

GENERAL AGREEMENT ON TARIFFS AND TRADE

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UNITED STATES IMPORT RESTRICTIONS ON AGRICULTURAL PRODUCTS

Report of the Working Party

1. The Working Party has examined the thirteenth annual report (L/3098) submitted by the United States Government under the Decision of 5 March 1955, on import restrictions in effect under Section 22 of the United States Agricultural Adjustment Act as amended, on the reasons for the maintenance of these restrictions, and on the steps taken with a view to a solution of the problem of agricultural surpluses. On the basis of the report and with the assistance of the representative of the United States, the Working Party has reviewed the action taken by the United States Government under the Decision.
2. The United States representative, introducing the report submitted by his Government, recalled that import restrictions under Section 22 currently in force applied to four groups of commodities: wheat and wheat products; cotton of certain staple lengths, cotton waste and cotton picker lap; peanuts and certain manufactured dairy products. Since the last report further action had been taken under the provisions of Section 22. Temporary import quotas had been imposed on evaporated and condensed milk and cream in June 1968; at the same time, the Tariff Commission had been directed by the President to investigate and report on the need for permanent quotas on these products and other dairy products not then covered by quotas. In September 1968, temporary quotas had been imposed on certain cheeses.
3. The representative of the United States stressed that, in view of the current situation in the world market for dairy products, his Government had been concerned by the necessity to take such further action, and thus shared in the concern expressed by its trading partners. However, surplus milk production, particularly in Western Europe, had created a situation where increasing amounts of dairy products had been unloaded onto the world market at heavily reduced prices. The situation generally threatened the United States dairy support programme. The United States Department of Agriculture had reason to believe that the upsurge in imports during the summer of 1968 had only been a beginning of ever-increasing imports. Types of dairy products had been exported to the

United States market, some of them previously unknown there, at prices far below the levels that would have been obtained in the absence of extensive subsidization. In particular, increased imports of cheese would have necessitated purchases of corresponding amounts of cheese by the United States Commodity Credit Corporation. His Government had therefore felt that there was no other alternative but to impose temporary quotas pending the outcome of the Tariff Commission investigation. He recalled the statement made by the Chairman of the CONTRACTING PARTIES at the twenty-fourth session that some of the problems in the world dairy market were not capable of being resolved by unilateral action on the part of one government.

4. Recalling certain observations made at the twenty-fifth session of the CONTRACTING PARTIES on the possibility of quota increases being granted by the United States on products covered by Section 22 in return for concessions made by its partners in the Kennedy Round negotiations, the representative of the United States explained that such concessions could not have legally been granted, because this would have been contrary to the provisions of both Section 22 of the Agricultural Adjustment Act and those of Section 257(h) of the United States Trade Expansion Act under which the United States had participated in the negotiations.

5. The Working Party was grateful for the comprehensive information contained in the report submitted by the United States and for the introductory comments given by its representative.

6. Members of the Working Party recognized the restraint shown by the United States Government in the use made of the legal freedom given under the waiver. However, they expressed their disappointment that the United States had again found it necessary, in the case of dairy products, to introduce new restrictions which tended to further offset the progress previously achieved, thereby covering almost the whole field of dairy products. Their disappointment was all the greater in that those new restrictions had been imposed at a time when there were considerable problems in the world market for this group of commodities.

7. Recognition was nevertheless given to the fact that a certain flexibility had been introduced by the United States into the operation of the restrictions, in particular by the exemption of certain products provided they were being imported at prices above a given level, but dissatisfaction was expressed by many members about the particular price-break chosen.

8. Several members of the Working Party expressed their continued concern with the maintenance of a broad and open-ended waiver such as that granted to the United States. They pointed out that some of the measures taken under the waiver might have been justifiable even in its absence and that other possibilities were open to the United States to protect its domestic production against dumping. They also expressed doubt as to the efficacy of the import restrictions as a remedial measure for an imbalance between supply and demand. The situation in the United States market for some products covered by the waiver had not improved in recent years; moreover the action taken had not allowed a normal expansion of trade to take place.

9. Some members of the Working Party observed that import restrictions had been imposed on products on which the United States had granted tariff concessions or made commitments in trade negotiations as a counterpart for concessions by its trading partners. There could be no doubt that the restrictions imposed by the United States had reduced the value of its concessions, and the suppliers concerned might have to take this into account. One member wished to reserve his right to request compensation under the General Agreement for the impairment of a concession granted by the United States in the Kennedy Round negotiations and which had been accompanied by an assurance that the liberalization status for such products would remain unchanged. Another member stressed in reply to the introductory statement made by the United States representative that some of his country's Kennedy Round concessions had been made on the understanding that the United States would consider specific quota increases within the limits set by Section 22 of the Agriculture Adjustment Act and Section 257(h) of the United States Trade Expansion Act, and that these expectations had not been met by the United States.

