

GENERAL AGREEMENT ON TARIFFS AND TRADE

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UNITED STATES AGRICULTURAL ADJUSTMENT ACT

Statement Made by the Delegation of Australia at the Thirty-First Session of the CONTRACTING PARTIES

The following letter, dated 9 December 1975 and addressed to the United States Permanent Mission at Geneva has been submitted to the secretariat by the Permanent Mission of Australia.

I refer to the statement made by the Australian delegation to the thirty-first session of GATT CONTRACTING PARTIES on the subject of United States restrictions on the import of certain agricultural products.

I confirm the request in that statement that "in accordance with paragraph 1 of the conditions and procedures associated with the waiver granted to the United States in connexion with import restrictions imposed under Section 22 of the United States Agricultural Adjustment Act (of 1933), as amended, that the United States promptly undertake a review to determine whether there has been a change in circumstances which would require its restrictions to be modified or terminated".

I attach a copy of the relevant statement setting out the justification for the Australian request.

ANNEX

Australian Statement on United States Agricultural Waiver
at the Thirty-First Session of the CONTRACTING PARTIES

Some twenty years ago, the GATT granted the United States a waiver which enabled it to use import quotas to protect the operation of its domestic price support arrangements for certain products. Although some progress has been made in reducing the number of products subject to Section 22 Quotas, there has been no significant modification of the arrangements as they apply to dairy products. In fact, over the years, the coverage of quotas on dairy products has been extended so that the only products now not subject to quota are some high priced specialty cheeses and casein. These products are not produced in significant quantities in the United States.

The waiver was granted to the United States on certain conditions. These conditions are spelled out in the waiver itself in the following terms: "... it is the intention of the United States Government promptly to terminate any restrictions imposed when it finds that circumstances requiring the action no longer exist, and to modify restrictions whenever changed circumstances warrant such modification".

There have been some temporary modifications to the restrictions in recent years. In particular there have been temporary increases in the quotas for skimmed milk powder, cheese and butter, but none of these has resulted in modifications to permanent quotas or to the price support system which is the immediate reason for the continuation of the quotas. After twenty years the United States dairy price support system still guarantees producers, through the parity system, price increases regardless of market opportunities or the availability of competitively priced imports from efficient producing countries. It is true that the United States Secretary of Agriculture has discretion to set the support price for milk at between 75 and 90 per cent of parity but even a level of 75 per cent is too high to allow any significant opportunities for imports from relatively low cost producing countries.

It is hard to believe that over the last twenty years there have been no circumstances which could be regarded as warranting permanent modifications to liberalize the United States restrictions. The fact that the key quotas to which the waiver applies were initially set in the early 1950's but with periods for quota determination relating back to 1930 suggests that the area of base periods is one area where circumstances may have changed significantly enough to warrant permanent modification to United States restrictions. As it stands, a GATT waiver of twenty year's standing is still being used to justify a level and pattern of imports based on events which occurred forty-five years ago.

The operation of the United States countervailing duty laws also represents a change in circumstances which may warrant some permanent modification to United States import restrictions on dairy products. For many years, the United States countervailing duty law while written in mandatory terms, was not applied as frequently as it might have been under the terms of the law. However, following passage of the United States Trade Act which significantly modified the United States countervailing duty law, a whole range of possibilities have opened up which may change the environment in which Section 22 quotas are administered. For instance, early this year, a countervailing duty order was issued by the United States against subsidized imports of dairy products from the EEC. It is already apparent that this countervailing duty order has had a significant effect on the flow of cheese imports under Section 22 quotas into the United States from EEC countries. (Incidentally, we presume that EEC cheese not now being sold in the United States market is being diverted onto third markets adding to the intensity of competition there.) We believe the operation of the present countervailing duty order against the EEC makes it increasingly difficult for the United States to claim as it does on page 11 of L/4148 that "World supplies of dairy products remain at levels far in excess of commercial demand. The resultant surpluses continue to seek outlets wherever possible. In the absence of import controls these surpluses would replace domestic production to the serious impairment of the dairy price support programme". The EEC is, of course, a major source of dairy surpluses and with its ability to ship surpluses to the United States severely limited by the operation of the countervailing duty order, we believe that there is scope for the United States to liberalize its quotas on a number of major dairy products, in particular butter, skimmed milk powder and cheddar cheese. Ideally, these quotas should now be abolished. However, at worst, the shortfalls against quotas which are the result of the operation of the countervailing duty against the EEC, should be reallocated to those countries which do not subsidize their exports of dairy products. If the United States does not liberalize its import system and if it does not reallocate quotas/shortfalls against quotas, then we fail to see how the United States can defend itself adequately against complaints that it is not only continuing to transfer the burden of adjustment to traditional dairy exporting countries, but is contributing to an increase in the weight of this burden.

