

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED
Spec(84)2/Add.4
13 January 1984

Committee on Trade in Agriculture

DRAFT MINUTES OF THE MEETINGS HELD FROM
4 TO 13 OCTOBER AND FROM 28 TO 30 NOVEMBER 1983

Addendum

Exercise A (continued)

Spain
United States
Finland
Hungary

SPAIN (AG/FOR/ESP/1)

1. The representative of Spain presented a detailed analysis of his country's trade policy in the agricultural sector. Spanish agriculture was characterized by a dualist economy: a coastal and peripheral zone, mostly producing fruits and vegetables on a highly competitive basis; and an inner and dry zone which produces with greater difficulty cereals, oils, wine, and other transformed agricultural products. This latter zone was the most extended and faced very difficult climatic conditions. Moreover, as a result from the process of the industrialization over the past 20 years, agricultural contribution to the Spanish GNP did decline from 16.39 per cent in 1964 to 6.77 per cent in 1980. However, the agricultural sector still had a great importance in the overall economy of Spain because it still absorbed a large share of the working population. This situation had been recently aggravated by the economic difficulties experienced in other sectors of the economy as well as other countries and it had fostered a comeback to agriculture in his country.

2. He also recalled that his country had recorded an average deficit of about US\$10 million in its trade balance in agricultural products in recent years. Spanish policy for agriculture could only be understood in this context. He then explained that the basic option of this policy was the maintenance of differentiated production, capable of providing reliable flows of domestic supply which could prevent Spain from being affected by eventual embargoes or too sharp price fluctuations in certain basic commodities. The Spanish Government was, therefore, compelled to provide some form of aid for supporting a minimum level of viable agricultural production. He also added that in the existing economic situation, it was extremely difficult to put into operation a positive process of adjustment, notably with respect to the most affected and traditional sector of the agricultural production. He further indicated that the current objectives of his country's policy for agriculture were aimed at increasing productivity in agriculture, modernizing farming, facilitating agricultural activities in the most depressed zones, raising the standard of living of agricultural workers, and developing cooperative organizations.

3. Turning to the notification submitted by Spain, he noted that his delegation had found it a very complex task to complete the format as suggested, because of some difficulties in coordinating different services in the Administration. In spite of the best effort of his delegation, he was aware of the fact that document AG/FOR/ESP/1 contained a number of omissions, notably the lack of indication of unbound duty rates and preferential duty treatment applied to EEC and EFTA countries. He added that, if so requested, Spain would provide at an appropriate time a revision of its notification. He noted that Spain did not include in its notification other products from agriculture falling outside CCCN Chapter 1-24. He indicated that measures affecting trade in these products could be found in document NTM/W/6 and in the annexes of document TAR/18 and TAR/68.

4. He further recalled that State trading in agricultural products existed in Spain since the 1930's and even before. He pointed out, however, that neither the bodies in charge of administrating State trading, previously the "Commissariat des Approvisionnement et de Transport" and currently the "Service Nationale des Produits Agricoles", nor their conception had any protectionist function. They were rather in charge of securing a regular flow of food supply to the population by importing required products without discrimination. He pointed out that Spain did not maintain a general policy of export subsidies. He indicated that occasionally for products in oversupply Spain did grant export subsidies. That was the case in 1982 for 9 CCCN sub-positions. He also indicated that sanitary and phytosanitary regulations apply only in cases when a reason for their implentation had been determined.

5. The representative of Chile expressed appreciation for the Spanish presentation of document AG/FOR/ESP/1. He was aware of the difficulties inherent in filling in the format, but he hoped that the Spanish notification could be completed at some stage. In particular, he noted that document AG/FOR/ESP/1 did not contain information on fish and fishery products, and he expected that such information would be made available in the future given the importance attached by his country to this sector. He further noted that the detailed presentation made by the Spanish representative concerning the objectives of the Spanish agricultural policy in the agricultural sector made him believe that in fact a systematic price support system was in force in Spain, although no indication of this was provided in the appropriate columns of the format. He asked for clarification on the modalities of calculation and application of fiscal charges in Spain. Having noted that discretionary licensing applied to most products, he also wished to obtain a detailed explanation of all restrictive measures resulting from this system. He noted that in some instances these measures had been referred to the Protocol of Accession of Spain, while in other cases mention had been made to balance-of-payment consultations. He wished to have some explanation on this point. He also noted the low level of consolidation of duty rates on Spanish tariffs.

6. The representative of Spain noted that trade in fish and fishery products was a matter of importance for his country too. He stated, however, that notwithstanding fish and fishery products falling within CCCN Chapter 1-24, his country, in accordance with past practices, was free to consider these products as being outside the Committee's examination, at least as Spain was concerned. He recalled that Spain had already indicated its position on this matter as his authorities considered it more appropriate to deal with fish and fishery products only after the changing situation in production and trade which currently characterized this sector had been studied in the framework of the specific work on such products which did also result from the Ministerial Declaration of 1982.

7. He further stated that the price support system existing in Spain did not constitute a form of subsidy, as was explained in document L/5102/Add.20. Regarding other taxes and charges imposed for social reasons and on luxury goods, he referred to document L/3389 which contained detailed explanation on their methods of calculation and

application. He recalled that discretionary licensing in Spain was a residual aspect of the past trade regime system. Since its accession to GATT in 1963, Spain had undergone a continuing process of liberalization of its trade regime. Regarding the modality of issuing, he explained that automatic licences were granted for very short periods of time generally ranging from 24 to 48 hours, while discretionary licensing required preliminary enquiries by the administration. The basic parameters for this enquiry were the maintenance of traditional trade flows without discrimination, and the actual necessity of importing the products in question. For these reasons Spain had not yet signed the Code on Import Licensing, but he pointed out that his authorities were making all efforts to terminate shortly with this licensing regime. He also recalled that since Spain acceded to GATT, the level of binding had increased from 147 positions in 1963 to 1,400 positions after the Tokyo Round. He considered that in a not too distant future, and as a result of further negotiations, about 90 per cent of Spanish tariff positions would be consolidated.

