government-held Stocks in
Exceptional Volume, or at an Exceptionally Rapid Rate

Paragraph 8

Harmful interference with normal patterns of production and international trade can be caused not only by sales on concessional terms but also by the quantity of the commodity sold, and/or the rate at which it is moved, seen in relation to other market characteristics.

Paragraph 9

Since it is difficult to agree on any precise definition of "exceptional" volume or rate of sales, or of "harmful interference caused by such sales", these aspects need to be ascertained on the merits of each case with the aid of a series of commonsense criteria on the lines of those listed in Paragraphs 4 and 5 above. In the case of very large bulk transactions or sudden drastic changes in governmental sales policies such as the sudden abandonment of price-support measures and large-scale releases of stocks on foreign markets (e.g. liquidation of stock-piles), it will probably not be difficult in practice to ascertain that the volume or rate of offerings are exceptional. Governments undertaking, or proposing to undertake, such large-scale releases, should, whenever practicable, consult with other countries interested in the possible effects of such transactions.

References for the Council's Recommendations

- Paragraph 1: based on Preamble to FAO Conference Resolution No. 14(7); Report of the Seventh Session of the FAO Conference, paragraph 87; and Report of the CCP Working Party on Surplus Disposal (CCP 54/2) approved by the CCP, paragraph 114.
- Paragraphs 2 and 3: quoted from FAO Conference Resolution No. 14(7).
- Paragraphs 4 and 5: quoted from CCP Resolution No. 5(23).
- Paragraphs 6 and 7: quotes paragraphs 123-128 of the Report of the CCP Working Party on Surplus Disposal (CCP 54/2), which were endorsed in the final paragraph of CCP Resolution No. 5(23).
- Paragraphs 8 and 9: quoting text and recommendation contained in paragraph 121 of the Report of the CCP Working Party on Surplus Disposal and endorsed in paragraph 31 of the Report of the XXIIIrd. Session of the CCP.

GUIDING LINES FORMULATED BY THE FAO
FOR DEALING WITH AGRICULTURAL SURPLUSES

Within the framework of its general agreement with the findings and recommendations of the Report of the CCP Working Party on Surplus Disposal (CCP 54/2), the Committee on Commodity Problems, in paragraphs 15-21 of the Report of its XXIIIrd. Session, referred specifically to the following aspects:

- (a) Measures to dispose of surpluses already in existence will not solve the surplus problem unless parallel measures are taken to avoid the accumulation of new surpluses.
- (b) In general, the adjustment of supply and demand should be sought in the expansion of consumption, especially through increased incomes rather than in the reduction of production.
- (c) Such output reductions as may appear unavoidable, in the light of existing supply levels and market prospects, should be brought about, as far as practicable, through economic disincentives rather than through physical restrictions.
- (d) Steps for improving the international coordination of national policies must form an integral part of any sound programme of surplus prevention.
- (e) The adoption of special measures to dispose of surpluses must not be allowed to overshadow the importance of price adjustments, of policies of full employment and of economic development, of less restrictive trade policies and of the discouragement of uneconomic production, as basic means of dealing with the problem of surpluses.
- (f) Special consideration must be given to the economics of less developed countries which depend largely on export receipts for a limited number of primary products.
- (g) Consideration must also be given to balance-of-payments problems.