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TARIFFS AND TRADE

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CONTRACTING PARTIES

S U B S I D I E S

NOTIFICATIONS REQUIRED BY ARTICLE XVI AND  
BY THE DECISION OF THE CONTRACTING PARTIES  
OF 2 MARCH 1950

Notification by the United States

The following communication, dated April 3, 1950, has been received from the Government of the United States:

REPORT BY THE UNITED STATES ON SUBSIDIES  
PURSUANT TO ARTICLE XVI

Fiscal Year 1949-50

This report has been prepared pursuant to the obligation under Article XVI of the General Agreement on Tariffs and Trade to notify the CONTRACTING PARTIES of any subsidies, including any form of income or price support, leading directly or indirectly to increased exports or to reduced imports.

The subject matter of the report is presented in three parts. Part I discusses the legislation currently in effect providing for government support of agricultural prices in the United States. Part II discusses domestic farm surplus disposal programs, and Part III the subsidization of exports of farm products.

I. Agricultural Price Support Legislation

1. During 1949-50 price support programs are in effect on the 1949 crops or the 1949 production of 30 commodities. By law, price support is required for (a) the so-called "basic commodities," cotton, wheat, corn, tobacco, rice and peanuts, and (b) the so-called "Steagall commodities," hogs, eggs, chickens, turkeys, milk, butterfat, dry peas of certain varieties, dry edible beans of certain varieties, soybeans for oil, peanuts for oil, flaxseed for oil, American-Egyptian cotton, potatoes and sweet potatoes. During the year price support operations are also in effect for oats, rye, barley, grain sorghums, tung nuts, gum naval stores (gum turpentine and gum rosin), hay and pasture seed, and winter cover crop seed.

2. Under the Agricultural Act of 1949, price support operations will be required by law for the 1950 crops and the 1950 production of the following 13 commodities: (a) the so-called "basic commodities," cotton, wheat, corn, tobacco, rice and peanuts, and (b) the "designated non-basic commodities," wool, mohair, tung nuts, honey, Irish potatoes, whole milk and butterfat.

Price support operations are discretionary for a number of other commodities under the Agricultural Act of 1949. Section 401 (b) of the Act provides that in determining whether such price support operations shall be undertaken, the Secretary of Agriculture must take into consideration the following factors: (1) the supply of the commodity in relation to the demand therefor; (2) the price levels at which other commodities are being supported, and in the case of feed grains, the feed value of such grains in relation to corn; (3) the availability of funds; (4) the perishability of the commodity; (5) the importance of the commodity to agriculture and the national economy; (6) the ability to dispose of stocks acquired through price-support operations; (7) the need for offsetting temporary losses of export markets; (8) the ability and willingness of producers to keep supplies in line with demand. As of February 1, 1950, the Secretary of Agriculture has announced price support programs for the 1950 crop or production of eggs, flaxseed, dry edible beans, winter cover crop seed and gum naval stores.

3. Operations designed to carry out legislative guarantees of price floors have generally resulted in effective support of prices of domestic agricultural commodities. The precise effect of such domestic price support programs on international trade is difficult to determine in all cases inasmuch as there are many other conflicting factors which influence the flow of trade. In some instances the short-run maintenance of price floors has tended to increase the attractiveness of the United States market and thus to stimulate imports. Under such circumstances, if United States prices were above world prices, exports would probably decline.

Over a longer period, however, effective support of prices without effective mechanism for adjusting production or regulating marketings tends to increase output. If consumption of domestic commodities declines or does not increase at as rapid a rate as production, government-held surpluses will accumulate in the absence of increased foreign takings. If the product is no longer able to compete in world markets, the excess may be disposed of through gifts, diversion programs, export subsidies, restriction of imports or a combination of these methods. Thus price supports may lead to situations in which, through complementary measures, imports are reduced or exports are increased. Such measures in so far as not covered by Article XVI itself, are covered by other provisions of GATT under which any problems relating thereto may be dealt with.

