GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

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Committee on Subsidies and Countervailing Measures

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REPLIES BY THE UNITED STATES TO QUESTIONS RAISED BY AUSTRALIA[1] ON THE UNITED STATES NOTIFICATION OF SUBSIDIES UNDER ARTICLE XVI:1 OF THE GENERAL AGREEMENT

(L/6630/Add.17 dated 29 April 1991)

EXPORT ENHANCEMENT PROGRAMME (EEP)

Question:

Under the Food, Agriculture, Conservation, and Trade Act of 1990, a minimum of US$500 million is to be provided for the EEP in each of the fiscal years 1991 through 1995. Is the funding requirement contingent on Uruguay Round outcomes?

Answer:

No less than US$500 million is required to be made available each year to operate the EEP during fiscal years 1991-1995. This statutory requirement is not contingent on the conclusion of the Uruguay Round, but it could be modified by the implementing legislation. In addition, the GATT trigger provision of US law provides that an additional US$1 billion may be made available to operate EEP in the fiscal years 1994-1995.

Question:

The guidelines for selecting proposed sales initiatives under the EEP includes a consideration of the effect on non-subsidizers - individual EEP initiatives will not be approved if it is determined that sales for which a proposed EEP bonus would be paid would have more than a minimal effect on non-subsidizing exporters in the market.

How is such a determination made? How are the views of potentially affected non-subsidizing exporters taken into account?

[1] SCM/W/242

Answer:

The United States Department of Agriculture, in its operation of the EEP, has taken specific actions to address the concerns of potentially affected non-subsidizing exporters, including requesting assurances from importing countries, whenever possible, as well as limiting the quantities of EEP initiatives to allow opportunities for competitors to maintain traditional export levels. The European Community does not provide for such considerations in implementing its export policies.

Question:

How do the guidelines define the term "minimal effect"?

Answer:

The term "minimal effect" was not defined in the EEP regulations published in the Federal Register.

Question:

Of the 105 initiatives announced as of March 1990, how many do the US consider to have had more than a "minimal effect" on non-subsidizing exporters? Could the US provide estimates relating to the trade effect of these initiatives on non-subsidizing exporters?

Answer:

All of the announced initiatives went through an internal US Government review process and were found to meet the programme criteria. We therefore consider that none of them had more than a minimal effect on non-subsidizing exporters.

While no absolute measure of the possible trade effects of EEP is available, the principal non-subsidizers' presences in world wheat markets, for example, are roughly the same when measured during the pre-EEP years (1980-1984) as compared with the post-EEP years (1985-1990).

COUNTRY	PRE-EEP	POST-EEP
Argentina	6.6%	5.0%
Australia	11.1%	13.6%
Canada	19.3%	19.8%

Question:

Could the US provides statistics on: 1. The value and volume of EEP sales as a percentage of the value and volume of total US agricultural exports and total exports of each commodity eligible for EEP subsidies; 2. The sales market value of the awards?

EEP SALES AS A PERCENTAGE OF TOTAL EXPORTS (VOLUME)

COMMODITY	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
WHEAT	1.8	19.0	51.0	65.2	42.3	51.5	66.6
FLOUR	31.3	88.0	70.1	36.8	51.8	26.9	47.5
BARLEY	0.0	98.0	98.0	60.0	30.6	87.7	98.0
SORGHUM	0.0	0.0	2.1	3.5	0.0	0.0	0.0
RICE	0.0	0.1	1.1	5.6	0.7	0.0	3.1
VEGETABLE OIL	0.0	0.0	2.5	21.6	7.3	3.7	17.3
FROZEN POULTRY	0.0	18.5	27.9	29.3	38.6	80.0	50.0
DAIRY CATTLE	0.0	7.2	98.0	4.4	0.0	0.0	0.0
EGGS	0.0	0.0	68.9	24.1	12.8	25.7	46.5

*All figures are approximate. Differences between sales dates and actual shipping dates cause the numbers to be somewhat inexact.