8. The representative of Chile reiterated his view that fish and fishery products were agricultural products, and they should therefore be the subject of notification to the Committee. He also asked under what GATT article Spain would justify its discretionary licensing system. The representative of Spain replied that he was not authorized to discuss fish and fishery products at this moment and recalled that he had explained at length and on various occasions Spain's position on this matter. Turning to the GATT justification on discretionary licensing, he said that this regime was basically covered by the Protocol of Accession of Spain and its clauses.

9. The representative of the United States also expressed appreciation for Spain's submission and for the general introductory remarks illustrating Spanish agricultural policy. He noted that the well known existence of domestic consumption quotas in Spain, such as that on soya bean oil, should be reflected in column 7 of the format. He also considered that the Spanish practice to rebate internal taxes on export goods, including agricultural commodities, and to finance exports of fruit and vegetables, should be notified in the appropriate column of the format, notably column 2. He further noted that in March 1982, the Spanish Government required cigarette manufacturers in Spain to have a minimum domestic leaf content, but no reference to this measure appeared in the format. He also wished to have some clarification on the social charge on meat (CCCN 02.01), and on the operation subsidies granted on poultry exports. Having noted that most agricultural products in Spain were under state trading and must be imported into Spain either directly by the Government or by private importers with Government authorization, he wished to know to what extent the private sector determined quantities to be imported, and how much Government control was involved in importing foreign products. Finally he considered that Spanish agricultural policy offered extensive protection to domestic producers and represented an effective shield against external competition.

10. In his reply, the representative of Spain noted that the question of a domestic quota on soya bean oil was addressed by a GATT panel and was discussed by the Council. He agreed that this measure could have been notified in column 7 with a reference to the relevant GATT documents. He further noted that Spain had explained in detail in document L/3389 its system of rebating internal taxes, in connections with the reservation attached to Spain's participation to the Code of Subsidies and Countervailing Duties. He recalled that his authorities intended to introduce the VAT system in Spain to replace the existing system. He pointed out, however, that this system did not contain any element of subsidization. He stated that the pre-financing system was enforced only for industrial products. He was not well aware of the minimum leaf content requirements, but he noted that US export of tobacco to Spain had increased markedly from US\$27 million in 1972 to US\$57 million in 1982. He stated that the objective of the social charge on meat was that of financing a special regime of social security for agricultural workers. It was charged both on domestic and imported products as required by Article III of the General Agreement.

11. Referring to the questions on State trading, he explained that State trading in Spain operated by tenders open to all importers offering the necessary economic and financial requisites. Referring to the protection granted to the agricultural sector, he recalled that the Spanish Constitution of 1979 embodied, inter alia, the fundamental principle that international agreements entered into by Spain become an integral part of Spanish legislation. This had required a process of modification to adjust domestic legislation to international commitments. He further pointed out that the basic principle governing Spanish trading policy was that of non-discrimination.

12. The representative of the EEC wished to have a clarification regarding the classification of import levies in the Spanish which he understood had been justified under Article III. He also noted that the regime on cheese currently enforced in Spain was based on bilateral quotas maintained since 1966 on a temporary basis under the provisions of Article XIX. He considered therefore, that that should be indicated in the format.

13. The representative of Spain indicated that import levies (MLV) had been notified in the Spanish format with a reference to (e), i.e. measures not explicitly provided for in the General Agreement, and not under Article III. Referring to CCCN 04.04, he said that the representative of the EEC was correct in recalling that measures on cheese were maintained under the provision of Article XIX. He indicated that Spain had invoked this Article several times, the latest being in 1978/79 (document L/4979/Add.1 and Add.2).

14. The representative of New Zealand sought a clarification as to whether there was any regulation in Spain affecting export or import of sheep meat, or otherwise what regime did apply to it. The representative of Spain indicated that in his country all types of meat, including sheep meat, were subject to State trading.

15. The representative of Switzerland took note that the Spanish notification on cheese would be amended in order to make reference to Article XIX. He questioned whether it would be appropriate to notify measures maintained on a temporary basis instead of simply ceasing to invoke the provisions of Article XIX.

16. The representative of Spain noted that duties on cheese were bound and indicated that these products were subject to automatic licensing and that import levies had been introduced following the Spanish invocation of Article XIX. Bilateral quotas had been established thereafter with the principal suppliers. He recognized, therefore, that the Spanish notification on this product could be supplemented by listing in column 15 GATT documents relating to Spain's invocation of Article XIX.

17. The Community representative wished to bring more clarification to this issue. He noted that cheese imports into Spain before 1966 were subject to a liberal regime consisting only of bound duties. In 1966, Spain had invoked Article XIX and entered into negotiations with principal suppliers. In 1970, an agreement was reached which contemplated the establishment of reference prices. Further negotiations started in 1978 and were concluded in 1979. From a legal standpoint, bound duties had remained, but the current trading regime for cheese was based on bilateral quotas which were maintained under the provisions of Article XIX.

18. The Chairman thanked the representative of Spain for the notification and the explanations given.

UNITED STATES (AG/FOR/US/1)

1. The representative of the United States said that his government believed that the work programme of the Committee offered a unique opportunity to examine and illustrate to what extent it attempted to influence trade, and it had a special interest in the end product of the Committee's work, as the United States was a major exporter and a major importer of agricultural products. He believed the task should be to develop as complete a picture as possible of the measures jointly employed to affect international agricultural trade. The measures identified in the United States submission had been developed to protect farmers and preserve domestic agricultural programs. He would not claim the United States to be lily white with regard to its agricultural trade policies. With regard to imports, the Section 22 quotas were clearly designed to protect the domestic dairy programme, but he noted that also other countries used different methods to protect their domestic programs. As many countries, the United States protected the beef industries, and the United States Meat Import Law provided for quotas under certain specified conditions. The US applied import quotas for sugar and a few other price-supported commodities. On the export side, the submission identified government programmes influencing quantities produced and available for export.

