Measures of Agricultural Protection in Major Markets - An Analysis of Selected Products

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STATISTICAL TABLES

CHAPTER 1

Introduction

1. Increasing protectionism is widely recognised as one of the principal dangers to world economic health, and in particular as a major obstacle to the prospects of growth for developing countries. Both the Report of the Independent Commission on International Development Issues and The World Economic Crisis devote considerable attention to the adverse effects of protectionism on trade, production, consumption and employment in both developed and developing economies.[1,2] While, under the General Agreement on Tariffs and Trade's Kennedy and Tokyo Rounds of multilateral trade negotiations, and more particularly through the adoption by the developed economies of a series of Generalised Schemes of Preference, much liberalisation of trade for industrial goods has taken place, little has been achieved in liberalising developing countries' trade in agricultural products. Restrictions on agricultural trade can be far more severe than on industrial products, particularly in the form of non-tariff barriers which frequently correspond to tariff equivalents of well over 100 per cent. There is evidence moreover that protectionism has been increasing over recent years in a number of major traded agricultural commodities, including - among products where developing countries are adversely affected - sugar, beef and oilseeds.

2. Non-competing goods, such as tropical food products and raw materials do not challenge domestic products in the markets of developed countries, and in general are liberally treated by importing countries. However, while at the raw material stage there are few or minor barriers for these products, at stages of further processing tariffs tend to increase (tariff escalation) or non-tariff barriers come into greater prominence. These obstacles to access to markets are among the more important constraints faced by developing countries endeavouring to build up

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1. Independent Commission on International Development Issues, North-South: A Programme for Survival, 1980, Pan Books.
2. The World Economic Crisis, a Commonwealth Perspective, Commonwealth Secretariat, 1980.

their processing industries.

3. Competing goods, i.e. products in which there is direct competition for exports from developing countries with the domestic products of developed countries, are faced not only by direct trade barriers such as tariffs, levies or quotas, but also by a multiplicity of measures introduced to support or give incentive to domestic producers. The long existence of such protectionist measures reflects in part deeper motivations, for example, the maintenance of self-sufficiency and preservation of national security: sociological and environmental considerations also play a part. Exemptions in the GATT rules allow the imposition of import restrictions on agricultural or fisheries products "necessary to the enforcement of governmental measures", a major loophole for constraints on imports as a means of support for domestic programmes to raise farm prices or incomes.

4. For an indication of the extent of agricultural protection a Swedish study[1] may be quoted, which concluded that "an intricate system of tariffs, non-tariff barriers and subsidies resulted in an average level of agricultural protection of almost 70 per cent for the European Economic Community, 80 per cent for Sweden, 102 per cent for Norway and 103 per cent for Switzerland" during the early 1970s. Further, when compared with levels twenty years earlier, it was found that protection of the agricultural sector in many developed countries had increased. However, in contrast, in the low-cost efficient producers of agricultural goods, for example, the United States of America, Australia and New Zealand, the levels of agricultural protection in total were lower than those for industrial protection.

5. Many developing countries are heavily dependent upon receipts from the exportation of agricultural materials and food. In Sri Lanka, for example, over 80 per cent of total exports are accounted

1. Odd Gulbrandsen and Assar Lindbeck, The Economics of the Agricultural Sector, Almquist and Wicksell, 1975.

for by food and agricultural materials, while in Uganda and Western Samoa the percentage is even higher.[1] Further, the trade pattern of some developed Commonwealth countries, for example, Australia and New Zealand is influenced by the ability to export agricultural products.

6. This paper reviews in a factual way certain measures of agricultural protection that have been applied in some of the important markets for agricultural goods. However, in view of the extent and complexity of the measures, fully comprehensive treatment is not possible. Nor is it the intention to discuss the rationale of these measures or of agricultural protectionism per se although, obviously, the measures taken must be viewed within the overall agricultural policies of countries' or trading blocs.

7. Although prominence is usually given to the import control measures imposed by significant developed economy markets there are other departures from full liberalisation of trade to which this paper aims attention where they are of importance for agricultural products. Where relevant, occasional reference is made to import duties by developing countries. Export taxes are discussed in those cases where they have been introduced in such a way as to counter tariff escalation of importing countries. Those international commodity agreements, which impose export quotas merit consideration too since they can tend to preserve the status quo and discriminate, in some instances, against more efficient producers.

8. In such an examination of measures of agricultural protection there exists some formal difficulty with respect to the extent to which processed products should be considered in the analysis. Since tariff escalation is a major problem for many developing countries attempting to industrialise through the processing of agricultural products, cognisance must be taken of the extent to which barriers are mounted with increasing severity

1. United Nations Committee on Trade and Development, Handbook of International Trade and Development Statistics, Supplement 1977.

vis-a-vis the degree of processing. Virtually all products are subject to some forms of processing, liberally interpreted, before export; however the degree of processing varies. A pragmatic approach has been adopted here, having regard to the form in which the products are internationally traded: in general terms early stages of processing have been included, for example, refined sugar, roasted coffee, and refined vegetable oils, while more advanced stages have been excluded, for example, chocolates.

9. A wide range of measures operate to give protection to agricultural products. Tariff barriers are the easiest to identify. However, for a variety of purposes, governments have resorted in addition to non-tariff barriers. The General Agreement on Tariffs and Trade has, for example, isolated over eight hundred forms of non-tariff barriers which impinge, to some extent, on trade. These can be classified into five major groups: (a) charges on imports, including variable levies, prior deposits, special duties on imports and internal taxes; (b) specific limitations on trade including quantitative restrictions, voluntary export restraints, health and sanitary regulations, licensing, embargoes and minimum price regulations; (c) customs and administrative procedures including customs valuations, customs classification, anti-dumping duties, consular and customs formalities and sample requirements; (d) government interventions through government procurement, state trading, barriers, countervailing duties and trade diversion/deflection aid; and (e) specific standards including packaging, labelling and market regulations, health and safety standards and industrial standards. Other direct or indirect measures, often introduced by governments which result in supporting or insulating domestic prices are also considered.

10. To understand the extent of agricultural protection in order to assess its incidence in developed economy markets, it is necessary to try and quantify the dimensions of protectionism in agricultural and processed agricultural commodities. Whilst the wide variety of measures applied throughout the world makes quantification difficult some assessment is possible by use of one or more of the following methods. These are to compare

producer prices with representative world market prices; to estimate the impact of protectionism on domestic producers and consumers and on the volume of trade; to estimate the extent of effective protection enjoyed by processing industries in developed countries; and to estimate the extent to which the foreign earnings of developing countries are affected by the support measures applied by developed countries.

11. Differences between Domestic Prices and World Prices. The ad valorem tariff equivalent remains the easiest indicator of agricultural protectionism and is simply the percentage by which the domestic producer price exceeds the price at which the produce can be bought or sold on the world market after allowances have been made for transport costs, insurance, etc. The assumption behind the indicator is that the divergence is the result of the aggregate of protectionist measures. Although the results that can be obtained are certainly indicators, ad valorem tariff equivalents should nevertheless be treated with a certain degree of scepticism since movements in the equivalents over time are not necessarily due to an increase or decrease in barriers to trade. Movements in the world price, for example, would similarly affect the ad valorem tariff equivalent. Nevertheless, a general rising trend in the ad valorem tariff equivalents in the face of the cyclical nature of world prices would indicate that domestic producers are being continually shielded from world supply and demand fluctuations. Tables 1.1 and 1.2 show the ad valorem tariff equivalents for Japan and the European Economic Community for major agricultural commodities. In both cases large increases have taken place although it must be remembered that 1974 and 1975 were years of high world commodity prices. Further, in making comparisons of levels and trends in support between countries and over time, the differences in absolute price levels, rates of inflation and trends in currency exchange rates need to be carefully considered.

12. Producer Subsidies and Increased Consumer Costs. Another measure of protectionism is to estimate the unit values of subsidies to producers and the consumer costs arising from support

TABLE 1.1

Ad Valorem Tariff Equivalents in Japan (a)
(percentages)

Commodity	1974	1975	1976	1977	1978
Rice	72	239	438	501	306
Wheat	100	145	195	379	449
Barley	130	168	224	323	491
Beef	37	228	242	285	251
Pork	28	60	48	106	117
Sugar	40	-11	40	215	330

Source: Monthly Statistics of Agriculture, Forestry and Fisheries, Statistics and Information Department, Government of Japan (various issues): Main Indicators of Agriculture, Forestry and Fisheries, No. 2, 1979.

Note: (a) The statistics given are the percentages by which the domestic producer price exceeds the price at which the product can be bought or sold on the world market.

TABLE 1.2

Ad Valorem Tariff Equivalents in the European Economic Community (a)
(percentages)

Commodity	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
Butter	381	72	149	220	216	220	301	288	303	311
Skimmed Milk Powder (spray)	..	12	45	56	39	166	471	394	358	279
Olive Oil	55	53	25	-4	13	107	92	111	100	93
Oilseeds	31	47	31	-23	-20	27	21	53	61	85
Soft Wheat	89	109	53	-21	7	24	104	116	93	63
Hard Wheat	132	154	81	16	20	45	136	118	116	59
Husked Rice	110	105	15	-40	-19	37	66	28	57	31
Barley	46	85	37	-4	7	17	47	106	125	61
Maize	41	76	43	-2	6	28	63	103	101	90
White Sugar	103	45	27	-34	-59	9	76	155	176	31
Beef and Veal	40	33	12	10	62	96	92	96	99	104
Pig Meat	34	31	47	31	9	13	25	37	55	52
Eggs	101	62	59	11	64	..	..	..	..	..

Source: Eurostat, Yearbook of Agricultural Statistics, Statistical Office of the European Communities, various issues.

Note: (a) The statistics given are the percentages by which the domestic producer price exceeds the price at which the product can be bought or sold on the world market.

policies. This method was employed in an earlier Commonwealth Secretariat paper.[1] An illustration is given in Table 1.3, with corresponding estimates of the total value of subsidies to producers, attributable to policy interventions in the European Economic Community, the United States of America and Japan for selected commodities in Table 1.4. The estimates indicate substantial increases in six of the eight examples in the producer subsidy equivalent and in costs to consumers between 1976 and 1978. Interestingly, the value of subsidies on sugar to the producers in the United States of America and the European Economic Community was higher than the total value of sugar exported by the developing countries during 1978. The total additional cost borne by consumers, as a result of protectionist policies, was of a similar magnitude.

13. Effective Protection for Processing Industries. Further estimates of the magnitude of agricultural protectionism can be obtained by calculating the effective rate of protection which shows the protection for value added in a production process. Nominal and effective tariff rates facing various, although generally competing, processed agricultural products are given for the European Economic Community, Japan and the United States of America in Table 1.5. As can be seen, the rate of effective protection is usually higher than the nominal rate.

14. The Effects on Developing Countries. A number of research studies have been carried out during the last quinquennium to try and assess in quantitative terms, the impact of agricultural support policies in the developed world on the exports of developing countries. Although the methods used, the number of countries and the types of agricultural commodity varied, the studies arrived at broadly similar conclusions.

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1. Price Stabilisation and Income Support Measures in Agriculture in the US, Canada, EEC and Australia, Lessons and Implications for the Regulation of International Commodity Trade, T. Josling, Commonwealth Secretariat, September 1977.

TABLE 1.3

Producer Subsidy Equivalents and Additional Consumer Costs due to Policy Intervention

Country/Product	Producer Subsidy Equivalent			Additional Consumer Cost Equivalent		
	1976	1977	1978	1976	1977	1978
			US $ 1 ton			
United States of America						
Wheat	2.5	18.0	12.6	-0.5	-0.1	..
Milk and milk products (a)	80.5	98.5	51.0	77.6	96.1	48.4
Sugar (raw equivalent)	21.1	61.7	149.0	22.5	45.0	132.2
European Economic Community						
Wheat	35.9	109.1	134.6	35.9	109.1	134.6
Milk and milk products[1]	168.0	194.5	210.7	154.3	177.6	188.3
Sugar (white equivalent)	75.6	245.4	398.6	59.8	182.2	259.4
Japan						
Rice	679.6	836.3	1105.5	506.7	682.9	922.4
Milk and milk products[1]	199.9	234.6	309.6	165.1	192.4	266.8

Source: Estimates, based upon methodology developed in Price Stabilisation and Income Support Measures in Agriculture in the US, Canada, EEC and Australia; Lessons and Implications for the Regulation of International Commodity Trade T. Josling, Commonwealth Secretariat, September 1977.

Note: (a) Milk equivalent.

TABLE 1.4

Benefits to Producers and Costs to Consumers due to Policy Intervention

Country/Product	Producer Benefits			Consumer Costs		
	1976	1977	1978	1976	1977	1978
			billion US$			
United States of America						
Wheat	0.1	1.0	0.6	-	-	-
Milk and milk products	4.4	5.5	2.8	4.2	5.4	2 7
Sugar	0.1	0.3	0.8	0.2	0.4	1.2
European Economic Community						
Wheat	1.2	3.9	4.8	1.2	3.7	4.7
Milk and milk products	15.7	18.7	20.8	14.4	17.1	18.6
Sugar	0.7	2.4	4.3	0.7	2.2	3.7
Japan						
Rice	8.0	11.0	13.9	6.0	7.9	10.6
Milk and Milk products	0.8	1.1	1.5	0.7	0.9	1.2

Source: See Table 1.3.

TABLE 1.5

Comparison of Nominal (M FN) and Effective Rates of Protection for Processed Agricultural Products in the European Economic Community, Japan and the United States (percentages)

Product	European Economic Community			Japan		United States	
	Tariff Rate		Effective Protection (a)	Nominal Protection	Effective Protection (a)	Nominal Protection	Effective Protection (b)
	Nominal	Effective					
Meat Products	19.5	36.6	165.0	17.9	69.1	5.9	10.3
Preserved sea foods	21.5	52.6	52.6	13.6	34.7	6.0	15.6
Preserved fruit and vegetables	20.5	44.9	74.7	18.5	49.3	14.8	36.8
Dairy products							
Cheese	23.0	58.8	276.0	35.3	174.7	11.5	34.5
Butter	21.0	76.5	1,327.7	45.0	417.7	10.3	46.7
Condensed and evaporated milk	21.3	44.3	334.4	31.7	153.9	10.7	29.6
Grain and grain products							
Corn milling	12.0	21.8	82.1	25.6	68.7	4.3	0.0
Rice milling	16.0	70.3	105.9	15.0	49.0	36.2	327.6
Prepared foods	5.6	0.0	-50.0	0.7	-21.2	6.2	7.4
Flour and cereal preparations	20.1	48.9	94.7	23.8	75.4	10.9	34.8
Bakery products	12.0	0.9	0.0	20.9	17.3	1.9	0.0
Prepared and processed foods							
Pickles and dressings	20.1	25.9	25.9	21.9	59.8	9.4	-26.9
Roasted coffee	15.2	35.7	35.7	35.0	137.1	0.0	0.0
Cocoa powder and butter	13.6	76.0	76.0	15.0	125.0	2.6	22.0
Vegetable oils							
Coconut oil	11.5	132.9	132.9	9.0	49.2	9.4	16.3
Cottonseed oil	11.0	79.0	79.0	25.8	200.3	59.6	465.9
Groundnut oil	11.3	137.7	139.7	14.2	96.5	15.0	6.7
Soyabean oil	11.0	148.1	148.1	25.4	268.3	22.5	252.9
Rapeseed oil	9.0	57.2	57.2	15.1	22.3	20.8	60.9
Palm kernel oil	10.5	141.5	141.5	7.2	49.2	3.8	29.2

Source: Adapted from Alexander J. Yeats, "Effective Protection for Processed Agricultural Products: A Comparison of Industrial Countries" Journal of Economics and Business.

Notes: (a) Includes levies and other special charges. (b) Effective tariff protection.

15. In 1975 the International Bank for Reconstruction and Development[1] made a quantitative assessment of the potential gains in export trade to developing countries by 1980, were there to be a removal in entirety of barriers to trade in primary commodities by the developed countries. The hypothesis of trade liberalisation was taken to mean not only the removal of tariffs and similar charges but also the dismantling of non-tariff instruments such as quantitative restrictions, internal taxes and aids to domestic production. The study was limited in that it dealt with only nine agricultural commodities, namely beef, bananas, cocoa, coffee, tea, sugar, cotton, hardwood products and citrus fruits. These commodities represented nearly half of less developed countries export earnings from agricultural commodities in the base period 1967-69. Further, the assessment was essentially confined to the effects on trade as measured by imports of Organisation for Economic Co-operation and Development countries (OECD) excluding Australia and New Zealand.

16. For each commodity, projections of trade and prices for 1980, assuming no change in trade constraints, were compared with estimates of possible trade flows arising as a consequence of trade liberalisation. The conclusions of the study were that the growth rate of less developed countries' export earnings from shipments of the nine commodities to OECD countries up to 1980 would rise to 15 per cent per year compared to projections of 12 per cent without the removal of trade barriers. In free on board (f.o.b.) value terms there would be an increase in less developed countries annual export earnings from these commodities by 1980 of US $4.1 billion (in constant 1974 US dollars), a proportionate addition of about 36 per cent. Two-thirds of these gains were accounted for in three commodities, namely sugar, citrus fruit and wood products in which possible gains were estimated at 59, 264 and 50 per cent respectively. For cocoa and tea, however, gains were negligible, and for coffee less than 7 per cent.

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1. International Bank for Reconstruction and Development, IBRD Bank Staff Working Paper No. 193, Possible Effects of Trade Liberalisation on Trade in Primary Commodities, January 1975.

17. The second study is more recent and was published in 1980 by the International Food Policy Research Institute.[1] This study makes a quantitative assessment of the potential level and distribution of increased export earnings among less developed countries of a hypothetical 50 per cent across the board reduction of trade barriers on agricultural commodities in OECD countries. Both tariff barriers and non-tariff barriers which could be quantified are included in the analysis. Country coverage was very large; eighteen trade liberalising OECD members were included[2], the exceptions being Greece, Finland, Iceland, Portugal, Spain and Yugoslavia, and the fifty-six most populous developing countries.[3] With respect to individual commodities a total of ninety-nine individual raw and processed agricultural commodities were included, the only major exclusion being dairy products owing to the limited exports of developing countries. The result of such a reduction of barriers would be a US $3 billion increase in the annual exports from those countries for the commodities and products examined. The increase would amount to about 11 per cent of total exports of the 99 commodities included in the analysis. Full trade liberalisation would approximately double the benefit.[4] The potential gross gains expressed in annual flows for the major products from a 50 per cent reduction in protection are shown in Table 1.6. Forty-seven per cent of the overall increase in exports due to liberalisation would be acccunted for by the commodity groups of sugar and meats. In contrast, bananas, tea and cocoa combined would account for less than 10 per cent of the potential increase in exports. It is interesting to note that except for wheat, maize, mutton and lamb, pig meat, barley, wheat flour, soya beans and oats, a large share of the world trade increment in those commodities covered would accrue to developing countries.

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1. A. Valdes, J. Zietz; Agricultural Protection in OECD Countries: Its Cost to Less Developed Countries, International Food Policy Research Institute, 1980.

2. Commonwealth countries included were Australia, Canada, New Zealand and the United Kingdom.

3. Commonwealth countries included were Bangladesh, Ghana, India, Kenya, Malawi, Malaysia, Nigeria, Sri Lanka, Tanzania, Uganda and Zambia.

4. United Nations Conference on Trade and Development, General Review of the World Commodity Situation, TD/B/C.1/207/Add 2, 1980.

TABLE 1.6

Potential Absolute and Per Cent Increase in Exports of 56 Most Populated Less Developed Economies by Commodity, following a 50 Per Cent Reduction of Tariff and Non-Tariff Barriers

Commodity	Increase in Export Revenue in Million US $ valued in 1977 prices (a)	Increase as a Percentage of Initial Export Revenues by the Sample of Developing Economies	Share Accruing to Sample of Developing Economies of Total Increase in Exports	Share of Sample Developing Economies in Total World Exports	
				Initial	Post Liberalisation
Raw Sugar	682.8	25.2	42.9	38.0	38.9
Refined Sugar	334.2	46.1	(b)	34.8	51.4
Beef and Veal	243.5	74.9	42.7	19.2	25.1
Green Coffee	210.2	3.1	88.8	88.8	88.8
Wine	161.0	46.3	29.0	28.0	28.3
Tobacco	139.6	11.8	43.3	53.0	51.8
Maize	83.4	7.9	14.9	14.9	14.9
Wheat	78.6	13.2	8.5	6.7	6.9
Soy Cake	77.6	8.3	30.2	50.1	47.7
Cocoa Butter Oil	56.5	18.6	90.5	90.5	90.5
Pork	51.0	104.4	7.8	7.8	7.8
Tea	50.6	5.0	90.5	90.5	90.5
Molasses	49.5	21.8	71.3	72.0	71.9
Palm Oil	43.6	4.9	96.7	96.7	96.7
Cocoa Beans	40.9	2.1	92.3	92.3	92.3
Copra Oil	40.7	9.7	91.3	91.4	91.4
Roasted Coffee	38.1	94.9	55.6	61.1	58.3
Olive Oil	36.1	22.0	56.3	56.3	56.3
Potatoes	32.9	53.0	16.0	19.0	17.8
Soybeans	32.0	3.6	22.2	18.6	18.7
Soy Oil	30.3	10.0	(b)	33.6	35.8
Barley	29.3	85.7	8.2	2.9	4.1
Coffee Extracts	28.9	10.7	73.5	80.0	79.3
Apples	28.9	22.9	17.0	25.2	23.2
Groundnut Oil	28.6	9.3	74.4	82.5	81.8
Grapes	28.4	76.4	14.1	14.9	14.6
Cocoa Paste Cake	27.8	19.1	100.0	100.0	100.0
Wheat Flour	25.3	86.9	(b)	2.9	6.5
Cocoa Powder	21.7	39.9	(b)	36.3	46.1
Bananas	21.3	4.3	53.1	53.1	53.1
Milled Rice	16.7	1.3	(b)	45.0	45.5
Groundnut Cake	16.0	7.3	93.0	93.0	93.0
Beef Preparations	15.2	5.6	52.4	57.0	56.7
Mutton and Lamb	13.3	28.2	14.7	6.1	7.0
Oranges	13.0	6.4	15.1	23.5	22.8
Copra Cake	12.8	13.8	95.5	95.5	95.5
Malt	12.2	63.8	39.4	3.9	6.0
Beans, Dry	11.5	7.0	46.4	50.2	49.9
Groundnuts, Shelled	11.4	4.0	62.1	60.8	60.8

Source: A. Valdés, J. Zietz; Agricultural Protection in OECD Countries: Its Cost to Less-Developed Countries, International Food Policy Research Institute, 1980.