EEP SALES AS A PERCENTAGE OF TOTAL EXPORTS (VALUE)

COMMODITY	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
WHEAT	1.3	15.4	40.0	63.3	42.1	48.0	51.9
FLOUR	19.1	49.8	44.1	23.1	48.3	29.7	49.1
BARLEY	0.0	97.0	98.0	98.0	35.1	96.0	98.0
SORGHUM	0.0	0.0	1.3	3.0	0.0	0.0	0.0
RICE	0.0	0.8	1.1	5.0	0.8	0.0	3.3
VEGETABLE OIL	0.0	0.0	1.9	17.8	5.9	2.7	11.9
FROZEN POULTRY	0.0	12.1	23.1	23.0	30.3	79.7	54.7
DAIRY CATTLE	0.0	10.8	98.0	33.4	0.0	0.0	0.0
EGGS	0.0	0.0	86.9	37.6	12.9	23.1	43.5

*All figures are approximate. Differences between sales dates and actual shipping dates cause the numbers to be somewhat inexact.

MARKET VALUE OF AWARDS UNDER THE EXPORT ENHANCEMENT PROGRAMME
(in millions of dollars)

FY 85	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
$22.5	$256.3	$927.8	$1,013.7	$338.8	$311.8	$916.6

DAIRY (Sections 114 and 111 of the Food, Agriculture, Conservation, and Trade Act of 1990)

Question:

In administering these programmes, does the US give consideration to protecting IDA minimum prices?

Answer:

As you are aware, the US withdrew its membership from the IDA and is under no obligation to adhere to the minimum price guidelines established by that body. In practice, our policy for both the dairy export sales programme and the dairy export incentive programme is to allow the prices of US dairy exports to be competitive with prevailing world market prices. As long as the major dairy exporters, Australia, New Zealand, and the EC, respect the IDA minimum price structure, then export prices from the US will generally conform.

Question:

Does the US consider the objective of the section 111 programme to not disrupt "world prices and normal patterns of commercial trade" to encompass the four guidelines relating to the section 114 programme? In particular, does it consider that not disrupting normal patterns of commercial trade to include not adversely affecting non-subsidizing exporters?

Answer:

In general terms, the first three criteria established for the dairy export incentive programme are also followed for the dairy export sales programme. The fourth criteria does not directly apply because sales under the latter programme are from government-owned inventories and such sales result in income and, therefore, it is not necessary to assess expected benefits in light of the programme's financial costs. In response to the specific question of whether the objective of the dairy export sales programme not to disrupt normal patterns of commercial trade includes not adversely affecting non-subsidizing exporters, this is one factor taken into consideration in implementing the programme. However, by the very nature of this programme, it is not unusual for US sales to compete directly with sales from non-subsidizing exporters. Since US sales would not satisfy an entire market, ample opportunities remain for non-subsidizing exporters to secure sales in such markets.

Question:

Will the provisions of section 1163 of the 1985 Act be modified in the light of the Uruguay Round outcomes?

Answer:

Depending on the final language of the Uruguay Round, no legislative modifications of the provisions of Section 1163 of the Food Security Act of 1985, dealing with the dairy export sales programme, may be necessary. Such a technical question can only be addressed after the conclusion of the Uruguay Round and a legal review of the GATT agreement and the US dairy programme.

SUNFLOWERSEED OIL ASSISTANCE PROGRAMME (SOAP)

Question:

Could the US provide statistics on the value and quantity of sunflowerseed oil exports under SOAP as a percentage of the value and quantity of total US sunflowerseed oil exports?

Answer:

SUNFLOWERSEED OIL EXPORTS UNDER SOAP AS A PERCENTAGE OF VALUE AND QUANTITY OF TOTAL U.S. SUNFLOWERSEED OIL EXPORTS

	FY 1989	FY 1990	FY 1991
	per cent		
Value	27.6	18.1	52.5
Quantity	25.6	17.0	49.8

PRICE AND INCOME SUPPORT PROGRAMMES

Question:

Australia considers that Part IV of the Notification (Price Support Programmes) does not give a complete picture of the likely impact of the Food, Agriculture, Conservation, and Trade Act of 1990 and the Omnibus Reconciliation Act of 1990. While some aspects of these Acts have the potential to encourage greater liberalization of the agriculture sector, others appear to either retard or reverse the process of adjustment.