2. Most of the existing agricultural support and related import protection measures resulted from programmes and policies developed in the 1930's. During the past few decades, however, the United States had made a strong commitment toward a more market-oriented agricultural production system. Instead of developing policies and programmes which insulated the United States agricultural sector from the effects of the world trading system, the efforts of the government had been directed towards insuring that farmers could compete fairly on the world market, and policies and programmes developed in recent years had been directed towards balancing supply with demand, encouraging trade, improving access to foreign markets, and protecting the producers from predatory trade practices.

3. The United States delegation had attempted to present a submission to complete as possible, but it was willing and prepared to consider any suggestions of improvements and to provide any further explanations.

4. The representative of Canada expressed his appreciation with the high degree of security of access for a large number of products to the United States, but noted that some sectors were still subject to extensive protection due to domestic political pressures and trade-offs. With respect to the existence of the waiver granted to the United States back in the mid-fifties, he said that this affected both exports and imports. The presence of the waiver caused interpretative problems to the administration of other countries, as it was often difficult to explain that some action could not be taken because of obligations under the GATT, when the United States was not obliged to observe the same obligations. The presence of the waiver therefore caused some particular indirect effects. In making some comments of a more

technical nature, he asked for further clarification as to the current application of voluntary restraints notably in the case of beef, and suggested that some indication should be made about on-going legislation providing for the negotiation of voluntary restraints or the imposition of import quotas. With regard to export measures, he noted that the United States was no longer applying direct export subsidies, but was nevertheless making extensive use of subsidized export credit. He inquired whether concessional sales, for instance under PL480, were linked to commercial sales and would be grateful for an indication of products affected. He furthermore noted the reference to Article XXV in the case of import quotas of sugar and asked whether the application of such quotas was done under the waiver.

5. In reply to the latter point, the United States representatives said that the reference to Article XXV was a mistake, as the legal basis for the application of import quotas for sugar was made according to headnote of the United States tariff schedule and was related to a tariff binding on sugar. With regard to the waiver, he pointed out that this covered only a small number of products, which were under support programmes. As to meat imports, he explained that the documentation before the Committee might be out of date. However, it was significant to note that imports had continued to increase. Regarding the question of tied sales, it was necessary to have an indication of concrete examples in order to give a meaningful answer.

6. With respect to the completeness of the documentation the representative of Australia expressed some concern, notably with the coverage of sanitary and phytosanitary regulations and wondered whether the United States notification could be further completed on this point. He also expressed his concern with the classification under (f) in case of measures for which there was no GATT justification, and felt that in the case of sugar quotas, the United States was caught in a sort of dilemma. In the case of exports of dairy products, he felt that a reference to Article XVI was missing, as some exports were made on concessional terms. He furthermore said that Australia had a voluntary export restraint arrangement with the United States, and which was currently in operation. The indication in table that the measures was suspended could therefore not be correct and he noted that certain restrictions on imports of kangaroo products were missing. He had noted that statement by the United States that only the Federal government could implement regulations, and he asked for an explanation of state levies collected on meat imported into California and suggested this to be indicated in the table.

7. The representative of the United States said that if sanitary or phytosanitary measures had been omitted, these could certainly be added. It was also explained that the United States delegation had made extensive notifications under the Licensing Code of all licensing systems applied, including those applied for purposes of administration of sanitary and phytosanitary regulations. He confirmed that California applied an assessment to all meat regardless of origin, foreign or domestic, for market promotion purposes. This tax was currently subject to legal investigation.

8. The representative of Argentina appreciated that the information on licensing applied for the administration of sanitary and phytosanitary regulations had been notified to the GATT, but nevertheless thought it would be useful to include a precise reference to such documentation in the tables. These regulations represented the major obstacle for access to the United States market. He appreciated a fairly complete notification of export assistance, notably the special export credit facilities which applied to a range of products such as eggs, poultry, grains, flour and meat, and noted that these measures had been classified under (f) but that no justification had been provided under the GATT. He supported the views expressed by Canada with respect to the waiver granted to the United States, an important matter which ought to be subject to further consideration by the Committee. Finally, he queried why a reference to Article XVI was not made in the case of a price support on honey.

9. With regard to sanitary regulations, the United States representative repeated that all the information was available in the secretariat, and that it was of course to avoid a cluttering up of the documentation that an indication of the application of such measures had been made only for some products. As to the waiver granted to the United States, he said that the United States could not renounce on its rights acquired in this respect as long as nearly all other countries applied protective measures for similar purposes. Furthermore, the measures taken under the waiver were subject to regular reviews in a working party. The price support for honey was not only benefitting United States producers, but also producers in other countries such as Argentina, Canada and China, and was not accompanied by any measures on imports, but a change in the legislation on this point was being considered. However, following an explanation given by the secretariat, he agreed that the measure could be notified pursuant to Article XVI:1. As to the classification under (f) of the application of the Export Credit Guarantee Programme and concessional sales under PL480, he said this was done because it was felt that these measures fell outside the General Agreement.

10. Also the Japanese representative had some difficulty in understanding the rationale provided for maintaining the waiver by the United States, as well as the import quotas on sugar. He also expressed concerns with the effects caused by the implementation of the United States Meat Import Law. He finally suggested that the Committee at some stage entered into a discussion of all types of restrictions affecting agricultural trade, and notably measures maintained by the United States under the waiver and the system of variable levies applied by the European Communities.

11. In a reply to these comments, the United States representative reiterated that the measures taken under Section 22 and in conformity with the waiver were necessary to prevent interference with governmental programmes for certain commodities and to prevent market displacement of such commodities. Major reasons why the United States could not adopt alternative measures was the general application by other countries of State trading, export subsidies, quantitative restrictions and levies.

In reply to the comments by Japan about the Meat Law, he recalled that this legislation had been in force since 1964, and for only a period of three months import quotas had been applied; but as long as other countries did not open up for greater meat imports the Law was necessary.