4. Domestic law requires that disposition of commodities acquired under price support programs be carried out in such manner as not to disturb markets. Domestic legislation in regard to the disposal of stocks owned or controlled by the United States Department of Agriculture as a result of price support operations is contained in Section 407 of the Agriculture Act of 1949 which provides that the Department of Agriculture may not sell any basic agricultural commodity or storable non-basic commodity at less than 5 percent above the current support price for such commodity, plus reasonable carrying charges. 1/

Certain specific exceptions to this rule which are permitted by the law make it possible under given circumstances to dispose of government owned or controlled stocks at prices below this level. Thus the price restriction does not apply to (A) sales for new or by-product uses; (B) sales of peanuts or oilseeds for the extraction of oil; (C) sales for seed or feed if such sales will not substantially impair any price support program; (D) sales of commodities which have substantially deteriorated in quality or as to which there is danger of loss or waste through deterioration or spoilage; (E) sales for the purpose of establishing claims arising out of contract or against persons who have committed fraud, misrepresentation, or other wrongful acts with respect to the commodity; (F) sales for exports; (G) sales of wool; (H) sales for other than primary uses.

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1/ Prior to October 31, 1949, when the Agricultural Act of 1949 became effective, disposals were carried out in accordance with the provisions of Section 302(h) of the Agricultural Adjustment Act of 1938 as amended by Section 202(a) of the Agricultural Act of 1948. Since October 31, 1949 operations have been carried on in accordance with the provisions of Section 407 of the Agricultural Act of 1949.

While the present and the former disposal restrictions have different methods of computing the minimum sales price, and refer to different types of commodities (the Act of 1948 covered "farm" commodities, whereas the Act of 1949 covers "basic and storable non-basic" commodities), the exception clauses are practically the same. In discussing sales, no effort has been made to separate sales prior to October 31 from those after that date.

## II. Domestic Subsidy Programs

### (a) Sales under Section 407, Agricultural Act of 1949

The authority granted in this Section of the Act to sell in the domestic market at prices below the established floor has been used for potatoes sold for non-food use, peanuts sold for the extraction of oil, wool, and for commodities where there was danger of loss or waste through deterioration or spoilage or where deterioration had taken place. Sales made below market price, in each case only a small part of the total supply, were as follows:

Potatoes: Sales of potatoes were made under exceptions (A), (C) and (D). Sales from the 1949 crop sold domestically at reduced prices through December 31, 1949, amounted to about 7.8 million bags (100 lbs. each) for these purposes: Stock feeding, 6.1 million bags; starch, 1.0 million bags; feed demonstration purposes, 0.4 million bags; flour, 0.2 million bags, glucose, 0.1 million bags.

Peanuts: Sales of peanuts for the extraction of oil, exception (B) totalled 334 million pounds for \$19 million during the period July 1, 1949-December 31, 1949. Sales generally were made on basis of competitive offers, at prices reflecting market prices for the oil and meal obtained from peanuts. These prices are not comparable with the support price for peanuts used for edible purposes. Marketing quotas are currently in effect on the 1949 crop of peanuts.

Wool: Domestic wool sales, exception (G), during the period July 1, 1949 - December 31, 1949, amounted to approximately 58 million pounds with a total return of \$39 million. These sales were made at prices intended to reflect market prices. The wool sold consisted of residual supplies in the hands of the Commodity Credit Corporation.

### (b) Section 32 Subsidies

Further provision for government sales of agricultural commodities on the domestic market below market price is contained in Section 32, as amended, of the Act of August 24, 1935, which amends the Agricultural Adjustment Act of 1933. Clause 2 of Section 32 authorizes payments for diversion of certain commodities to other than normal channels of trade. These programs made possible the use of products for purposes for which they would not normally be bought in commercial markets. During the fiscal year 1949-50 diversion programs have been authorized for cotton, prunes and raisins, almonds, walnuts and filberts.

### III. Export Subsidy Programs

1. Authority for export subsidies is contained in the following United States legislation: (a) Section 32, as amended, of the Act of August 24, 1935, which amends the Agricultural Adjustment Act of 1933, and including amendment under Section 112 (f) of the Foreign Assistance Act of 1948; (b) Section 407 of the Agricultural Act of 1949, as quoted above (replacing similar provisions of earlier acts); (c) Section 2 of the International Wheat Agreement Act of 1949.