Notes: (a) Commodities in which the increase in export revenue is less than US $10 million include chicken, sugar confectionery, castor oil, lemon and lime, oats, sorghum, copra, sunflower cake, paddy and husked rice, maize flour, millet, rye, dry broad beans, peas, chick peas, lentils, tangerines, grapefruit, palm kernel oil, sunflower oil, rape colza oil, cottonseed oil, tung oil, sesame oil, rapeseed cake, linseed cake, cottonseed cake, sesame cake, lard, margarine, tallow, wool grease, stearine, boiled oil, hydrogenated oils, greasy wool, scoured wool, groundnuts in shell, coconuts, desiccated coconuts, sesame seeds, mustard seed, linseed, cottonseed, salted dry beef, meat extracts, bacon and ham, por sausages, pork preparation, chicken preparation, cigarettes, pears, plums and tomato juice.

(b) Total world exports from this commodity would decrease.

18. For practical reasons it is necessary to narrow the present examination to particular products and particular countries. The agricultural areas chosen are the sugar sector, the livestock sector, the beverages sector (non-alcoholic) and the oilseeds, oils and fats and oilmeals sector. Among the criteria used in the choice of sectors was the consideration that this selection reflected the interest of both developed and developing Commonwealth countries, the Caribbean countries and Australia in the case of sugar, Oceania and Botswana for livestock, the Indian sub-continent and many Commonwealth African states in beverages and the widespread importance of the oilseeds sector. Further, the choice reflected the variety of agricultural products, with tree crops, livestock and field crops all being represented, as well as giving a balance between competing and non-competing and processed and unprocessed agricultural products. With respect to the market coverage prominence is given throughout the paper to the United States of America and the European Economic Community primarily because of their significance in the production, consumption and trade in the sectors being considered. Where pertinent, the coverage extends to Canada, Japan and other Western European countries, and also to Australia and New Zealand. Finally, some comments on measures of protection in developing countries have been made in instances where those countries are important importers of the commodity concerned.

19. Within these somewhat arbitrarily established parameters the paper attempts to bring together some of the information that is available from different sources. As such, the paper can be seen as presenting work that has already been undertaken, rather than any particular new information or analysis.

CHAPTER 2

The Sugar Sector

Introduction

20. Sugar is amongst agricultural commodities that can be grown both in the tropical and sub-tropical zones, as sugar cane, and in the temperate zone, as sugar beet. While beet is an annual crop taking some six to eight months before reaching maturity the first harvest of cane takes place between one and two years after planting and replanting is not required for about five years. Although production costs of cane and beet sugar vary widely because of numerous factors such as the nature of the two plants, yields, sugar content and the degree of processing required, on reaching the refined stage they become almost perfect substitutes for each other providing one of the best examples of a competing agricultural product, i.e. a product in which there is direct competition for exports from developing countries with the domestic products of developed countries.

21. World sugar production has been increasing at about 3 per cent per annum since 1960. In 1980 production totalled 84.61 million tonnes raw value (Table 2.1) with the five largest producing countries plus the European Economic Community[1] accounting for 54 per cent of the total. Sugar produced from cane accounts for about three-fifths of total production. Less than 30 per cent of world production enters world trade. With the exception of the European Economic Community the major exporting nations are all cane producing, the most important being Cuba, Brazil, Australia the Philippines and the Dominican Republic, which together accounted for two-thirds of world exports during 1980. The six major importers in the same year in order of importance were the Union of the Soviet Socialist Republics, the United States of America, Japan, the European Economic Community, China and Canada,

1. All references to the European Economic Community in this paper exclude Greece.

TABLE 2.1

Production, Consumption and Trade in Sugar for Major Markets in 1980

(million tonnes, raw value)

Production		Imports		Exports		Consumption	
World Total	84.61	World Total	26.55	World Total	26.73	World Total	87.68
European Economic Community	13.35	Union of Soviet Socialist Rep.	4.98	Cuba	6.19	Union of Soviet Socialist Rep.	12.30
Brazil	8.27	United States of America	3.80	European Economic Community	4.32	European Economic Community	10.61
Union of Soviet Socialist Rep.	7.25	Japan	2.33	Brazil	2.66	United States of America	9.33
Cuba	6.81	European Economic Community	1.43	Australia	2.41	Brazil	6.26
United States of America	5.31	China	0.95	Philippines	1.79		
				Dominican Republic	0.79	India	5.04
India	4.53	Canada	0.91	Republic of South Africa	0.79	China	3.60
Sub-total	45.52	Sub-total	14.40	Sub-total	18.95	Sub-total	47.14
% of world total	54	% of world total	54	% of world total	71	% of world total	54

Source: International Sugar Organisation, Statistical Bulletin February 1982.

TABLE 1.2

The Percentage of World Trade in Sugar under Special Arrangements

(million tonnes, raw value)

	1968		1980	
World Exports (gross)	20.5		26.7	
of which re-exports		3.8		2.6
World Exports (net)	16.7		24.1	
of which priced on the world market		6.1		17.8
priced under Special Arrangements		10.6		6.3
Special Arrangements divided as follows:-				
Preferential exports to Centrally Planned Economies from Cuba	3.2		4.0	
Preferential exports to the United States under the Sugar Act	4.5		nil	
Preferential exports to the United Kingdom, Canada and New Zealand under the Commonwealth Sugar Agreement	2.7		-	
Preferential exports to the European Economic Community under the African-Malagasy Arrangement	0.1		under Lome	
Preferential exports to Portugal	0.1		nil	
Preferential exports to the European Economic Community under the Lome Convention	-		1.3	
Long-term contracts to Japan, Malaysia, the Republic of Korea, Singapore and New Zealand from Australia	nil		1.0 (e)	
Special Arrangements as a Percentage of Net World Exports	63.5		26.1	

Source: Derivation from various country sources.
Note : (e) estimate

and accounted for 54 per cent of the total. As a result of Special Arrangements, however, not all exports enter the world market. Until the end of 1974 about half the world trade was covered by these types of arrangements, for example the Commonwealth Sugar Agreement and the United States Sugar Act, but since their expiry (even allowing for the Sugar Protocol of the Lome Convention) the percentage of sugar traded under these special arrangements has been reduced (Table 2.2).

Domestic Support Policies

22. Sugar producing countries generally pursue protectionist agricultural policies to support their producers and their processing industries although these policies do not appear to have stemmed from broad economic and social considerations. The support systems that have arisen, although reflecting basic considerations, owe much to the lobbying ability of those involved in its production and marketing. Nevertheless, the range of measures that have been used is very wide.

23. An estimate[1] of the extent to which national producer returns and consumer costs are influenced by government policies is given in Table 2.3. This estimate attempts to measure the effect of government policies in subsidising sugar producers and sugar consumers for four major markets, namely the European Economic Community, the United States of America, Australia and Canada throughout the last decade using the Producers Subsidy Equivalent which represents the direct subsidy that would be necessary to replace the various policies employed and the Consumer Subsidy Equivalent which represents the direct consumer subsidy. Where a market is protected for the benefit of producers the Producer Subsidy Equivalent will be positive and normally the Consumer Subsidy Equivalent negative. The results indicate that the European Economic Community has the highest level of support and Australia the lowest. The results of

1. In an article by Harris, S (1980) U.S. and E.E.C. Policy Attitudes Compared Towards the 1977 International Sugar Agreement, Journal of Agricultural Economics, Volume XXXI No. 3.

TABLE 2.3

The Effect of National Government Policies in Subsidising Sugar Producers and Sugar Consumers

Country	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79
A. Producer Subsidy Equivalent (%)										
European Economic Community[a]	131	110	81	10	-139.8	-243.1	29.5	88.7	125.7	
United States of America	68.8	61.2	55.7	18.8	2.3	0.3	10.9	12.8	28.3	61.0
Australia	23.1	19.0	12.1	7.4	3.3	- 16.7	-15.4	-10.6	- 4.5	-10.2
Canada	20.1	10.8	4.4	3.2	3.2	3.8	5.2	7.1	7.7	7.6
	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
B. Consumer Subsidy Equivalent(%)										
European Economic Community[b]	- 52.7	-51.3	-43.0	-30.7		78.8	118.6	-17.4	-51.3	-72.4
United States of America	- 35.8	-33.6	-29.1	- 9.0	- 0.1	- 1.3	- 3.0	- 5.3	-11.8	-28.7
Australia	- 31.1	-27.5	-19.3	-11.6	- 0.8	88.3	75.2	49.7	20.3	32.7
Canada	- 7.6	- 6.8	- 5.3	- 3.4	- 2.7	- 3.4	- 4.8	- 8.4	-13.3	-15.0

Source: Harris, op cit.

Notes: a European Economic Community '6' up to 1972/73. From then on '9'.
b European Economic Community '6' up to 1972. From then on '9'.

Method of Calculation: Production levels and average producer prices for each year were collected for each country (the EEC being treated as a single unit) and used to derive total Producer Value figures. Where direct producer payments had been made separately by Governments, these were added-in. Similarly on the consumer side, a total Consumer Value figure was calculated using consumption volumes and appropriate wholesale prices, after any direct consumer subsidies have been taken into account.

The major policies for each country were identified and the transfers calculated as follows:-

"(a) if the policy involved a per unit payment then the impact of the policy was applied over the relevant volume of output. Thus a per unit producer subsidy was multiplied by production and the total listed as a 'transfer' to producers. For a tariff or a levy, the per unit figure was applied to production to give the transfer to producers,

(b) if the data was more conveniently recorded in terms of financial totals such as the cost of subsidies on a particular product, then this was allocated directly. Where the financial data related to trade taxes - i.e. levy receipts - then it was first converted to a per unit figure by relating to trade volume and applying the procedure as in (a) above,

(c) if the policy involved price discrimination, such as the maintenance of higher domestic than export prices through marketing control, then the price difference was calculated. This was then multiplied by production in the high price market and allocated to producer transfer,

(d) if the policy involved trade quotas, then resort was made to the difference between internal and external prices, and treated accordingly. This was the only case where 'world' prices were used explicitly in the calculations.

(e) an input subsidy was allocated directly to producers , as in the case of a price subsidy".

The total transfers were then aggregated to give total Producer and Consumer Subsidy values (PSE'S AND CSE's). These were expressed as a proportion of the total Producer and Consumer Value figures.

stabilising domestic markets can be seen by examining the period between 1973 and 1975[1]. Since the support prices for domestic producers showed hardly any change, the degree of support declined dramatically so that for a short period of time, certainly in the European Economic Community, producers were actually supporting consumers. Subsequently, however, the producers were again being subsidised by the consumers.

24. Following from the price effects of support policies are the effects on domestic production and, given the importance, as exporters or importers, of the European Economic Community and the United States of America, (as well as the Commonwealth countries of Canada and Australia) the effects on the level of international trade. In Table 2.4 estimates of trade volume changes as a direct result of domestic government policy are given for four major economies. (It should also be noted that some domestic policy decisions have implications for the pattern of international trade which are more important than originally foreseen. One good example of this has been the growth of the British Sugar Corporation at the expense of Tate and Lyle precipitating the closure of some of the latter's refineries and thus putting some doubt upon the commitment by the European Economic Community of importing significant quantities of cane sugar). The results in Table 2.4 indicate the destabilising influence of domestic government policy in the markets examined. When there is a large available quantity of sugar on the world market attempts by those countries to either increase the volume of exports or reduce the volume of imports has tended to exaggerate the downward movement of world prices while the opposite trend has occurred at times of a scarcity of supply on the world market. Since these nations, as has been indicated in Table 2.1,are significant on

1. World spot prices rose from 15.16 US cents/lb in the beginning of 1974 to 56.14 US cents/lb at the end of that year thereafter falling back to 13.65 US cents/lb by the middle of 1975.

TABLE 2.4

Trade Volume Effects of Domestic Government Sugar Policies[a]

(1,000 tonnes raw value)

Country	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
European Economic Community[b]	1,582	1,649	1,389	1,037	865	-3,689	-5,506	784	2,263	3,387
United States of America	5,229	4,122	3,638	2,855	971	-	145	-	488	1,116
Australia	141	109	88	58	22	- 259	- 225	-154	-64	-108
Canada	-	41	30	20	13	11	15	29	49	55
Total above	6,852	5,921	5,145	3,970	1,871	-3,937	-5,571	659	2,736	4,450

Source: Harris, op.cit.

Notes: a Positive figures are where government policies increase exports and/or reduce imports: negative figures are where government policies increase imports and/or decrease exports.

b The European Economic Community '6' up to 1973. From then on '9'.

Method of Calculation: The implications for international trade volumes of government measures in the above countries are calculated by applying "representative" demand and supply elasticity values (with respect to price) to the Producer Subsidy Equivalent and Consumer Subsidy Equivalent indices, and aggregating the resulting volume changes. By implication Positive Producer Subsidy Equivalents and Negative Consumer Subsidy Equivalents will lead to increased exports and/or reduced imports and vice-versa when the signs are reversed.

the world market the problem has been exacerbated[1].

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1. In this context it is pertinent to examine the Australian complaint to the General Agreement on Tariffs and Trade (GATT). During 1979 Australia (and Brazil)formally complained to the GATT panel about the European Community's policy of giving cash subsidies to sugar producers for exported sugar when world market prices are below the Community's internal prices i.e. export refunds. The case was based upon a GATT rule that forbids any member from using export subsidies which give it a "more than equitable share of world export trade in that product". Subsidies are also banned if they prejudice or "constitute a threat of serious prejudice" to the export interests of other GATT members. At the end of 1979 the panels of GATT ruled that whilst finding that the Community's export refund policy is "a permanent source of uncertainty in the world sugar market and therefore constitutes a threat of serious prejudice" to Australian and Brazilian export interests "it was not feasible to quantify the prejudice in exact terms". Following this ruling a bi-lateral solution between Australia and the Community was sought during 1980. These negotiations were unsuccessful. As a result a working party of GATT was established in response to further concern expressed by both Australia and Brazil regarding future action on the above ruling. Both countries pressed that the European Economic Community create "pre-established effective limitations to its sugar subsidy system so that it will not again depress world prices nor be a permanent source of uncertainty on world markets". However, at the beginning of March 1981 Australia failed to obtain any change in the European Economic Community's policy at the GATT council meeting: the Community's representative arguing that since no export refunds were being paid the complaint was irrelevant. The GATT council "took note of the EEC's intention to notify GATT as soon as it adopts new sugar regulations as well as the 1981/82 sugar intervention prices" and promised to "promptly review the situation" following the receival of that information. A new Working Party was established by the GATT Council in September 1981, and submitted a Report for discussion. At the GATT Council meeting in early 1982 the EEC delegate maintained that under the Community's new sugar régime, with its co-responsibility concept, all elements of export subsidy had been eliminated;but the complainants protested that procedural devices had been used to block substantive discussion of an issue which remained unresolved. The chairman regretted that the Council had been unable to reach a satisfactory conclusion; there was no alternative in his opinion but to regard the two cases closed. He suggested,however, that Council meetings to consider notification and surveillance procedures under GATT should look at the problems of dispute settlement in the light of this experience.Subsequently,Australia,the Argentine, Brazil,Colombia,Cuba,Dominican Republic,India,Nicaragua,Peru,and Philippines together lodged with the GATT Council a fresh complaint against the Community's sugar export refund scheme.

25. The United States of America. Prior to the 1974 sugar "boom" the United States of America controlled both the domestic production and the importation of sugar through a succession of Sugar Acts. The effects of these Acts were to treat separately consumption from domestic and foreign sources and to impose quotas on both in order to ensure both a control on the total supply and a maintenance of domestic price objectives. In addition, local producers also obtained a direct subsidy payment which was funded by applying levies on imports and an excise tax on both sugar processors and refiners. In 1974, however, at a time of very high domestic sugar prices and a significant shortfall in the quotas of exporting countries the United States Congress chose not to extend the Sugar Act of 1948, thus ending forty years of comprehensive Government regulation of domestic sugar production, imports and prices. Price objectives and quotas for domestic and foreign suppliers had been in effect since the Jones - Costigan Act of 1934. The major political objection to a new Sugar Act was "that the Sugar Act was seen as being "high-cost" to consumers, when the rate of increase in food prices was already a major concern and yet it could not guarantee supplies for consumers when world supplies were tight". The major economic objections to renewal were "that it was argued that over a third of the income transfers from United States consumers and taxpayers went to overseas quota holders", that "although levels of protection afforded the United States sugar industry were among the highest of any agricultural commodity it was claimed that less than a quarter of the transfers represented a net income gain to United States farmers", and finally, "it was recognised that the benefits of the support programme were heavily skewed, with the 65 largest producers - out of the approximately 21,000 involved in sugar production in 1961 - receiving between them one-sixth of total Government payments under the Sugar Act"[1].

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1. Harris, S, op. cit.

26. Following the ending of the Sugar Acts in 1974 the United States of America's policy for sugar was basically one of free trade coupled with a vestigial import tariff. This policy position came under increasing pressure as world prices fell in 1975 and 1976, and ultimately led to a tripling of the import duty. Whilst the International Sugar Agreement was being negotiated during the following two years the 1977 Food and Agricultural Act was passed initiating an interim price support payment programme for sugar beet and sugar cane through a system of loans and purchases at certain minimum levels. However, as domestic market prices continued to remain below production costs protectionist pressure in the United States of America increased further and resulted in a further increase in the import duty coupled with the introduction of a variable import charge[1]. 1979 saw the introduction of a new system of import fees which brought prices up to the support figure of 15 US cents/lb. With respect to national production, many domestic producers tendered their output to the Commodity Credit Corporation under the loan programme (a scheme whereby loans are granted at an agreed minimum loan rate to producers who choose not to sell immediately at the prevailing prices - the sugar can be redeemed when prices recover i.e. similar to intervention except that initially the product is not sold) since it was more attractive. At the beginning of 1980 the United States of America eventually ratified its membership of the International Sugar Agreement, and, owing to the rise in world prices successively reduced its import duty. By February 1980 the statutory minimum import duty of 0.625 US cents/lb was reached for 96 degree basis raw sugar having been reduced by 2.1875 US cents/lb. Details of other tariff barriers are given in Table 2.5. As a result of the high level of world prices the Secretary of Agriculture determined that a price support programme was not necessary for the 1980 and 1981 sugar crops. Thus, the early 1981 position was that while there was no comprehensive Government regulation for sugar a number of possible Acts could

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1. The combined import duty and fee charged on raw sugar averaged 5.5 cents/lb in 1978 as against an average world price of 7.8 cents/lb.

TABLE 2.5

Tariffs on Sugar and Sugar Products in Major Markets [a]

(per cent)

	Raw Sugar		Other Sugars	Molasses		Sugar Confectionery without cocoa		
	Not Refined	Refined		Inedible	Edible	Liquorice	Chewing Gum	Other
European Economic Community								
Pre-MTN Tariffs Most-favoured nation rate Lomé Convention	The threshold prices for sugar are safeguarded by a system of variable levies on imports of all products covered by the sugar regime. A quota of 1.3 million tonnes is allowed access under Protocol 3 of the Convention.					21	16.5 + b	20.7 + b
Canada	Raw and Refined							
Pre-MTN Tariffs Most-favoured nation rate	8.6 - 9.3		8.4	0.0	2.8	?	17.5 B	20.0 B
Generalised Systems of Preferences						-	11.5	12.5
Post-MTN Tariffs Most-favoured nation rate	-		-	-	-	-	10.2 B	15.0 B
Japan								
Pre- MTN Tariffs Most-favoured nation rate	41.5Y/kg	51.5Y/kg	27Y/kg	18Y/kg	18Y/kg	0.0	40.0 B	35.0 B
Post-MTN Tariffs Most-favoured nation rate	-	-	-	0.0	-	-	30.0 B	-
United States of America	Not Refined	Refined						
Pre-MTN Tariffs Most-favoured nation rate	0.625USc/lb	0.625USc/lb	15.0 B	0.3	6.6	6.0	5.0 B	7.0
Generalised System of Preferences	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0
Post-MTN Tariffs Most-favoured nation rate	0.625USc/lb	0.625USc/lb	6.0 B	0.0	-	-	-	-

Sources: Various country sources. Notes: a The table is simply an indication of the tariffs involved. In actual fact the position is far more complicated and depends to some extent on the percentage of sucrose, the method of measurement etc. b Plus a variable component. B Indicates that the rate is bound under the General Agreement on Tariffs and Trade.

be invoked including the discretionary authority of the Secretary of Agriculture under Section 301 of the 1949 Agricultural Act, if economic circumstances and political pressure made it necessary.[1] At the end of 1981, however, in the face of declining world prices, the Government voted to re-introduce a sugar loan programme for the period 1982-85 inclusive. The loan level for 1982 crops, for which the programme commences in October 1982 will be 17.00 US cents per lb, rising successively to 17.50; 17.75 and 18.00 US cents per lb over the following three years. Although funds will not be available until October 1982 there will be price support immediately in the form of an increased import duty and fee. The implications on the world sugar market following from this decision are very significant both within the United States of America through its impact on consumption and outside though import demand contraction.