12. The representative of Chile joined other speakers in appreciating the extensive use of tariff bindings made by the United States. He also supported the criticism of the maintenance of the waiver by the United States, and raised a question about the results achieved notably in the dairy sector. A continuation of the waiver meant the persistence of a serious imbalance between contracting parties with respect to rights and obligations, resulting in a situation far from equitable. The rationale for granting the waiver was no longer fully relevant, and he urged the United States to renounce on this privilege. He also supported the comments made by others about notification and justification of certain measures affecting exports. Concerning fish, he regretted that this group of products was omitted in the notification and invited the United States to provide the relevant information also for fish. In reply to this point, the United States representative explained that fish was not the competence of the US Department of Agriculture and he did not feel it mandatory to notify for fish, but he would pass on the request by Chile to his authorities and try to provide the information also for fish. In reply to a question about imports of table grapes, he explained that under the Agricultural Marketing Agreement Act, marketing orders were applied to prevent a distortion of the market by offers of low quality grapes or sour grapes. The regulations did not, however, affect imports from Chile which consisted of high quality grapes.

13. The New Zealand representative thanked the United States for the information submitted, for the explanations given and was pleased to learn about the determination to move towards greater trade liberalization. He recognized that there was a substantial degree of access for meat to the United States market and quantities involved were considerable, but noted that the Meat Import Law in effect placed a limit to the amount of meat that might enter that market in any given year although the ceiling was relatively high and he would appreciate this to be made clear in the notification. He furthermore suggested that the application of dairy price supports should also be indicated as affecting exports, as the measures were susceptible to influence international trade. He also wondered whether it would not be appropriate to indicate State trading for dairy exports, as some concessional sales had occasionally been made by a governmental institution. In regard to having a more complete notification of sanitary and phytosanitary measures, he suggested to proceed on the basis of reverse notifications. He similarly wanted some problems related to the nomenclature for fish to be indicated in the tables. He had noted the information given by the United States about imports of meat into California, but wanted to retain the possibility to examine the matter a bit further, as the response given did not seem to be exhaustive. New Zealand exporters also had some problems with United States species verification requirements. He signaled a problem related

to the United States notion of spring lamb which might be included in reverse notifications against the United States. Finally, he inquired about promotional assistance provided to agricultural exports by the United States Government, and would appreciate such measures to be notified not least for the purpose of transparency.

14. The United States could agree to the suggestion made by New Zealand concerning notification procedure for sanitary measures, and would try to provide any further information required by the Committee. With respect to general measures that had been indicated as affecting exports or imports, it was explained that this was based on a judgement as to what was mainly affected, and it should not be too difficult to indicate some measures as affecting both exports and imports.

15. The representative of the European Communities suggested that the United States followed the example of Canada and provided the requested information on fish in an annex to the document. With respect to sanitary regulations, he could support the suggestion made by New Zealand, but he stressed that it was important that the United States notified such measures applied to meat, fruit and vegetables. He appreciated the mention in the general note that the United States had not found it necessary to take particular measures in order to fulfill its obligations under the International Dairy Arrangement, but he regretted that these obligations had not been met by the United States. With respect to the use of specific symbols used in the tables, he would appreciate an explanation. He furthermore suggested that certain support measures should be indicated for instance in columns 2 and 14, this should in particular apply to various Marketing Orders, and federal aid to investments, e.g. in the poultry sector. He also mentioned a federal programme to support alcohol production and that had a significant effect on the export price of waste from that industry, such as gluten feed and isoglucose, and which resulted in problems in these markets. With respect to transactions by the Commodity Credit Corporation he felt that these should be indicated as State trading and export credit facilities were clearly assistance to exports and should have been classified as such. He had taken note of the explanations given concerning the waiver granted to the United States, but he stressed that the examination of the waiver was one the major subject to be dealt with by the Committee and felt it to be unfortunate that this point had been incorporated in the general examination of measures affecting access and supplies, and also pointed out that in the Ministerial Declaration the examination of the waiver had been a separate major point. He also felt that the special tariff nomenclature used by the United States and the conversion of this into CCCN, could have resulted in a somewhat false picture.

16. In reply to the latter comment, the United States representative pointed out that according to United States tariff nomenclature between 93 and 94 per cent of all tariff lines were bound, compared with 60 per cent for the Community. He had noted the Community suggestion to include sanitary measures for meat, fruit and vegetables, but explained that his delegation has followed the instructions given by the

secretariat on this point. With respect to what the Community had said about fulfilling obligations under the International Dairy Arrangement, he felt that the United States had not contravened any of the provisions of that arrangement. Regarding subsidy or aid to the alcohol industry this was being phased out and would soon be terminated, and there was no aid to poultry exports or support to investment in that sector.

17. The representative of Kenya expressed a general concern with erosion in GSP concessions and referred to the tariff treatment of nutmeg in the United States for which there was a binding at zero, yet there was a GSP. He suggested that in such cases the item could be delated from the GSP list as the GSP obviously was without any value whatsoever. The United States representative explained that the tariffs rates shown were those to be applied as from 1 January 1987, and GSP treatment could still mean on advantage for some time.

18. In closing the examination of the United States notification, the Chairman noted that the Committee had also entered into a discussion of measures maintained under exceptions or derogations which indeed was a separate point in the Ministerial Declaration. He observed that this examination would of course also cover measures maintained under derogation by other countries.

