

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CONTRACTING PARTIES
Tenth Session

SUMMARY RECORD OF THE NINTH MEETING

Held at the Palais des Nations, Geneva
on Monday, 7 November 1955 at 2.30 p.m.

Chairman: Mr. L. Dana WILGRESS (Canada)

Subject discussed: United States Waiver - Agricultural Adjustment Act

United States Waiver - Agricultural Adjustment Act (L/443)

The CHAIRMAN referred to the Decision of 5 March 1955 granting a waiver to the United States in connexion with import restrictions imposed under Section 22 of the Agricultural Adjustment Act. Under paragraph 6 of the conditions and procedures of the waiver, the United States was required to submit an annual report on action taken and the action was to be reviewed by the CONTRACTING PARTIES. The United States had presented its first annual report (L/443) which reviewed the present status and details of action taken with respect to each of the commodities under control on 5 March 1955, namely, cotton and cotton waste, wheat and wheat products, dairy products, flaxseed (including linseed oil), peanuts and peanut oil, rye, rye flour and rye meal, oats and barley, almonds and filberts.

Mr. LEDDY (United States) said that his Government had attempted to provide a report (L/443) which would contain all relevant information with respect to the restrictions imposed by the United States under Section 22 of the Agricultural Adjustment Act, the reasons why they continued to be applied and the steps taken with a view to solving the basic problem. It should be noted that the report covered all the Section 22 restrictions and not merely those which might be regarded as inconsistent with the Agreement in the absence of the waiver granted at the Ninth Session. His delegation would be prepared to answer any questions which delegations might wish to put. The main points of the report were the following. Since the waiver was granted, the United States had not imposed any new restrictions or intensified any existing ones, but had removed import controls on oats, barley, almonds and filberts. With respect to tung oil and tung nuts, proposals for restrictions were no longer being considered. The restrictions in effect at the present time covered import quotas on cotton, wheat, dairy products, peanuts and rye and its products, and special import fees on flaxseed, including linseed oil, and peanut oil. The United States was engaged in a serious effort to attack the basic causes of the surplus

problem, concentrated on the lowering of the levels of price support for almost all the commodities involved and in some cases on the use of acreage allotments and marketing quotas. In the case of dairy products, for example, the level of price support had been brought down to 76 per cent. of parity in the 1955-56 marketing year, as compared with 90 per cent. a short time ago. Support levels had also been dropped substantially for wheat, flaxseed and rye. In the case of wheat, cotton and peanuts, both acreage allotments and marketing quotas had been applied to domestic production and marketing. Wheat acreage had been cut by 30 per cent. from 78 million acres to 55 million acres comparing 1953 with 1955. Cotton acreage had been reduced by 32 per cent. in the same period from 25 million to 17 million. Methods of domestic disposal for some of these products had been developed, which had helped to reduce the size of surpluses. Almost all the funds available to the Government under Section 32 of the Agricultural Adjustment Act had been used for the purpose of increasing domestic consumption through school lunch programmes, etc. In the fiscal year 1954, \$189 million had been so expended as compared with \$13 million on export subsidies. The surplus problem continued to be serious, though it now seemed more manageable. By and large, current production had been brought into balance with current demand. Stocks of wheat and cotton were the largest, but in the case of dairy products there was a movement towards a better position. The United States appeared to be proceeding in the right direction in this field and even though restrictions might have to be maintained for a time, in the view of his delegation definite progress toward a solution of the problem had been made. His Government assured the CONTRACTING PARTIES it would continue to keep Section 22 restrictions under review and that there was no intention to continue or extend them any more than necessary to protect the domestic programmes to which they were related. It hoped that as progress continued domestically, it would be able to institute relaxation of these restrictions on the import trade.

Dr. ISBISTER said that on the occasion of the first annual report under the Decision he did not find it appropriate to re-open the debate on the substantive problems which had been so carefully gone into at the last Session. The report of the United States was thorough and relevant to the information required under the waiver. It was important for the functioning of the General Agreement that such reports be both prepared and considered carefully. Perusal of the report brought out disturbingly the large section of trade and agricultural products subject to restriction. It was essential that this field be kept under continuous review and the search for measures to reduce effectively the need for such restrictions be continued. Dr. Isbister referred to his statement at the opening of the CONTRACTING PARTIES (SR.10/1) where he had expressed gratification at the removal of restrictions on certain items and at the discretion in the use of the waiver.