We would appreciate US comment on the following observations on price and income support measures contained in the OECD "Agricultural Policies, Markets and Trade Monitoring and Outlook, 1991":

- Progressive reductions in target prices under previous legislation is to end. Under the new legislation all target prices are to be frozen at their 1990/91 levels.

  Why has the previous liberalizing trend been halted?

- Loan rates are to be determined by a new formula, the effect of which will be to increase the loan rate and increase the risk of stock accumulation by the CCC, which can consequently depress world prices.

  Does the US agree with this assessment?

Answer:

The liberalizing trend in price and income support programmes has not been halted. Although target prices which were progressively reduced under the provisions of the Food Security Act of 1985 will be frozen,

several features of the new legislation will encourage greater market orientation. First, the "triple base" provision of the Reconciliation Act eliminated deficiency payments on 15 per cent of the base acres of wheat, feedgrains, upland cotton, and rice. Second, producers were given greater planting flexibility to respond to market signals. Producers may plant other crops on the 15 per cent of base acres not eligible for payments (Normal Flex Acres) without loss of crop acreage base. The other crops include all other programme crops, any oilseed crop, any industrial or experimental crop, and any other non-programme crop except fruits and vegetables. Producers wanting planting flexibility beyond the Normal Flex Acres may use up to an additional 10 per cent of the crop acreage base as Optional Flex Acres subject to the same planting provisions. Third, payment yields for programme crops continue to be frozen at 1985 levels, thereby limiting the production eligible for support.

One of the goals of the new legislation was to improve agricultural competitiveness by maintaining market-oriented loan rates. The United States believes that the new formula for loan rates will achieve this goal.

RICE

Question:

The statistics on rice production, consumption, imports and exports contained in the Appendix suggest that rice stocks are rising. Could the US provide statistics on rice stock levels for the period 1986-90?

Answer:

Note: Consumption and trade data in the Appendix is on a milled equivalent basis, production is on a rough basis. Exports in the Appendix are incorrect.

The data provided below is on a million metric ton milled equivalent basis.

	Production	Consumption	Imports/Exports/Ending Stocks		
1985/86	4.3	2.1	0.07	1.9	2.5
1986/87	4.3	2.5	0.08	2.7	1.7
1987/88	4.1	2.6	0.1	2.3	1.0
1988/89	5.2	2.6	0.1	2.8	0.9
1989/90	5.1	2.7	0.14	2.5	0.9
1990/91 estimate	5.1	3.0	0.15	2.3	0.8

--ending stocks are actually declining

Question:

If, as seems to be the case, rice stock levels are rising, what production control measures and/or stock disposal measures are planned for the 1991-95 period?

Answer:

The US rice situation is actually characterized by declining stock levels, increasing domestic use, and rising prices. As a result, domestic policy is now focused on increasing availabilities of rice to accommodate rising domestic consumption while maintaining exports. The level of the acreage reduction programme (ARP) for the 1991 crop was 5 per cent, and the two legal proposals out for comment for the 1992 crop are 0 per cent ARP, which would continue the 50/92 programme, and no ARP which would eliminate payments from the 50/92 programme for the coming year.

Question:

Australia is interested in knowing if there are any additional subsidies to the rice industry, particularly in the form of subsidized water supply.

Answer:

The water supply is generally available and, hence, not a subsidy.

COTTON

Question:

We would appreciate an indication of US views on the effect of its Cotton Programme on world cotton trade. In particular, we would be interested in US estimates of the impact of its Cotton Programme on

- US exports
- The competitiveness of the US cotton industry. (The notification states that the Programme is expected to increase the competitiveness of US exports. Are there any quantitative estimates of increased competitiveness available? Is the increased competitiveness expected to result from cost-efficiency or simply from subsidization?)
- Price of cotton within the US
- Demand for cotton within the US and possible substitution by synthetic fibres.