FINLAND (AG/FOR/FIN/1)

1. When introducing the documentation concerning his country, the representative of Finland recalled some special characteristics and problems of Finnish agriculture such as a comparatively large agricultural population, small farm size, a rapid structural change in recent years and a domination of animal production (which accounted for 80 per cent of the production value), especially dairy production, due to climatic and geographical conditions.
2. The main objective of Finnish agricultural policies was to safeguard a sufficient level of self-sufficiency for basic food products, for reasons of supply security, and for regional, social and employment policy considerations. Agricultural policy formed a whole, and export and import measures had to be looked at from that perspective. The official policy of the Government was to limit production to domestic needs and not to aim at establishing a permanent capacity to export. Various measures were applied to keep the production of a number of products within fixed limits and measures had been taken to increase domestic consumption notably of milk and other dairy products. The Finnish trade deficit for agricultural products amounted to almost 600 million US dollars.
3. Target prices to producers were fixed annually, taking account, inter alia, of the market situation. These prices had to be protected through import measures, and for that purpose, customs duties, variable levies and quantitative restrictions were used.
4. Imports of most agricultural products were subject to ad valorem duties and in addition, quantitative import restrictions were applied to a number of products. Imports of the most important farm products such as meat and dairy products were subject to variable levies which in principle covered the difference between the domestic price and the world market price. Export subsidies were also used to cover the difference between the domestic price and the price in export markets, although fixed subsidies were occasionally made use of. Export prices had to be accepted by the authorities when export subsidies were granted. The agricultural sector itself covered about one third of the expenses of such subsidies, through marketing fees and taxes on feed and fertilizers. According to the Agricultural Price Act the agricultural sector must cover the cost involved in the marketing of any production in excess of certain ceilings. Anyhow, the measures applied could not disturb world markets in view of the relatively small size of the Finnish production.
5. The representative of the European Communities noted that quantitative restrictions applying to all agricultural products had been classified as (f) and that no GATT reference had been indicated for these measures. He asked what was the justification under the GATT for these measures, for instance whether reference could be made to Article XI or to a grandfather clause. He had also noted that certain products were subject to state-trading and that these products were exported with export subsidies and at export prices to be accepted by the Government.

6. The representative of Finland answered that it was not correct to say that imports of all agricultural products were subject to quantitative restrictions. These measures had been classified as (f) following advice given by the secretariat in document AG/W/2. The restrictions dated back to times when all imports had been under licence. These import restrictions were necessary to safeguard the enforcement of national agricultural policy, including restriction on production. In some cases it was for similar reasons necessary to have a combination of licensing and variable levies. However, with respect to variable levies he stressed that these were not changed very often (as a rule, once a month) and were for practical purposes considered to be closer to unbound duties than variable levies per se. Concerning state-trading, the Finnish representative said that exports and imports of products containing alcohol (more than 2.5 per cent) were controlled by the alcohol monopoly, but private firms could export or import with permission from the monopoly. For grains, the State granary was the sole importer and/or exporter. If subsidies were granted on exports, the export price had to be accepted or confirmed by the authorities, in order to prevent exports from being made at artificially low prices.

7. The Community representative inquired whether eggs and cheese were subject to state-trading. The Finnish representative explained that the trade in cheese was in private hands, but that a very big share was handled by a dairy cooperative, which had a dominant position in the domestic market. Neither was the trade in eggs subject to state-trading.

8. The representative of Chile insisted on having a justification of quantitative restrictions with exact reference to GATT provisions. The representative of Finland stressed that it would be more useful for the examination to concentrate on the measures themselves and their motivation than to engage in a purely legal discussion. Anyhow, there was a wide and longstanding political consensus in Finland in favour of the present agricultural policy, and the Finnish Government had neither the will nor the possibility to act against this consensus. In reply to a question from the representative of Chile about internal taxes, the Finnish representative explained that those taxes were applied to all products, both of domestic and foreign origin, and that the reference to GATT Article III was to be understood in that sense. He also explained that various import restrictions were applied for quality control reasons and that a reference to Article XX:b was consequently appropriate. In reply to a further question about export subsidies and export refunds, the Finnish representative confirmed that the relevant GATT reference was Article XVI also in the case of processed products, as in the latter case the refund was granted on the primary product component.

9. The representative of Chile expressed his disappointment with the replies with respect to justifying quantitative restrictions under specific GATT provisions, and reserved his right to revert to the matter in the Group on Quantitative Restrictions. The Finnish representative repeated the points he had made in his earlier statements and referred to the motivations given to the measures, which were necessary for the conduct of domestic agricultural policy. He felt that he had amply explained and justified the measures applied by his Government.

10. The representatives of Argentina and Canada shared the views expressed by Chile on justification of quantitative restrictions and wanted to see a justification of those. In a reply to a question about an internal tax on grape must the Finnish representative explained that for certain products, there was a tax, which was applied to both imported and domestic products. He rejected the contention by the representative of Argentina, that seasonal restrictions on fruit were in fact a prohibition. Imports were under licence for a certain period of the year, but licences were granted also during that period, and for the rest of the year imports were free. He also contested that the notification with respect to state-trading of alcohol was incomplete. The activity of the alcohol monopoly, which operated in a businesslike manner, had been regularly notified pursuant to the provision of Article XVII. The Argentina representative wanted an explanation why only 5 per cent of sugar imports came from developing countries. The Finnish representative replied that Finland covered roughly one half of its sugar requirements by imports, mainly through imports from developing countries with Cuba as the major supplier. In reply to a question from the representative of Argentina, the Finnish representative said that it was wrong to say that only a small percentage of Finnish fruit imports came from developing countries, referring to the fact that Finland had progressively lowered barriers to imports of tropical products, in particular, during the Tokyo Round negotiations.

11. The United States representative inquired about the comprehensive nature of the Finnish import regulations and how this was related to adjustments in target prices. In reply to this the Finnish representative referred to the introductory notes in the notification and explained that of course a number of factors were taken into account when target prices were fixed, not least by aiming at orienting the production by changing the price ratios between products. In reply to a question about the price relationship between butter and margarine, he said that in order to encourage butter consumption, the ratio between the prices of butter and margarine was kept constant. The efforts made to promote the consumption of milk and dairy products had resulted in Finnish consumption of these products now being among the highest in the world.

12. The New Zealand representative suggested that various types of price support, deficiency payments and production subsidies should have been more fully reflected in columns 2 and 14 of the notification. The representative of Finland considered this to be a question too broad to be dealt with on this occasion, and emphasized once more that the various measures in the agricultural policy constituted one integral whole. In reply to a comment by the representative of Switzerland on the low level of cheese imports, the Finnish representative said that imports of cheese, although still small, were increasing. The level of imports was affected by such factors as consumer tastes, tradition and food habits, and developments therefore were necessarily slow.