Mr. KASTOFT (Denmark) said that if the results of the Review Session were disappointing to his Government, this was due not only to the fact that it had not succeeded in strengthening the most important rules and provisions of the Agreement but also because its principles were weakened by two major decisions, the "hard-core" Decision and the waiver to the United States. His delegation had voted in favour of the first and against the second. One of the reasons was that whereas the "hard-core" Decision was limited in time, no such time-limit was attached to the United States waiver. The CONTRACTING PARTIES should, therefore, attach particular importance to the annual reports of the United States. He expressed appreciation with regard to the scope and the detailed information of the report, which could well serve as a model. His Government had noted with gratification that it had been possible to permit the controls over three commodity groups to expire. They found the report as a whole disappointing, however, because of the section dealing with dairy products. The quotas fixed for butter, cheese and dried milk products for 1955-1956 were the same as those established for 1953-1954. No improvement had thus occurred over a period of three years for these imports. Moreover, on butter and dried milk products the quotas were fixed at the minimum of 50 per cent of average imports in the representative period chosen. Representative periods were always difficult to ascertain and particularly with respect to the import of dairy products into the United States, it was difficult, if not impossible, to find any three-year period which could really be described as representative. The period 1948-1950 was chosen for cheese because that was the period immediately before the quotas on cheese were initially imposed. In the late forties, however, the dairy exporting countries had not recovered from war losses, and the drought in 1947 had reduced milk production in Denmark to a minimum. Seen against the background of the special conditions obtaining in the period and in the light of tariff concessions granted in 1949 to Denmark, on blue mold, for example, they could not regard the quota as satisfactory. The quota for butter - 700,000 lbs. - was even less so, and represented only one-third of commercial export sales from the surplus stocks. The decline of 11 per cent. from 1952 to 1954 in cash receipts from farm sales of dairy products was quoted to illustrate the seriousness of the United States dairy problem, but it appeared that this decline was largely due to a decrease in the price support level. The report stated later that lower prices and strong consumer demand encouraged some increase in consumption of milk and other dairy products, helping to reduce support purchases of butter and cheese. His Government had always maintained that the artificially high prices of dairy products were not in the long-term interest of the American farmer, as consumption was thereby reduced and consumers might become accustomed to other fats, resulting in the loss of part of the market in butter to both American and foreign farmers. His Government hoped, therefore, that the reduction in the stocks of dairy products would not lead to an increase in their market prices. Indeed, it had been thought that the present situation might have led to an increase in import quotas, but this had not transpired. If the decreasing trend in stocks continued, his Government would consider that quotas in general should be increased and in respect of

those types of cheese which were not subject to price support a suppression of the restrictions seemed reasonable.

Denmark also appreciated the efforts made to dispose of the surplus stocks in an orderly manner and the attendant programmes of increased consumption. The report did not describe whether and how the United States Government were going to deal with the basic problem of bringing consumption into balance with domestic production and imports without support schemes and import restrictions. A waiver could not relieve a leading trading nation such as the United States of its special responsibilities to cooperate as fully as possible in the objective of re-establishing world free trade, and its policy in the field of imports of agricultural products would be watched as the touchstone in this respect.

Baron BENTINGK (Kingdom of the Netherlands) said that when the waiver was granted, his Government had made it clear that the recognition by an international organization of the primacy of national law would create a dangerous and unacceptable precedent contrary to the fundamental objectives of the Agreement. The specific interests of the Netherlands Kingdom as an important exporter of agricultural products were known. They had resulted in agreement by the CONTRACTING PARTIES to the suspension of the application to the United States of obligations undertaken by his Government under the Agreement. His Government held the view that in full conformity with the terms of the waiver, recourse to the provisions of Article XXIII remained open, and he would revert to that question when another agenda item was being considered.

It had not been possible to consult fully with his Government yet, and he hoped future reports could appear before the opening of the Session. He expressed appreciation for the comprehensive nature of the report. Under the terms of the waiver, however, the report ought to prove that the restrictions applied to international trade were justified by important domestic considerations, and his delegation had not been completely convinced on this point, particularly with regard to dairy products, in which his country was mainly interested. It appeared that stocks of dairy products did not now represent such a serious problem as a year ago. Though the report did not give the specific stock figures, it appeared when comparing the purchase figures in the marketing year 1954-1955 with the disposal figures contained in the table on page 13 that stocks must have fallen substantially. He would wish additional information as to how large the stocks were at present. Although the mere fact of decreasing stocks need not be a reason for relaxation, the relation between the quotas and total United States consumption could be considered as an additional factor in favour of some relaxation of import restrictions. He regretted that the report did not contain any figures of the total production and total consumption of cheese and butter, and he asked for information on this matter. In studying the matter, his Government had come to the conclusion that the existing import quotas for butter formed 0.5 per cent of total consumption, and for cheese of all kinds 1.5 per cent. For Gouda and

Edam in particular, this percentage was 0.4. If so, it seemed that the diminished stocks and the very small proportion which the quotas formed of total consumption should enable the United States to increase import quotas considerably without serious effect on the domestic situation. The report did not contain sufficient information on the underlying principles of the import restrictions, particularly on the reasons why they were being applied at an unmodified level. The terms of the waiver were indeed wide and differed considerably from the hard-core waiver. Nevertheless, some delegations had made it clear at the time the waiver decision was taken that it was granted "subject to good behaviour" a condition there was no reason to think was not fulfilled though the period during which the waiver had been applied was too short for proper judgment. Baron Bentinck expressed concern that the report did not contain any programme for the gradual relaxation or removal of the restrictions within a reasonable time and did not appear even to eliminate the possibility that the restrictions could be increased at any time or suspended and then re-instituted. As often said, such a policy must have harmful and detrimental effects on international trade because it tended toward instability of market conditions. It should again be emphasized that in solving the dollar problem, the non-dollar countries needed a progressive and stable import policy in the United States as it played such an important rôle in world trade, a policy which aimed at expanding world trade by the elimination of quantitative restrictions and other trade barriers. If the CONTRACTING PARTIES decided to set up a working party to consider the matter, his delegation would be prepared to take part. He hoped the consideration would result in positive steps by the United States Government to do all in its power toward an early elimination or relaxation of restrictions.