In response to our question on the Cotton Programme notified in 1987, the US foreshadowed further adjustments to the AWP to consider price quotations in designated US spot markets and northern Europe, the level of US export sales, and other relevant data (SCM/W/191). What effect have these changes had on the returns to farmers, production levels, and market prices?

Answer:

The purpose of the cotton marketing programme is to maintain US competitiveness in world cotton markets. Under the competitive adjustments provisions of the 1990 Act, the Secretary of Agriculture has discretionary authority to make adjustments to the Adjusted World Price (AWP) if US cotton prices are higher than an index of international cotton prices. It is too early to identify the effects of these provisions since this is the first year of operation.

The new provisions include a three-step system that was first put into use in the current 1991/92 cotton marketing year (August-July). Step 1 allows the Secretary of Agriculture to reduce the AWP if it falls below an index of international cotton prices. Reducing the AWP lowers cotton producers' potential loan repayment rate and, under certain market conditions, may encourage farmers to release cotton from loan stocks. Since this provision was effective for only three weeks during the current 1991/92 marketing year, a definitive statement on the effect of the reduced AWP cannot yet be made.

Step 2 of the competitiveness provision allows generic certificates to be issued to eligible domestic consumers and exporters when US cotton prices are higher than an index of international cotton prices. The value of these certificates may allow US exporters and textile mills to more effectively compete in international markets. Since Step 2 has only been in effect since 29 August 1991, there has been limited opportunity to evaluate the effect of the certificates on the competitiveness of the US cotton industry. US cotton price quotes are currently 5 to 6 cents higher than the lowest quotes in Cotton Outlook's price reports.

Step 3 of the competitiveness provisions allows a special import quota to become effective when US prices are higher than an index of international cotton prices. Since it requires a ten-week period of relatively high US cotton prices to become effective, it has not yet been activated.

There are currently no quantitative estimates of the effect of the programme on the competitiveness of the US cotton industry. The goal of the programme is to allow domestic users to purchase US cotton at prices comparable to foreign suppliers and to permit US exporters to sell cotton in the international marketplace at competitive prices.

There is currently limited information on which to make a comprehensive analysis of the effect of the programme on US cotton prices. Domestic cotton prices have fallen steadily since the implementation of the 1990 farm legislation, but the decrease is in response to the large US crop currently being harvested and processed. Before the passage of the 1990 farm legislation, most industry analysts cited US farm programmes as artificially raising US cotton prices, especially when international prices fell below the US loan rate.

The cotton programme has had little effect on retail prices of cotton textile products or on the demand for cotton because of the wide farm-to-retail price spread and the small amount of cotton consumed per item. For example, about 3/4 pound is required to produce a business shirt or bath towel, compared with 2 pounds for denim jeans. The cost of raw cotton as a share of the retail value is approximately 3 per cent for a shirt, 12 per cent for a bath towel, and 9 per cent for denim jeans. Thus, a 10 per cent increase in the price of raw cotton may increase the retail price of a shirt by less than 1 per cent and the price of bath towels and jeans by about 1 per cent.

The cotton programme should not influence the substitution of synthetic fibres to cotton. Cotton's share of the retail apparel and home fabrics market, excluding carpets, in 1991 is approximately 54 per cent, indicating consumer tastes and preferences for natural fibres rather than synthetic fibres. Notwithstanding, changing trends in consumer tastes and preferences can obscure economic theory. For example, if oil prices rise, mill cotton use should fall. However, the opposite occurred when rises in oil prices pushed man-made prices higher and bolstered cotton mill use. History indicates that cotton's share of the market rose during periods of contraction, while man-made fibre use declined.

SOYBEANS

Question:

The notification states that the Soybean Marketing Loan Programme was established under the Agricultural Act of 1949. Could the US explain what changes have occurred as a result of the 1990 Food, Agriculture, Conservation, and Trade Act?

Answer:

The loan and purchase agreement programme for soybeans was mandated for the first time under the Food and Agriculture Act of 1977. The Food Security Act of 1985 (1985 Act) included provisions for reduction in price support levels. The 1985 Act also empowered the Secretary of Agriculture to institute marketing loans or loan deficiency payments for soybeans if necessary in order to compete effectively on world markets. This would have allowed farmers to repay loans at the lower of the loan rate or the prevailing world market price. The USDA did not institute the marketing loan provisions for soybeans under the 1985 Act.