13. The Chairman thanked the Finnish representative for the notification and the answers given. He noted that the discussion had brought out that there was a relationship between domestic policies and trade regulations.

HUNGARY (AG/FOR/HUN/1 and Rev.1)

1. The representative of Hungary expressed his appreciation of the opportunity to explain the main features of Hungary's agricultural system and policies. He was also appreciative of the fact that his task would be facilitated by the presence of experts who would introduce the documentation.

2. At the outset it was pointed out that agriculture in Hungary was both a very traditional and a relatively developed sector of the economy. Hungary benefitted from relatively favourable natural conditions and climate for plant cultivation, including cereals, fruits, grapes and vegetables. In 1983 an enormous drought had, however, caused disastrous crop losses. The share of the value of agricultural production in the Hungarian GDP was nearly 18 per cent. More than 20 per cent of the total Hungarian labour force was employed in the agricultural sector. Imports of agricultural products account for more than 9 per cent of Hungary's total imports. These included mostly high protein animal feedstuffs, beverages, like coffee, tea and cocoa, and tropical fruits. In exports, the share of agricultural products amounted to 25 per cent of the total. Hungary was a net exporter of agricultural products, including meat, cereals, fruits and vegetables. That was why Hungary had a keen interest in the work of this Committee which task was defined by the Ministers last November as: "... to make recommendations with a view to achieving greater liberalization in the trade of agricultural products with respect to tariffs and non-tariff measures".

3. The representative of Hungary stated that 72 per cent of the total land area was cultivated agricultural land. In value terms, plant cultivation accounts for 52 per cent, while animal husbandry accounts for 48 per cent of production. The most important products in overall production were: wheat with a 7.2 per cent share, maize (11,04%), cattle (14.8%), pigs (17.4%), and poultry with a 12.5% share.

4. He explained that in Hungary, agricultural production was largely socialized. At present, about 99 per cent of the total cultivated land area was in the possession of State farms or agricultural co-operatives. There were 129 State farms and more than 1,400 agricultural co-operatives in the country. Agricultural workers in State farms or in agricultural co-operatives usually receive private plots where they might produce any kind of agricultural product for their own use or for free sale. Of course, not only plant cultivation but animal husbandry could be carried out privately. Taking this into account, about 30 per cent of the total agricultural production came from private plots and from other private farms. This was a very important contribution to the country's agricultural production, mainly in the field of animal husbandry. That was why, the Government supported private agricultural production by granting different tax incentives and price rebates for the purchase of agricultural machinery, fertilizers and certain chemicals for use in agriculture.

5. Agricultural production in Hungary in recent years had experienced a very rapid and dynamic growth. Taking the 1970 production value as 100 per cent, by 1982 agricultural output stood at 155 (in which plant cultivation accounted for 60 per cent and animal husbandry for 51 per cent of the growth).

6. Per caput production of grains was now above 1,400 kg. (of which wheat 560 kg, maize 770 kg) while production of meat stood at 120 kg and that of wine at 68 litres.

7. The main objectives of the Hungarian agricultural policy were: the rational utilization of lands, the technological development of production, to assure a general level of incomes for the agricultural population, to safeguard the supply of the Hungarian population with agricultural products, to modify the structure of consumption, where necessary, and to make agricultural production more efficient.

8. Given the above-mentioned objectives, the Government applied a general support policy in the field of agriculture. The support programmes were mainly used in the field of animal husbandry by applying different domestic subsidies or price supports as indicated in the Hungarian notification. There were also some other kinds of income supports in force.

- there was a so-called regional support for those agricultural producers where the quality and value of the cultivated lands is very low; they may receive a regional support for their agricultural production to equalize their unfavourable natural endowments;
- there exists a support for ameliorating bad-quality lands with special technology; this support may be between 30 and 70 per cent of the value of the total investment;
- chemical fertilizers and other agricultural chemicals (like pesticides) may be purchased with price rebates;
- the non-commercial credit system which is indicated in the relevant tariff positions in the Hungarian notification is functioning by refunding a part of the interest rates, which means that when the investment is finished and credit is used up, 2 to 4 per cent of the interest rate is refunded to the investor. At present, while the general investment credit interest rate level is 14-15 per cent in some agricultural fields, the investment credit may be granted with a 10-11 per cent interest rate;
- finally, as indicated, specified product groups received an export subsidy; the level of the export subsidy was 8 per cent at present.

9. He said that when Hungary entered the international market with usually good quality, competitive agricultural products, they were forced by other competitors to grant export subsidies in respect of certain product groups and this is a matter of great concern to them. When one analysed recent trends in the international agricultural market and the trade flows generated one could see that enormous sums for subsidies were granted to exports by major traders in this field. While Hungary was fairly competitive in agriculture in terms of the quality of its products, Hungary could not be competitive in terms of export subsidies. He thought that most of the smaller countries could not afford in the long-run, competition in the subsidy field. It was their hope that the Committee would be able to arrive at some positive conclusions in regard to that problem.

10. Before concluding the introductory remarks, the representative of Hungary also provided some technical corrections to the documentation on Hungary that was before the Committee. As regards column 2 of the format - Subsidies - there were two instances where export subsidies were indicated but none existed, while in two other cases no subsidy was indicated but did exist. Export subsidies were granted for position 08.11 and 11.05. On the other hand the export subsidy entries should be deleted against heading 15.07 and 23.04. Finally, as a more general comment, he said that the secretariat paper AG/FOR/W/HUN/1/Add.1 stated that the Hungarian submission covered 87 CCCN four-digit headings only. This was not correct. It was the intention of the Hungarian authorities to submit a complete notification and the revised version of the format that was before the Committee represented a complete notification in respect of all the products covered by CCCN Chapters 1 through 24.