Mr. WHITE (New Zealand) referred to his country's opposition to the granting of the waiver. As an exporter of dairy produce New Zealand was directly affected by the restrictions and, as an exporter of commodities which were in surplus in the United States, felt its trade and security to be threatened by that situation of surplus. There was also the undesirable aspect of retarding progress toward the objectives of the Agreement. The basic reasons for the Section 22 lay in the artificial price support programme. This led to an imbalance in agricultural production, which brought about import restrictions and had a depressing effect on world market prices thus affecting the incomes of other exporting countries. These factors should be taken into account in considering the continued resort by the United States to the restrictions maintained under the waiver. Both the United States and the CONTRACTING PARTIES had a responsibility to see that the situation was remedied as soon as possible. The waiver did not impose on the United States a sufficiently strong compulsion to secure the early elimination of those restrictions, but he hoped the CONTRACTING PARTIES would examine with care the report of the United States, preferably through a working party. The

furnishing each year of a full and adequate report and its careful examination by the CONTRACTING PARTIES were essential. The present report was clear and comprehensive, although his delegation would have preferred to receive it earlier. Mr. White had similar observations to those made by other speakers as to the base periods chosen for the establishment of the quotas, the reduction in dairy stocks which led them to hope soon for more liberal quotas, and the fact that the imports permitted formed a minute proportion of total United States consumption. He hoped the CONTRACTING PARTIES would examine the progress made by the United States in solving the problem of surpluses, their intention to do so having been noted in the Decision.

Mr. NOTARANGELI (Italy) referred to his delegation's observations at the previous session on the dangerous insecurity resulting from the waiver in that neither limitation of products nor period was included therein. The United States report showed certain restrictions of interest to Italy had been abolished, but they regretted that for certain categories of products, particularly dairy products, there had been no change. He emphasized that the base date of 1948-50 was not the most desirable for calculating the quotas, either from the point of view of the evolution of United States consumption or the development of the exports of the countries interested. He also noted the small proportion of total consumption formed by the imports. It was to be hoped that it would in the future be possible to reduce noticeably the restrictions. It would be useful for a Working Party to examine this matter.

Mr. WARWICK SMITH recognised the completeness of the report. Australia was particularly interested in the quotas for dairy products and this was a field in which some improvement appeared to have taken place and they might perhaps look forward to an improvement in the import quotas. Australia was interested in the question of wheat from the aspect of steps taken to solve the problem of agricultural surpluses (paragraph 6 of the waiver). The information provided by the United States in this connection, although it had its limitations, was relevant to the Agenda item concerning disposal of surpluses. His delegation had recorded at the last Session the great importance they attached to the annual report, which should be subjected, in lieu of any time limit in the waiver, to a rigorous scrutiny. He supported the establishment of a Working Party, both to obtain further information on the action taken under Section 22, and because the obligation of the CONTRACTING PARTIES to examine with care so important a matter could only be satisfactorily discharged in a Working Party.

Mr. MACHADO (Brazil) thought that the report showed the awareness of the United States of the implications involved in the decision. One aspect clearly brought out concerned the surpluses. The relationship of the waiver

and the Resolution on Surplus Disposal adopted at the last Session was, in the view of his delegation, very important. He desired that the United States should make a statement regarding their policy in relation to the Resolution.

Mr. LEDDY (United States) apologized for the lateness in submitting the report and said that in future they would try to have it before the CONTRACTING PARTIES well before the start of the Session. He had noted the comments on the policy aspects and would be glad to provide the additional information requested by several speakers.

The CHAIRMAN said that as only eight months had passed since granting the waiver, no far-reaching conclusions could be reached as to its operation. Appreciation had been expressed of the form and manner of the report presented by the United States but more information had been asked regarding certain aspects. There had been support for the establishment of a working party.

It was agreed to establish a working party with the following membership and terms of reference.

Chairman: Mr. Koht (Norway)

<u>Membership:</u>	Australia	Denmark	Italy
	Canada	France	Netherlands
	Ceylon	Greece	New Zealand
	Cuba	Indonesia	United Kingdom
			United States

Terms of reference:

To examine the first Annual Report of the United States under the Decision of 5 March 1955 and to report thereon to the CONTRACTING PARTIES.

The meeting adjourned at 3.30 p.m.