27. Although, given the importance of the United States of America on the world market, the increase in the levels of the import duty during the latter half of the 1970s when world sugar prices were very low, was protectionist in nature and may have added to the depression of world prices, it should be remembered that the United States of America does allow sugar to be imported under the Generalised System of Preferences authority in Title V of the Trade Act of 1974. During 1979, the quantity of raw sugar imported into the United States of America duty-free under its generalised scheme of preferences totalled nearly 920,000 short tons, about 19 per cent of total raw sugar imports and about double the 477,000 tons imported during the previous year. The value in 1979 was US$41.9 million compared with US$29.9 million in 1976. During the period 1976-1979 sugar was the largest Generalised System of Preferences eligible item (Table 2.6).

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1. Others include Headnote 2, support 10(A) schedule 1, Tariff Schedules of the United States; Section 201 (a) (2), Trade Expansion Act of 1962; Section 22, Agricultural Adjustment Act of 1933 and Title II, Trade Act of 1974. For further details see Barry, R.D, Ackland, L.E. and Greer, T.V. (1981) A Review of US Sugar Programmes and Legislative Authorities. U.S.D.A. Sugar and Sweetener Situation and Outlook ,May 1981.

TABLE 2.6

United States Generalised System of Preferences in Relation to Countries Supplying Sugar to the United States

Countries not eligible for United States, Generalised Sytemt of Preferences duty-free trement on any product	Beneficiary Developing Countries not currently eligible for Generalised System of Preferences duty-free treatment on sugar as of March 1st 1980(1)	Beneficiary Developing Countries currently eligible for Generalised System of Preferences duty-free treatment on sugar as of March 1st 1980
Canada(2), Belgium(2), Denmark(2), France(2), Netherlands(2), Sweden(2), Switzerland(2), United Kingdom(2), German F.R.(2), Japan(2), Australia(2), Mainland China (3)	Dominican Republic, Brazil, Peru, Philippines	Barbados, Belize, Costa Rica, El Salvador(4), Guatemala(4), Jamaica(4), Haiti, Honduras, Mexico. Nicaragua(4), Panama(4), St. Christopher-Nevis-Anguilla, Trinidad and Tobago, The Argentina(4), Bolivia, Colombia(4), Ecuador(5), Guyana(4), Paraguay, Peru(4), Uruguay, Venezuela(5), Romania, Kenya, Malagasy Republic, Malawi, Mozambique, Swaziland, Hong Kong, India(4), Thailand(4), Taiwan(4), South Korea, Fiji.

Source: United States Department of Agriculture, Sugar and Sweetener Report Vol. 5. No. 5.

Notes:
(1) The Trade Act of 1974, Section 504 (c), excludes any beneficiary developing countries otherwise eligible for Generalised System of Preferences on particular commodities - such as sugar - when United States imports of a commodity from those countries in the previous calendar year were equal to or greater than 50 per cent of the value of all United States imports of that commodity, or to a specified value fixed each year in relation to the Gross National Product.
(2) These countries were specifically excluded by name in the Trade Act, Section 502(b).
(3) Communist countries are excluded from Generalised System of Preferences duty-free treatment for any commodity except Hungary, Poland, Romania and Yugoslavia.
(4) These twelve countries were re-instated to the Generalised System of Preferences duty-free list on March 28, 1980 by Executive Order, because their 1979 sugar shipments to the United States totalled less than US$41.9 million in 1979.
(5) Ecuador and Venezuela were newly designated as Generalised System of Preferences beneficiaries in the March 28 Executive Order. Indonesia, Zimbabwe and Uganda were also designated but these countries do not export sugar to the United States.

28. A small quantity of refined sugar, about 100,000 tonnes in 1978, is also imported, dutiable, into the United States of America. The suppliers are Canada and the European Economic Community and in the latter case the quantity is limited as a result of restrictions imposed by the International Sugar Agreement on imports from non-member countries. Since Community exports of sugar were also being subsidised, the United States customs service in 1978 imposed a countervailing duty of 10.4 US cents/lb. Further, as a result of a 1979 United States International Trade Commission determination that the domestic sugar industry was being injured because of Canadian sugar being "dumped" , "anti-dumping" duties have been imposed. The outcome of these two measures has been to reduce even further the small amount of refined sugar imported into the United States of America.

29. The European Economic Community. The first sugar regulation for the European Economic Community was implemented in July 1968[1], nine years after the first Commission proposals. The regime supported Community sugar growers by providing them with higher prices than would under normal circumstances be available from the world market. The methods by which this is achieved are through variable import levies and export subsidies. Third country supplies cannot enter the Community at less than institutionally determined minimum import price levels (threshold prices) as import levies are calculated to cover the full difference between world prices and threshold prices. On the other hand, export subsidies are granted to bridge the gap between Community and world price levels and hence allow the European Economic Community's exports to compete on world markets. Although basically modelled on similar regimes within the common agricultural policy, sugar differs in a number of important respects of which three deserve mention. First, the volume of production for which price guarantees apply is limited by quota. The Community's sugar production is fixed by a system of "A", "B" and "C" quotas, with

1. Official Journal of the European Communities, Council Regulation No. 1009/67 18 Dec. 1967.

a total price and sales guarantee for "A", a regressive price and sales guarantee for "B" and no guarantee for "C". Second, since the direct support mechanisms apply to the processed product and not the farm gate product, the regime has to set refining margins for sugar processors so that minimum prices to be paid by them to farmers may be stipulated. Third, continued guaranteed entry from those major cane producing countries which have had "traditional links" with the Community is controlled through quotas. To take into account the entry into the European Economic Community of the United Kingdom, Ireland and Denmark the sugar regulation was amended in 1972 with these three states receiving production quotas[1].

30. The severe criticisms of the Community sugar policy, however, arose not out of the first sugar regulation but from the second which was in operation from 1975 to 1981. Although the original proposals by the Commission of the European Communities advocated a limitation to the physical production of sugar this was rejected by the Agricultural Ministers. As a result of the price explosion on the world market which made additional purchases problematical, coupled with supply difficulties as well as problems surrounding the enlargement of the Community, the second sugar regulation adapted and intensified the existing support system. The adaptation meant the creation of a substantial stockpile within the Community for internal release at times of shortage. (The Community also agreed at the same time to import cane sugar under the Lome Convention). The intensification came when the Community increased the level of domestic production for which it would provide price support by nearly 25 per cent in addition to improving its relative profitability. The effect of these decisions was to increase the level of self-sufficiency within the Community from 91.4 per cent in 1974/75 to over 122 per cent in 1977/78, excluding imports under the Lome Convention. The only outlet for this excess production became the world market and the share of the world market accounted for by exports from the European Economic Community rose from about 5 per cent in the early 1970s to nearly 20 per cent by the

1. Further details are given in "The Common Agricultural Policy of the European Community" R. Fennell, Grenada.

end of that decade. This expansion was only possible, given the high cost of production, through export subsidies and has resulted in a depressing of world prices. In order to operate such a policy costs are incurred and have been increasing as a result of increasing target prices (Table 2.7).

31. Sugar will remain a supported commodity under the dispositions of the new five year sugar regime in operation from 1 July 1981[1]. The major features of the regime are that whilst "A" quotas remain virtually unchanged at 9,226 thousand metric tonnes, white value "B" quotas are reduced from 2,419 to 2,212 thousand metric tonnes (excluding Greece - 29,000 tonnes - for reasons of comparability) and that in order to eliminate the cost of net exports a basic production levy of up to 2.0 per cent of the intervention price is being imposed on both "A" and "B" quota sugar and if that proves insufficient the levy on "B" production can be increased up to 30 per cent. The regime also includes possible procedures towards the Community's accession to the International Sugar Agreement as well as incorporating isoglucose within the sugar regime[2]. Concerning the major feature i.e. reducing the "B" quota it is interesting to note that while the Community has a potential surplus of production and preferential sugar imports over consumption of 2.8 million tonnes, the Commission itself believes that this re-allocation of "B" sugar will result in "a slight increase in the production of B sugar and thus in the quantities to be exported"[3]. This is

1. Official Journal of the European Communities, Council Regulation No. 1785/81, 30 June 1981, L 177, Volume 34.

2. Further details can be found in House of Lords, Session 1980-81, 8th Report, Select Committee on the European Communities, EEC Sugar Policy, 27 November 1980, HMSO.

3. Draft Regulation on the Common Organisation of the Market in Sugars, Council Reference 10009/80, Commission reference COM(80)553 final, Official Journal No. C271, 18 October 1980.

TABLE 2.7

The Budget Cost of the Community Sugar Regime (a)

	Total expenditure of the Budget of the Community	Expenditure of the FEOGA Guarantee Section	FEOGA expenditure on sugar	Resources from Levies on sugar (b)	Net cost of the sugar regime	Expenditure on sugar export refunds
1975 MUA	6,213.7	4,336.3	310.1	79.7(c)	230.4	38.2
1976 MUA	7,957.2	5,721.0	229.0	128.5	100.5	55.6
1977 MUA	8,484.7	6,593.7	536.7	202.4	334.3	362.6
1978 MEUA	12,181.7	8,672.8	878.0	406.2	471.8	639.2
1979 (d) MEUA	14,447.0	10,404.1	1,004.6	459.8	544.8	750.1
1980 (e) MEUA	15,324.8	11,214.5	1,116.6	466.0	650.6	835.4

Source: House of Lords, Select Committee on the European Communities, EEC Sugar Policy. HMSO 1980.

Notes : (a) Because of a change in the unit of account used for budgetary purposes, the figures for 1978 onwards are not directly comparable with those for 1975 to 1977.

(b) Includes production levies and storage levies but excludes third country import levies since no budgetary distintion is made between those for sugar and those for other agricultural imports.

(c) Represents production levies only - there were no storage levies in 1975.

(d) Appropriations based on Supplementary Budget No. 3.

(e) Original Budget, as presented to the European Parliament in November 1979.

because some producers to whom "B" quotas were previously allocated were unable to fill their quotas, whilst the new quotas are more geared to production levels in the recent past. Since the new regime incorporates no fundamental changes to the present mechanisms it is likely that sugar will remain heavily supported.[1]

32. Australia. The conclusion of the Commonwealth Sugar Agreement in 1973 left Australia with only one stable outlet, the domestic market. Australia reacted by introducing a Domestic Sugar Agreement between the Queensland Government and the Commonwealth Government under which all imports were banned by the Commonwealth Government in return for which the Queensland Government undertook to make refined sugar available to wholesalers and manufacturers throughout Australia at prices not exceeding an agreed maximum. This domestic price is tied to movements in the consumer price index, movements in sugar export prices and to an index of industry costs. If differences exist between world and domestic prices, revenues received by producers are determined by a pooling method.

33. Regarding the international trade sector exports are either sold on the world market or through long-term bilateral contracts. In January 1978 the volume of Australia's export tonnage was determined in accordance with the International Sugar Agreement. Subsequently, about half the total was destined for countries with whom Australia had concluded long-term contracts while the residual was sold at world market prices. In 1980-81 Australia had contracts with Japan, South Korea, Malaysia, Singapore, China and New Zealand. Although the long-term contract with Japan of 0.6 million tonnes has now expired an interim arrangement has been made under which Japan will purchase 0.7 million tonnes during the 18 months from 1 July 1981 at prices related to world free market prices.

34. New Zealand. No raw cane sugar or beet sugar is produced in New Zealand. In a year about 170,000 tonnes of raw sugar is imported and refined locally to meet domestic requirements.

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1. Acceptance of proposals which maintain or through re-allocation can lead to an increase in production can be easily justified when, as on the previous occasion, they are negotiated and agreed at times of high world sugar prices!

There exists a Sugar Price Stabilisation Agreement between the government and refining company to insulate the domestic New Zealand market from extreme fluctuations in the world price. However, imported raw sugar for processing other than by refining carries an import duty (NZ $90.0/metric tonne in 1981) at the time of delivery from bonded warehouses, i.e. the refining industry is protected.

The International Sugar Agreement

35. Over the last century there have been a number of attempts to stabilise the free market for sugar of which the most recent is the International Sugar Agreement of 1978, the principal aims being to increase the export earnings of developing countries, to stabilise world market prices at a level that would assure producers of a satisfactory level of profits and to provide adequate supplies to importing countries at fair prices. Its main mechanisms are:-export quotas for each country, the maintenance of free market prices within a floor and ceiling level and national stockholding obligations.

36. The new Agreement was negotiated against a backcloth of new developments in the trading of sugar. First, as has been shown, the reduction in the percentage of sugar traded under Special Arrangements resulted in the large exporters being far more concerned with their quota allocation. Second, was the increase in the number of countries with indigenous sugar industries. According to one estimate[1], 27 countries commenced sugar production between 1951 and 1973, of which many had a large capacity for export and were thus interested in obtaining a sugar quota. The 1951 International Sugar Agreement, for example, allocated basic export tonnages to 23 countries, while in 1978, basic export tonnages were allocated to 51 countries. Third, the effects of the 1974 experience were still being felt both by exporting countries and by importing countries when the Agreement was being negotiated.

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1. Hagelberg, G.B. Instability of World Centrifugal Sugar Production, 1975, Institut fur Zuckerindustrie.

37. The two basic elements of the scheme were the basic export tonnages and the stock building arrangements. All but the very minor exporters were allocated basic export tonnages. In 1978 these totalled 15.3 million tonnes with the largest being Cuba (2.5 million tonnes) , Australia and Brazil (2.35 million tonnes) and the Philippines, Thailand and the Dominican Republic (1.4, 1.2 and 1.1 million tonnes, respectively).[1] Quotas may be reduced at times of low world market prices. By quota adjustments coupled with the operation of a reserve stock the Agreement aimed at maintaining prices within the range of 11-21 US cents/lb, with a mid-point of 16.0 US cents/lb. The use of such mechanisms is inherently protectionist, in so far as the allocation of basic export tonnages is based upon political considerations coupled with a "traditional" or "historical" level of exports, and not upon criteria of efficiency of production. Any allocation by this method in effect attempts to maintain a status quo, cost advantages of some countries being, to some extent, negated through the allocation of quotas. For example, the cost of producing sugar in the European Economic Community is 50 per cent higher than producing sugar in Brazil, but the Community would have probably been given an export quota of 2.0 million tonnes if it had been party to the International Sugar Agreement. (A number of sugar production cost estimates for various countries are given in Table 2.8). Further, although quota re-allocation may at least partially be a response to pressures from more efficient producers such an allocation does not fully take into account that production costs vary at differing rates over time. One result of quota determination by factors other than efficiency criteria could be a further movement away from conditions of sectoral 'Pareto optimum' and perfect competition and towards a situation of imperfect competition and protectionism.

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1. Although both Australia and Brazil felt it unjustified that Cuba should have a larger basic export tonnage when Cuban exports to the free market in the best of the preceding five years had averaged 1.92 million tonnes compared with 2.35 (Australia) and 2.64 (Brazil). See Harris S. op. cit.

TABLE 2.8

Sugar Production Cost Estimates

US cents/lb raw sugar

United States	14.3	Taiwan	10
European Economic Community	14-16	Central America	0.5-13
Philippines	9	Swaziland	11.5
Thailand	11	The Argentine	11.5
Australia	11-23	Brazil	7-9

Source: Schnittker Associates (1978) The Price Behaviour of Sugar: A Report prepared for the Congressional Research Service, Washington.

TABLE 2.9

Agreed Quantities of Sugar Allowed under the Lome Convention[1] (and other Arrangements) into the European Economic Community. (tonnes, white sugar)

Barbados	49,300	Mauritius	487,200
Congo	10,000	Swaziland	116,400
Fiji	163,600	Tanzania	10,000
Guyana	157,700	Trinidad & Tobago	69,000
Jamaica	118,300	Uganda	5,000
Kenya	5,000	Total	1,221,500 (2)(3)(4)
Madagascar	10,000		
Malawi	20,000		

Source: Official Journal L347 12 December 1980, Commission of the European Communities.

Notes:
(1) The essential changes with respect to the deliveries allowed under the Commonwealth Sugar Agreement were that Australia no longer had a quota, an increase in Mauritius' guaranteed tonnage (487,200 compared to 375,000 tonnes, previously) and a substantial reduction for the Commonwealth West Indies (395,000 tonnes under Lome compared with 696,000 tonnes before).
(2) Additionally under a special trade agreement with the two United Kingdom dependencies of St. Kitts-Nevis-Anguilla and Belize,and with the Dutch dependency of Surinam(the latter officially acceded to the Convention on July 16,1976 following independence) 14,800 tonnes,35,400 and 4,000 tonnes,respectively, were allowed entry.
(3) India was granted an export quota of 25,000 tonnes specified in the Joint Declaration of Intent annexed to the Treaty of Accession.
(4) A quota of 25,000 tonnes has been granted from the 1982-83 season for Zimbabwe.

38. It is possible to argue that protective influences within the International Sugar Agreement could be excused if in fact the Agreement succeeded in stabilising world sugar prices. Although it is too early to make any long-term conclusion events during 1980 and 1981 with the world prices fluctuating greatly outside the price band would[1] seem to indicate that the 1978 Agreement has not been a short-term success. Further, in its lack of control over domestic agricultural support policies, which have already been shown as destabilising the world market, any positive effects that the 1978 Agreement may have are diluted.

The Lome Convention

39. The Sugar Protocol annexed to the Lome Convention was mainly derived from Protocol 22 of the Treaty of Accession of the United Kingdom to the European Economic Community. In effect this Protocol commits the European Community to maintaining the supplies traditionally guaranteed by the United Kingdom from those developing countries which were signatories of the Commonwealth Sugar Agreement, and extends this arrangement to certain other African, Caribbean and Pacific states.

40. The Protocol guarantees access to the Community market for 1.3 million tonnes of African, Caribbean and Pacific sugar and the receival by the African, Caribbean and Pacific States of a price of the same order as that which the European growers received, at least equal to the intervention price in the Community. The agreed quantities are given in Table 2.9, and the guaranteed prices for each year are agreed after negotiation.

41. The mechanism of the Sugar Protocol is important in that the safeguard clause for other products in Article 10 of the Lomé Convention does not apply to sugar. Moreover, the Protocol has no set term of years (although its text specifies, that it may be denounced by either party subject to two years notice).

1. The London daily price for raw sugar (monthly average) rose from £98.25 per tonne in July 1979 to £387.87 per tonne in October 1980, and fell to £159.76 per tonne in October 1981.

42. Since access is only guaranteed to the African, Caribbean and Pacific States mentioned in Table 2.9 the Sugar Protocol of the Lome Convention is, like the previous Commonwealth Sugar Agreement[1], protectionist from the point of view of other exporting countries. Further, the cost of supporting this policy is very high, although owing to differences in the method of calculation, the magnitude of the costs varies. One method of calculation is to take the difference between the world price for raw sugar and the Community price[2]. Taking a quantity of 1.3 million tonnes the Sugar Protocol (according to this method of calculation) has cost the Community 887 million Ecus over the period of the Convention. Thus, had the African, Caribbean and Pacific States sold their sugar on the world market, they would have "lost" 887 million Ecus. However this estimate is not completely satisfactory since it does not take into account the

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1. The Commonwealth Sugar Agreement expired on 31st December 1974, as a result of the entry of the United Kingdom into the European Economic Community having been in effect for twenty-three years. The Agreement involved the United Kingdom importing 1,675,000 tonnes of sugar (white sugar equivalent) at an agreed price, of which 330,000 tonnes came from Australia, the only developed country in the Commonwealth Sugar Agreement. As such this Agreement discriminated against non-Commonwealth exporters of sugar to the United Kingdom, Canada and New Zealand.

2. The World Price and the African, Caribbean and Pacific Guaranteed Price
(Ecu's/100 kg, raw sugar)

Year	World Price (London Exchange)	African, Caribbean and Pacific Guaranteed Price
1974/75	57.36	-
1975/76	27.39	25.53 from 1.2.75
1976/77	16.90	26.70 from 1.4.76
1977/78	13.06	27.25 from 1.5.77
1978/79	14.87	(27.81 from 1.7.78
		(33.62 from 9.4.79
1979/80	30.91	34.13 from 1.7.79
1980/81	50.59	35.89 from 1.7.80
1981/82	-	38.94 from 1.7.81
November 1980(peak)	68.06	

price negotiated between those states and Tate and Lyle, neither does it take into account the extent to which exports from the Community depressed world prices. Other estimates of the total cost are 970 million Ecus and 1,007 million Ecus[1]. Although the advantages of the arrangement to the African, Caribbean and Pacific States become insubstantial on the rare occasions when world price are high, the cost borne by the Community remains large.