11. The Community representative stated that he was inviting replies or comments on a number of specific points: 1) Why was information supplied only on products for which imports exceeded 1 million US dollars? 2) In view of the fact that the general explanatory note stated that all exports and all imports were subject to licensing why was that fact not reflected throughout columns 5 and 10 of the format? The omission of certain entries in these two columns also implied that in column 16 there appeared no reference to the relevant GATT provisions - and it would, of course, be interesting to know the GATT justification proposed by Hungary. 3) He said that in the section of the format relating to measures affecting imports there should also be a reference to subsidies where measures of the nature covered by Article XVI exist,

as these subsidies or assistance measures would affect not only production or exports but also imports. This was a point which had been recognized in the submission by the EEC and had also been raised by members of the Committee in respect of certain other submissions and 4), State trading activities should, of course, also be reflected in the respective format columns since it was undeniable that State trading did exist in Hungary.

12. The representative of Hungary explained that the revised version of Hungary's submission, AG/FOR/HUN/1/Rev.1 now covered all of the headings in Chapters 1-24. As regards points 2 and 4 - which could be treated together - it was relevant to draw the attention of the Committee to Hungary's Protocol of Accession which dated back to 1973. At that time it was clearly noted that all exports and imports were subject to licensing, that the licensing system was non-discriminatory, and that possession of a licence automatically entitled an importer to the necessary foreign exchange and that an enterprise having been granted a licence had the right to use it for import. It had also been explained at that time that it was the intention of the Hungarian authorities to pursue a liberal practice, provided that balance-of-payments considerations permitted and provided that no discriminatory quantitative restrictions would be applied by contracting parties against Hungary. In other words, the existence of Hungary's licensing system as well as the principle of State trading had been clearly recognized by contracting parties at the time of Hungary's accession, and the operation of the State trading system had been fully elucidated by the memorandum submitted by Hungary on its Foreign Trade Regime and also by the answers provided by Hungary in reply to the specific questions that had been put to them. The Working Party on the Accession of Hungary had at that time considered "that the Hungarian trading system had to be examined in the light of the existing system of economic management in Hungary of which the adoption, as of 1 January 1968, of a customs' tariff was an integral part". Further, as regards the question of State-trading the Hungarian delegation had noted with great interest the explanations provided by several other delegations regarding their agricultural sector and the operation of their marketing systems. In fact, one could pose oneself the question which were the countries with State monopolies and certainly it was not Hungary which had a monopoly of State trading. As he had pointed out, Hungary's system of economic management had been fully described at the time of accession, was well known to all contracting parties and also continued to be under constant scrutiny in the IMF. There would thus be little use in going over all the details again in this Committee. Finally, in relation to the fourth point made by the representative of the EEC, Hungary had not inscribed the symbol "ST" in the format because in the way the system worked, with trading enterprises being largely independent (regular State-trading activities being limited to purchases for the Administration), it could not be considered as a form of State trading in the sense ordinarily understood in the context of GATT. This having been said, Hungary was, of course, prepared to reply to specific questions concerning the way its foreign trade regime worked, while - on the other hand - it would be inappropriate to question the system as such. As regards the question of subsidies, this was an interesting

subject. For example, how did research programmes, training programmes or temporary assistance granted to a cooperative in need, affect the level of production and trade? But then the same question could be asked about tax relief measures and general fiscal and tax policies and their possible incidence on the cost and level of production, none of which was very clear. Hungary would certainly be prepared to study these questions together with other interested countries.

13. The Community representative felt that all relevant measures should be inscribed in the format for the reason of transparency. For example in regard to State trading, if the symbol "ST" was thought to be inappropriate by Hungary another symbol should be devised and inscribed and this quite independently of the fact that Hungary's reading of the provisions of Article XVII might be different from that of other countries. He hoped therefore that a second revision of the format tables for Hungary would contain all the relevant indications so as to achieve the necessary transparency.

14. The representative of Hungary stated that whatever the interpretation of the provisions of Article XVII might be, the quintessence was whether the system was discriminatory or not. It could not be assumed that simply because State trading provisions existed in a given country that there would automatically be discrimination. Certainly, in Hungary trading enterprises were held not to operate in a discriminatory manner. As regards the identification of licensing in the format, Hungary could go along with the suggestion made to enter these into the tables. This licensing had generally been a mere formality and it was only since 1982 that the granting of licences also had to reflect the country's balance-of-payments difficulties. The measures had been communicated and would also be examined in GATT.

15. The Community representative agreed that the quintessence of Article XVII:1(a) was the principle of non-discriminatory treatment, what he was questioning was whether conditions for implementing this principle, as set out in Article XVII:1(b), were fully met in Hungary or whether there did not exist organizations or enterprises with special powers and privileges. To be more specific, and without wishing to enter into the legal aspects of the question, or to reach a judgement, he would be interested to know whether a foreign private enterprise or individual could, in fact, enter the Hungarian market and sell directly to Hungarian enterprises or buy from cooperatives or peasants.

16. The representative of Hungary stated that to be very clear about the operation of the Hungarian system one had to realize that foreign trade was a State monopoly and that the foreign trade enterprises had to follow certain rules, rules which were in conformity with Article XVII. While the foreign trade enterprises were held to follow the rules, there existed very many enterprises and it was always possible that one or the

other enterprise might not always act in full conformity with Article XVII. It would, however, not be right to construct, on the basis of certain individual experiences, an abstract understanding of how Hungary's foreign trade system for agricultural products worked. As regards the State Monopoly itself, the rules which were published and which had been accepted by contracting parties under the Protocol of Accession, it would be noted that Hungary managed its foreign-trade system in a manner in which all enterprises had direct access to foreign markets, buying and selling in foreign markets, and that there were even foreign enterprises which had been licensed and which had installed themselves in the Hungarian market.