10. Some members recalled the concessions negotiated by their countries in 1947 and 1949 with the United States for a tariff quota of 60 million pounds of butter, and pointing to the present size of the quota, i.e. 707,000 pounds, they expressed the view that the circumstances originally requiring the restrictions had changed so much that the United States Government should now find it possible to reconsider and raise this modest quota without endangering its agricultural programmes.

11. Members of the Working Party suggested that the United States Government might consider alternative means for stabilizing the domestic market without recourse to quota restrictions on imports. They noted that for several products covered by the report support prices had been increased. In the case of dairy products, while the support price for butterfat had been slightly reduced from 1967 to 1968, that for manufacturing milk had been raised by 7 per cent, and this in addition to a previous increase of 23 per cent between the years 1965 and 1967. It was regretted that when some years ago there had been opportunities to establish a reasonable balance between supply and demand, it had unfortunately not been possible for the United States Government to make use of this chance. When production had started to decline consumption had declined even more. If the consumption level could have been maintained there would at present have been great opportunities for exports to this market.

12. The Working Party noted with satisfaction that increased efforts had been made in 1968 to stimulate consumption of agricultural commodities through food assistance programmes. However, members felt that more attention should at the same time have been paid to increasing ordinary market consumption, through lower prices as well as more active market promotion. A member of the Working Party, while acknowledging the efforts made to increase consumption, queried whether the large sums of money could not have been better used in a long-term programme of assistance which would enable the dairy producer himself to make dairy products available to a large range of consumers at a price which they could afford. Some members felt that, in view of the considerations being given to the finding of solutions to the wider problems of international trade in dairy products, the United States might consider as a matter of urgency the adoption of policies other than high price support measures, which might satisfy the policy objectives for its dairy industry without the need for stringent restrictions on imports.

13. Commenting on the general statements of the members of the Working Party, the representative of the United States pointed out that his Government had considered making use of other measures available under the GATT, which it possessed the authority to apply. However, these other measures had been considered to be less suitable than those chosen, because of their non-selective nature as regards suppliers. The United States would have had to impose a countervailing duty to the full amount of such subsidy granted by the exporting country, so that such measures would not have provided a reasonable access to the market for traditional exports. The United States representative pointed out also that once a request for countervailing duty action was made, the procedure became automatic and the United States authorities responsible for trade matters had no longer any control of the situation. Instead, having looked at the world-wide problem in the dairy sector where large surpluses were being forced onto the market with extensive use of export subsidies, his Government had tried a move that would not injure non-subsidized exports. To accomplish this it had provided for a price-break above which there was no quota. The world dairy situation was such that it was unrealistic to expect the United States to liberalize this trade on its own or, a fortiori, to open its market to subsidized exports. The United States considered that action in this context under other Articles of the GATT would not be appropriate. In reply to the comments on the levels of support prices and retail prices in relation to domestic consumption, he underlined that in a relationship which was extremely complex, dietary habits and consumer tastes played an infinitely greater rôle than prices, and had been largely responsible for the decline in butter and milk consumption and for the increase in cheese consumption. In addition the domestic price for dairy products was not out of line with consumer incomes and, therefore, not a deterrent to consumption. The United States representative noted that the new restrictions imposed were applied in order to protect the domestic market from subsidized exports. The restrictions therefore exempted cheeses priced above 47 cents per pound, nor did they include such cheeses as sheep's milk cheeses, which were not interfering with the domestic market.

14. The Working Party noted the statement by the United States representative, but some members expressed doubts as to the importance he had assigned to the rôle of dietary habits in consumption.

Wheat

15. Recognizing that the International Grains Arrangement was now well in operation, and that the United States, a major exporter of wheat, was party to that Arrangement, the Working Party took note of the information provided in the United States report concerning the application of the provisions under Section 22 for the regulation of imports of wheat and wheat products.

Dairy products

16. The Working Party addressed itself to a more detailed examination of the section on dairy products, of the report submitted by the United States.

17. The Working Party expressed its appreciation of the comprehensive additional statistical information on consumption which had been included in response to an earlier request. Suggestions were made that it would be helpful if future reports could also show statistical data on production broken down by individual major products. The Working Party noted the statement by the United States representative that United States milk production had declined from 127 billion pounds in 1964 to less than 119 billion in 1968, the lowest since 1952.