Future Possibilities

43. It has been shown in the previous sections that the sugar sector is highly protected. Protection is not limited to developed market economies[2] but as a result of size, and other factors, the effect of protectionist policies by the developed economies are more significant on world production, consumption and trade than those of smaller developing economies. Further, it has been indicated that domestic support policies pursued by governments of the European Economic Community and the United States of America can have a destabilising influence on the sugar market, and that a reduction in the level of support may be advantageous. For example, one study[3], estimates that by reducing by 50 per cent trade barriers which at present exist in the Organisation for Economic Co-operation and Development countries the benefit to the less developed economies would be in the region of US$1080 million (at 1977 prices) per annum for sugar and sugar products including confectionery. However, the effects of reducing the level of protection should be examined a little more closely.

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1. The cost respectively of the hypothetical re-export of 1.3 million tonnes of raw sugar and white sugar.

2. Support policies are also used in the major developing exporting nations ranging from a complete ban on sugar imports into Guyana, to very high tariff levels being imposed in India which did not import any sugar between 1958 and 1980.

3. Valdés and Zietz op.cit.

44. First, it should be remembered that sugar is an almost perfectly competitive agricultural product and is grown in many countries. For both security and self-sufficiency reasons few countries would voluntarily stop producing sugar especially at the present time when its importance may grow as a fuel source. In Brazil the government plan to have 3 million alcohol-fuelled motor cars running by 1985, the alcohol being produced from cane sugar.

45. Second, while it remains true that a reduction in trade barriers would lead to a redistribution of wealth away from developed economies to developing economies there would be a redistribution within developing economies. In the study quoted above, for example, the large sugar exporting nations of the Philippines, Brazil and the Dominican Republic with supply elasticities of exports of 0.83, 2.15 and 0.53 respectively, for raw sugar would receive a much smaller share of the increased world exports while countries that are less export-oriented in their production, for example, Angola, India and Bolivia with export supply elasticities of 8.69, 10.0 and 5.24 would increase their market share.

46. Third, one-third of the world trade in sugar is carried out under Special Arrangements. Usually, the prices paid to exporters are generally higher than world market prices reflecting concern to assure supply. These Arrangements are in themselves'protectionist' but tend to support the developing sugar exporting nations, many of whose economies are heavily dependent on sugar. If these Special Arrangements were to cease it is likely that some "traditional" sugar exporters would be unable to compete on the world market. In a recent article on the Caribbean sugar industry, for example[1], it is stated that "none of the five exporting CARICOM (Caribbean Community Common Market) territories which participate in the Lomé Convention's Sugar Protocol, with the sole exception of Barbados, has a sugar sector that is viable from a banker's point of view. All depend heavily

1. Financial Times, "Hard Times in the Caribbean , David Renwick, 1981.

on annual subsidies from the respective island treasuries". It is thus possible that many African, Caribbean and Pacific States would be adversely affected if the Sugar Protocol, by which the European Economic Community gives some degree of support to the sugar industry, was dismantled.

47. Finally, some consideration should be given to two possible events which may have some bearing on the international trade in future: the possibility of the European Economic Community joining the International Sugar Agreement and the possibility of amending the Sugar Protocol.

48. By not joining the 1978 International Sugar Agreement the European Economic Community can be said to have gained in three major ways. Firstly, the export restraints that were applied by the International Sugar Agreement during 1978 and 1979 of 17.5 per cent of the basic export tonnages to member countries resulted in better market opportunities for Community exports. Secondly, it is estimated that during 1979 for every one cent rise in the world price the budget cost of the Community's support system was reduced by 5 per cent. Thirdly, the Community avoided the burden of agricultural adjustment in terms of export restriction and stock holding and was able to pursue its own production policies[1]. Although these were material gains it is unlikely the Community deliberately aimed to take advantage of being a non-member since the Community itself feared that non-participation would detrimentally affect exports. While these gains might not have occurred if the Community had been a member of the International Sugar Agreement such an argument tends to be difficult to pursue since the Agreement does not have any direct control over domestic policies. The inability of the 1978 International Sugar Agreement to limit, more than temporarily the rising price of sugar on the world market in 1979 and 1980 could seem to suggest that the Agreement has been ineffective. As well as the broader issues of the level of stocks and the range of prices

1. Harris, S, op.cit

necessary to increase the effectiveness of the Agreement, it does raise the question of Community membership. However, since Community stocks were also released during early 1980 (from a level of 11.2 million tonnes to 4.0 million tonnes between January and September 1980) it would appear that the major reasons for obtaining membership of the Agreement would be to appease international criticism by honouring its declared commitments to the United Nations Committee on Trade and Development under the Integrated Programme for Commodities, to bring all the Community into a positon of acknowledged responsibility in determining international policy, to ensure co-ordination of its actions given the disciplines imposed on all members and to save the Community from future GATT panels of inquiry.

49. The life of the Sugar Protocol has now reached an interesting stage since while it is of indefinite length it can be amended after April 1981. However it should be stressed that any amendments must arise from negotiations between each African Caribbean and Pacific State (or all) and the Community, and that even if one state decided to withdraw from the Protocol, two years notice would be necessary otherwise the country's withdrawal would represent a unilateral breach of contract. Nevertheless the closure of Tate and Lyle's refinery at Liverpool in 1981 introduces a question as to the future of the guarantee. Although there remains sufficient capacity within the Community to refine all of the sugar imported under the Sugar Protocol there is no room for further closures. However, that possibility exists since "Tate and Lyle's ability to compete effectively with the British Sugar Corporation is limited by the fact that the refining margin built into the EEC's institutional price structure for sugar is based on beet processing and is inadequate for cane refining"[1]. If refining capacity is further reduced this would impose a severe strain on the Protocol, which only guarantees to import sugar, since much of that sugar would have to be re-exported unrefined.

1. House of Lords, Select Committee on the European Communities, EEC Sugar Policy, HMSO 1980.

CHAPTER 3

The Livestock Sector

Introduction

50. For the majority of livestock products the international market is very small: between 1978 and 1980 only about 6 per cent of world meat production was traded, the figures being 1.5 per cent and 4.5 per cent for eggs and milk respectively. Within the meat sector itself 12.5 per cent of sheepmeat was traded compared to 7 per cent for beef and even less in the case of pigmeat and poultry. Since the major developed economies are characterised by a high degree of self-sufficiency the result is that even small movements in production and consumption have a disproportionate effect on the prices and the volume of world trade. Although the impact of measures of agricultural protection is usually most serious in the context of developing versus developed economies, livestock is one of the sectors where the effects between developed countries are of significance in a Commonwealth context, for example, Australia and New Zealand and their northern hemisphere markets.

51. During the 1970s trade in the livestock sector has been particularly volatile. Rapidly rising demand between 1971 and 1973 preceded a collapse during 1974/75 followed by several years of depressed prices. The end of the decade co-incided with prices again rising. The low world price levels throughout most of the decade were in part a reflection of the increased surpluses in many of the developed economies: the European Economic Community, for example, which was the largest import market during the 1960s has now become the largest exporter of milk products. In contrast, many developing countries have virtually ceased to export dairy products, and the availability of cheap, sometimes subsidised supplies has often been a discouragement to domestic dairy development. Like many agricultural products, price fluctuations result from climatic conditions and, in this particular case, are coupled with the cyclical nature of live-

stock production. Nevertheless, these fluctuations in the residual world markets have been accentuated by the domestic support policies within major markets. Although it remains difficult to accurately determine the quantitative effect of such policies, there does exist much evidence that protectionist measures in major markets have adversely influenced the livestock sector as a whole.

52. The degree of protection of animal products differs markedly both by countries and commodities: in general, dairying and beef are more heavily protected, a result, in part, of the numbers of farmers with cattle, while sheep, goat, and horse meats are less protected, a reflection of the small importance of these items for most farmers in the developed world (excluding Australia and New Zealand). One guideline of assessing the degree of protectionism in countries can be made by comparing the levels of producer prices in different countries. The results are given in Table 3.1, although it should be reiterated that the results need to be interpreted carefully. However, the Table does show the difference in milk and cattle slaughter prices, between low and high-cost countries, especially the comparison between Oceania and Japan and the European Economic Community, although certainly not the entire difference is the result of protectionary influences. The variation in the price of sheepmeat reflects, for example, not only protection, but also a preference by consumers for fresh lamb.

Domestic Support Policies

Beef and Veal

53. Over the past twenty years the livestock sector, in general, and beef in particular has been increasingly subject to measures designed to protect domestic producers from the vagaries of international trade. For the major developed economies these include the control of imports by voluntary restraints, quantitative restrictions or prohibition under 'safeguard' legislation, in addition to the imposition of import duties or variable import levies, and the application of direct or indirect non-tariff barriers including animal and public health

TABLE 3.1

Producer Prices of Animal Products in Selected Countries

(average 1977 - 1979, US$ 100 kg)

	Cattle	Pigs slaughter	Lamb weight	Chickens	Milk	Eggs
The Argentine	109	103	..	..	..	..
Australia	100	137	102	..	11	117
European Economic Community (9)	297	169	420 France 318 UK	135 German F.R.	26 Target Price	137 German F.R.
Japan	582	270	..	130	51	109
Republic of Korea	569	273	..	191	36	125
New Zealand	78	127	76	..	8	101
Sweden	335	179	326 inc. Mutton	198	34	110
Switzerland	515	272	580	290	38	201
United States	199	118	190	80	22	79

Source: Various country sources.

regulations.[1]

54. In the European Economic Community, beef and veal are incorporated under the common agricultural policy which provides for a system of price support. This attempts to keep Community market prices as close as possible to an agreed common price level. Imports from third countries into the European Economic Community are controlled by customs duties and variable levies. With the exception of pure bred cattle and calves all other categories covered by the beef and veal regime are subject to customs duties although variable import levies are only applicable on certain categories (Table 3.2). However, as a result of a suspension of import licences between July 1974 and March 1977 under safeguard provisions followed by the application of very high import levies amounting in some cases to almost 100 per cent of the purchase price of the product in world markets, the importation of most categories of cattle, calves and fresh chilled or frozen beef and veal since 1974 has been on the basis of schemes under which concessionary levies or duties apply. The only imports that were not affected were the quotas agreed under the General Agreement on Tariffs and Trade (see Table 3.2)

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1. Protectionist measures have, however, not been solely confined to traditional developed importing countries like the United States of America, Japan or the European Economic Community. Several exporting nations including the Argentine, Uruguay and Kenya have protected consumers, as opposed to producers, against price increases by restricting livestock and meat exports through the taxation of exports, changes in exchange rates, export quotas or partial export bans.

TABLE 3.2

Measures Affecting Imports of Major Meat Importing Countries

Country	Custom's Duty	Variable Levy	Quotas (000 tons) 1972	1973	1974	1975	1976	1977	1978	1979	1980
United States											
Live cattle	1.3-2.5 cts/lb	None	Restraint arrangement between United States, Canada and Mexico								
Bovine meat	2.5 cts/lb (a)	None)									
Sheep/goat meat	0.5-2.3 cts/lb	None)	562.5	Restrictions suspended		551.0	559.0	577.0	677.0	712.0	Restrictions suspended
					NB: Lamb excluded						
Pigmeat	None	None					None				
Poultry (chicken)	3-5 cts/lb	None					None				
Corned beef	4 5 per cent	None					None				
Canada											
Live cattle	1.3 cts/lb	None	Restraint arrangement between United States, Canada and Mexico								
Bovine meat	2 5 cts/lb	None	Free	Free	57.0	1.8.74-30.7.75	Free	66.0	67.0	70.0	78.0
Sheep/goat meat	5.6 cts/lb	None					None				
Pigmeat	None	None					None				
Poultry	12.5 per cent	None	Free	Free	Free	Free	Free	Free	Free	20.0	22.0
Corned beef	15 per cent	None					None				
			Fiscal years (April - March) 1972/73 to 1980/81								
Japan											
Bovine meat	25 per cent	Yes	71.5	(b) 120.0	(c) 5.7	85.0	96.5	92.5	112.0	134.5	136.0
Sheep/goat meat	None	None					None				
Pigmeat	8.8 per cent	Yes					None				
Poultry	20 per cent	None					None				

TABLE 3.2

Measures Affecting Imports of Major Meat Importing Countries (contd)

	Custom's Duty	Variable Levy	Quotas (000 tonnes) 1972	1973	1974	1975	1976	1977	1978	1979	1980
European Economic Community											
Live cattle											
1. Pure-bred breeding animals	Free	None	See below								
2. Others	16	Yes									
Bovine meat											
1. Meat fresh, chilled or frozen	20	Yes									
2. Meat salted in brine, dried or smoked	24	Yes	See below								
3. Meat other prepared	20	Yes									
Live sheep											
1. Pure-bred breeding animals	Free	None	See Table 2.2								
2. Other	15(10)(d)	Yes (e)									
Sheepmeat											
1. Meat fresh, chilled or frozen	20(10)(d)	Yes (e)									
2. Meat salted in brine, dried or smoked	24(24)(d)	Yes (e)	See Table 2.2								
3. Meat other prepared	26(26)(d)	None									
Pigmeat	Free	Yes	None								
Poultry	Free	Yes	None								

No quantitative restrictions but the following quotas were set for imports at reduced or zero rate of levy or duty:

	1972	1973	1974	1975	1976	1977	1978	1979	1980	
GATT live bulls, cows and heifers - Alpine Breeds (000 head)	..	..	..	..	..	..	43.0	43.0	43.0	
GATT frozen beef quota (boneless)	22.0	34.0	34.0	38.5	38.5	38.5	38.5	38.5	50.0	post m.t.n.
GATT special quality beef quota (boneless)	..	..	..	..	..	..	..	..	21.0	post m.t.n. f
GATT buffalo meat from Australia quota (boneless)	..	..	..	..	..	..	..	..	2.25	post m.t.n.
Lomé beef quota (boneless)	..	..	..	22.9	27.5	27.5	27.5	27.5	30.0	
Yugoslav baby beef quota (boneless)	n.a.	n.a.	18.0	18.0	18.0	18.0	18.0	18.0	35.0	
Balance sheet frozen fore quarters and boneless cuts for manufacturing use (bone-in equivalent)	120.0	Free to Sept	Nil	Nil	Nil	40.0	50.0	60.0	50.0	
Balance sheet live young male cattle quota (000 head) for further fattening	Nil	Nil	Nil	112.5	150.0	200.0	230.0	230.0	230.0	

Sources: Various country sources.

Notes:
(a) Approximately 2.0 per cent ad valorem tariff equivalent at 1980 prices.
(b) Of the original quota of 160,000 tons, 40,000 tons were deferred in 1974.
(c) Okinawa quota only.
(d) Non bracketed figures are for third countries not covered by voluntary export restraints, bracketed figures are for third countries covered by voluntary export restraints.
(e) Appliable for third countries not covered by voluntary export restraints.
(f) United States 10,000 tonnes; Australia 5,000 tonnes; Argentina 5,000 tonnes and Uruguay 1,000 tonnes.

and the Lome Convention[1] coupled with certain amounts of live cattle and frozen beef under the balance sheet arrangement. More recently, the other arm of the price support policy, namely export subsidisation, has made a heavy impact on the world beef market. The European Economic Community has moved from being a net importer of beef in 1978 to a position of very substantial exports (545,000 tonnes) in 1980, at rates of subsidies up to US$1,500 per tonne. Australian producers have called for action through the General Agreement on Tariffs and Trade against subsidised Community beef exports.

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1. Under the second Lome Convention special measures were undertaken for a further period of five years in order to enable African, Caribbean and Pacific States which are traditional exporters of beef and veal to maintain their position on the Community market, thus guaranteeing a certain level of imports for their producers.

   The measures involve a 90 per cent reduction in charges other than customs duties, i.e. levies on the importation of beef and veal originating in Botswana, Kenya, Madagascar and Swaziland provided that a tax of the equivalent amount is levied at the time of export by the state concerned.

   The quantities of boned or boneless meat allowed per calendar year is as follows:-

Botswana	18,916 tonnes
Kenya	142 tonnes
Madagascar	7,579 tonnes
Swaziland	3,363 tonnes
	30,000 tonnes

   During any specific year, if a short-fall occurs then that amount can be re-allocated. Further, in the event of force majeure the European Economic Community will consider appropriate measures to ensure that the quantities affected can be delivered in the preceding or following year as a result of the major importance of these exports to the Community for the economy of the above states.

   Lastly, it should also be noted that Zimbabwe has been allocated a quota of 8,100 tonnes of boneless beef, once it is agreed that the livestock sector is in a healthy condition.

55. In the United States of America, quantitative restrictions are the major method of regulating the market and originally emanated from the 1933 Agricultural Adjustment Act which permitted quotas on imports which threatened to undermine the objectives of domestic farm programmes. The most recent regulation has been the Meat Import Act of 1979, which superceded the Meat Import Act of 1964 in providing for the imposition of import controls on certain fresh, chilled and frozen beef, veal, mutton and goat meat products. Some preserved meats are also covered. Like its predecessor, the new law mandates quantitative import controls if imports are expected to exceed 110 per cent of the agreed quantity. The major new feature of the 1979 Act is that the import quota is linked both to domestic beef production levels and to a counter-cyclical formula in order to prevent the price effects of the domestic cattle cycle being exacerbated by imports.[1] However, although these quantitative restrictions on meat imports into the United States of America exist, voluntary restraint arrangements have been negotiated with major suppliers under Section 204 of the Agricultural Act of 1956 with the result that the United States Government has avoided, having to impose and administer formal import quotas. Canada, similarly, has negotiated export arrangements.

56. In Japan, price support measures include customs duties, variable levies and quotas. Quotas are applied to beef and are fixed half-yearly. After a rapid rise in imports up to the early 1970s, Japan temporarily stopped the issuing of beef import licences in 1974/75 under the safeguard clause of the General Agreement on Tariffs and Trade, Article XIX. However, in recent years Japanese quotas have again shown a rising trend (Table 3.2) well exceeding average import levels of the early 'seventies. The global import quota for the first half of the fiscal year 1980-81 (April to September) was set at 72,000 tonnes divided into a general quota of 64,000 tonnes and a special quota of 8,000 tonnes. The latter provided for imports of

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1. For further details see United States Department of Agriculture, Foreign Agriculture, Changes in US Meat Import Law, July 1980 Supplement.

2,400 tonnes of cooked beef, 1,250 tonnes of beef for school lunches, 1,500 tonnes of beef for hotels and 2,850 for Okinawa. For the second half of the 1980-81 fiscal year the quota was set at 62,800 tonnes similarly distributed.

57. The other major non-tariff measures affecting animal products, notably beef and veal, are animal and public health regulations. Whilst the legality of measures designed to prevent the introduction of diseases has been recognised in the General Agreement on Tariffs and Trade, meat exporting countries have often criticised the inadequacy of consultation and communication with regard to the trade restricting effects of such measures - and changes in them - as well as the differences in meat inspection systems of various importing countries and the way in which health standards and regulations are interpreted and enforced. In general, imports are permitted only from countries whose production and processing facilities have been found by inspection to comply with the veterinary requirements of the importing country. Countries with a high standard of animal health have the strictest regulations: Canada, the United States of America, Japan, much of Western Europe and the Republic of Korea all bar the importation of livestock and uncooked meat from countries where foot and mouth and rinderpest diseases are prevalent. As a result, many major markets can only be supplied by a relatively small number of exporting countries, notably Australia, New Zealand and Central America. To some degree less restriction applies in the European Economic Community where, since cattle are protected by vaccination, (excluding the United Kingdom and the Republic of Ireland) under certain conditions uncooked boneless bovine meat can be imported from countries where the level of foot and mouth disease is higher than in the Community, but where the disease is not endemic.

<u>Other Meats</u>

58. In the European Economic Community a common regime has been established for pigmeat, poultrymeat and sheepmeat, the major aims being to maintain the principle of common price levels

throughout the Community as well as the principle of "Community preference" in relation to its trading arrangements with Third countries. In the case of both pigmeat and poultrymeat, although there are no customs duties imposed on imports from Third countries, both sectors are protected by import levies and sluicegate prices. The basic import levy is fixed at a level which ensures that producers in the Community are not adversely affected when world cereal feed costs are significantly below Community costs: the sluicegate price prevents Third country suppliers from "dumping" pigmeat or poultrymeat into the European Economic Community at a price below world production costs. If the free at frontier or import price of any product under the pigmeat and poultrymeat regimes falls below the sluicegate price an additional levy can be introduced to reflect the difference between the two prices. The major result of these measures is that little pigmeat and poultrymeat is imported into the Community from Third countries.