(a) Section 32 provides that certain funds shall be made available annually to the Secretary of Agriculture for a number of purposes, including the encouragement of the exportation of agricultural products by making benefit payments in connection with exports, or by indemnifying exporters for losses incurred in connection with such exports. Section 112 (f) of the Foreign Assistance Act of 1948 extends the use of Section 32 funds to payments to private exporters and to United States agencies exporting surplus agricultural commodities pursuant to any act providing for assistance or relief to foreign countries. Export subsidies under Section 32, including subsidies under Section 112 (f) when made on commodities moving through commercial channels, are being paid during the current fiscal year, for cotton, dried fruit, oranges, apples, winter pears, wheat and wheat flour. 1/

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1/ Provision has been made under Section 112 (f) to facilitate exports to ECA countries, through government channels. Such exports in the current year consisted of eggs, dried fruits, flaxseed, linseed oil and peanuts. These programs, financed entirely through Section 32 and ECA grant funds, have not been considered as subject to the provisions of Article XVI of GATT. A few shipments so financed, but moving through commercial channels, may be included among the programs reported under (a) above, when the records did not clearly indicate the source of the funds. The quantity of products for which export markets had to be secured was considerably reduced by the following domestic donation programs:

Section 32, as amended, of the Act of August 24, 1935, which amends the Agricultural Act of 1933, makes available funds for the purchase and donation of agricultural products for school lunches, welfare agencies, and other eligible institutions. Through December 31, 1949, \$51 million was allocated for this purpose by the Secretary of Agriculture, of which \$9.5 million had been expended.

Under Section 416 of the Agricultural Act of 1949, the Commodity Credit Corporation is authorized to make available without charge, for school lunches, to the Bureau of Indian Affairs and to public and private welfare agencies, at the point of storage, commodities acquired through price support operations which are found to be in danger of loss through deterioration or spoilage before they can be disposed of in normal domestic channels without impairment of the price support program. Through February 1, the Commodity Credit Corporation has invoked provisions of the section for white potatoes, non-fat dry milk solids, and dry eggs.

(b) Section 407 of the Agricultural Act of 1949 provides in effect that the Commodity Credit Corporation may sell for export, at a loss, any commodity owned or controlled by it.

(c) Section 2 of the International Wheat Agreement Act of 1949 provides that the Commodity Credit Corporation shall be reimbursed, by Congressional appropriation, for losses incurred as a result of wheat and wheat flour sales by it under the Agreement.

2. Four circumstances have brought about a limited use of export subsidies in the United States in the period under discussion.

(a) Through the operation of various types of domestic agricultural programs, and particularly during periods of declining prices abroad, prices of farm products in the United States have sometimes risen to higher levels than in other countries. In the case of some important export products surpluses have accumulated which could be reduced only by subsidizing consumption at home and sales abroad. Such surplus conditions have been, in substantial part, an outgrowth of war and postwar production programs.

(b) During and after the war American agriculture was pushed to unprecedented heights of production in all major branches. Much of this production served to provide for the needs of the allied forces abroad and subsequently for those of people in war-disrupted countries. As a cushion against the effect of a sudden decline in demand following the war and the post-war emergency period of shortages abroad, price guarantees to producers have been continued. Expanded agricultural output on the one hand and some shrinkage in foreign demand on the other hand have resulted in the development of surpluses of certain commodities, for which outlets could not be found in the United States.

(c) The shortage of dollars in many established foreign markets for United States agricultural products has, for the time being, rendered ineffective the normal demand for these products. Supplies have thus accumulated that would ordinarily have found a ready outlet abroad. In order to reduce the impact of this situation on the respective producer groups, special arrangements have been made to facilitate the movement of some of these commodities to their traditional markets.

(d) In the special case of wheat, United States participation under the International Wheat Agreement made necessary payments to exporters, in accordance with the provisions of the Agreement.

3. The circumstances leading to the application of the particular export subsidy programs in use in the period under review, and the amount of the subsidization involved, are summarized in the following pages.

#### Cotton

The Section 32 program for cotton in effect during the fiscal year 1950 is a continuation of earlier programs. However, the rate of subsidy payment as well as exports under subsidy were substantially reduced. Payments during the current fiscal year through December 31, 1949, were at the nominal rate of 10 cents per bale, a rate too low to have had any effect on commodity exports.