In view of our belief that circumstances have changed significantly enough to warrant a modification to the United States import quotas, we formally request, in accordance with paragraph 1 of the Conditions and Procedures associated with the waiver granted to the United States in connexion with import restrictions imposed under Section 22 of the United States Agricultural Adjustment Act (of 1933) as amended, that the United States promptly undertake a review to determine whether there has been a change in circumstances which would require its restrictions to be modified or terminated.

There are certain other matters of a more general kind which I would like to take an opportunity to explore. The United States has intimated in the MTN that it will only negotiate its restrictions on dairy imports if other countries do likewise. We believe this attitude ignores the United States obligations under the GATT waiver to relax its restrictions when it finds that circumstances requiring the action no longer exist. We believe all countries have an obligation to negotiate all aspects of their dairy régimes which have a direct impact on international trade, but in view of the GATT waiver and its performance under the GATT waiver to date, the United States has a special and prior obligation to take action in regard to its import restrictions on dairy products. Consequently, we continue to call into question the caveat which the United States (albeit for economic, rather than negotiating reasons), is attempting to place on the liberalization of its import régime for dairy products (see MTN/DP/W/7 of 25 July 1975, paragraph 4).

The United States caveat is particularly strange if it is made on economic grounds in view of the report (Agricultural Economic Report No. 278) submitted to Congress by the United States Secretary of Agriculture in January 1975. This report was undertaken in response to the Agriculture and Consumer Protection Act which directed the Secretary of Agriculture to carry out a comprehensive study to determine the effect of increases in the level of imports on the United States dairy industry and consumers.

The analysis of the impact of imports in an open United States market free of internal support measures and import quotas with outside countries free to pursue their own policies, did not indicate any long-term disruptive impact on prices, supply or resource allocation. The findings indicated that by 1980 the implementation of quota removals under an open market situation would result in an increase in imports to only 6 per cent of total United States production from a level of 1.4 per cent under continued quotas. More significantly, net cash incomes of United States dairy farms would be between 6 per cent and 11 per cent above income levels under a market situation of continued quotas.

I would also like to look for a moment at one example of the practical effects of the waiver at present. The waiver allows the United States to maintain a quota on imports of skimmed milk powder of 1.8 million lb. per annum. With the benefit of protection from imports and guaranteed support prices, the United States industry can continue to produce powder without suffering a loss at farm or factory level or without having to adjust its operations in any way, regardless of the level of world prices. Because there are no limits on production of dairy products in the United States, skimmed milk powder is accumulated in the form of expensive stocks. Over the period from May 1974 to May 1975, these stocks have increased from 148 million lb. to 380 million lb. Eventually the stocks must find their way onto markets which in terms of economic rationality, should belong to the

industries of the lower cost pasture based producing countries. As a result, the industries in those countries like Australia, which are not subsidized or otherwise protected from the disastrous effects of low world prices are forced to bear the burden of the cost of the United States Support Programme.

I think you will have detected that we are becoming increasingly frustrated by the lack of United States action with regard to its Section 22 quotas on dairy products. I am even forced to wonder about the utility of these review sessions when they apparently have had no significant effect on United States policies for twenty years and when what we believe was a reasonable question raised in our statement on this item in November 1974, has still not been answered.