59. The sheepmeat regime of the European Economic Community is very new having only been introduced in October 1980. Whilst its broad aims are the same as the pigmeat and poultrymeat regimes there are no sluicegate prices. With respect to trade with Third countries, voluntary restraint agreements have been concluded between the Community and New Zealand, Australia, the Argentine and Uruguay. These countries have agreed to limit their exports of chilled and frozen sheepmeat into the Community in return for a reduction in the customs duty from 20 per cent to 10 per cent. Further voluntary restraint agreements are in the process of being concluded with Bulgaria, Czechoslovakia, Hungary, Poland, Iceland, Austria and Rumania (Table 3.3). Where imports are not covered by the above arrangements, the imports are subject to import licences, customs duties, securities and import levies[1] which are based on the difference between the free at frontier offer price and the seasonally adjusted basic internal price.

1. In the case of meat of sheep and goats, fresh chilled or frozen, the variable levy may not exceed the duty of 20 per cent bound under the General Agreement on Tariffs and Trade.

TABLE 3.3

Voluntary Restraint Agreements during 1981 between the European Economic Community and Third Countries under the Sheepmeat Regime [1]

Country	Live Animals (tonnes)	Fresh or Chilled Sheepmeat (carcase weight)	Frozen Sheepmeat Equivalent	Total
Australia	-	17,500		17,500
The Argentine	-	23,000		23,000
Austria	300	-	-	300
Bulgaria	2,000	1,250	-	3,250
Czechoslovakia	-	800	-	800
Hungary	10,050	1,150	-	11,200
Iceland	-	600	-	600
Poland	5,800	200	-	6,000
New Zealand	-	245,500		245,500
Rumania	475	-	75	550
Uruguay	-	5,800		5,800
Total above	18,625	295,875		314,500

Source: Meat and Livestock Commission (1981) CAP - SHEEPMEAT, An explanation of the EEC Sheepmeat Regime.

Note: (1) It is likely that small allocations will be made to Spain and Yugoslavia totalling about 780 tonnes carcase weight equivalent.

60. In the United States of America pigmeat, poultrymeat and sheepmeat (not lamb) are all covered by the Meat Import Act discussed above. In Japan, in the case of pigmeat, variable levies are imposed in addition to tariff duties although there is no quantitative restriction. For poultrymeat and sheepmeat there are no variable levies nor quantitative restrictions although there are customs duties in the case of poultrymeat.

Dairy Products

61. The dairy sector of virtually all developed market economies is supported by a number of policy instruments in order to maintain the prices received by the producer at relatively high levels (typical price guarantee and support policy instruments for milk are given in Table 3.4). In the European Economic Community, the common organisation of the market in dairy products covers fresh, concentrated and powdered milk and cream in addition to butter, cheese and curd. Domestic prices within the Community are secured and stabilised by the imposition of variable levies on imports of dairy products to prevent internal price levels being reduced below the threshold prices; by the payment of subsidies on exports in order to bring prices of Community produce down to the generally lower-priced international market level; by the guaranteed pruchase and/or storage of butter and spray-dried skim milk powder; and by the payment of subsidies on skim milk used for the manufacture of casein and on skim milk and skim milk powder fed to livestock. Although there are no threshold prices for either liquid milk or fresh milk products import levies and export refunds are applied on trade with Third countries. With the exception of butter from New Zealand and special arrangements for cheese under the General Agreement on Tariffs and Trade, few milk products are imported into the European Economic Community: the traditional market for much of Australia and New Zealand dairy produce having been 'lost' by the accession of the United Kingdom into the Community as a result of these measures.

TABLE 3.4

Price Guarantee and Support Policy Instruments for Milk in Developed Countries in 1978/79

Country	Guarantee, target or minimum milk price	Support purchasing	Deficiency payments and/or general consumer subsidies	Other income supplements	Restriction of imports	
					Quantitative	Variable levies
Australia	milk for manufacture		milk for manufacture only		x	
Austria	x	x	x		x	
Canada	milk for manufacture	x	milk for manufacture only		x	
European Economic Community	x	x	mainly liquid and dry skim milk for animal feed and casein			x
Finland	x		x	x	x	
Greece	x		x			x
Japan	x	x	milk for manufacture only		x	
New Zealand	milk for manufacture		liquid milk only			
Norway	x		x	x	x	
Spain	x	x			x	
Sweden	x		x	x		x
Switzerland	x	x	x	x		x
United States	milk for manufacture	x			x	

Source: International Dairy Federation Annual Session in Montreux Dairy Price Support Policies in Developed Economies, W. Krostitz.

62. The cornerstone of the protection of the United States of America's dairy market is through the support price for manufacturing milk coupled with support purchases by the Commodity Credit Corporation. Milk for liquid consumption is marketed under federal market orders or state regulations which require distributors to pay minimum prices to producers. In Japan, a deficiency payments scheme operates which is the difference between the price actually paid by the manufacturing industry on the basis of regulated prices for the major milk products and the support price. Apart from the deficiency payment, the manufacturing milk price is supported by intervention purchases of butter, skim milk powder and condensed milk when market prices of these products fall below specified levels.

63. In international trade, two major effects of the dairy price support policies of major high-cost producing countries can be noted. The low-cost efficient producers of exporting countries have been increasingly excluded from some markets now being supplied by the domestic high-cost producers, and the low-cost producers have also lost part of third markets to high-cost producers whose governements subsidise the sale of surplus products abroad - the surpluses being the result of the domestic policies in the high-cost producing countries. Of the total turnover in international dairy trade about 75 per cent comes from countries that subsidise their exports by one means or another. For two of the major products, butter and skimmed milk powder, international prices during the past decade have averaged as little as one quarter to one third of the levels of prices on domestic markets of major northern hemisphere producing, consuming and exporting countries. Further, sizeable quantities of skimmed milk powder, for animal feed, have been exported at prices requiring even higher subsidies and milk powder, butter oil[1] and other products totalling 1.5 to 2.0 million tonnes of milk equivalent annually have been disposed as food aid to develcping countries, 10 per cent of total exports.

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1. Further details on butter are given in paragraphs 98 and 99.

64. In order to obtain a more detailed quantitative assessment of the effects of protection in the livestock market on international trade and national welfare in the beef sector, a study was recently made by the Food and Agriculture Organisation of the United Nations, using a world beef trade model with 1977-79 data.[1] Whilst it must be remembered that any econometric model cannot take into account all the various factors involved, the results do indicate the possible increases in the volume of trade that would occur from certain policy changes. If the rates of market protection for beef in both the developed and developing market economies were reduced by 25 per cent, the model calculations suggested that the volume of world trade in beef would have been 22 per cent larger than the actual trade between 1977 and 1979, and that average world trade prices (as against support prices) would have risen by 7 per cent. A 50 per cent reduction in protection rates would have led to a 73 per cent increase in trade and a 16 per cent rise in price (Table 3.5). The result of such a decrease in support measures

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1. The model was run, using average 1977-79 data on production and consumption of beef as well as slaughter cattle market prices of individual market economy countries or groups of countries and price elasticities of supply and demand. For deriving a "world market" price, the 1977-79 average of cattle market prices in the two main beef exporting countries (Australia and Argentina) was used as a starting point. To this an approximate 30 per cent margin for "natural protection" of production in importing countries was added to allow for transport from the main exporters to the main importers, for certain quantitative losses involved in frozen meat trade, in which form the larger part of international beef trade takes place, as well as for consumers preference for fresh meat. By relating domestic market prices to this world market price, ad valorem tariff equivalents (or implicit tariff rates) were calculated as a uniform yardstick to measure the degree of protection, whatever protective systems were actually employed by countries. As liberalisation would have lowered domestic prices in high price countries, domestic production would have decreased and demand increased, according to the assumed price elasticities. Other things being equal, growing import demand would have caused world market prices to rise which in turn would have encouraged production and reduced demand in low-cost producing countries. The model was run in such a way that a new world market price was computed, bringing demand and supply into equilibrium at the world level. Centrally planned countries were not covered by the model, except for their net trade.

would be a reallocation of both production and consumption, with the export earnings of low cost producing countries rising markedly, notably Oceania and South America. Gains in overall welfare - the model tacitly accepts welfare changes between producers and consumers - would have been made in both exporting and importing countries (Table 3.6). Assuming a reduction of protection of 25 per cent, there would have been little effect on overall welfare in the United States of America. In the Oceanian and South American exporting countries farm incomes would have increased more than the consumer burden, while in the European Economic Community and Japan the reduction in consumer burden more than compensates for the loss of farm incomes. Overall the study concluded that under the hypothetical assumption of reduced market protection, there would have been some re-distribution in world beef farm income in favour of developing countries while within developing countries a redistribution of welfare from consumers to farmers would have occurred.[1]

65. Although the study was confined to beef, liberalisation of the beef sector would affect the whole livestock sector because changing beef prices are related to the production and consumption of other livestock products according to the respective cross-price elasticities of demand and supply. One major effect would be a reduction in the demand for other meats in the major importing countries, and an increase in the beef exporting countries, given 'ceteris paribus' clauses.

Qualitative Assessment of the Dairy Sector

66. Major effects could also be expected from the liberalisation of trade of dairy products. Effective protection of milk is very high in many countries: in some high-cost countries price support has resulted in the production of large large surpluses disposed of through subsidised pricing.

1. Similiar conclusions are reached by A. Valdes and J Zietz op. cit.

TABLE 3.5

Effects of Liberalising Trade in Beef - Percentage Changes from Original Situation

(all countries reducing implicit tariff rates by the same proportion)

Exporters	Original Rate of Implicit Tariff per cent	Implicit Tariff Rates Reduced by 25 per cent: Domestic Price	Production	Consumption	Net Trade	50 per cent: Domestic Price	Production	Consumption	Net Trade
		Resulting Percentage Change in							
Australia	-	9	3	- 5	10	19	7	-10	22
New Zealand	-	10	4	- 6	10	22	8	-11	21
The Argentine	-	8	4	- 2	27	18	9	- 5	58
Uruguay	-	7	3	- 5	19	17	6	-10	42
Brazil	-	8	4	- 4	242	18	9	- 8	523
Central America	7	5	2	- 4	47	12	5	- 8	104
Yugoslavia	86	- 5	-2	4	- 69	-11	- 4	9	-147(a)
Importers									
United States	46	- 1	-0	1	17	- 2	- 1	2	28
European Economic Community(9)	118	- 7	-2	4	202	-15	- 5	9	443
Japan	328	-13	-7	19	92	-28	-15	49	233
Austria	148	- 9	-4	11	450	-18	- 8	25	1,040
Canada	52	- 2	-1	1	47	- 4	- 1	2	88
Finland	224	-11	-5	7	0	-24	-10	18	..
Greece	147	- 9	-3	6	13	-18	- 6	13	30
Portugal	147	- 9	-4	10	48	-18	- 8	22	111
Spain	134	- 8	-3	9	83	-17	- 5	21	190
Sweden	108	- 7	-3	4	234	-14	- 6	8	508
Switzerland	356	-14	-6	11	160	-29	-13	27	388
Republic of Korea	318	-13	-5	15	78	-28	-12	39	193
Other Developed	10	5	1	- 2	- 68	11	3	- 5	-151
Other Developing	10	5	1	- 2	- 41	11	3	- 5	- 91
Centrally Planned	..	..	..	..	- 29	..	..	..	- 53
World (d)	-	7(b)	0	0	22(c)	16(b)	1	1	73(c)

Source: Food and Agriculture Organisation of the United Nations, Committee on Commodity Problems, Intergovernmental Group on Meat, Ninth Session, 1980, CCP :ME 80/4.

Notes: (a) Country switches from net exporter to net importer. (b) World market price. (c) World exports (Sum of net exports of all exporting countries). (d) Excluding centrally planned economies except for

TABLE 3.6

Welfare Effects of Trade Liberalisation in Beef
(all countries reducing implicit tariff rates by 25 per cent)

Country	Reduction in Consumer burden	Change in farm income	Increase in Tariff receipts	Increase in overall economic welfare
		million	US $	
Australia	-79	176	0	97
New Zealand	-15	42	0	27
The Argentine	-207	273	0	66
Uruguay	-21	32	0	11
Brazil	-190	204	0	14
Central America	-100	116	-3	13
United States	299	-273	-37	-11
European Economic Community (9)	1481	-1394	461	548
Japan	444	-292	331	483
Austria	59	-54	41	47
Canada	45	-43	6	8
Finland	55	-52	32	35
Greece	65	-30	-21	15
Portugal	35	-24	11	21
Spain	126	-103	53	76
Sweden	29	-27	10	11
Switzerland	152	-126	90	115
Yugoslavia	42	-44	26	24
Republic of Korea	116	-79	67	104
Other developed	-45	43	-4	-5
Other developing	-537	500	-49	-87
World excluding Centrally Planned	1654	-1155	1014	1612

Source: Food and Agriculture Organisation of the United Nations, Committee on Commodity Problems, Intergovernmental Group on Meat, Ninth Session, 1980, CCP: ME 80/4.

Thus, international trade in dairy products is particularly distorted and in some high-cost producing countries, for example, the European Economic Community, heavy costs have been incurred.[1] If liberalisation did occur it would result in reallocation of resources from many northern hemisphere nations towards the southern hemisphere low-cost exporters, notably Australia and New Zealand. However, since there is only a very small number of efficient low-cost exporting countries with a relatively limited production capacity, it is likely that the world market prices for dairy products would increase which in turn may encourage dairy development in the developing countries.

Effects of the Multilateral Trade Negotiations

67. The major concessions granted included the following:-

(a) An increase in the quantities of bovine meat that can be imported levy-free into the European Economic Community (Table 3.2), in addition to minimum access commitments concerning imports of beef into Japan, Canada and the United States of America. Specifically, the United States of America has fixed the minimum level of imports at 567,000 tons under its 1979 Meat Import Act; Japan is increasing its imports to a minimum level of 135,000 tons by 1982/83 and Canada has established a basic minimum quota of 63,000 tons in 1980 which will increase in line with the growth in population.

(b) Some reductions in tariff duties have been granted on certain categories of livestock products by the United States of America, Canada, Japan, the Republic of Korea, Spain and Switzerland. In the United States of

1. It is estimated that the total expenditure on milk and milk products in the European Economic Community during the 1979 financial year amounted to 4,459.6 MEUA (30 per cent of the total budget) Source: Official Journal of the European Communities, C342, Volume 23, December 1980.

America, the largest importer of beef, for example, the duty on fresh, chilled and frozen beef has been reduced from 3 to 2 US cents/lb.

(c) From 1980, the European Economic Community will import up to 9,500 tonnes of cheese per annum from New Zealand. This cheese will be subject to minimum c.i.f. import prices. Similar import arrangments have been negotiated for 2,750 tonnes of mature Canadian cheddar and 3,000 tonnes of Australian cheese. In the United States of America access has been granted for the import of 111,000 metric tonnes of cheese per annum of various types, predominantly from the European Economic Community, New Zealand, Australia and Switzerland.

68. In addition to the above concessions were the formalisation of the International Dairy Arrangement, the setting up of the Arrangement Regarding Bovine Meat which provides for information exchange and market monitoring, and the agreement on codes on non-tariff trade barriers. The overall result of the negotiations is that while some limited concessions have been obtained, notably for beef and cheese, no major breakthrough towards liberalisation of animal product trade has occurred, i.e. towards the low-cost producing economies of Australia and New Zealand, and no results of significance for developing countries, for example, the Argentine.

CHAPTER 4

The Tea, Cocoa and Coffee Sectors

69. In contrast to the previous chapters, all the beverages which form the content of this section are non-competing agricultural commodities, with are almost wholly produced in the developing world. Thus, prima facie, there should be no tariff or non-tariff barriers to the import of these commodities into the developed countries. This chapter examines the extent and continued existence of barriers to entry and of tariff escalation.

Tea

70. Of the annual world tea output of about 1,850,000 tonnes, 40 per cent is exported, of which India, Sri Lanka, Kenya and China account for two-thirds, the remainder being divided between other countries in the Far East, Africa and Latin America. For some African countries tea is of substantial importance, contributing, for example, 15 per cent of Kenya's export earnings and 23 per cent of Malawi's.

71. Regarding the major developed economy markets there are, with two exceptions, no import duties on tea, whether imported in bulk or in packaged form[1]. The exceptions are New Zealand which imposes a 5.5 c/kg duty on packaged tea and Japan where there are temporary tariffs of 5 per cent and 20 per cent, respectively, on bulk and packaged tea (Table 4.1). Presumably, the reason for the tariff imposition is in order to protect the domestic tea production and packaging industries. Similarly for the importation of instant tea, the European Economic Community, the United States of America and Australia do not impose tariffs, although again New Zealand and Japan do. Tariffs on bulk, packaged and instant tea are also imposed by some middle eastern countries.

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1. Nominally duties on packaged and instant tea are imposed by the European Economic Community but since duty-free treatment is granted to all developing countries the duties have no significance.

TABLE 4.1

Tariffs on Tea in Major and Minor Markets

Country	Bulk Tea	Packaged Tea	Extracts, Essences, Instant Tea
European Economic Community			
Pre-MTN Tariffs			
Most-favoured nation rate	9% B	11.5% B	12% B
Generalised System of Preferences	-	0%	0%
Post-MTN Tariffs			
Most-favoured nation rate	0% B	5% B	12% B
Generalised System of Preferences	-	0%	0%
United States of America			
Pre-MTN Tariffs			
Most-favoured nation rate	0% B	0% B	0% B
Australia			
Pre-MTN Tariffs			
Most-favoured nation rate	0%	$0.037/kg	$0.11/kg
Generalised System of Preferences	-	-	0%
Post-MTN Tariffs			
Most-favoured nation rate	0% B	0% B	$0.08/kg
Canada			
Pre and Post MTN Tariffs			
Most favoured nation rate	0% B	0% B	0% B
Japan			
Pre-MTN Tariffs			
Most-favoured nation rate	35%	35%	25% B
Generalised System of Preferences	-	-	-
Post-MTN Tariffs			
Most-favoured nation rate	5%	20% B	20% B
Generalised System of Preferences	2.5%	14%	10%
New Zealand			
Pre-MTN Tariffs			
Most-favoured nation rate	0% B	5.51 c/kg	25% B
Generalised System of Preferences	-	-	-
Post-MTN Tariffs			
Most-favoured nation rate	0% B	10% B	20% B
Generalised System of Preferences	-	0%	15%
Pakistan (present position)	54.5%	100%	100% = 20[a]
Iran " "	20% + 3RIs/kg	20%+3RIs/kg	45% + 500RIs/kg[b]
Iraq " "	235 fils/kg	235 fils/kg	75%[b]
United Arab Emirates "	2%	2%	2%

Sources: Various country statistics.

Notes: (a) On duty paid value.
(b) Prohibited import.
B Signifies bound rates under the General Agreement on Tariffs and Trade.

72. Non-tariff barriers, however, do exist in the European Economic Community although they are of little importance. Given the very low price elasticity of demand for both tea and coffee they are seen as a method of raising government revenue by imposing "luxury" consumption taxes. Further, there are similar taxes on coffee and cocoa and as such tea is not specifically discriminated against. Moreover, apart from the turnover tax in the German F.R., which is marginally discriminatory on the import of packaged teas, the sales taxes have to be borne by both domestic packers and imported tea in packaged form (Table 4.2). Another possible non-tariff barrier that can be isolated is brand loyalty, although increasing shares of "own" brand products would indicate that the problem is not insurmountable. However, this may be a severe problem to a small individual exporter, although it must be remembered that controls against brand images would be impossible to legislate for.

73. Given the above comments any benefits which might accrue from developed country trade liberalisation would be very small and would be distributed to developing countries in the same proportion as their current market share[1]. Further, with respect to increased domestic processing, a study[2] on the packaging of tea into bags and the manufacture of instant tea in India and Sri Lanka concludes that "while the tea producing countries are hypothetically in a position to export their tea to big developed economy markets in a packeted form suitably preserved in cellophane wrapped cartons so as to compete with the domestic tea packeting industries in the economies concerned, they will not have a comparative advantage in packaging, will face higher freight charges and more important, they will be attempting to cater for a rapidly declining segment of the market". However, increased domestic packaging is

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1. Valdes and Zietz op. cit.
2. R.C. Wanigatunga, <u>Packaging of Tea into Bags and the Manufacture of Instant Tea in India and Sri Lanka</u>, World Bank/ Commonwealth Secretariat Research Project on the Industrial Processing of Primary Products, June 1981, draft report.

TABLE 4.2

Taxes on Tea in the European Economic Community
(figures per kilogramme unless otherwise stated)

Country	Bulk Teas and Packeted Teas	Instant Tea
Belgium	6 per cent[a]	6 per cent[a]
Denmark	DKr 5/kg[c]	DKr 12.5/kg
France	F.F.0.23/kg+7per cent(a) +2per cent[b][c]	F.F.0.828 per kg+bulk tea tax
German F.R.	D.M.4.15+6.5per cent[b][c]	D.M.10.40+6.5 per cent[b]
Luxembourg	5 per cent[a]	5 per cent[a]
Netherlands	4 per cent[a]	4 per cent[a]

Sources: Various country sources.

Notes: (a) Value added tax.

(b) Turnover tax.

(c) Ad valorem incidences of these taxes have fluctuated in recent years as a result of fluctuations in tea prices and currency exchange rates. Tea prices per kilogram vary widely according to quality and degree of processing. For indicative purposes only incidences of the taxes on tea in bulk are given below on the basis of an import price of US$1.01/lb (average London auction price in 1980) and average exchange rates in 1980: Denmark 40 per cent and the German F.R. 102 per cent. When import prices are higher than US$1.01/lb incidences are lower than those indicated above and vice-versa. Incidences of these taxes on higher priced goods - high quality teas and tea packed for retail sale - are lower than those indicated above.

recommended in the report for other markets, notably the Middle-East, and North Africa, i.e. in the context of South-South trade.