The soybean non-recourse loan programme that was in effect for the 1986 through 1990 crops was not retained in the 1990 Food, Agriculture, Conservation, and Trade Act (1990 Act). Under that programme, producers could secure CCC loans at a given loan rate and were required to repay the full principal, plus accrued interest or could forfeit their crop to CCC at loan maturity. The national loan rate was based on a formula that used the Olympic moving average of the previous five-year's price.

The 1990 Act established a price support programme with marketing loan provisions for soybeans. The national loan rate for the 1991 crop is US$5.02 a bushel (US$184.45/metric ton), less a 2 per cent loan origination fee, or a net of US$4.92 a bushel (US$180.78). The US$5.02 per bushel rate represents the minimum loan level allowed under the 1990 Act for each crop year. A loan made for a crop of oilseeds will mature on the last day of the ninth months following the month the application for the loan is made. Loan rates for 1992-1995 must be announced by 15 November of the preceding year.

Under the marketing loan provisions, USDA will decide whether farmers repay the price support loan at (a) the lower of the loan rate plus interest or the prevailing world market price (adjusted to United States quality and location) as determined by the Secretary, or (b) such other level, not to exceed the loan rate plus accrued interest, that the Secretary determines will minimize forfeitures to the Commodity Credit Corporation (CCC), minimize oilseed stocks accumulated by the CCC, minimize CCC storage costs for oilseeds, and allow US oilseeds to be marketed freely and competitively, both domestically and internationally.

The Secretary is required to prescribe and has prescribed by regulation a formula defining the prevailing world market price for oilseeds (adjusted to United States quality and location) and a mechanism by which the prevailing world price will be announced periodically. Farmers will be given the option of taking a payment equal to the amount by which the loan rate (adjusted for the loan origination fee) exceeds the loan repayment rate. National loan rates are adjusted for location and quality. Loan repayment rates are set according to local marketing conditions. In return, however, farmers must forego loans.

MINOR OILSEEDS

Question:

Could the US explain why a Programme for Minor Oilseeds was introduced for the 1991 crop? Is it expected that the programme will result in increased production of minor oilseeds? Is this possible increase in production expected to have any effect on soybean, wheat and feedgrain production - will minor oilseeds displace these commodities (possibly through the 0/92 provisions for wheat and feedgrains) or will it leave production of these commodities unaffected?

Answer:

A price support programme for minor oilseeds was included for the 1991 crop in an effort to provide farmers with increased crop flexibility and diversification. The programme permits farmers to increasingly respond to market price signals on programme land. US production of the "minor oilseeds" had declined in the 1980s partially in response to programme rigidities.

The goal of the 1990 Act is to allow plantings to be more responsive to market prices. In 1991/92, farmers did shift from grain to soybeans on some non-payment acreage in response to wet weather which favoured later-season planting of soybeans rather than grains. Better crop rotation practices were a factor in some cases while relative economic returns was only a minor factor. In 1992/93, farmers will likely switch or flex acres from soybeans back to grains if planting time weather is more normal. Economic returns remain less favourable for soybeans, also encouraging a loss of normal flex acres.

In the case of "minor oilseeds", farmers also shifted from grain to "minor oilseeds" on some non-payment acreage in response to growing conditions that favoured "minor oilseeds" plantings. Relative economic returns was also an important factor. In 1992/93, it is not clear whether farmers will continue to shift acreage from grains to minor oilseed production. Relative economic returns and weather conditions are expected to be the major determining factors.

Changes in minor oilseed production could result in modest changes in overall soybean, wheat, and feedgrain production. Minor oilseed production is principally concentrated in the North Central portions of the United States. Winter wheat and barley are the main crops that could be displaced. Overall production levels of these commodities is unlikely to be significantly changed, given the modest level of potential acres planted to minor oilseeds. Sunflowerseed is the crop that is likely to show the largest increase in production.