18. Members of the Working Party considered that the import quotas had been fixed at unreasonably low levels, in relation to total domestic production, the capacity of the United States market, as well as in relation to what might be regarded as reasonable access to the market, in particular in view of earlier concessions granted by the United States to its trading partners. Imports of dairy products constituted only a very small part of total supplies to the United States market, and it was difficult to understand that the levels reached so far should represent a menace to its stability. However, this market, with its enormous demand capacity, constituted a major export outlet for several countries whose producers might be in an even more vulnerable position.

19. Some members, in particular, felt that some import quotas allotted to individual suppliers were too small to allow a normal commercial trade. Furthermore, existing practices of limiting quantities of any type of cheese that could be imported by any one importer, to 30 per cent of the total annual quota of a particular country would inevitably result in a serious fragmentation that rendered trade unviable. The traditional trade channels of several suppliers were in danger of being disrupted, and their access to the United States market might in practice thus be further restricted and prevent some countries from making use of the quotas allocated to them.

20. Some members pointed out that the cheese quota and quotas for other dairy products allocated to them did not reflect the fact that they had voluntarily restrained their exports to the United States. Members of the Working Party appreciated, however, that the provisional quotas introduced in September 1968 had been set on the basis of 1967 imports. A member pointed out that 1967 could be considered a normal year for imports of Emmenthal into the United States. Therefore it seemed not to be justified that the quota for Emmenthal and Gruyère and cheeses made of both was practically cut by half. Other members also considered it regrettable that for certain cheeses quotas had been fixed at only 50 per cent of imports in the reference year.

21. Several members regretted that their countries had been adversely affected by the restrictions in spite of the fact that they had not been responsible for the sharp rise in the United States imports. They pointed out that their exports to that market had either remained stable or had increased merely in response to rising demand.

22. Some members observed that the restrictions on imports of cheese did not distinguish between exports that were subsidized and those that were not. They considered that the benchmark price of 47 cents per pound f.o.b. which, as one member pointed out, corresponded to a landed price in the United States of at least 58 cents per pound, had been set too high for meeting its purpose of permitting freedom of trade in high quality cheeses. This benchmark price was substantially higher than the average prices actually received even for high quality cheeses in previous years. Their opinion was that this limit would raise retail prices on important table cheeses and speciality cheeses beyond competitive levels and impede the growth in demand. Members of the Working Party requested that the United States Government should seriously reconsider the level which had been fixed at 47 cents per pound.

23. Some members expressed concern that the way in which the new import restrictions would be administered could create difficulties for exporting countries. The quotas established included lower-priced cheeses mainly imported for processing as well as a number of higher-priced table and speciality cheeses. It was thus to be feared that on the "first come first served" basis import quotas might in some cases be used for imports of cheese for industrial use rather than of table cheeses which had been the basis for the established quotas. Such a situation might harm the price support programme in the United States and at the same time disrupt traditional trade patterns of exporting countries. It would therefore be desirable if the restrictions could make a clearer distinction between the low-priced cheeses, which were causing the damage, and high quality types of cheese, in the trade of which the United States Government had not intended to interfere. In this connexion one member observed that it would be very helpful if table and speciality cheeses for direct consumption, i.e. in packings below a certain size, say 8 ounces, could be exempted from the restrictions.

24. A number of members of the Working Party suggested that the United States Government should be asked to reconsider seriously the quantitative restrictions which had been imposed on imports of certain dairy products, with the aim of arriving at a fair solution which might give at least countries whose exports were not disrupting the market, or at least those which did not subsidize their exports, a reasonable access to the United States market. The hope was expressed that action would be taken to liberalize the restrictions when the United States Government received the report from the Tariff Commission.

25. Replying to the various points raised, the representative of the United States said that the overall size of quotas should not be viewed in terms of percentage of total consumption but, more realistically, against the fact that the United States Commodity Credit Corporation would have been obliged to make purchases of butter and cheese in correspondingly large quantities if import quotas had not been imposed. His authorities had tried to handle the matter in a reasonable manner knowing that in the past when the United States had found it necessary to impose Section 22 restrictions on dairy products, it had done so on a selective basis because the problems had generally been confined to a relatively few commodities. However, with current developments in the world

dairy sector it was no longer possible to act selectively because subsidized cheeses were presently entering in many varieties, some of which were unknown to the dairy experts of the Department of Agriculture. As there were literally hundreds of varieties of cheeses it was not possible in the present situation to select out certain varieties or types of cheeses to be excluded from a quota. His authorities had tried to approach the problem in order to protect non-subsidized exports, by limiting the quota to cheeses below the price of 47 cents f.o.b. In addition, the quota was based on the year 1967 in order to establish the largest quota base possible. Had the United States used any other period or average of any other years the quota base would have been substantially smaller. The reason for fixing the price at 47 cents was that the major part of imports of these cheeses had taken place at a price above this limit up to the year 1967, but since then import prices had dropped sharply due to increased export subsidies.