Cocoa[1]

74. Cocoa beans are a non-competing agricultural product being only produced in the developing countries of the tropics, although unlike tea, production is more heavily concentrated with six countries, Ghana, Nigeria, the Ivory Coast, Cameroon, Ecuador and Brazil accounting for over 80 per cent of the world's output. Most of this production is consumed in the United States of America, Western Europe and Japan. Although some progress has been made by the bean producers in processing cocoa beans prior to export, almost two-thirds of cocoa processing activities are still carried out in the consuming countries. Cocoa grindings in the producing countries have increased from about 5 per cent of the world total between 1928-1942 to about 36 per cent in 1980. World imports of cocoa beans, in part, reflect this development with the imports of beans into the United States of America and the Union of Soviet Socialist Republics having fallen while the imports of semi-processed products (cocoa butter, powder and cake) have increased, particularly from Brazil and Ecuador. However, this trend is not always apparent since, on the other hand, imports of cocoa beans into both the German F.R. and the Netherlands, have risen during the last decade, mainly reflecting increased exports/re-exports of semi-processed cocoa products from those countries. Thus, the broad trend is that while cocoa bean producing countries have become significant suppliers of processed products, Western European countries still dominate the export markets for cocoa butter and powder, in particular the Netherlands and the German F.R.

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1. This section heavily relies on data from M.V.D.J. Karunasekera, The Economics of Industrial Processing of Cocoa, World Bank/ Commonwealth Secretariat Research Project on the Industrial Processing of Primary Products, June 1981, draft report.

75. Tariffs on cocoa and cocoa products in the major developed economy markets and the Union of Soviet Socialist Republics are shown in Table 4.3. In nearly all cases cocoa beans enter freely into these countries; further most of the processed cocoa products (paste, butter and powder) are also free or face relatively small nominal tariffs. In the European Economic Community, for example, exports from the African, Caribbean and Pacific States (which includes all the African cocoa producers) are duty-free under the Lome Convention. Further, under the European Economic Community's General System of Preferences the least developed countries which are outside the African,Caribbean and Pacific group have also been given duty-free entry for their cocoa products, although they are not significant cocoa producers. For other developing countries, notably South America- the bulk of whose cocoa exports goes to the North American market in any case - the three processed products, paste, butter and powder bear duties of 11, 8 and 9 per cent,respectively, having been given only partial duty reductions, of about one-third of the most-favoured nation tariff, under the Community's General System of Preferences. This concession in the case of cocoa butter is limited to a quota of 21,600 tonnes (in 1980)[1] over and above which the full rate must be paid, although in practice the actual amount of imports is far below this level. In the United States of America, both cocoa beans and cocoa paste are free of tariffs: in the case of powder and butter the most-favoured nation rates were previously very low and in the latter case the duty has been reduced to zero following the Tokyo Round of multilateral trade negotiations.One important restriction that is applied in the United States of America, however, is that if imports of butter or powder from a single country in any year exceed US$25 million (in 1976 , but increasing in relation to their Gross National Product) or 50 per cent of the imports of that product, whichever is the lower, they must pay the full most-favoured nation duty the following year. This ceiling was exceeded by both Brazil and the Ivory Coast during 1979. The only major developed nation where tariffs on cocoa

1. The 1981 quota is 22,000 tonnes. A first tranche of 19,485 tonnes is apportioned as follows: German F.R. 720, Benelux 10,935, France 90, Italy, Denmark, Ireland and Greece 45 each, and the United Kingdom 7,560. Further details can be obtained from Official Journal of the European Communities,L354,Vol.23.

TABLE 4.3

Tariffs on Cocoa and Cocoa Products in Major Markets

Country	Cocoa Beans	Cocoa Paste	Cocoa Butter	Cocoa Powder
European Economic Community				
Pre-MTN Tariffs				
Most-favoured nation rate	5.4% B	15% B	12% B	16% B
Generalised System of Preferences	-	-	8% (a)	11%
Lomé Convention	0%	0%	0%	0%
Post-MTN Tariffs				
Most-favoured nation rate	3.0% B	15% B	12% B	16% B
Generalised System of Preferences (b)	-	11%	8% (a)	9%
United States of America				
Pre-MTN Tariffs				
Most-favoured nation rate	0% B	0% B	3%	0.37c/lb B
Generalised System of Preferences	-	-	0% (c)	0% (c)
Post-MTN Tariffs				
Most-favoured nation rate	0% B	0% B	0% B	0.37c/lb B
Australia				
Pre-MTN Tariffs				
Most-favoured nation rate	0% B	$0.018/kg	$0.037/kg B	$0.072/kg B
Generalised System of Preferences	-	0%	0%	0%
Post-MTN Tariffs				
Most-favoured nation rate	0% B (d)	0% B	0% B	0% B
Canada				
Pre-MTN Tariffs				
Most-favoured nation rate	0% B	1c/lb B	0% B	15% B
Generalised System of Preferences	-	0%	-	10%
Post-MTN Tariffs				
Most-favoured nation rate	0% B	0% B	0% B	10% B
Generalised System of Preferences	-	-	-	5%
Japan				
Pre-MTN Tariffs				
Most-favoured nation rate	0% B	10-20% B (e)	5% B	30%
Generalised System of Preferences	-	5-10% (e)	0%	15%
Post-MTN Tariffs				
Most-favoured nation rate	0% B	10-20% B	2.5% B	21.5% B
New Zealand				
Pre-MTN Tariffs				
Most-favoured nation rate	0.452c/kg B (f)	30%	0% B	30% B
Generalised System of Preferences	-	-	-	-
Post-MTN Tariffs				
Most-favoured nation rate	0% B	30%	0% B	30% B
Generalised System of Preferences	-	15%	-	15%
Union of Soviet Socialist Republic				
Most-favoured nation rate	0%	0%	0%	25%
Generalised System of Preferences	-	-	-	0%

Sources: International Cocoa Organisation "Obstacles to the expansion of cocoa consumption; measures affecting trade", ICC/13/7, 9 July 1979; UNCTAD: various country sources.

Notes:

(a) Subject to a tariff quota.

(b) Duty-free entry has been granted to the least developed countries for their cocoa products.

(c) Subject to a ceiling, see text.

(d) A 2 per cent revenue duty was introduced in 1979. The duty is also applicable to coffee.

(e) The higher rates are for defatted paste.

(f) 30% B for roasted cocoa beans.

B Indicates that the rate is bound under the General Agreement on Tariffs and Trade.

products are high is in Japan, and here certainly tariff escalation can be shown to exist. Japan, however, has a limited influence on world trade accounting for 1.5 per cent of total world cocoa grindings, and taking 1.8, 4.1 and 2.1 per cent, respectively, of the world's imports of cocoa paste, cocoa butter and cocoa powder.[1]

76. Non-tariff barriers exist in many of the major cocoa markets but are not of great importance. Many Western European countries do impose varying degrees of internal taxes on both cocoa beans and powders (Table 4.4). However, in all cases (except Spain) the internal tax is applied to both locally manufactured and

TABLE 4.4

Taxes on Cocoa and Cocoa Products in Selected Western European Countries

Country	Cocoa Beans	Cocoa Paste	Cocoa Butter	Cocoa Powder
Denmark	-	DKr 6/kg	DKr 6/kg	DKr 6/kg
France	FF 0.07/kg(a)	FF 0.085/kg	FF 0.085/kg	FF 0.085/kg
Italy	Lit 180/kg(a)			Lit 170/kg(d)
	Lit 200/kg(b)	Lit 225/kg	Lit 280/kg	Lit 225/kg(d)
	Lit 225/kg(c)			
Norway	-	NKr 7/kg(e)	NKr 7/kg(e)	-

Source: General Agreement on Tariffs and Trade; Tropical Products: Information on the Commercial Policy Situation and Trade Flows, Cocoa and Cocoa Products, COM.TD/W/329, 1981.

Notes
(a) Ad valorem incidences of these taxes have fluctuated in recent years as a result of fluctuations in cocoa prices and currency exchange rates. For indicative purposes only, incidences of taxes on raw cocoa beans when the import price is at US $1.18/lb (average cocoa bean prices in 1980) are given below on the basis of average rates in 1980: France 0.6 per cent, Italy 8 per cent. When import prices are higher than US $1.18/lb, incidences are lower than those indicated above, and vice-versa.
(b) Roasted, not shelled.
(c) Roasted, shelled, crushed.
(d) Cocoa powder containing less than one per cent of cocoa butter.
(e) New rate with effect from 1 April 1981. The previous rate was NKr 5 per kg.

1. Tariffs on cocoa paste and cocoa powder are also high in New Zealand although again it is not a major market.

imported cocoa products without discrimination and further,it is also applied on tea and coffee. Whilst, theoretically, the tax has the effect of depressing domestic consumption of cocoa products, the very low price elasticity of demand of less than 0.2 would indicate that the actual effect is minimal. Other types of non-tariff barriers which have some significance in an individual country include health and sanitary regulations and internal taxes on unsweetened cocoa powder in Japan; licensing regulations and quotas on beans, paste and unsweetened powder in New Zealand and automatic licensing in Switzerland.

Coffee

77. Coffee is only grown in significant quantities in the tropics. During the 1980-81 season world production totalled 79,000 thousand bags, of which Brazil and Colombia accounted for nearly 40 per cent. Other important producing countries include Indonesia, Mexico and the Ivory Coast and in the Commonwealth, Uganda, Kenya, Tanzania, and India. Approximately three-quarters of world production is exported, with exports from Brazil and Colombia again dominating the world export statistics. In recent years there has been an increasing trend towards the export of coffee in instant form. Between 1975 and 1979 exports of instant coffee from producing countries rose from 111,000 tons (raw coffee equivalent) to 194,000 tons with Brazil accounting for about 80 per cent of the total. On the import side, the major developed economies accounted for some 83 per cent of total imports of coffee beans amounting to nearly US$11.0 billion during 1979. The European Economic Community and the United States of America were by far the largest markets accounting for 36 and 31 per cent respectively. With respect to imports of all types and forms of coffee into the major developed economies during 1979 unroasted coffee, roasted coffee and instant coffee accounted for 92.3, 1.3 and 6.4 per cent respectively of total requirements.

78. Again, not surprisingly in view of the fact that coffee is a non-competing agricultural product, there are few import duties on raw or unroasted coffee in the major developed markets (Table 4.5). Prior to the Tokyo Round, duty-free access was

TABLE 4.5

Tariffs on Coffee in Major Markets

Country	Unroasted Coffee		Roasted Coffee		Extracts, essences and concentrates	Instant Coffee
	Not freed of caffeine	Freed of caffeine	Not freed of caffeine	Freed of caffeine		
European Economic Community						
Pre-MTN Tariffs						
Most-favoured nation rate	7%B	13%B	15%B	18%B	18%B	
Generalised System of Preferences	-	-	-	-	9% quota	of 19,100t
Lomé Convention	0%	0%	0%	0%	0%	
Post-MTN Tariffs						
Most-favoured nation rate	5%B	13%B	15%B	18%B	18%B	
Generalised System of Preferences(a)	-	9%	12%	13%	9% quota	of 19,100t
United States of America	Green Coffee					
Pre-MTN Tariffs						
Most-favoured nation rate	0%B		0%B		0%B	0%
Generalised System of Preferences	-		-		-	-
Post-MTN Tariffs						
Most-favoured nation rate	0%B		0%B		0%B	0%
Australia	under by-law	not under by-law				
Pre-MTN Tariffs						
Most-favoured nation rate	0%	A$0.093/kg	A$0.165/kg		A$0.66/kg	
Generalised System of Preferences	-	0%			A$0.15/kg	
Post-MTN Tariffs						
Most-favoured nation rate	0% (b)	A$0.07/kg	A$0.124/kg		A$0.66/kgB	
Generalised System of Preferences	0%	0%			0%	
Canada	Green Coffee					
Pre-MTN Tariffs						
Most-favoured nation rate	0%		2c/lb B		7c/1bB	
Generalised System of Preferences	-		-		-	
Post MTN Tariffs						
Most-favoured nation rate	0%B		2c/lb B		7c/1bB	
Generalised System of Preferences	-		0%		3c/1bB	
Japan	Unroasted Beans		Roasted Beans			
Pre-MTN Tariffs						
Most-favoured nation rate	0%		35%		25%B	25%B
Generalised System of Preferences	-		-		12.5%	-
Post-MTN Tariffs						
Most-favoured nation rate	0%		20%		20%B	17.5%B
Generalised System of Preferences	-		-		0%	-
New Zealand						
Pre-MTN Tariffs						
Most-favoured nation rate	0.915c/kgB		50%		50%	
Generalised System of Preferences	0%		-		-	
Post-MTN Tariffs						
Most-favoured nation rate	0%B		25%		35%B	
Generalised System of Preferences	0%		10%		25% B	

Sources: Various country statistics

Notes: (a) Least developed countries are eligible for duty-free entry for all items.
(b) A temporary revenue duty of 2 per cent was introduced in 1979 on duty-free items. The duty is also applicable to cocoa.
(B) Indicates that the rate is bound under the General Agreement on Tariffs and Trade.

available in the Canadian, Japanese, Norwegian and the United States markets. In Australia duty-free entry was given to raw and unroasted coffee from Papua New Guinea and from the developing island member states of the South Pacific Forum under the Australian/Papua New Guinea Trade and Commercial Relations Agreement and under the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA).[1] As shown in Table 4.7 over 98 per cent of unroasted coffee entered freely into Australia during 1979. However unroasted coffee was dutiable in the European Economic Community at the bound rates of 7 per cent for that not freed of caffeine and 13 per cent freed of caffeine. The non-decaffeinated rate has subsequently been reduced under the Tokyo Round to 5 per cent and a Generalised System of Preferences rate of 9 per cent introduced for decaffeinated coffee. Nevertheless, under the Lome Convention unroasted coffee (and roasted coffee and extracts, etc.) from the African, Caribbean and Pacific States is granted duty-free access and accounts for nearly 40 per cent of total imports (Table 4.7). Duty-free access to the Community is also given to the least developed nations.

79. Within the major developed markets, roasted coffee is only allowed in duty-free to the United States of America and Sweden, although both Canada and Norway granted duty-free treatment to developing countries during the multilateral trade negotiations. In the European Economic Community, the most-favoured nation rates are 18 and 15 per cent, respectively, for roasted coffee freed and not-freed of caffeine, although the Generalised System of Preferences rates are 13 and 12 per cent respectively. In the case of Japan the most-favoured nation rate was 35 per cent prior to the Tokyo Round subsequently reduced to 20 per cent. New Zealand also reduced its bound most-favoured nation rate from 50 per cent as well as granting a Generalised System of Preferences rate of 10 per cent. For Australia the duty is A$0.124/kg. Interestingly, the share of imports of roasted coffee in total coffee imports in

1. This agreement entered into force on 1.1.81. The member countries enjoying preferential treatment under the agreement are: the Cook Islands, Fiji, Kiribati, Nauru, Niue, Papua New Guinea, Solomon Islands, Tonga, Tuvalu and Western Samoa.

1979 was highest (between 1.9 and 9.2 per cent) in Canada, Sweden and the United States of America where import duties were very low and lowest, at less than 0.5 per cent, in those countries where the import duties were higher, for example New Zealand and the European Economic Community. The percentage of roasted coffee in total coffee traded remains very small.

80. With few exceptions - the United States of America and Sweden - instant or soluble coffee is also dutiable in most developed markets, although some reductions were obtained in the multilateral trade negotiations. The two major markets are the United States of America and the European Economic Community. The bound rate in the Community is 18 per cent although a Generalised System of Preference rate of 9 per cent applies within a quota of 19,100 tons of soluble coffee. However, in addition to the African, Caribbean and Pacific States and the least developed states a number of other countries in the Mediterranean region also have duty-free access to the Community market for this item.

81. The major non-tariff barrier to coffee is the imposition of varying degrees of internal taxes within the European Economic Community and Japan which are shown in Table 4.6. However, the low price elasticity of demand tempers the effect on consumption. At the present time New Zealand also maintains quantitative restrictions on imports of roasted coffee and extracts of coffee, including instant coffee.

82. In the light of the existence of tariff barriers on coffee, trade liberalisation would result in a redistribution of income. The study by Valdes and Zietz[1] which includes under the coffee grouping green coffee (i.e. unroasted coffee beans) roasted coffee and coffee extracts and essences, concludes that "developed country trade barriers effectively protect their domestic coffee roasting industries". If only half of the developing economies

1. Op. cit.

TABLE 4.6

Internal Taxes on Coffee and Coffee Products in Major Markets

Country	Unroasted coffee: Not freed of caffeine	Unroasted coffee: Freed of caffeine	Roasted coffee: Not freed of caffeine	Roasted coffee: Freed of caffeine	Instant Coffee: Not freed of caffeine	Instant Coffee: Freed of caffeine
Denmark	DKr 4.35/kg[1]	DKr 4.35/kg	DKr 5.4 /kg	DKr 5.4 /kg	DKr 13.05/kg	DKr 13.05/kg
France	-	-	-	-	FF 4.70/kg	FF 4.70/kg
German F.R.	DM 3.60/kg[1]	DM 3.80/kg	DM 4.30/kg	DM 4.55/kg	DM 9.35/kg	DM 9.90/kg
Italy	Lit 500/kg[1]	Lit 525/kg	Lit 625/kg	Lit 656.25/kg	Lit 500/kg	Lit 500/kg
Japan	5%	5%	5%	5%	5%	5%

Sources: Various country statistics, and General Agreement on Tariffs and Trade, Tropical Products: Information on the Commercial Policy Situation and Trade Flows, Coffee and Coffee Products.

Note: (1) Ad valorem incidences of these taxes have significantly fluctuated in recent years as a result of fluctuations in coffee prices and currency exchange rates. For indicative purposes only, incidences of taxes on raw coffee when the import price is at US $1.74/lb (average coffee bean price in 1980) are given below on the basis of average exchange rates in 1980; Denmark 20 per cent, German F.R. 52 per cent and Italy 15 per cent. When import prices are higher than US $1.74/lb incidences are lower than those indicated above and vice versa.

TABLE 4.7

Selected Preference - Giving Country Groupings: The Value of 1979 Imports of Tea, Cocoa and Coffee from the World, Developing World and African Caribbean and Pacific Countries

(million US $)

Imports from	Australia		Canada		European Economic Community				Japan		New Zealand		United States		Total six Groupings	
	World	Developing Countries Total	World	Developing Countries Total	World	Developing Countries Excluding ACP	ACP	Developing Countries Total	World	Developing Countries Total	World	Developing Countries Total	World	Developing Countries Total	World	Developing Countries Total
Tea																
Bulk Tea	28.2	28.1(a)			692.6	430.1(a)	247.0(a)	677.1(a)	26.8	12.1	8.7	8.7(a)				
Packaged Tea	1.0	0.9(a)	36.2	24.5(a)	17.9	15.8(a)	0.2(a)	16.0(a)	1.5	0.3	-	-	175.2	156.0(a)	994.2	928.6
Instant Tea	0.8	0.8(a)			2.9	1.7(a)	0.3(a)	2.0(a)	2.4	2.1	-	-				
Cocoa																
Cocoa Beans	38.3	38.2(a)	38.5	15.1(a)	1697.9	201.2	1495.5(a)	1696.7	88.5	88.5(a)	17.5	17.5(a)	555.1	552.2(a)	2435.8	2408.2
Cocoa Paste	7.1	5.1(a)	27.9	16.5(a)	178.1	53.9	123.9(a)	177.8	15.0	13.4	1.0	0.5	194.7	189.6(a)	423.8	402.9
Cocoa Butter	17.0	4.2(a)	19.1	2.6(a)	321.0	137.1	180.4(a)	317.5	29.6	13.6(a)	2.5	0.4(a)	160.7	144.9(a)	549.9	483.2
Cocoa Powder	8.4	4.3(a)	8.3	0.2	1.1	0.5	-	0.5	11.3	0.4	0.4	0.1	229.6	100.8	259.1	106.3
Coffee																
Unroasted Coffee	101.6	99.8(a)	293.3	223.3(a)	4773.0	2929.9(b)	1840.1(a)	4770.0	620.0	618.4(a)	24.7	23.0(a)	3819.0	3811.2(a)	9631.6	9545.7
Roasted Coffee	0.3	0.1	36.5	1.7(a)	12.0	2.3	7.2(a)	9.5	1.3	0.0	0.1	0.0	81.6	80.1(a)	131.8	91.4
Instant Coffee	18.0	7.6(a)	67.1	21.3	204.6	163.0	1.1(a)	164.1	123.4	29.8	0.1	0.0	257.8	239.2(a)	671.0	462.0
Total above	220.7	189.1	526.9	305.2	7901.1	3935.5	3895.7	7831.2	919.8	778.6	55.0	50.2	5473.7	5274.0	15097.2	14428.3
(as a percentage of total imports)		85.7		57.9		49.8	49.3	99.1		84.6		91.2		96.3		95.6
Total developing imports qualifying for duty free entry		189.0		283.7		490.7	3895.7	4386.4		720.5		49.6		5173.2		10802.4
(as a percentage of developing country imports)		100.0		93.0		6.3	49.3	55.6		92.5		98.8		98.1		74.9
(as a percentage of total imports)		85.6		53.8		6.2	49.3	55.6		78.3		90.1		94.5		71.5

Sources: Various country statistics.