#### Fruits

Prior to the war nearly 40 percent of the winter pear production of the United States, 35-40 percent of the dried fruit output, and 7 percent of the citrus fruit production were exported, mainly to European markets. In their efforts to regain markets after the war, our exporters encountered difficulties due to the shortage of dollars. Demand for these products has, however, persisted. To a small extent it has been possible to fill this demand by making available to foreign buyers part of our surpluses accumulated in this country at substantially lower prices than those maintained in this country on a basis of our price support and marketing programs. Considerable quantities of fruit were also disposed of through domestic donation and diversion programs.

Commercial exports of fruits and fruit products effected under Section 32 subsidy in the fiscal year 1949-50 have been limited mainly to countries participating in the ERP. Subsidy payments were made to exporters upon presentation of evidence of actual shipment.

#### Winter pears and apples

On October 15, 1949, payments to exporters on apples and winter pears were announced at a maximum rate of 50 percent of the gross export sales price, f.a.s. U.S. ports - but not more than \$1.25 per container of approximately one bushel. The subsidy applies to exports to ERP countries, Israel, Egypt, the Philippine Islands and Western Hemisphere countries, except Canada, Cuba, Mexico and Venezuela. Through December 31, 1949, payments on exports of apples and winter pears totalled \$227.257. The program was to be operative through June 30, 1950, but was cancelled with respect to winter pears effective February 15, 1950.

#### Dried Fruits (Prunes and Raisins)

Payments to exporters on prunes and raisins were announced on August 29, 1949, at a maximum rate of 50 percent of the gross sales price, f.a.s. U.S. ports, on fruit shipped to ERP countries. Through December 31, 1949, payments of \$22,000 were made on exports of 297 tons of raisins and prunes. The program terminates June 30, 1950.

### Oranges

On November 1, 1949, payments to exporters were announced on surplus packed fresh oranges and canned single strength and concentrated orange juice at a maximum rate of 50 percent of the gross sales price f.a.s. U.S. ports, on fruit shipped to ERP countries Israel, Egypt, the Philippine Islands, and Western Hemisphere countries except Canada, Cuba, Mexico and Venezuela-provided that the gross sales price should not exceed the domestic market price at the time of sale and place of delivery. Through December 31, 1949, no payments had been made under this program. The program terminates June 30, 1950.

### Eggs

The Commodity Credit Corporation, required by law to support egg prices at 90 percent of parity through December 31, 1949, has purchased substantial quantities of dried and frozen eggs. This price support program was part of the post-war readjustment program for eggs. As a result of the Government's encouragement to producers during the war to increase egg production to meet military, allied and domestic needs, a postwar surplus of lower grade eggs developed in the areas where processing plants had been established during the war. While better grade eggs have moved to market above support levels, it has been necessary to undertake purchase programs for the lower grade eggs in order to keep the average price of eggs at the support level.

The Commodity Credit Corporation, after making all possible sales at the full price, both in the domestic and foreign market, undertook the commercial sale of these eggs for export at reduced prices. Donations of dried eggs being made by CCC both at home and abroad under Section 416 of the Agricultural Act of 1949, will reduce the quantities available for commercial export sale.

From July 1, 1949, through the end of the calendar year 1949, commercial sales of dried whole eggs for export totalled 1,192,246 pounds on which Commodity Credit Corporation sustained a loss of approximately \$775,937. The cost of these eggs was estimated to have been \$1,549,920; thus the rate of subsidy was approximately 50 percent. Sales were made to Arabia, Batavia, Belgium, Chile, Germany, United Kingdom, Israel, Mexico, Netherlands, Newfoundland, Philippines, Switzerland, and Union of South Africa..

On January 18, 1950, the Commodity Credit Corporation offered for export its stocks of dried whole eggs at 40¢ per pound, f.a.s. New York or New Orleans. The current market price in the U.S. is about 96¢ per lb. Sales are limited to buyers not using ECA dollars or other funds of the United States Government. No sales at this price had been reported by February 1, 1950.