SUGAR

Question:

In the US 1987 notification, it was stated that, among other things, the Sugar Price Support Programme is "not intended to stimulate an increase in domestic production but to stabilize it". This intention is not mentioned in the 1991 notification. Does this omission reflect a change in the Programme's aims?

Answer:

The US Sugar Price Support Programme, as contained in Title IX of the Food, Agriculture, Conservation, and Trade Act of 1990, is designed as an income support for sugar producers. The programme is not designed to either increase or curtail domestic production.

Question:

Revised figures provided by the US for the OECD's "Agricultural Policies, Markets and Trade: Monitoring and Outlook 1991" indicates that as a result of the 1991 Farm Act US sugar production forecasts for the period 1991-95 are consistently higher and import forecasts consistently lower than earlier forecasts.

Could the US explain the aspects of the 1991 Farm Act that will cause the increased sugar production and lower imports?

Answer:

Some slight increases in beet sugar production might be expected from a change in the base time period for calculating the beet loan rate from the most recent 10-year period to the most recent 5-year period and a change in the loan period from 6 months to 9 months.

Question:

In view of US forecasts contained in the 1991 OECD Monitoring and Outlook, which indicates a continuous decline in imports over the period 1991-95, and annual imports falling below 1.25 million tons by 1994, will the US be instituting any new policies to restrain production?

Answer:

No.

Question:

In relation to the mechanism provided for in the 1938 Act to impose marketing allotments when imports fall below 1.25 million tons, could the US explain whether the mechanism limits production or simply the ability to market sugar? If it is the latter, are stocks purchased by the Government? At what price are the stocks purchased? How are stocks disposed of?

Answer:

The Agricultural Adjustment Act of 1938, as amended by Title IX of the 1990 Act, provides for the implementation of marketing allotments when estimated imports fall to 1.25 million short tons or less. This mechanism will limit the marketing of domestically-produced sugar and crystalline fructose by cane sugar millers, beet processors, and crystalline fructose producers when imports of sugar are estimated to equal 1.25 million short tons, raw value, or less. There is no specific provision in Title IX of the 1990 Act for Government purchase of excess stocks, and in fact, sugar that is under loan to the commodity Credit Corporation at the time of the implementation of marketing allotments, or sugar that is entered under loan subsequent to the implementation of marketing allotments, would be considered to have been marketed, and therefore count against an allocation. Because the Secretary of Agriculture is directed by Title IX of the 1990 Act to use all available authority to avoid loan forfeitures, that is, incur no cost to the Federal Government in the operation of the Sugar Price Support Programme, the programme is operated such that market prices are sufficiently high to induce producers to redeem their loans and market the sugar.

Question:

While the mechanism for marketing allotments would help maintain imports at above a certain level, does the US agree with the view that this result could be achieved with less distortion by means of reducing sugar support prices? Has consideration been given to this option?

Answer:

The Administration did consider, and in fact, pursued the option of reducing the sugar price support level during the deliberations on the 1990 Act. When Congress passed the legislation in November 1990, this feature of Title IX was omitted.

Question:

Australia finds the US descriptions of the effects of its Sugar Programme inadequate, primarily because there is no mention of the costs it imposed on US consumers, the US economy, the world economy, and non-subsidizing exporters. We would be interested in US comment on economic analyses of these costs done by the Australian Bureau of Agricultural and Resource Economics (Discussion Paper 90.4 "1990 and US Sugar Policy Reform"), the relevant statistics from which appear in our supplementary questions relating to the last US notification (SCM/W/235).

Answer:

The US sugar programme is not the singular force in determining the world price for sugar, particularly since other governments carry out policy goals through intervention in domestic agricultural markets and through border measures. We have no comment on the conclusions of the Australian study.

MARKET PROMOTION PROGRAMME

Question:

The US notification does not mention the Market Promotion Programme. Australia would appreciate the details of the background and authority of the Programme and funding levels in recent years. We would also appreciate destination and expenditure details for promotion of US beef exports under this Programme.

Answer:

The Market Promotion Programme (MPP) is not a subsidy programme. Therefore, the Committee on Subsidies and Countervailing Measures is not the appropriate forum for addressing questions regarding MPP.