Notes: (a) Commodity receiving free entry after multi-lateral trade negotiations, from developing countries. As shown in Table 3.1, 3.3, and 3.5 many of the commodities above receive free entry from all sources.

(b) Of which 43.1(a)

exports of green coffee were to be roasted in the producing country the foreign exchange benefits would be over US$2 billion (in 1977 US$). However, this assumes that there are economic reasons for shifting the processing of coffee away from the developed economies. While this is a very complex issue which will not be debated in this paper, it is useful to indicate two points from an OECD report on "The Location of Coffee Processing"[1] which were that coffee processing into soluble coffee yields little in the way of net profitability and that very good sound economic reasons exist for transforming green coffee beans into roasted ground coffee in the consuming countries including marketing advantages, locational determinants and transportation advantages.

83. In conclusion, mention should be made of the International Coffee Organisation and its recent package of economic measures aimed at regulating international coffee prices, in particular the introduction of export quotas. Any agreement which allocates national quotas tends to negate any cost advantage that one producing country may have over another and as such is a movement away from an optimum allocation of resources.

Effects of the Multilateral Trade Negotiations

84. Information on the level of tariffs both before and after the multilateral trade negotiations is given in Tables 4.1, 4.3, and 4.5 for tea, cocoa and coffee. Most-favoured nation and Generalised System of Preferences concessions were made for all three commodities in the Tokyo Round of negotiations.

85. In the case of bulk tea the European Economic Community reduced its bound most-favoured nation rate from 9 per cent to zero. The only major developed economy market which retains duties on bulk tea is Japan. However, Japan has now introduced a Generalised System of Preferences rate of 2.5 per cent on imports of black tea from developing countries, while applying a provisional most-favoured nation rate of 5 per cent. Further,

1. Alex Gordon, The Location of Coffee Processing, Preliminary Draft, OECD, 1979.

duty-free treatment for the least developed contries is granted benefitting many tea exporters including Malawi, Uganda, Tanzania, Bangladesh and Rwanda. For packed tea the most-favoured nation duty on imports to Australia was eliminated and Austria reduced its Generalised System of Preferences rate from 3 per cent to zero. The European Economic Community reduced its bound most-favoured nation rate from 11.5 per cent to 5 per cent: however, since the Community allows duty-free access to all developing countries the cut is of little importance. Only Japan and New Zealand still impose substantial duties on packed tea, although Japan reduced its most-favoured nation rate from 35 per cent to 20 per cent and also introduced a Generalised System of Preferences rate of 14 per cent. New Zealand bound its most-favoured rate at 10 per cent and reduced its Generalised Scheme of Preferences rate to zero. Tariffs on instant tea are again only significant in Japan and New Zealand of the major developed lands (Table 4.1). Canada, Finland, Norway, Sweden and United States of America grant most-favoured nation duty-free treatment while all developing countries have free access under the Generalised System of Preferences to the markets of the European Economic Community, Australia, Switzerland and Austria. With respect to internal taxes on tea (and coffee and cocoa) imposed by certain countries in European Economic Community statements of intent were made as to the future level of these taxes.[1]

1. <u>Statements on internal specific taxes applied to tropical products.</u> "The Community has taken note of the observations made by a number of developing countries as regards specific taxes on a number of tropical products. In this respect, the Member States which apply such taxes make the following statements:-
   - the Government of the Federal Republic of Germany, which applies specific taxes to coffee and tea,undertakes not to increase the level of these taxes in future;
   - the Government of Denmark states that it does not expect to increase the level of the specific taxes which it applies to coffee and tea;
   - the Government of the French Republic,which applies specific taxes to tea,cocoa and some spices,undertakes not to increase the level of these taxes in future;
   - the Government of Italy, underlining the link with current economic policy in the present situation of that country indicates that it will take this problem into consideration in a sympathetic manner".

86. The effects of the multilateral trade negotiations for cocoa and cocoa products can be seen with reference to Table 4.3 Four developed economies, Australia, Finland, Sweden and the United States of America now apply duty-free treatment to imports from developing countries under either the most-favoured nation or the Generalised System of Preferences tariffs. It should, however, be remembered that due to the "competitive need" provisions the United States Generalised System of Preference treatment did not apply to the Ivory Coast in the case of cocoa butter during 1977 and 1978, nor to Brazil between 1978-80 and the Ivory Coast in 1979 for cocoa powder. Further, in Austria, Canada, Norway and Switzerland, cocoa and cocoa products from developing countries have duty-free access with the exception of cocoa powder. In New Zealand and Japan duties are imposed on the imports of cocoa paste and cocoa powder and the European Economic Community imposes duties on all cocoa and cocoa products. However, since over 82 per cent of total imports of cocoa and cocoa products are admitted duty-free under the Lome Convention and other preference schemes (Table 4.7) the duties are not very significant over and above maintaining an advantage for the African, Caribbean and Pacific States vis-a-vis other developing producers and exporters of cocoa and cocoa products. The same comment regarding internal taxes on tea is applicable for cocoa.

87. For coffee, three developed countries,Sweden,Norway and the United States of America now give duty-free treatment,under the most-favoured nation or Generalised System of Preference tariffs, to imports of all major coffee and coffee products from developing countries. Further, in the Commonwealth countries of Canada and Australia the duties that remain only affect a very small amount of trade(Table 4.7). On the other hand duties remain for a large number of developed economy markets particularly the European Economic Community, Japan,Finland,Austria and Switzerland and are higher on the imports of roasted coffee and instant coffee than on raw or unroasted coffee. An important feature of the tariff treatment applied to coffee in some developed markets is the importance of trade from special preferential sources at reduced or zero rates of duty. During 1979 nearly 40 per cent of all coffee imports into the European Economic Community were eligible for import duty-free from the African,Caribbean and Pacific States of the Lomè Convention.

CHAPTER 5

The Oilseeds, Oils and Fats and Oilmeals Sector

88. Oilseeds, oils and oilmeals are competing agricultural commodities being produced in both the developed and developing economies. Developed market economies account for over 40 per cent of the world fats and oils production, this proportion being even higher for oilmeals. With respect to trade, developed economies account for 60 per cent of world exports, and 50 and 75 per cent of world imports of fats and oils and of oilmeals. As such, the major developed economies through various policy changes can exert a considerable influence on the sector as a whole. The extent to which such policies are of a protectionist nature, whether directly or indirectly,forms the subject matter of this chapter.

Tariff Barriers

89. Oilseeds, with few exceptions, are imported duty-free into the major developed markets (Table 5.1). The two exceptions of note are the United States of America and Spain. In the United States of America duties range from US $7.0 per ton to US $41 per ton although castor beans, copra, palm kernels and sesameseed all enter without duty. Groundnuts, however, have a duty imposed upon them of US $154.0 per ton. For Spain, the duties range between 1.5 and 15.0 per cent, although copra, palm kernels, rapeseed and soyabeans all enter duty-free. By contrast, many developing countries impose tariffs on the importation of oilseeds. The highest rates, are imposed by India, Morocco and Pakistan. However, there are exceptions, for example, in Iraq, Mexico and Saudi Arabia where some oilseeds are imported duty-free. One major reason for the relatively high duties by many developing countries is to protect domestic oilseed production. In addition, high duties especially on groundnuts and sesameseed vis-a-vis other oilseeds may be a reflection that these are primarily used in confectionery and not for crushing.

TABLE 5.1

Import Duties on Oilseeds, Oils and Oilmeals; Basic Rates and Concessions Granted During the Multilateral Trade Negotiations by Selected Countries in per cent ad valorem or local currency units

Commodity	Australia % or A$ per kg	Canada % or cents ¢ per lb	European Economic Community %	India % or R rupees per kg	Japan % or in Yen Y per kg	New Zealand % or in NZ$ per kg	United States % or in cents ¢ per lb
Oilseeds							
Groundnuts	$0.111	Free B	Free (B)	60%	Free B	Free B	¢ 7 B
Copra	Free	"	Free B	"	"	"	¢ 1.87 B
Palm Kernels	"	"	"	"	"	"	Free B
Soyabeans	"	"	"	"	Y2.40 B (Free B)	¢ 22 B (Free B)	¢ 1 B (Free B)
Linseed	"	"	"	"	Free B	Free B	¢ 50 B (¢ 22 B)
Cottonseed	"	"	"	"	"	"	¢ 0.33 B
Castorbeans	"	"	Free	"	Free	"	Free B
Sunflower	"	"	Free B	"	Free B	"	¢ 0.4 B (Free B)
Sesame	"	"	"	"	"	"	Free B
Rapeseed	"	"	"	"	Y 6.10 (Free B)	"	¢ 1 B (¢ 0.4 B)
Other	"	"	"	"	2.5% (Free B)	"	¢ 0-0.4 B
Fats and Oils							
Lard	Free	¢ 1 B	3% B	...	Y 12 B (Y 10 B)	0-37.5% (Free B)	¢ 3 B
Tallow	"	Free B inedible	7.5% B (5% B)	...	2.5% B (Free B)	" "	¢ 0.43 B
Stearin	"	¢ 1 B	12% B (10% B)	...	7.5% B (5% B)	5-20% (B)	¢ 2 B
Fish	"	15% B (7.5% B)	0-6% B	...	10% or Y6	0-5% (B)	0-2.5%
Other Animal	"	17.5% B (12.5% B)	2.5% B (2.0% B)	...	5-7.5% B	0-5% (B)	5%
Fixed Vegetable							
of which: Soyabean	10%	10-17.5% B (7.5-15% B)	5-20%	60% (45% B)	Y 20-28 (Y 17-20.Y B)	0-17.5%	22.5% B
Cottonseed	"	10-13.5% B (7.5-15% B)	"	60%	Y 30 B (Y 17 B)	"	¢ 3 B
Groundnut	"	"	5 B - 20%	"	Y 20-28	0-12.5% (Free B)	¢ 4 B
Olive	Free	Free B	20%	"	Free B	" "	¢ 0-3.8 B
Sunflower	10%	10-17.5% B (7.5-15% B)	5 B - 20%	"	Y 20-28	0-17.5%	¢ 0.9
Rapeseed	"	10-17.5% B	"	60% (45% B)	Y 20-28 (Y 17-20.7 B)	" (B)	¢ 0-2.4 B
Linseed	"	10-17.5% B (7.5-12.5% B)	"	60%	10% or 10Y	$1.10/22.5%	¢ 4.5 B
Palm	Free	10-17.5% B	4-14% B	"	8% B (7% B)	0-12.5% (Free B)	¢ 0-3 B (¢ 0-0.5 B)
Coconut	"	"	5 B - 20%	"	10% or 10Y (9% or 10 B)Y	22.5-32.5% (22.5% B)	¢ 1 B (Free B)
Palm Kernel	"	"	5-20%	"	8% B	0-17.5% (Free B)	¢ 0.5-3 B (¢ 0-3 B)
Castorbean	"	Free B	8% B	"	10% B (9% B)	" "	7.5% B (3% B)
Sesame	"	10-17.5% B	5-20%	"	Y 20-28	"	¢ 0.7-2.2 B
Other	0-10%	10-17.5% B (7.5-15% B)	5-20%	"	Y 20-28 (Y 17-20.7 B)	" "	
Boiled etc	0-25%	10-17.5% B (7.5-12.5% B)	14% B (12% B)	"	7.5% B (5% B)	$0-2.60 (B)	¢ 5
Fatty acid	0-25%	0-15% B 0-12.5% B	4.5-8% B (6%B)	"	"	0.35% (Free B)	(3.7-7.9%)
Glycerol	0-15%	"	1.5-6% B	"	2-8% B	0-10%	¢ 0.5 B
Hydrogenated	Free		17 B - 20%	"	7.5% B (5% B)	22.5-27.5% (5-22.5% B)	¢ 5 B (9% B)
Margarine	10-20%	17.5% B	25% B	"	25-35%	40%	¢ 7 B

TABLE 5.1 (contd.)

Commodity	Australia % or A$ per kg	Canada % or cents ¢ per lb	European Economic Community %	India % or R rupees per kg	Japan % or in Yen Y per kg	New Zealand % or in NZ$ per kg	United States % or in cents ¢ per lb
Oilcake and Meals							
Fish	Free	10% B (5% B)	2.0%	...	Free	20% (a)	Free B
Vegetable							
Soyabean	Free (B)	Free B	Free B	...	5% (Free B)	20% (a)	¢ 0.3 B
Groundnut	" "	"	"	...	Free B	"	"
Cottonseed	" "	"	"	...	"	10% (a)	"
Linseed	" "	"	"	...	"	20% (a)	¢ 0.12 B
Sunflower	" "	"	"	...	"	"	¢ 0.3 B
Palm Kernel	" "	"	"	...	"	"	"
Coconut	" "	"	"	...	"	"	"
Rapeseed	" "	"	"	...	Free (B)	"	" (¢ 0.12 B)
Other	" "	"	"	...	Free B	"	"

Sources: Food and Agriculture Organisation of the United Nations, Committee on Commodity Problems, Preliminary Review of Results of GATT's Tokyo Round of Multilateral Trade Negotiations (1973-1979) CCP: OF 80/3 February 1980.

Notes: ( ) These are the multilateral trade negotiations concessions which will be valid after staging i.e. on 1.1.1987 or earlier if so envisaged in each country's schedule of concessions.

B This indicates that the rate is bound under the general agreements on tariffs and trade. The pre-multilateral trade negotiations are generally those already bound before the Tokyo round: for unbound items, the rates refer to various dates varying from country to country.

Two rates Where two rates are given for vegetable oils the duties usually refer to the degree of refining.

(a) As of 1978 duties have been raised to 25%.

The United States of America and Spain are again the exceptions in the developed world for oilcake and oilmeal imports, imposing duties of between US $2.6 and US $6.7 per ton in the case of the former and between 2.0 and 5.5 per cent in the latter case. In other developed countries imports are duty-free. In the oils and fats segment of the market, however, duties are imposed by virtually every country, although in varying degrees. Details for the United States of America, Canada, Japan, the European Economic Community, Australia and New Zealand are given in Table 5.1 although similar rates exist in the major developing country importers, for example, India. A difference between the two blocs of countries is that the tariff schedules of the major developed country importers tend to differentiate between crude and refined oils, (the former being the lower) and further, oils for use in food are often subject to higher rates than those for use in industry. Since the value added in oilseed crushing and refining is low, the higher rates of duty on oils vis-a-vis oilseeds, and on refined vis-a-vis crude oils, do provide protection for the developed economies crushing and refining industry (Table 1.5).[1,2]

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1. See (a) UNCTAD (1980) The Processing before Export of Primary Commodities: Areas for Further International Co-operation. TD/229/Supplement 2; (b) Stopforth, J. and O'Hagan, J.P. (1967) Structure of the Oilseed Crushing Industry and Factors Affecting its Location, F.A.O. Monthly Bulletin of Agricultural Economics and Statistics; (c) McNerney, J.J. (1981) Coconut Oil Refining World Bank/Commonwealth Secretariat Research Project on the Industrial Processing of Primary Products, June 1981, draft report.

2. Duties are not just limited to seed oils: they are also charged on commodities which are not traded in any other form, for example, olive oil, fresh oils and animal fats Since these oils are usually interchangeable with seed oils, the tariff escalation which exists in seed oils represents some disincentive to the importers of non-seed oils to the extent to which escalation encourages the imports of oilseed rather than oils.

90. Whilst there is no doubt that effective protectionism in the oilseeds, oils and oilmeals sector remains, its extent has been reduced as a result of preferential concessions granted by many of the developed economies. In terms of the numbers of countries involved on both the granting and receiving side, the Generalised System of Preferences, under which preferential treatment is given on a non-reciprocal basis by fifteen developed countries and the European Economic Community to some 150 developing countries, is the largest amongst preferential schemes. Further, African, Caribbean and Pacific States have under the Lome Convention free access to the European Economic Community market for all vegetable oils (oilseeds and oilmeals already being allowed free access from all sources). British Commonwealth suppliers also gain free entry for crude oils and also pay lower duties for refined oils, marine oils and animal fats for entry to the Canadian market.

91. An estimate of the value of trade covered by these schemes for selected products is given in Table 5.2, using as a base 1978 data. However, it must be stressed that the Table shows the potential benefit that could accrue to the developing countries who benefit from these schemes, since not all of the benefits have actually materialised. This is due to a number of additional factors including the failure to claim preferential treatment, difficulties in meeting rules of origin requirements and specific limitations within individual schemes. For the group of commodities selected (coconut oil, groundnut oil, palm kernel oil, palm oil and soyabean oil) imports into the European Economic Community, for example, from developing countries, excluding the African, Caribbean and Pacific States, enjoying preferential treatment, accounted for about 36 per cent of total imports (including those from the developed economies). If preferential imports from the African, Caribbean and Pacific states are included the figure rises to 59 per cent of total imports. In the case of the United States of America, duty-free entry of coconut oil is granted under the Generalised System of Preferences-all supplied by developing countries - and accounted for 72 per cent of the total value of imports of these

TABLE 5.2

Selected Preference - Giving Country Groupings: The Value of 1978 Imports of Coconut, Groundnut, Palm Kernel, Palm and Soyabean Oils from the World, Developing World and African, Caribbean and Pacific Countries. (million US$)

Imports from	Canada		European Economic Community				Japan		United States		Total Four Groupings	
	World	Developing Countries Total	World	Developing Countries excluding A.C.P.	A.C.P.	Developing Countries Total	World	Developing Countries Total	World	Developing Countries Total	World	Developing Countries Total
Coconut Oil	12.8	11.4	217.2	128.4	26.3	154.7	18.5	18.5[a]	281.1	281.1	529.6	465.7
Groundnut Oil	5.9	-	340.0	98.7[a]	163.3	262.0	0.3	-[a]	-	-[a]	346.2	262.0
Palm Kernel Oil	4.5	3.7	106.9	37.8	56.6	94.4	4.8	4.8[a]	40.0	32.2[b]	156.2	135.1
Palm Oil	12.5	11.9	425.9	319.7	64.1	383.8	83.7	83.6	74.3	74.1[b]	596.4	553.4
Soyabean Oil	16.1	-[a]	280.0	2.0	-	2.0	1.9	-[a]	4.2	3.4	302.2	5.4
Total above	51.8	27.0	1,370.0	586.6	310.3	896.9	109.2	106.9	399.6	390.8	1,930.6	1,421.6
(as a percentage of total imports)		52		43	23	66		98		98		74
Total qualifying for preferences		27.0		487.9	310.3	798.2		83.6		281.1		1,189.9
(as a percentage of developing country imports)		100.0		83.1	100.0	89.0		78.2		71.9		83.7
(as a percentage of total imports)		52		36	23	59		76		70		62

Source: Food and Agriculture Organisation of the United Nations, Committee on Commodity Problems, Preliminary Review and Results of G.ATT's Tokyo Round of Multilateral Trade Negotiations (1973-1979) CCP: OF 80/3 February 1980.

Notes: (a) Most-favoured nations dutiable commodities not granted any generalised system of preferences, Specifically:- Coconut Oil in Japan the m.f.n. rates for both crude and refined is 10 per cent or 10yen/kg to be reduced to 9 per cent by 1.1.'87 as a result of the Tokyo round of negotiations: Groundnut Oil in the European Economic Community at 5-10 per cent crude and 8-15 per cent refined, in Japan at 17-23 yen/kg for both, and in the United States at USc 4 per lb: Palm Kernel Oil in Japan at 8 per cent for both crude and refined: and Soyabean Oil in Canada at 10.0 per cent and 17.5 per cent respectively for crude and refined to be reduced to 7.5 per cent at 15.0 per cent by 1.1.'87 as a result of the Tokyo round of negotiations, in Japan at 17-23 yen/kg for both crude and refined and in the United States at 22.5 per cent for both.

(b) Commodity receiving free entry under most-favoured nation rates.

oils.[1] In Canada, half of the importation of these oils enjoyed preferential treatment while in Japan, whilst preferential treatment was only given to palm oil, this accounted for 76 per cent of the total import value of these selected commodity oils. Thus, during 1978 for the above country groupings i.e. Japan, the United States of America, Canada and the European Economic Community 74 per cent of the value of imports of these oils came from the developing countries. Within this total about 84 per cent of imports of these oils from developing countries were entitled to preferences, seven per cent being allowed duty-free entry under the most-favoured nation schedules.

Non-tariff Barriers

92. Within the oilseeds, oils and oilmeals sector many restrictions exist, which are summarised by country in Table 5.3. Although these occur in both developed and developing countries the effects of these on developing countries are usually more significant. Four major groupings can be distinguished, namely restrictions on imports, on exports, on production and on consumption of which the first category is the most important.

93. In the world trade of oils and fats import levies constitute a significant import barrier. Within the European Economic Community, for example, a variable levy system is applied to olive oil, lard and butter under the common agricultural policy. During the last quinquennium the ad valorem equivalent of these levies has varied between 10 and 100 per cent for olive oil and between 200 and 300 per cent for butter. It should also be noticed that additional levies may be imposed if situations arise which prejudice Community products. Similar variable levy systems are also applied by both Spain and Switzerland. Import quotas are also often applied to this sector, notably by the developed countries for

1. Since 1st January 1981 as a result of the multilateral trade negotiations imports of coconut oil into the United States of America are free of duty on a most-favoured nation basis.