### White Potatoes

During the war the United States Government encouraged the expansion of potato production to meet increased wartime requirements. In the postwar readjustment period producers have been protected against sudden losses by continued price support operations. Consequently temporary surpluses of potatoes have developed. Domestic programs were effected to dispose of substantial quantities of potatoes below the support price (see above). Potatoes were also offered to exporters below support prices, but no sales were made during the fiscal year until prices were reduced to 1¢ per bag of 100 lbs. at country shipping points.

Under provisions of an announcement on January 18, 1950, the CCC made available for export to areas other than to United States possessions, Canada, Mexico, or the Caribbean area an undetermined quantity at 1¢ per 100 lb. sack at country shipping points. Exporters are required to pay the cost of inland transportation, handling and loading aboard vessels. Through January 25, 1950, 8,360 cwt. had been disposed of under this program, for \$83.60.

### Flax Fiber

During the war the United States Government encouraged flax fiber production to meet increased requirements at a time when imports were difficult to secure. Stocks were accumulated by the Commodity Credit Corporation as a result of postwar assistance to these producers who expanded production at Government request. Most of the stocks were disposed of on the domestic market at competitive market prices, and small shipments were made under ERP. In order finally to liquidate stocks on hand, exports were made at less than the cost to CCC. Between July 1, 1949 and December 31, 1949, 178,145 pounds of flax fiber were sold at 13¢ per pound, which represented a loss to CCC of approximately \$61,319 or 35¢ per pound.

### Peanuts

As a result of price support operations on peanuts, part of a program for post-war assistance to producers who had expanded production during a period of world shortage of fats and oils, the Commodity Credit Corporation was faced with stocks of peanuts. With no alternative method of disposal for primary use, during the period July 1, 1949-December 31, 1949, the Commodity Credit Corporation sold to Israel 2,236,875 pounds of shelled peanuts at a price of 8-1/4 ¢ per pound, representing a loss to CCC of \$153,720.

On January 18, 1950, the Commodity Credit Corporation offered for export to buyers not using ECA dollars or other funds of the United States Government 50 million pounds of No. 2 shelled peanuts at 8-1/8 ¢ per pound, f.a.s. Gulf and Southeastern ports. The announced price is above the domestic price of peanuts used for expressing oil, but below the price of peanuts for edible purposes.

Dry Edible Beans

Between July 1, 1949 and February 1, 1950, the Commodity Credit Corporation sold for export 1,473,195 pounds of dry edible beans, at a total loss to CCC of \$15,000.

Wheat

Up to November 4, 1949, Section 32 funds were used to reimburse exporters for the difference between the cost of wheat and wheat flour in the United States and the price applicable under the International Wheat Agreement. During the current fiscal year, expenditures of Section 32 funds for this purpose totalled \$1,727,000.

Since November 4, 1949, under provisions of the International Wheat Agreement Act of 1949, the use of Commodity Credit Corporation funds was authorized for sales under the Agreement. Through November 30, 1949, CCC funds expended for this purpose totalled \$1,615,000.

Commodity Credit Corporation Export Prices Announced January 18, 1950

On January 18, 1950 the Commodity Credit Corporation made public the first in a monthly list of prices at which specified quantities of CCC commodity holdings will be available for export during that month. Sales are restricted to buyers not using ECA dollars or other funds of the United States Government, but commodities for which the sales prices are "not less than the domestic market price on the date of sale" may be resold to buyers using such funds. In the case of potatoes, sales are restricted to exports to areas not normally supplied by U.S. exporters. In general commodities are offered for sale at current market prices; the principal exceptions, eggs, peanuts and potatoes, have been dealt with under the appropriate commodity heading. The additional commodities offered for sale include non-fat dry milk solids, dry edible beans, flaxseed, linseed oil, oats, barley and corn. 1/

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1/ At the same time, CCC offered for sale 33 million pounds of Mexican canned meat, held in bond in this country, at 15¢ per pound, delivered alongside ship at ports on the Gulf of Mexico. It cost between 29 and 30 cents a pound and was bought under a program designed to help Mexican cattlemen find a market for cattle which no longer can be shipped to the United States because of a quarantine against the foot-and-mouth disease.