26. Continuing, the United States representative said that with regard to the 30 per cent rule it had not been the intention to limit the legitimate trade or to introduce undue hardships. The representative noted that the Washington embassies of two exporters had made joint representations on this matter, which was presently being studied by the appropriate departments concerned.

27. The United States representative further explained that it would be impossible to envisage relinquishing the waiver given the present chaotic situation of the world dairy industry, characterized as it was by subsidized and administered prices. Under these circumstances it was, therefore, unreasonable to expect the United States alone to liberalize its trade in these products. The answer to the situation was multilateral in nature; for this reason the United States was participating in both the Working Party on Dairy Products and the Agriculture Committee.

28. Concluding the United States representative recalled that the restrictions were temporary subject to the report by the Tariff Commission and further action was required by the President of the United States. He noted that countries had had the right to make representation to the Tariff Commission and was sure that the Tariff Commission would take them into consideration in making its recommendations. The United States delegate assured the other members of the Working Party that he would forward their views to his authorities.

Summary

29. The Working Party has considered the information submitted to it by the United States Government, and has taken note of the present difficulties in United States agriculture. It recognized the restraint shown by the United States Government in the use of the legal freedom given under the waiver, and the efforts made to stimulate domestic consumption through food assistance programmes.

30. The Working Party expressed its concern with the maintenance of such a broad and open ended waiver, and regretted that the United States Government had found it necessary to maintain and expand the import restrictions under the waiver. Members of the Working Party expressed serious concern in particular that the United States had found it necessary to further intensify import restrictions on certain dairy products in 1968.

31. The Working Party noted the statement of the representative of the United States that such emergency action had become necessary in order to avoid excessive accumulation of surplus inventories and to protect the United States dairy programme against subsidized exports; and that the United States Government when making its decision had considered making use of other measures available under the General Agreement, which it possessed the authority to apply.

32. Members of the Working Party recognized the difficult situation of the United States dairy industry, but recalled at the same time that such difficulties also existed in other countries, for which the United States market constituted a major export outlet for dairy products. They felt that imports were not the major cause of the imbalance between supply and demand, as they corresponded to only a very small part of the total consumption in the United States.

33. Members of the Working Party felt that the import quotas had been fixed at unreasonably low levels, in relation to total domestic production and consumption of the United States and in relation to what might be regarded as reasonable access to the market. They considered in particular that some import quotas allotted to individual importers were too small to allow for normal commercial trade. They also considered the benchmark price of 47 cents per pound f.o.b. had been fixed at a level which was too high and that this would threaten the objectives of the restrictions. Some members expressed concern that the way in which the new import restrictions would be administered could create difficulties for exporting countries.

34. The Working Party noted that the problems afflicting the world dairy sector were under consideration in the multilateral context of the GATT Working Party on Dairy Products and the Agriculture Committee. It hoped that solutions would be found that would assist the United States in the removal of restrictions on imports of dairy products. Members of the Working Party also hoped that in the meantime the United States Government would as a matter of urgency use the range of possibilities of action open to it so as to alleviate the existing import restrictions.

35. A number of members of the Working Party suggested that the United States Government should be asked to reconsider seriously the quantitative restrictions which had been imposed on imports of certain dairy products, devoting particular attention to size of quotas, benchmark price and the administration of the regulations. It was also suggested that the United States Government should be asked to try to find a solution which might give at least countries whose exports were not disrupting the market, or at least those which did not subsidize their exports, a reasonable access to the United States market.

36. The representative of the United States stated that he would report to his authorities the results of the deliberations of the Working Party. He was aware of the dissatisfaction countries felt about the situation in the world dairy market, a dissatisfaction in which his authorities shared. However, he did not feel that the world-wide problems of the dairy market could be solved by unilateral action of his Government. He assured the other members of the Working Party that he would transmit to his authorities all suggestions and comments which had been made in the Working Party.

37. The Working Party was grateful to the United States Government for the comprehensive information provided in its report to the CONTRACTING PARTIES, and expressed its thanks to the representative of the United States for his exhaustive replies and his co-operative attitude and for his readiness to report the views of the other Working Party members to his authorities.