17. The representative of the United States stated that his authorities shared the belief that the State trading system operated by Hungary should be identified in the format tables. It was the understanding of the United States that in Hungary most, if not all, exports or imports were handled, or had to be authorized, by State agencies and this too should be noted in the format. Further, as regards the reference to licensing requirements only in the form of a short headnote to AG/FOR/HUN/1/Rev.1, it was impossible to tell from the format how the licensing system does, in fact, operate. What were the criteria for granting licences, how were they issued? As regards tariffs, he noted that so far Hungary had given bindings only on a small number of products. While this might perhaps be a reflection of Hungary having been in the GATT for a relatively short time, it was the hope of the United States that there would be more, and meaningful concessions. More specifically, he would also be interested in knowing whether there did not exist quotas, for instance, for fruits and vegetables - and, if so, this should be noted in the format. Finally, did there exist a mechanism in the Hungarian production system for making it responsive to market developments in supply and demand?

18. The representative of Hungary stated that all the general aspects of Hungary's trade and production system had been fully discussed during the six years of scrutiny preceding Hungary's accession to the GATT. There was little, if anything, that he could add to the finding of the Working Party on the Accession of Romania that "the Hungarian trading system had to be examined in the light of the existing system of economic management in Hungary..." Given the invitation extended to him by the United States, and by the Chairman to reiterate explanations already provided elsewhere, he could assure the Committee that the operation of Hungary's licensing system, and the exact way it worked, had been notified to the Committee on Import Licensing, and any quotas that existed were published; there were only few quotas affecting agricultural products and those that existed had been identified in the format. As far as tariff concessions on agricultural products were concerned, their number and level reflected what could be achieved on the basis of bargaining for reciprocally advantageous concessions. If any contracting party wished Hungary to grant tariff concessions on additional positions, Hungary was prepared to discuss this with the interested parties.

19. The representative of the United States thanked for the explanations provided. He said that as this was a new exercise, it was important to achieve not only transparency but also to get on record the perception which other contracting parties had of the operation and effect of the different trading systems. This was very important, and the impression which the United States had was that Hungary operated a State trading system. They felt this should be noted without prejudice to legal rights or obligations. As regards the information required for column 2 of the format, the United States would be interested to know how producer prices were determined in Hungary.

20. The representative of Hungary explained that the Hungarian price system was regulated via the exchange rate. The exchange rate had been examined by the International Monetary Fund. Prices of imports were converted into the local currency at the ruling exchange rate, which itself changed from week to week, or even more frequently. As far as prices charged by State farms and by private farms were concerned these were set by the farms themselves based on their respective cost of production. At the same time it was true that for social reasons the State determined consumer prices for certain staple commodities, such as sugar and bread, and to guarantee that price provided, if necessary, consumption subsidies. The State did, however, try to limit such subsidy payments and for that purpose adjusted consumer prices to reflect developments in supply and demand. And, unfortunately, this had lately required an increase in the consumer prices for sugar and for bread. The representative of Hungary stated that they could provide relevant documentation on prices of agricultural products in Hungary if other delegations were interested.

21. The representative of the United States thanked for the additional information. He enquired whether their understanding was correct that where no entry of "XS" appeared in column 2 of the format the price received by farmers for exports would be the world market price. Given the fact, that for sugar there was an indication of XS (export subsidy) how was the internal price for sugar determined.

22. The representative of Hungary explained that the question involved two types of possible subsidies - one, a consumption subsidy - and two, export subsidies. As regards the latter, Hungary had to give a subsidy if it wanted to export at the so-called world market price which resulted from huge subsidies being granted by some major producers. This subsidization was a matter of great concern to Hungary and he wished very much that the Committee should address the question and the problems which subsidization practices raised for countries like his own. The other element was the question of consumer subsidies and here the comparison should not be in relation to the world market price, distorted by subsidies, but with true market prices, resulting from the interplay of true cost of production and true demand.

23. The representative of the United States explained that they were interested in the way producer prices were set. For instance, when the target producer price (or support price) was above the world market price was this not a case of subsidization, and if so should it not be noted in columns 2 and 14 of the format?

24. The representative of Hungary explained that there were no support prices in Hungary nor did they have an institutionalized system of export subsidies. Instances where export subsidies were granted were, in practice, decided upon case by case, on the basis of the merits of each case. The first element that was taken into account was not any fixed price but the cost of production. The cost of production was then calculated in relation to the exchange rate and then compared with the so-called world market price. When the cost of production in Hungary and the world market price differed, two conclusions were possible 1) that the world market price was too low for reasons which had little to do with the true costs of production, in which case, Hungary might grant an export subsidy - the subsidy ratio had recently averaged about 8 per cent - or 2) the cost of production in Hungary was too high in comparison with true market prices, in which case the producers would be advised to get out of those lines of production in which they were not competitive. In other words there was no automatic or institutionalized recourse to export subsidies. He said that Hungary had been advised by some institutions to devalue and thereby make the subsidy disappear. However, the question of revaluation or devaluation was not a question for discussion in this Committee, and the reference to this subject here was, in fact, prompted only by the desire to provide some clarification of and insight into the operation of Hungary's agricultural trade.

25. The representative of the United States thanked the Hungarian delegation for these clarifications and asked that the very interesting remarks be fully reflected in the minutes.

26. The representative of Kenya enquired about the rationale behind the application of phyto-sanitary regulations for coffee (09.01) as noted in the format. The representative of Hungary stated that they would check into this matter and report back at a later stage.

27. The representative of Canada said that he shared the views expressed on the need for full notifications, including also on Statetrading, even if the measures had been notified earlier in other contexts. The need to look up various documents dating back some time was a laborious task and he felt that countries should not hesitate to notify measures relevant for this exercise since the simple fact of notification was without prejudice to the legal status of the measures within the GATT. On a specific point, he noted that the subsidy measures against heading 04.02 had not been related to Article XVI but had only been referenced to the International Dairy Arrangement. He said this was perhaps just an omission.

28. The representative of Hungary, in his concluding remarks, said that Hungary was not averse to notifying measures concerning Hungary's agricultural trade and they would consider - in the light also of the notifications by other countries - what other specific measures should be notified. Hungary was, however, not prepared to engage again and again, and in this Committee, in a discussion of the general nature of its trading system, a question which had since long been settled.

29. The Chairman thanked the representative of Hungary for the notification and the explanations provided.