TABLE 5.3

Summary of Selected Measures, excluding Tariffs Affecting the Oilseeds, Oils and Fats and Oilmeals Sector, by Selected Countries

Measures	Oilseeds or Related Products	Oilseeds	Vegetable Oils	Margarine	Oilmeals	Butter	Lard
On Imports							
Discretionary	Bangladesh, India	Japan groundnuts	Portugal olive oil			Austria, Canada	Austria Norway Switzerland
Licensing	Rep. of Korea, Pakistan					Finland, Norway	
Health and Sanitary Regulations	Australia, Canada	Japan, castorbeans groundnuts, soyabeans	Japan, coconut, palm and palm kernel oils	Japan	E.E.C., Japan U.S.A.		
Imports Levies		Spain, groundnuts, soya beans Switzerland	Spain, Sweden, Switzerland		Spain, Sweden Switzerland	Switzerland Finland, E.E.C.	E.E.C.
Imports Prohibition				Canada			
Import Quotas	Algeria, Bangladesh Egypt, India, Iraq Rep. of Korea, Mexico Pakistan, Peru	Switzerland, U.S.A. groundnuts and Japan, groundnuts		U.S.A. in both only for butter substitutes	Switzerland	U.S.A.	
Import Restrictions						Switzerland Portugal	
State Trading	Algeria, Bangladesh Egypt, India, Iraq Iran, Morocco, Mexico Pakistan, Peru	Portugal	Portugal, all except olive oil		Norway incl. fishmeal, Portugal Philippines soyabean meal	Switzerland Japan	
On Exports							
Export Aids	U.S.A.	E.E.C. rapeseed sunflower seeds	E.E.C. olive oil Uruguay, linseed, soya bean and sunflower seeds		Uruguay soyabean meal	Austria, E.E.C. Finland, Sweden	E.E.C.
Exports Controls	The Argentine, India						
Export Prohibition		Brazil, babassu nuts castorbeans, cottonseeds					
Export Quotas		Brazil, soyabeans India, groundnuts	Brazil, soyabean oil		Brazil, soyabean meal India, groundnut cake		
Export Taxes	The Argentine, Brazil India, Malaysia, The Philippines						
State Trading		India, groundnuts sesameseed	Brazil, castor oil India, castor oil		India, groundnut cake Peru, fishmeal		
On Production							
Deficiency Payments		E.E.C. rapeseed sunflowerseed, Spain soyabeans, Japan rapeseed, soyabean	E.E.C. olive oil Spain, olive oil				
Production Aids		E.E.C. castorbean cottonseed, linseed soyabean					
Production Restraints		Switzerland, rapeseed U.S.A. groundnuts					
Support/Intervention Prices		Switzerland, rapeseed Portugal, safflowerseed sunflowerseed, Spain rapeseed, safflowerseed sunflowerseed, Sweden rapeseed, U.S.A. groundnuts	Portugal olive oil				Austria Canada, E EC Finland U.S.A.
On Consumption							
Consumption Restraints			Spain, soyabean oil				
Consumer Subsidies	Morocco, Mexico Saudi Arabia, Venezula		Switzerland, rapeseed E.E.C. olive oil Portugal all except olive oil	Norway		Austria, E.E.C. Switzerland Finland	

Source: Food and Agriculture Organisation of the United Nations. Committee on Commodity Problems. Intergovernmental Group on Oilseeds, Oils and Fats, Protectionism in the Oilseeds, Oils and Oilmeals Sector, CCP QF81/2, 1981.

example,butter exported from New Zealand to the European Community. In the United States of America, butter and butter oil imports are limited to under 900 tons per annum. Further, its imports of shelled groundnuts are restricted to 775 tons per annum (although the import quota for the 1980/81 marketing year was raised to 91,700 tons follwoing the fall of the domestic harvest from 1.8 million tons to 1.0 million tons between 1979 and 1980). Import quotas are also fixed on groundnuts by Japan, by Switzerland on oilseeds and oilmeals and by Austria, Canada, Finland, Japan, Norway, Portugal and Switzerland on butter. Health and sanitary regulations on the oilseeds and oils and oilmeals sector can also affect the imports of these commodities, one example being the enforcement of tighter regulations than present on oilmeals to alleviate the problem of aflatoxin. It should again however be stressed that such non-tariff measures are not confined to the developed world. Many of the major developing country importers impose global quotas, and often imports are controlled through a state monopoly.[1] State trading controls on imports are also common in all centrally planned economies.

94. There also exist a number of influences on the international trade through export subsidies, for example, the European Economic Community export programme applicable to butter, lard, rapeseed, sunflowerseed and olive oil. The butter programme has required heavy subsidisation: over the past four years exports averaged over 300,000 tonnes per year (of which one-fifth was for food aid usage). The resultant low priced exports have been in serious competition in world markets with traditional dairy exporting countries. Further, the low world prices may have hindered the establishment and growth of dairy industries in developing countries. There have also been internal disposal subsidisations accounting for 260,000 tonnes

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1. Of the major importing developing countries, Algeria, Bangladesh, Egypt, India, Iraq, Iran, Morocco, Mexico, Pakistan and Peru all control the importation of oilseeds, oils and oilmeals through state monopolies.

and 330,000 tonnes during 1978 and 1979.[1] However export subsidies have only been paid in recent years to small quantities of rapeseed and olive oil. The other major example of export subsidies in developed economies is in the United States of America. This is done through the Commodity Credit Corporation (CCC) which provides financial assistance to facilitate export trading. Commodities which have enjoyed some assistance include groundnuts, groundnut oil, soyabeans and soyabean oil. The concessional trade programmes notably PL 480 and AID also contain elements of export aid. Between 1976/77 and 1978/79, the value of soyabeans, oils, fats and oilseeds exported under these programmes accounted for four per cent of the total value of export earnings of these commodities, about US$300 million per annum. Measures on exports also also applied in developing countries, for example, export quotas and discretionary licensing. Further, as countervailing measures, many impose export taxes on oilseeds, oils and oilmeals, examples being the Argentine, Brazil, Indonesia, Malaysia and the Philippines. In some cases as the degree of processing increases these taxes tend to fall and, as such, act as an incentive towards domestic processing.

95. Several countries take measures which offer domestic producers a price significantly above normal world levels, or subsidise consumption of domestically produced materials, and thereby act to reduce import requirements and increase export availabilities. Again the most obvious example can be taken from the common agricultural policy of the European Economic Community. In the case of butter, domestic prices within the Community were about 75 per cent higher than international prices at the end of 1980. In fact the Commission of the European

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1. These include regulations on the sale of butter at a reduced price to the army and similar forces: on the sale of butter at a reduced price to non-profit-making institutions and organisations: on the sale at reduced prices of intervention butter for direct consumption as concentrated butter: on the sale of butter at reduced prices to persons receiving social assistance: and on the granting of a consumer subsidy for butter.

Communities itself estimated that during the year over 700 million EUA were spent on support policies for butter.[1] This includes aid for intervention buying, aids to private storage and consumer subsidisation (but excludes export subsidies). In the case of olive oil, production is also supported with the help of producer support prices: and it is likely that the cost of support will increase following the inclusion of Greece and probably Spain into the Community. One estimate[2] is that the cost of olive oil support policy could increase from 500 million EUA to 1400 million EUA. Domestically produced oilseeds are also supported by the European Economic Community. Since 1967/68 rapeseed and sunflower seed were covered, the regime being extended in the 1970s to include cotton seeds, soyabeans, linseed and castor beans. Although production for the latter group remains small, production of the former group has increased totalling, about 400,000 tonnes oil equivalent and costing over 250 million EUA in 1980. Since prices guaranteed to internal producers are substantially above world market prices a deficiency payment, accounting for the difference, is made to the producer without limitation.

96. In the United States of America butter and oilseeds figure predominantly in farm supports. In 1979/80 the cost of the Federal budget to support the dairy programme amounted to US$1300 million, of which US$342 million was taken by butter.[3] Further, the costly United States policy on groundnuts reserves the market for domestic producers. In order to curb the costs of support (while still reserving the market) the policy was revised in 1977 and now includes a two-price system which, while maintaining a high price for direct consumption, brings the price of groundnuts used for crushing into closer alignment with actual market conditions. As a result, the cost to the Federal budget has substantially fallen from US $103 million to US$30 million between 1976 and 1979. Support is also given to soya-bean producers in the United States of America although, in the

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1. European Agricultural Guidance andGuarantee Fund (FEOGA) Draft 1981 Budget, October 1980.
2. Congress of the International Association of Seed Crushers, Dakar, April 1980.
3. United States Dairy Situation, December 1980.

last decade, the loan rate has generally been lower than the market price. Japan, Spain, Sweden and Switzerland also operate price support programmes for oilseeds at levels above world market prices, as does Spain for olive oil.

Quantitative Assessment

97. Some attempts have been made to assess quantitatively the effect of production policies on the levels of international trade although only rough guesstimates are possible. The most recent of these was the International Food Policy Research Institute's[1] study which covered the major oilseeds,oils,fats and oilmeals (excluding butter). For the sector as a whole it is estimated that if OECD countries reduced barriers to entry by 50 per cent, the potential increase in the value of world exports of these commodities would be US$830 million per annum (in terms of 1977 US$) with benefits accruing predominantly to the United States of America; however, the potential increase of export revenues for all developing countries with a population of over four million in April 1975 would have amounted to over US$380 million, 7 per cent of the value of their exports. It is stressed in the study that these potential increases which would take place are separate of any growth that may occur independently of liberalisation. Further, and more importantly, "the structure of protection on oilseeds and their derivatives in most OECD countries encourages importing and domestic processing of oilseeds at the expense of indigenous processing (and exporting) by developing countries. Thus, the basic-period trade levels from which the model calculates the effect of trade liberalisation are "artificially" low. The long-run effects of a restructuring of OECD member protection systems on oilseed products could result in much greater benefits to developing member countries than those calculated by the model." Some of the export revenue increase potential would come from increased prices as a result of an increase in import demand after liberalisation, and thus would increase the outlays of foreign exchange for the importers

1. Valdes and Zietz op. cit.

of oilseeds, oils and oilmeals in developing countries. As a result, the United States of America would increase its share owing to its dominance of world soyabean exports, the major commodity of the oilseeds group, and its dominance of the world market for soy cake, the major oilcake in world trade. Nevertheless, the analysis does suggest that there are significant gains to be obtained from trade liberalisation in many developing countries in addition to generating net welfare gains for the trade liberalising countries.

The Case of Butter

98. The above study, unfortunately, does not include butter which is the most subject to non-tariff barriers, the effects of a reduction being virtually impossible to evaluate quantitatively. With respect to supply, price support schemes for milk in developed economies have tended to stimulate milk production and thus butter production. The effect of any reduction of prices, whilst being a disincentive to increasing milk output, may be limited owing to the need to maintain farm incomes coupled with the cost of switching out of dairy production. On the demand side of the equation high consumer price is the basis for price support arrangements for butter. If the price support systems were altered to give lower prices to producers and to allow consumers to benefit, production may fall and consumption may rise resulting in world market prices being nearer to the supported levels.

99. More specifically, an important concern with respect to butter is the relationship between the European Economic Community and New Zealand. For the Community, the major problem that has had to be faced during the last decade was the persistent and increasing inbalance between supply and demand due essentially to steadily increasing production and static consumption, the result of prices being supported at relatively high levels. Some European Economic Community members have not welcomed the import of large even if decreasing, quantities of butter, (120,000 tonnes in 1979, 94,000 tonnes in 1981 and 92,000 tonnes in 1982), from New Zealand, under Protocol 18. At the

At the insistence of the United Kingdom, the Community has recognised the special case of New Zealand but its position has not been helped by increased production in the United Kingdom itself.[1]

Effects of the Multilateral Trade Negotiations

100. In concluding this section on oilseeds, oils and fats and oilmeals, the progress made as a result of the multilateral trade negotiations should be noted. Twenty-seven countries, including the European Economic Community have undertaken to cut some tariffs within the sector. In the case of oilmeals and oilseeds, the concessions tended to be the binding of rates that were already at zero prior to the negotiations. More concessions were granted in the oils and fats division reducing, to some extent, the problem of tariff escalation. With respect

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1. Prior to joining the European Economic Community the milk producer price received in the United Kingdom for milk being manufactured into butter was lower than for any other manufactured milk product and much lower than milk utilised for liquid consumption. Traditionally, milk production was primarily geared to supplying the domestic liquid market throughout the year. Given the seasonality of milk supply, milk was only available for utilisation into milk products during the summer months. As a result, butter (and cheese) was imported in large quantities to supply the domestic market in the United Kingdom, it being only 30 per cent sufficient, and the capacity for butter production was low. However, pursuant to joining the Community, the United Kingdom (and to a lesser degree the Republic of Ireland) was aware of the possibilities of a gap in the market arising from a reduction of imports from non-Community countries, for example, Australia. In addition, butter manufactured in the United Kingdom could be sold into intervention at high prices, if a market could not be found elsewhere. The result was an increase in the domestic capacity for butter production. Between 1975 and 1979 butter production in the United Kingdom rose from 49,000 tonnes to 161,000 tonnes an increase of 228 per cent. By comparison, corresponding increases in France, and the German F.R. the two largest producers were 9 per cent and 5 per cent. Figures for other major butter producers in the Community during the period were Netherlands (-1 per cent), Denmark (-6 per cent) and Ireland (+55 per cent). Further, the United Kingdom has had difficulty in competing with traditional importing countries and had to sell large quantities into intervention, even under an advantageous pricing system.

to the Generalised System of Preferences a very approximate assessment of the value of trade covered in selected countries by the schemes of the United States of America, Canada, the European Economic Community and Japan has been given in Table 5.2. In recent years only a few commodities of importance for developing countries have been added to some schemes and margins of preference have only been increased in a small number of cases. Infact unless Generalised System of Preferences rates are adjusted downwards these margins may be eroded with the implementation of the multilateral trade negotiation's concessions on the most-favoured nation rate.[1] Regarding non-tariff barriers, there have been improvements in the General Agreement on Tariffs and Trade rules regulating trade. More specifically, the quota imposed by the European Economic Community on the importation of fatty acids and fatty alcohols has been abolished. In addition, the International Dairy Arrangement has formalised and extended existing arrangements under the General Agreement on Tariffs and Trade and OECD which had established minimum export prices for butter, butter fat and skim milk powder. However, as was noted in the case of livestock, no major break-through has occurred and problems remain.

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1. See Food and Agriculture Organisation of the United Nations, Committee on Commodity Problems, Review of the Main Preferential Schemes in the Oilseeds, Oils and Oilmeals Sector, CCP: OF 81/3 January 1981.

CHAPTER 6

Conclusions

101. Attention in the international fora is being increasingly devoted to the problems and affects of agricultural protectionist policies of the major market economies on trade, production, consumption and employment both in the developed and developing world. While much liberalisation of trade for semi-manufactured and manufactured goods has taken place through both the multilateral trade negotiations and through the adoption by the developed economies of a series of Generalised Schemes of Preference, little has been achieved in liberalising developing countries trade in agricultural products. This paper has examined and reviewed some of the more significant measures of agricultural protection that have been applied in specific agricultural sectors, of particular interest to both developing and developed Commonwealth countries, by the major market economies Although, as previously noted in the introduction, the review is selective with respect to the agricultural sectors examined, the range of products dealt with is representative of a variety of agricultural systems and production and trade interests, sufficient to allow broad conclusions at least to be drawn in summary.

102. The paper has demonstrated that the agricultural sectors of the major industrialised countries of the northern hemisphere have been and remain heavily supported. References to endeavours to quantify the extent of agricultural protection have been particularly included in order to stress the size of the problem, although since the wide variety of measures applied makes accurate quantification difficult one must be careful not to lay too much emphasis on the actual numerical results. The extent of the support substantially differs both between countries and between those agricultural products examined. Not surprisingly, competing agrucultural products are the most severely affected. However, for products which are non-competing at the raw material stage, in a number of instances, the extent of protection increases with the degree of processing.

103. The non-competing agricultural commodities analysed, if exported to major markets without any or with little processing, for example tea, cocoa, coffee and oilseeds have imposed upon them few, if any, tariff barriers. An important exception is the importation of unroasted coffee into the European Economic Community, but even here exports from the African, Caribbean and Pacific states which account for a significant percentage of the total (Table 4.7) and from the least developed nations enter duty-free. Internal taxes on the three beverages are the most important type of non-tariff barrier but given the very low price elasticity of demand, coupled with the fact that, internal taxes are both common and applied at similar rates to all three commodities, the actual effect on consumption is not great.

104. For the competing agricultural goods, especially sugar and to a lesser extent livestock, the measures of protection imposed by the major developed economy markets are often substantial. In addition, evidence is given in the respective chapters to suggest that one detrimental result of such heavily supported domestic and regional policies has been their effect on the levels of world prices in specific years for sugar, beef and dairy products through the depositing of surpluses that have accrued on the residual world market. However, any assessment must take account of significant exceptions such as the treatment of sheepmeat and butter from New Zealand to the European Economic Community, and sugar and beef imports under the Lome Convention.

105. A wide range of measures designed to restrict the entry of certain processed products exists in the major developed markets, both tariff and non-tariff measures. In the oils and fats segment of the oilseed sector, for example, tariffs are imposed by the major developed economy markets which differentiate between crude and refined oils. Further, as indicated in Table 5.3, a plethora of non-tariff measures exists in this sector ranging from variable import levies, import quotas, export subsidies, to measures which offer domestic producers a price significantly above normal world levels. Since there is increasing emphasis in the international arena towards the encouragement of processing in developing countries it is necessary to ensure that access to

major developed markets remains open and that tariff escalation is avoided. However, again care must be exercised to avoid over-simplified conclusions. For example, as was shown in Table 5.2 for five selected oils (coconut oil, groundnut oil, palm kernel oil, palm oil and soyabean oil) imported into major developed economy markets, about 84 per cent of the import of these oils from developing countries (which account of about three-quarters of total imports) were entitled to preferences.

106. After having been virtually ignored during the earlier rounds of multilateral trade negotiations some trade improvements have taken place within the agricultural sector during the Tokyo Round. However, it is necessary to distinguish between those products categorised as tropical products vis-a-vis agricultural products. Most of the improvements occurred in the Group "Tropical Products", (in effect non-competing agricultural products) where of the 4,400 dutiable items at the tariff-line level subject to requests for concessions, most-favoured nations and generalised system of preferences concessions were granted with respect to some 2,930 tariff items, rather than in the Group "Agriculture" incorporating temperate zone agricultural products such as processed fruits and vegetables, vegetable oils, sugar and sugar products and tobacco where little progress was made[1]. With respect to non-tariff barriers, while agreements on technical barriers to trade, bovine meat and dairy products were concluded[2] it remains to be seen how effective these agreements will be in aiding trade liberalisation. This is especially true at the present time where there are instances of further measures of agricultural protection being introduced. In the European Economic Community for example exports subsidies for beef have recently been granted and in the United States of America a levy on imports of raw sugar has been re-introduced as a result of the falling world price of sugar. These examples add to the increasing evidence that for certain agricultural products agricultural protectionist measures have, during the last quinquennium, been increasing.

1. For further details see General Agreement on Tariffs and Trade, (1979) The Tokyo Round of Multilateral Trade Negotiations, April, 1979.
2. See paragraphs 67 and 100 for details.

107. One issue that continually re-occurs in the agricultural sectors examined is that of preferential treatment. Often incorporated within the support policies of major developed economy markets are a range of concessions granting preferences to individual countries and/or groups of countries which have been "traditional" suppliers of particular agricultural products. Thus, the umbrella of support measures often covers a wide range of different preferential groups whose commodity exports are to some extent supported. For such groups maintenance of their preferential margins vis-a-vis other suppliers may be regarded by them as of greater importance than abating the level of protection.

108. A related point important both in terms of preferential treatment and international commodity agreements concerns the granting of quotas by developed economies for many of the agricultural commodities examined. Allocation of quotas is often based upon political considerations coupled with a "traditional" or "historical" component of export levels and not solely upon criteria of efficiency of production. Any allocation by this method attempts to maintain the status quo, cost advantages of some countries being, to some extent, negated through the allocation of quotas. One result of quota determination by factors other than efficiency criteria could be a movement away from conditions of sectoral 'Pareto optimum' and perfect competition and towards a situation of imperfect competition and protectionism.

109. A number of possible avenues can be pursued to liberalise further the trade in agricultural products given the necessary political will. In the case of tropical non-competing agricultural products there is little justification for the continuation of the remaining barriers on exports from developing countries. For competing agricultural products, however, the position is more complex, in part a result of the competition between low and high-cost agricultural producing developed economies. Certainly further efforts should be made to prevent exports, either of raw materials or processed products, from developing economies to developed markets being adversely affected by unfair developed country competition even if this means institutionalising

existing preference schemes. In addition, joint discussions should take place between the low-cost agricultural producers in developed economies and industrialised countries in order to achieve a trade-off and thus trade expansion of agricultural goods vis-a-vis industrial goods. Further work should be carried out on examining measures of agricultural protection in developing countries in order to promote both inter-developing country trade as well as improving access for the developed countries.